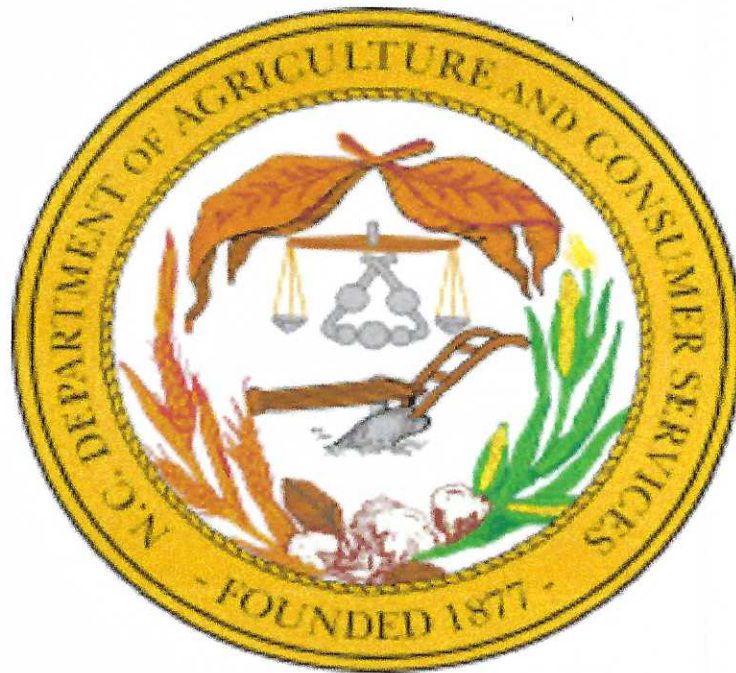


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# **NCDA&CS**

## **Internal Audit Division**



## **Audit Charter**

## **Purpose**

The purpose of the internal audit function is to strengthen the North Carolina Department of Agriculture and Consumer Services<sup>1</sup> (Herein referred to as the Department) ability to create, protect, and sustain value by providing the senior management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances Department's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

The Department's internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with The IIA's Global Internal Audit Standards<sup>TM</sup>, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to senior management.
- Internal auditors are free from undue influence and committed to making objective assessments.

## **Commitment to Adhering to the Global Internal Audit Standards**

The Department's internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The chief audit officer will report annually to senior management regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

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<sup>1</sup> This also applies to the North Carolina Tobacco Trust Fund Commission, for which the Department provides some administrative services (budget and finance, information technology, internal audit, etc.).

## **Mandate**

The Internal Audit Division will adhere to the requirements within General Statute Chapter 143, Article 79 which established the internal audit function within the Department.

## **Authority**

The Department's internal audit function mandate is found in General Statute Chapter 143, Article 79 which states the following:

*A State agency shall establish a program of internal auditing that:*

- (1) Promotes an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.*
- (2) Determines if programs and business operations are administered in compliance with federal and state laws, regulations, and other requirements.*
- (3) Reviews the effectiveness and efficiency of agency and program operations and service delivery.*
- (4) Periodically audits the agency's major systems and controls, including:
  - a. Accounting systems and controls.*
  - b. Administrative systems and controls.*
  - c. Information technology systems and controls.**

*(a1) Key Performance Indicators and Criteria. - In addition to the requirements of subsection (a) of this section, each agency head shall be responsible for ensuring that agency's internal audit unit meets the required key indicators and criteria established by the Council under G.S. 143-747(c)(3a).*

*(b) Internal Audit Standards. - Internal audits shall comply with current Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors or, if appropriate, Government Auditing Standards issued by the Comptroller General of the United States. Each agency head shall annually certify to the Council that the audit plan was developed and the audit reports were conducted and reported in accordance with required standards.*

*(c) Appointment and Qualifications of Internal Auditors. - Any State employee who performs the internal audit function shall meet the minimum qualifications for internal auditors established by the Office of State Human Resources, in consultation with the Council of Internal Auditing.*

*(d) Director of Internal Auditing. - The agency head shall appoint a Director of Internal Auditing who shall report to, as designated by the agency head, (i) the agency head, (ii) the chief deputy or chief of staff, or (iii) the agency governing board, or subcommittee thereof, if such a governing board exists. The Director of Internal Auditing shall be organizationally situated to*

avoid impairments to independence as defined in the auditing standards referenced in subsection (b) of this section.

(e) *Insufficient Personnel.* - If a State agency has insufficient personnel to comply with this section, the Office of State Budget and Management shall provide technical assistance.

(f) *Reporting Fraudulent Activity.* - If an internal audit conducted pursuant to this section results in a finding that a private person or entity has received public funds as a result of fraud, misrepresentation, or other deceptive acts or practices while doing business with the State agency, the internal auditor shall submit a detailed written report of the finding, and any additional necessary supporting documentation, to the State Purchasing Officer. A report submitted under this subsection may include a recommendation that the private person or entity be debarred from doing business with the State or a political subdivision thereof. (2007-424, s. 1; 2013-382, s. 9.1(c); 2013-406, s. 1; 2015-241, s. 25.1(a); 2015-268, s. 7.4; 2021-180, s. 24.5(a).)

The internal audit function's authority is created by its direct reporting relationship to the senior management. Such authority allows for unrestricted access to senior management. Senior management authorizes the internal audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary personnel of the Department and other specialized services from within or outside the Department to complete internal audit services.

### **Independence, Organizational Position, and Reporting Relationships**

The chief audit officer will be positioned at a level in the Department that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function. (See "Mandate" section.) The chief audit officer will report functionally to the senior management and administratively (for example, day-to-day operations) to the Chief Deputy Commissioner of Administration. This positioning provides the organizational authority and status to bring matters directly to the Chief Deputy Commissioner of Administration and escalate matters to the senior management, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

The chief audit officer will confirm to the senior management, at least annually, the organizational independence of the internal audit function. If the governance structure does not support organizational independence, the chief audit officer will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The chief audit officer will disclose to senior management any interference internal auditors encounter related to the scope, performance, or communication of

internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.

#### **Changes to the Mandate and Charter**

Circumstances may justify a follow-up discussion between the chief audit officer, senior management and the Chief Deputy Commissioner of Administration on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant reorganization within the Department.
- Significant changes in the internal audit function, and/or senior management.
- Significant changes to the Department's strategies, objectives, risk profile, or the environment in which the Department operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

#### **Senior Management Oversight**

To establish, maintain, and ensure that Department's internal audit function has sufficient authority to fulfill its duties, senior management will:

- Discuss with the chief audit officer the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- Ensure the chief audit officer has unrestricted access to and communicates and interacts directly with senior management including in private meetings without the Chief Deputy Commissioner of Administration present.
- Discuss with the chief audit officer other topics that should be included in the internal audit charter.
- Participate in discussions with the chief audit officer about the "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- Approve the internal audit function's charter, which includes the internal audit mandate and the scope and types of internal audit services.
- Review the internal audit charter annually with the chief audit officer to consider changes affecting the Department, such as changes in the type, severity, and interdependencies of risks to the Department; and approve the internal audit charter.
- Approve the risk-based internal audit plan.

- Provide input to the internal audit function's human resources administration and budgets.
- Review the internal audit function's expenses.
- Provide input on the appointment and removal of the chief audit officer, ensuring adequate competencies and qualifications and conformance with the Global Internal Audit Standards.
- Review and provide input on the chief audit officer's performance.
- Receive communications from the chief audit officer about the internal audit function including its performance relative to its plan.
- Ensure a quality assurance and improvement program has been established and review the results annually.
- Make appropriate inquiries to the chief audit officer to determine whether scope or resource limitations are inappropriate.

## **Chief Audit Officer Roles and Responsibilities**

### **Ethics and Professionalism**

The chief audit officer will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the Department and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the Department.
- Report behavior that is inconsistent with the Department's ethical expectations, as described in applicable policies and procedures.

### **Objectivity**

The chief audit officer will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the chief audit officer determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise

quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for the Department or its affiliates.
- Initiating or approving transactions external to the internal audit function.
- Directing the activities of any Department employee that is not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the chief audit officer, senior management, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

### **Managing the Internal Audit Function**

The chief audit officer has the responsibility to:

- At least annually, develop a risk-based internal audit plan that considers the input of senior management. Discuss the plan with the Chief Deputy Commissioner of Administration and submit the plan to the senior management for review and approval. The Chief Audit Officer reserves the right to adjust the annual audit plan to accommodate emerging risks and priorities and will communicate any changes to the plan in writing to senior management along with the rationale for the changes.
- Communicate the impact of resource limitations on the internal audit plan to the senior management and the Chief Deputy Commissioner of Administration.
- Review and adjust the internal audit plan, as necessary, in response to changes in Department's business, risks, operations, programs, systems, and controls.
- Communicate with senior management if there are significant interim changes to the internal audit plan.

- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards and applicable laws and/or regulations.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to senior management annually and for each engagement as appropriate.
- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact the Department and communicate to senior management as appropriate.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the internal audit function.
- Ensure adherence to the Department's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the chief audit officer cannot achieve an appropriate level of coordination, the issue must be communicated to the Chief Deputy Commissioner of Administration and if necessary escalated to senior management.

**Communication with Senior Management and the Chief Deputy Commissioner of Administration**

The chief audit officer will report annually to senior management and the Chief Deputy Commissioner of Administration regarding:

- The internal audit function's mandate.
- The internal audit plan and performance relative to its plan.
- Internal audit budget.
- Significant revisions to the internal audit plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action



plans to address the internal audit function's deficiencies and opportunities for improvement.

- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for senior management that could interfere with the achievement of the Department's strategic objectives.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond Department's risk appetite.

### **Quality Assurance and Improvement Program**

The chief audit officer will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives (Productivity, Efficiency, Effectiveness, and Quality) and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the chief audit officer will communicate with senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Department; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.

### **Scope and Types of Internal Audit Services**

The scope of internal audit services covers the entire breadth of the Department, including all of the Department's activities, assets, and personnel. The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to senior management on the adequacy and effectiveness of governance, risk management, and control processes for the Department.

The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of the Department's strategic objectives are appropriately identified and managed.
- The actions of the Department's officers, directors, management, employees, and contractors or other relevant parties comply with the Department's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals and objectives.
- Operations and programs are being carried out effectively, efficiently, ethically, and equitably.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Department.
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

**Approved by Senior Management.**

Steven W. Lynch  
Commissioner

11-4-24  
Approval Date

Jane Hedgcock  
Chief of Staff

11-4-2024  
Approval Date

M. Smith  
Chief Deputy Commissioner- Administration

11-1-2024  
Approval Date

Christina Waggett  
Assistant Commissioner- Consumer Protection

11-4-2024  
Approval Date

Joe French  
Assistant Commissioner- Agricultural Services

11-4-2024  
Approval Date

Breg Stiles  
Assistant Commissioner- NC Forest Service

11-4-24  
Approval Date

Karl Rutter  
Assistant Commissioner- Western Ag Programs

11/4/24  
Approval Date

VBZ  
Executive Director of the NC Tobacco Trust Fund

12-12-24  
Approval Date

Deetz Altes  
Chief Audit Officer

12/12/24  
Approval Date