

Audit Services Division
Annual Report for Fiscal Year 2019



**N.C. Department of Agriculture and Consumer Services
Audit Services Division**

Message from the Chief Audit Officer

Fiscal Year 2019 (FY19) was another successful and productive year in the Audit Services Division.

Within our primary services we:

- ❖ Completed seven audits, two consulting engagements, ten follow-up audits and two special investigations.
- ❖ Provided 113 hours of technical assistance to our clients.



In 2019, we experienced restructuring with the addition of an external auditor position resulting in the creation of an Internal and External Audit Section and a name change from Internal Audit to Audit Services to more accurately reflect our Division's work.

During FY19, we made significant progress against our objectives for Project Efficiency and Delivery, Emerging Risk Awareness, and Service Diversity and Impact. Key strategies implemented include robust data analytics through the use of IDEA software, audit process steps reduction through a lean analysis, data analytics training, quarterly risk assessments and increasing the number of consulting engagements completed for our clients.

We look forward to further enhancing our skill sets and adding more value for the Department and its stakeholders in Fiscal Year 2020!

Derek Allred, CIA, CISA, CFE
Chief Audit Officer

Audit Services Division Overview

The Audit Services Division was established in Fiscal Year 2014. The Division's mission is:

To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

Staffing

The Audit Services Division is comprised of the Chief Audit Officer, three¹ internal auditors and an external auditor.

Certifications

Our staff hold the following professional audit certifications:

- ❖ Two Certified Internal Auditors (CIA)
- ❖ One Certified Information Systems Auditor (CISA)
- ❖ One Certified Fraud Examiner (CFE)
- ❖ One Certified Public Accountant (CPA)
- ❖ Two Certified Government Auditing Professionals (CGAP)
- ❖ One Certification in Risk Management Assurance (CRMA)



One staff member is actively pursuing the CIA designation.

Training

Professional development helps our staff to stay current with emerging topics and best practices within our profession, which improves our ability to provide higher quality services to the Department. Individual training plans are developed and carried out for each staff member annually based on his/her knowledge, skills, abilities and needs. During FY19, audit staff received more than 229 hours in continuing professional education.

¹ One of the three internal auditor positions is currently vacant.

Work Allocation				
Assurance Services	Consulting Services	External Audits	Follow-Up Audits/Monitoring	Special Investigations

Assurance Services

Assurance services include planned audits of strategy, operations, finance, compliance, information technology and other topics. Audits can also be integrated and include more than one of the categories presented. Assurance services are normally planned months in advance and are included on our annual audit plan (work plan). This service includes the release of a formal report, which contains a summary of the area under audit and any observations as well as recommendations to mitigate identified risks.

Consulting Services

Consulting services are activities in which the nature and scope are agreed upon with the client and are intended to add value and improve an organization's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include advice, facilitation and training.

External Audits

Audits of fertilizer, feed, seed and lime manufacturers and distributors that are responsible for timely and correct payment of inspection fees and Agricultural Foundation Assessments associated with state agriculture tax laws.

Follow-Up Audits/Monitoring

Follow-Up Audits/monitoring engagements are completed for any engagement observations deemed high risk to the Department.

Special Investigations

Investigations result from tips reported to our office via the Office of the State Auditor, our internal fraud, waste and abuse hotline and other sources. During FY19, the Audit Services Division received and processed 18 investigation tips.

Performance Metrics

We track four measures annually to assess our performance.

Percent of Audit Plan Delivered during the Year (Productivity)

Target:	75% Audit Plan Completion
Actual:	87% of Original Audit Plan Completed and 95% of the Revised Audit Plan Completed

Our audit plan, approved on June 18th, 2018, included 15 projects. Of the 15 projects on our original plan, we completed 13 or 87%, exceeding our target of 75%. We later revised the audit plan by cancelling one audit and adding one consulting project, five follow-up audits and two special investigations. Of the 22 projects on our revised plan, we completed 21 or 95%, exceeding our target.

Percent of Projects Completed within Budget (Efficiency)

Target:	80% of Projects Completed within + or – 15% of Budgeted Hours
Actual:	90% of Projects Completed within + or – 15% of Budgeted Hours

Budgeted hours are the number of hours we allocate to complete each project based on our estimates. With additional experience and training, we were able to achieve this target for the first time.

Customer Satisfaction (Effectiveness)

Target:	Average Rating of 40 out of 50
Actual:	Average Rating of 47

At the end of each engagement, project sponsors are asked to complete a survey evaluating our audit team's work to facilitate continuous improvement. Questions on the survey address audit communication, professionalism of our staff, degree of disruption to operations and whether the project added value. For each question, responses are provided on a scale from 1 to 5 with 5 being the highest possible score. The maximum survey score is 50.

Conformance to IIA Standards (Quality)

Target:	Generally Conforms
Actual:	Generally Conforms

Both our recent external and internal quality assurance reviews demonstrated an IIA Standards and Code of Ethics compliance result of "Generally Conforms," the highest score the Audit Services Division can achieve.

Disclosures

The Audit Services Division adheres to IIA Standards. The following items are being disclosed in conformance with the Standards.

Purpose

The purpose of the Audit Services Division is to support the North Carolina Department of Agriculture and Consumer Services by providing risk-based and objective assurance, advice, and insight.

The Audit Services Division is established by General Statute Chapter 143, Article 79. The Audit Services Division's responsibilities are defined by these laws. The Council of Internal Auditing has authority to set policy related to the Audit Services Division.

Professionalism

The Audit Services Division will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Chief Audit Officer will report periodically to senior management and the Board of Agriculture regarding the Audit Services Division's conformance to the Code of Ethics and the Standards.

The Audit Services Division will also adhere to the requirements within General Statute Chapter 143, Article 79, the Institute of Internal Auditors' Implementation Guidance, and Supplemental Guidance as applicable to guide operations.

The Audit Services Division will adhere to the North Carolina Department of Agriculture and Consumer Services' relevant policies and procedures and the Audit Services Division's internal policies and procedures manual.

Lastly, dependent upon engagement type, the Audit Services Division will adhere to the Code of Ethics and Information System Audit and Assurance Standards issued by the Information Systems Audit and Control Association, the CFE Code of Professional Standards issued by the Association of Certified Fraud Examiners or standards of another professional organization.

Authority

The Audit Services Division, with strict accountability for confidentiality and safeguarding records and information, is authorized ready, full, free and unrestricted access to all the North Carolina Department of Agriculture and Consumer Services' records, physical properties and personnel pertinent to carrying out any engagement. All employees are requested to assist the Audit Services Division in fulfilling its roles and responsibilities.

Disclosures (Continued)

Responsibility

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the Department's goals and objectives.

Independence and Objectivity

The Audit Services Division will remain free from interference by any element in the Department, including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair the internal auditor's judgment.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

Current Impairments to Independence or Objectivity

The Audit Services Division has no current independence or objectivity impairments.

Resolution of Management's Acceptance of Risks

Each engagement can potentially result in observations concerning risks to the Department. In response to high and medium level risk rated observations, audit clients normally develop management action plans to address the risks. When a management action plan is not developed and/or not implemented resulting in an unacceptable level of risk to the Department, the Chief Audit Officer must communicate the matter to Senior Management. There were no instances to report for FY19.

Resources

The Audit Services Division is currently understaffed by one position. We are currently working to fill the vacancy.

Closing Comments

We appreciate the support provided by Senior Management during FY19 and look forward to adding more value for you in FY20.