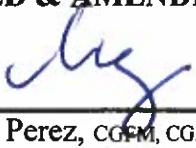


GUAM POWER AUTHORITY STANDARD OPERATING PROCEDURE	PREPARED & AMENDED BY:  Maripaz N. Perez, CGFM, CGAP, CICA, CIA, CFE Internal Auditor
TITLE: Procedures for the Conduct of Internal Audit Engagements NO: SOP-141 Supersedes: SOP-141, dated 3/30/09 Page 1 of 7	APPROVED BY:  JOHN M. BENAVENTE, P.E. General Manager Dated: <u>7/2/19</u>

1.0 * PURPOSE AND FUNCTION

This Standard Operating Procedure (SOP) is established to provide guidance in the audit activities and consulting services of the Guam Power Authority's Internal Audit Office (IAO). Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of GPA. It assists in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Authority's governance, risk management, and internal controls. These services range from providing audits, consulting services, and investigations.

The primary function of the IAO is to evaluate the economy, efficiency, and effectiveness of management's established system of internal controls through its audit activities and consulting services. Nature of Assurance and Consulting Services

- a) Audits are assurance services defined as examinations of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples include financial, performance, compliance, systems security and due diligence engagements.
- b) Consulting services is a service where the IAO and the auditee agree on the nature and scope of the engagement. The services are intended to add value and improve the Authority's governance, risk management, and control processes without the Internal Auditor assuming management responsibility. Examples include reviews, recommendations (advice), facilitation, and training.
- c) Investigations are independent evaluations of allegations generally focused on improper governmental activities including misuse of resources, fraud, financial irregularities, significant control weaknesses, and unethical behavior or actions.

d) Financial audits are conducted by external auditors. The IAO's involvement in the financial audit is usually limited to providing internal audit reports issued, commenting on suspected fraud, and attending periodic status meetings with the Guam Public Auditor and the external auditors. The Guam Public Auditor directs and supervises all government audits pursuant to 1 GCA §§1908 & 1909.

2.0 # SCOPE

This policy applies to all employees, board members, contractors, sub-contractors, consultants, vendors, volunteers, temporary, and other workers of the Authority.

This policy will be reviewed and updated as needed by IAO personnel to keep the division's operations current on auditing techniques, standards, and Audit Committee composition. The Internal Auditor is responsible for the regular review and update of this procedure, as necessary, to reflect the IAO's operations and/or changes to audit standards.

3.0 * STANDARDS AND CODE OF ETHICS & JURISDICTION TO AUDIT

The internal audit activities of the IAO shall be guided by the Standards set forth by the Institute of Internal Auditors on the *Professional Practice of Internal Auditing and IIA's Code of Ethics*. The office will also be guided and abide by the *Authority's Code of Ethics*. IAO personnel shall not engage in any activities that are or can be perceived as conflicts of interests. The IAO is also prohibited from having any operational responsibility or authority over any activities audited.

3.1 **Jurisdiction and Authority.** The IAO shall have full, free, and unrestricted access to all activities, records, physical properties, and personnel of the Authority. If access is required to Performance Management Contract (PMC) employees or contractors, the IAO will coordinate with the PMC General Manager, a designee, and pertinent division manager.

3.2 **Rules of Conduct and Principles.** The IIA Code of Ethics states the principles and expectations governing behavior of individuals and organizations in the context of internal auditing. Accordingly, the IAO will abide by these principles and rules of conduct: integrity; objectivity; confidentiality; and competency.

3.3 **Continuing Professional Development.** Training will be afforded to the Internal Auditor and staff to conform to 5 G.C.A. §20304 Continuing Education for Accountants, which requires government of Guam directors to budget for accountants and auditors. Internal auditors are responsible for continuing their education to enhance and maintain their proficiency. The Internal Auditor and staff are encouraged to demonstrate their proficiency by obtaining appropriate certification, such as the Certified Internal Auditor, Certified Public Accountant, Certified Government Financial Manager, and others.

4.0 *** INDEPENDENCE AND ANNUAL PLAN**

To provide for the independence to the Internal Audit Office, its personnel report to the Internal Auditor, who reports administratively to the GPA General Manager and functionally to the Consolidated Commission on Utilities Audit Committee.

- 4.1 **Independence and Objectivity.** The internal audit activity must be independent, and internal auditors must be objective in performing their work. Independence is the freedom from conditions that threaten objectivity or the appearance of objectivity. The objectivity of the IAO is the unbiased mental attitude that allows internal auditors to perform engagements. Objectivity also includes independence of mind and appearance when conducting engagements, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest.
- 4.2 **Conflict of Interest.** Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. This conflict could impair an auditor's ability to perform objectively and can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. The Internal Auditor and internal audit staff must report and document any impairment to the Internal Auditor and/or the Audit Committee. If the Internal Auditor or the Audit Committee determines that impairment exists or can be inferred, the staff or engagement will be reassigned.
- 4.3 **Organizational Independence.** The Internal Audit Office shall have no direct responsibility or authority over activities or operations audited. The Internal Audit Office's function of reviewing, evaluating, and reporting on the effectiveness of the Authority's system of internal controls does not, in any way, relieve operating division personnel of their assigned responsibilities. Although the Internal Audit Office will recommend the courses of action, the responsibility for taking action in response to such recommendations shall rest with the operating management.
- 4.4 **Annual Audit Plan.** The primary objective of the audit plan is to identify engagements in the most effective and efficient manner. It is a risk-based plan that considers (1) available IAO resources to conduct engagements efficiently and effectively, and (2) usefulness of information for the Audit Committee to help accomplish GPA's objectives. The annual audit plan will be submitted to the Audit Committee for review and approval.

The audit universe contains all possible audits and can include input from the Audit Committee, the CCU, management, employees, the GPA strategic plan, prior audits, other reports and assessments, current events, and other sources. The audit universe and related audit plan are flexible and updated at least annually to reflect changes in management direction, objectives, emphasis, and focus.

5.0 **COMMUNICATION WITH MANAGEMENT**

- 5.1 **Advance Notices.** Prior to the beginning of fieldwork, the Internal Audit Office shall inform the appropriate division manager of the audit about to commence. The

notification may be sent via email. Engagement notification or an entrance briefing to identify the scope of the audit, tentative objective(s), point of contact, data/information, and level of cooperation needed.

- 5.2 Unannounced site visits, and reviews of suspected fraud, hotline, or special projects, which may require different procedures involving little to no prior notification. Such prior notice may compromise the audit. Hence, the Internal Audit Office reserves the right not to provide advance notice. In these situations, the IAO shall document the justification and maintain them in the working papers.
- 5.3 * Regular Communication. Under normal circumstances, communication between the Internal Audit Office and the manager of the division being audited, at a minimum, shall include:
 - a) Engagement notification or an entrance briefing to identify the scope of the audit, tentative objective(s), and level of cooperation needed.
 - b) Engagement and audit progress updates to provide management and process owners the status of the audit/engagement and issues identified for timely corrective actions.
 - c) Exit briefing to inform pertinent manager and process owners of the findings upon the conclusion of the audit/engagement. This also serves as the presentation of the draft report for management discussion and concurrence.
 - d) Recommendations will also be communicated to management for their concurrence and/or comment. Recommendations will describe actions necessary to improve or correct existing conditions and may suggest approaches to correcting or enhancing performance as a guide for management in achieving desired results.

6.0 * **WORKING PAPERS**

- 6.1 **Working Papers Documentation and Contents.** The IAO must document relevant information to support the conclusions and engagement results. Working papers should contain sufficient and appropriate evidence and be prepared completely, accurately, clearly, neatly, and legibly. Working papers generally:
 - a) aid in engagement planning, performance, and review;
 - b) provide principal support for results;
 - c) document whether objectives were achieved;
 - d) support accuracy and completeness of the work performed;
 - e) provide a basis for the internal audit quality assurance; and
 - f) facilitate third-party reviews.
- 6.2 Working papers provide relevant support for the audit report. The working paper files shall include the following:

- a) Index – Contain a complete listing of all the working papers created during the audit/engagement.
- b) Report File – Contain a copy of the transmitted final report and referenced copy of the report.
- c) Administrative Files – Contain administrative documents of audits (i.e., notices, records of discussions, management response).
- d) Audit/Engagement Plan – Contain information on the audit/engagement subject (i.e., mission, objectives, organizational structure, and operating officials), tentative objective(s), audit scope and methodology, audit staff, and timeline. The written plan may vary among audits and may include an audit strategy, audit program, project plan, audit planning paper, or other appropriate documentation of key decisions about the audit objectives, scope, and methodology and the auditors' basis for those decisions.
- e) Hotline Tips or Concerns – Shall include any hotline tips and concerns received pertaining to audit subject.
- f) Findings – Shall identify the findings, criteria used, and supporting documentations, interview or discussion memos, data analyses, testing results, etc. This information shall be organized logically and by finding area.
- g) Status of Recommendations – Shall contain records of actions taken by management to resolve recommendations stated in the report. This section shall include incoming and outgoing correspondences related to the recommendations.
- h) Referrals – Shall contain records of actions and copies of referrals, if any, by the Internal Audit Office to appropriate authorities (i.e., Guam Police Department, Office of the Attorney General, etc.).
- i) Others – Shall include miscellaneous items related to the report (i.e., newspaper articles, professional journals, etc.). The contents shall be organized logically.

6.3 **Working Papers Presentation.** Working papers should be complete, accurate, clear, legible, neat, and relevant. If a working paper file has multiple parts, they should be organized logically.

6.4 **Records Retention.** Working papers, to include reports, shall be retained by the IAO for five (5) years after the issue date of the audit report (Reference: *SOP-039 Records Retention Schedule*). After the retention period, working papers will be archived unless recommendations remain unresolved; the report is part of an ongoing investigation or legal action; or other requirements necessitating the preservation of the files.

6.5 **Access to Reports and Working Papers.** Working papers are official records of the IAO and Authority. They are confidential and remain the property of the Internal Audit Division and must be safeguarded to prevent unauthorized access. Reports and working papers are for internal use for GPA management and the CCU. Access to working papers and reports shall not be provided unless approved by the Audit

Committee and/or Legal Counsel, as appropriate, to any requesting parties prior to releasing reports to outside parties. In cases of suspected fraud or investigations, the Internal Auditor may release, upon Legal Counsel consultation, pertinent working papers and reports to appropriate authorities, such as the Guam Police Department and the Office of the Attorney General.

6.6 **Recommendations Follow-Up.** Status of recommendations will be assessed annually. The IAO will follow up with management on action plans submitted to ensure the effective implementation of audit recommendations. The IAO shall periodically review all open recommendations to monitor progress and validate that agreed upon actions have been taken and intended results have been achieved. GPA managers responsible for implementing outstanding recommendations will be informed of the status of the recommendations and the required documentation for closure. The status of open recommendations will be reported to the Audit Committee in the IAO's annual report.

7.0 *** REPORTING PROTOCOL**

Internal audit reports/memo presents the results of an audit, review, analysis, investigation, or inquiry. Interim management report may be used to communicate results that are brief or to present matters that require management's immediate corrective actions.

7.1 The reporting protocol for audit reports is as follows:

- a) The IAO shall notify pertinent and appropriate GPA management and officials of the engagement scope and/or tentative objective(s) except in situations where prior notification may compromise the engagement such as suspected fraud. The engagement notification may be sent via email.
- b) Regular updates on the progress of the engagement shall be provided to pertinent management, process owners, and employees involved in the subject matter under review. These communications shall include, at the minimum, findings notification, status on progress of corrective actions, and any ongoing corrective measures by the auditee or responsible process owners.
- c) Upon conclusion of an audit, the IAO shall prepare and transmit the draft report addressed to the appropriate division manager and/or General Manager. The communication may also be a synopsis of the findings, conclusion, corrective actions implemented, and recommendations. A discussion of the draft report is encouraged with process owners however, in some cases, a discussion may not be necessary. The Internal Auditor will consider the comments provided and revise the report accordingly.
- d) The GPA General Manager will afford the division managers ten (10) workdays from the receipt date of the draft report or synopsis the opportunity to respond to

the findings and recommendations. A written response to be provided to the Internal Auditor, at a minimum, will include the following:

- i. Whether the division manager concurs with the finding(s). If not, provide reasons for nonconcurrence.
- ii. Whether the division manager concurs with the recommendation(s). If not, provide written reasons for the nonconcurrence.
- iii. An action plan to implement the recommendation(s). The action plan should include the individual responsible for implementing the recommendation, the specific actions, and a timetable to complete such activities.

e) After receipt of the division response, the IAO shall prepare a final report that will include: (1) results of the audit/engagement; (2) findings and matters that were addressed; (3) issues that remain; (4) recommendations; (4) management's response; and (6) action plans submitted by the division manager to implement the recommendation(s).

f) All audit reports will be provided to the Audit Committee, General Manager, pertinent Assistant General Manager, division manager, and other appropriate officials.

g) In the event the Audit Committee determines the audit report merits discussion of audit issues with the CCU, the Audit Committee Chair shall schedule a presentation at the earliest CCU Board meeting or at a special CCU meeting.

h) Urgent Matters or Hotlines: Reports addressing situations of an urgent nature or hotlines investigated by the IAO shall be immediately investigated and addressed accordingly:

- i. If the issue involves a staff or division manager, the Internal Auditor shall confer with the General Manager for guidance and direction.
- ii. If the issue involves the General Manager, the Internal Auditor shall confer with the Audit Committee Chair for guidance and direction.
- iii. The report, at the minimum, shall contain the purpose; scope or urgent matter/concern; analyses; interviews; and results of the investigation.

7.2 The reporting protocol for the Revenue Protection Service section is delineated in a separate standard operating procedure document (Reference: *SOP-121 Meter Tampering/Illegal Power Hookup Investigating and Reporting Procedures*).