




GUAM WATERWORKS AUTHORITY

AGENCY POLICY No: <u>IA-02</u>	<u>Section</u> Internal Audit	<u>Pages</u> 6
STANDARD OPERATING PROCEDURES FOR INTERNAL AUDITS	Supersedes: IA-02, dtd April 2009	
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1. PURPOSE

This policy establishes the Guam Waterworks Authority Internal Audit Standard Operating Procedures (SOP) to guide the audit activities of the Internal Audit division. The GWA Internal Audit Charter is established in GWA Agency Policy No. IA-01 adopted by the Consolidated Commission on Utilities (CCU) on May 12, 2009.

Other detailed guidance may be provided in a GWA Internal Audit Manual.

2. STANDARDS AND CODE OF ETHICS

The Internal Audit division will be guided by the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA). The IPPF includes mandatory guidance:

1. Definition of Internal Auditing,
2. The Code of Ethics, and
3. The International Standards for the Professional Practice of Internal Auditing (Standards).

The IPPF also includes strongly recommended guidance:

1. Position Papers,
2. Practice Advisories, and
3. Practice Guides.

Additional guidance may be obtained from the Government Auditing Standards issued by the Comptroller General of the United States of the US Government Accountability Office.

3. RELATIONSHIP WITH OTHER DIVISIONS

The Internal Auditor reports directly to the CCU Audit Committee and reports administratively to the GWA General Manager.

The Internal Audit division shall have not direct responsibility over activities or operations audited. The Internal Audit division's reviews, evaluations, and reports on GWA's system of internal controls do not, in any way, relieve GWA operations personnel of responsibilities assigned to them. Although the Internal Audit division will make recommendations, GWA management is responsible for responding to and implementing the recommendations.

4. AUDIT STEPS

Generally, the steps in the audit process are:

1. Conduct the **preliminary survey** to help the Internal Audit division obtain an understanding of the subject under review, perform a risk assessment, and narrow objectives to problem areas identified during the survey.
2. Hold the **entrance conference** to discuss audit scope and objectives, introduce key management and staff, and discuss necessary cooperation and documentation needed.
3. Conduct audit **fieldwork** to perform detail tests to assure that audit objectives are met and communicate findings to division managers.
4. Prepare the **draft report** to document findings for presentation to management for discussion during the exit conference.
5. Prepare the **final report** to issue final findings and management's responses.
6. **Follow-up** to recommendations to verify implementation.

5. # REPORTING PROTOCOL

1. Upon conclusion of an audit, the Internal Audit division shall prepare and transmit a draft report addressed to the GWA General Manager with a copy to the appropriate division manager.
2. The GWA General Manager will afford the division manager ten (10) workdays from the date of the draft report the opportunity to respond to the audit issues. the written response, addressed to the General Manager with a copy to the Internal Audit division shall, at a minimum, include the following:
 - a. Whether the division manager agrees with the finding. If not, provide written justification.
 - b. An action plan to implement the recommendation. The action plan should include the individual responsible for implementing the recommendation, the specific actions, and a timetable for full implementation.

3. After receipt of the division response, the Internal Audit division shall prepare a final draft report that will include the following:
 - a. The division manager's response.
 - b. Findings and recommendations that remain after the preliminary discussion.
 - c. Action plans submitted by the division manager to implement the recommendations.
4. The final report will be addressed to the GWA Audit Committee with a copy to the GWA General Manager, division manager, CCU Board Members, and other appropriate parties.
5. In the event the GWA Audit Committee determines the audit report merits discussion of the audit issues with the CCU, the Internal Audit Committee shall schedule a presentation at the earliest CCU Board meeting or at a special meeting of the CCU.
6. **EXCEPTION:** Audit reports addressing situations of an urgent nature which warrant immediate resolution and actions (such as issues pertaining to Fraud, Waste, & Abuse) shall be addressed accordingly:
 - a. If the issue involves a division manager, the Internal Auditor shall convene with the GWA General Manager for guidance and direction.
 - b. If the issue involves the GWA General Manager, the Internal Auditor shall convene with the GWA Audit Committee or its chairman for guidance and direction.

6. # RECOMMENDATIONS FOLLOW UP

Management will follow up on all action plans submitted to ensure the effective implementation of audit recommendations. The Internal Audit division shall periodically review all open recommendations to monitor the progress of or validate that agreed upon actions have been taken and intended results have been achieved.

7. COMMUNICATION WITH MANAGEMENT

The Internal Audit division is highly encouraged to regularly communicate with GWA managers and staff throughout the audit. The Internal Audit division shall inform the appropriate GWA division heads and other key staff of the audit prior to fieldwork except in situations when notification may compromise the audit. Examples include reviews of suspected fraud or special projects, which may require different procedures involving little to no notification to involved GWA management and/or employees. In these situations, the Internal Audit division shall document the justification and maintain in the working papers.

8. WORKING PAPERS

The Internal Audit division must document relevant information to support the conclusions and engagement results. Working papers generally (1) aid in engagement planning, performance, and review, (2) provide principal support for results, (3) document whether objectives were achieved, (4) support accuracy and completeness of the work performed, (5) provide a basis for the internal audit quality assurance, and (6) facilitate third-party reviews.

Working papers should contain sufficient and appropriate evidence and be prepared completely, accurately, clearly, neatly, and legibly.

A. Working Paper Contents

The working papers should be logically organized in the following files and include:

1. **The Master Index**, a complete listing of all working papers created during the audit with auditor sign off and date prepared.
2. **Report File**, containing report referencing, distribution, entrance and exit conferences, and working paper reviews.
3. **Administrative File**, containing the time management documentation, impairment statements, and periodic audit status reports.
4. **Permanent File**, containing background information, relevant laws and rules, and prior audits.
5. **Fieldwork File**, containing audit findings, relevant data and analyses, and discussions.

Other documentation not listed may be filed if appropriate. Unnecessary working papers should not be filed.

B. Identification

Generally, working papers should be identified with the following:

1. Job code
2. Audit title
3. Working paper title
4. Working paper index number
5. Preparer's initial and date
6. Reviewer's initial and date
7. Purpose indicating why the audit step was performed
8. Source indicating from whom or where the information was obtained or what working papers support a summary write-up
9. Conclusion indicating the basic outcome of the audit step
10. Methodology indicating audit procedures, if applicable

C. Cross-Indexing

The working papers should be completely and accurately cross-indexed to related working papers.

9. REFERRALS

When appropriate, the Internal Audit division may refer findings to other authorities such as the Guam Police Department or the Office of the Attorney General for further investigation.

10. RETENTION AND DISPOSITION OF WORKING PAPERS

Working papers shall be stored within the Internal Audit division for five (5) years after the audit report is issued. After the retention period, working papers will be archived unless recommendations remain unresolved, the report is part of on-going investigation or legal action, or other action necessitates retention of the files.

11. ACCESS TO WORKING PAPERS

Working papers are official records of the Internal Audit division and must be safeguarded at all times to prevent unauthorized access. The Internal Audit division shall be prudent in the use and protection of information acquired in the course of its duties. Information shall not be used for any personal gain or in any manner that would be contrary to law or detrimental to GWA.

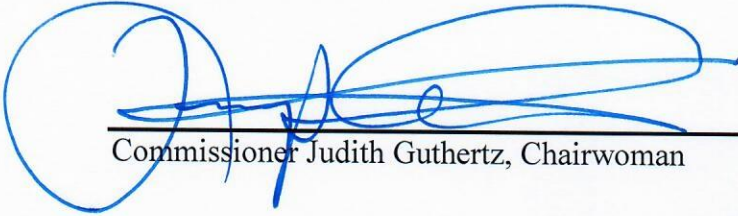
Requests to review working papers by the CCU and GWA management are subject to the approval of the Internal Auditor. In cases of suspected fraud, the Internal Auditor may release pertinent working papers to appropriate authorities. The Internal Auditor must obtain the approval of the Audit Committee and/or legal counsel prior to releasing records to external parties, as appropriate.

12. MODIFICATION

These procedures may be updated as necessary to reflect the Internal Audit division's operations. Proposed changes to this policy are subject to the CCU Audit Committee review and approval.

12. #APPROVAL

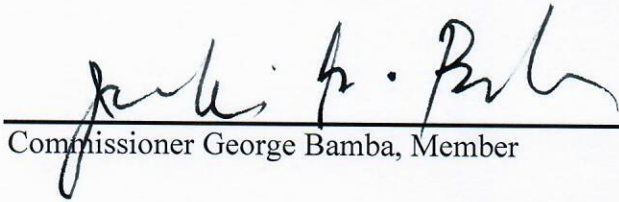
APPROVED BY: GWA Audit Committee



Commissioner Judith Guthertz, Chairwoman

Jan 10/19

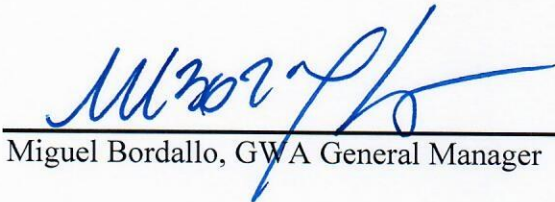
Date



Commissioner George Bamba, Member

1-2-2019

Date



Miguel Bordallo, GWA General Manager

1-2-19

Date