

**OFFICE OF PUBLIC ACCOUNTABILITY  
AUDIT MANUAL**

MAY 2022



# Office of Public Accountability

## Government of Guam

**May 20, 2022**

TO ALL OPA STAFF:

This Audit Manual describes the authority and responsibility of the Office of Public Accountability (OPA) and the Public Auditor; provides guidance for managing and administering OPA; and establishes the policy and procedures for planning, performing, and reporting on audits and investigations.

This Manual is divided into chapters which primarily outline the performance audit phases. A summary of the information contained in each part can be found in the Table of Contents. This particular audit manual was updated from the previous version issued in February 2017 and contains updates from the *Generally Accepted Auditing Standards* 2018 Revision. From time to time, the Manual may be updated as appropriate. Updated pages are indicated on the bottom right-hand portion of the page.

Each OPA staff member is required to become thoroughly familiar with the policies and procedures established in the Manual. Suggestions for improvements and questions of interpretation regarding this Manual should be brought to the attention of the Public Auditor or Audit Management.

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Public Auditor

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# INTRODUCTION

The guidelines in this Audit Manual (Manual) are intended to be the basis for conducting audits within the Office of Public Accountability (OPA); however, nothing contained in this Manual is intended to be a substitute for the professional judgment of the Auditor.

The OPA follows *Generally Accepted Government Auditing Standards*<sup>1</sup> (GAGAS or Yellow Book) as set forth by the Comptroller General of the United States and Standards of the American Institute of Certified Public Accountants (AICPA)<sup>2</sup>. Where applicable, OPA also follows the International Standards of Supreme Audit Institutions (ISSAI) issued by the International Organization of Supreme Audit Institutions (INTOSAI). The OPA maintains an ethics policy founded on the AICPA Code of Professional Conduct and Association of Government Accountants (AGA) Code of Ethics. Each Auditor is expected familiarize himself/herself with these standards and policies.

The OPA is responsible for two types of audits within the Government of Guam (GovGuam):

- Financial Audits (audits of transactions)
- Performance Audits (audits of economy, efficiency, effectiveness and/or compliance with performance or other standards)

The OPA has oversight responsibilities of audits of all agencies, bureaus, commissions, and programs within GovGuam, including all three branches of government. Notwithstanding the above, the terms *Agency* or *Agencies* will be used in this Manual to include agencies, bureaus, departments, instrumentalities, commissions, programs, semi-autonomous, and autonomous agencies of GovGuam or as otherwise defined by law.

## **Financial Audits (Audits of Transactions)**

Historically, local Certified Public Accounting (CPA) firms have performed Financial Audits. This policy will continue unless otherwise designated by the Public Auditor. The Public Auditor, where appropriate, will be a signatory on all audit contracts and must receive a copy of all correspondence between the auditee and the CPA firm. The CPA firm shall include the Public Auditor in all audit status conferences in which significant audit issues are discussed.

Any firm who contracts with GovGuam to perform a Financial Audit is responsible for the following:

- Preparing a report determining whether or not the financial statements are prepared in accordance with the established criteria;
- Ensuring compliance with the Office of Management and Budget's Uniform Guidance, if applicable;
- Preparing a letter of recommendations to management;
- Preparing reports indicating whether or not the Agency has complied with specific compliance requirements; and
- Preparing any other report as contracted.

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<sup>1</sup> Generally Accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States, U.S. Government Accountability Office, April 2021.

<sup>2</sup> Clarified Statements on Auditing Standards, American Institute of Certified Public Accountants, Inc.

## **Performance Audits (Audits of economy, efficiency, effectiveness, and/or compliance with performance or other standards)**

A *Performance Audit* is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a Government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

Performance audits consist of two types of audits: (1) economy, efficiency, and effectiveness and (2) compliance with performance or other standards. Because most audits performed by the OPA include aspects of both types of audits, the OPA will refer to all audits conducted under Chapters 8 & 9 of the Yellow Book as “Performance Audits.” OPA develops an Annual Audit Plan for audits to be conducted during the year; however, OPA’s priorities may change any time during the year due to the passage of laws, requests by elected and public officials, the changing needs of GovGuam, and other developments.

An *Investigative Audit* is a subset of performance audits and may be performed when a need is presented to the OPA to evaluate an allegation of waste or abuse of government resources. The purpose of an *Investigative Audit* is to determine whether or not the evidence gathered supports the allegation received by the OPA. Investigative Audits have a very narrow scope subject and feature-focused testing designed to uncover the waste or abuse. Investigative audits are not performed with the intent of uncovering fraud or other illegalities.

Referrals to perform performance audits will generally be obtained from the following: 1) Referrals from elected officials acting on behalf of their constituents, 2) Referrals received directly by OPA from members of the general public, or 3) Issues arising from a management letter or compliance report received in conjunction with a financial audit.

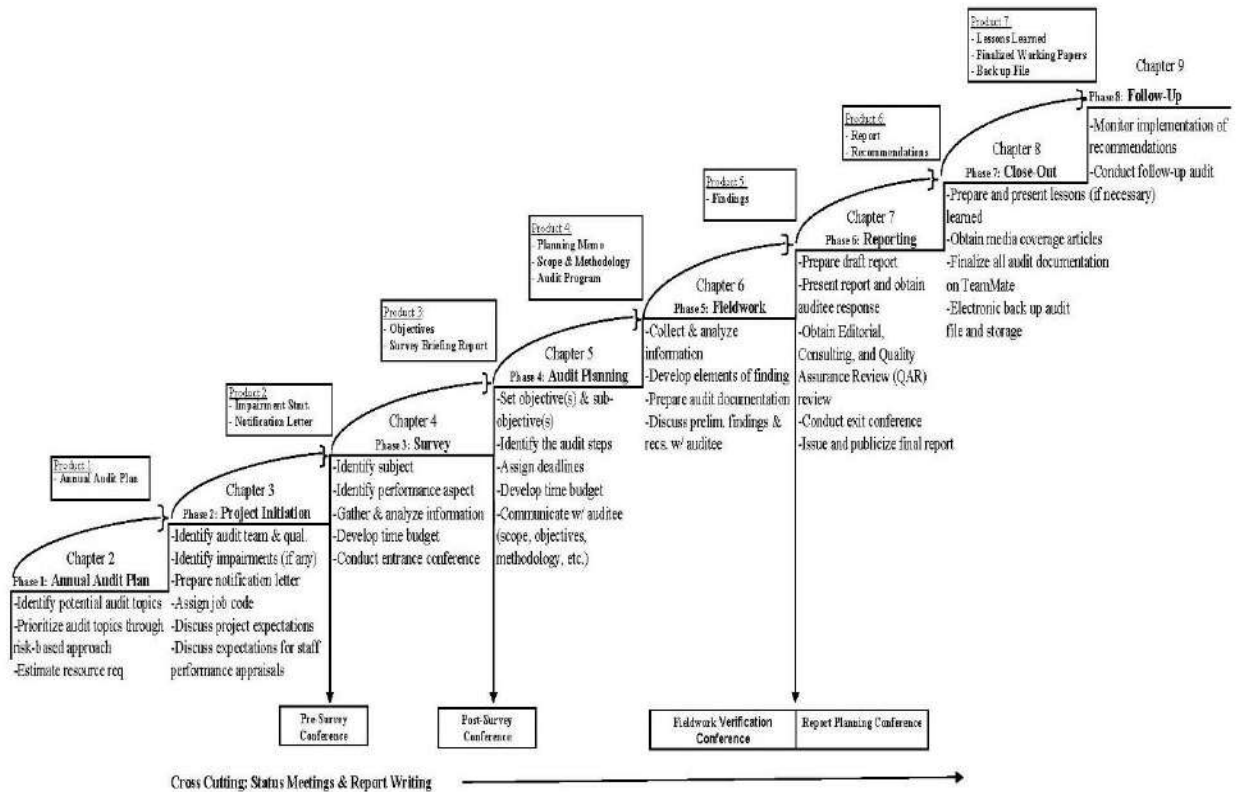
### **Phases of a Performance Audit**

Performance auditors are faced with a considerable variety in their work and are often placed in a position where they need to exercise their professional judgment carefully in making planning decisions, developing test programs, forming conclusions, and constructing recommendations. They must often become familiar with a wide range of organizational contexts and subject matters. They need the ability to write reports on complex subject matters in a manner that can be understood by a wide audience. Performance auditors must develop skills far beyond that can be gained from a manual.

This Manual discusses the phases of a performance audit, and OPA’s general policies and standards as they relate to the phases as illustrated in Figure 1.



**Figure 1. Phases of a Performance Audit**



**Who We Are**

Public Law 21-122 established the Office of Public Accountability in July 1992. OPA is an instrumentality of the Government of Guam, independent of the executive, legislative, and judicial branches.

We seek to achieve independent and nonpartisan assessments that promote accountability and efficient, effective management throughout the Government of Guam.

We seek to serve the public interest by providing the Governor of Guam, the Guam Legislature, and the people of Guam with dependable and reliable information, unbiased analysis, and objective recommendations on how best to use government resources to support the well-being of our island and its constituents.

**Mission Statement**

To ensure public trust and good governance in the Government of Guam, we conduct audits and administer procurement appeals with objectivity, professionalism, and accountability.

**Vision Statement**

The Government of Guam is a model for good governance with OPA leading by example as a model robust audit office.

**Core Values**

**Objectivity, Professionalism, Accountability**

# **CHAPTER 1: PERFORMANCE AUDIT GENERAL STANDARDS**

## **1.0 Purpose**

This chapter sets forth the general standards adopted by OPA to carry out the office's activities and functions with independence, professionalism, and integrity.

## **1.1 Maintaining Independence**

In all matters relating to the audit work, the audit organization, the Public Auditor, and the OPA staff involved in performing or supervising the assignment, must be free from personal or external impairments to independence and shall consistently maintain an independent attitude and appearance. [GAGAS Chapter 3]

The auditor and the Supreme Audit Institution (SAI) must be independent; the auditor and the SAI must possess the required competence; and the auditor and the SAI must exercise due care and concern in complying with the INTOSAI Auditing Standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations'. [INTOSAI Fundamental Principles of Public-Sector Auditing ISSAI 100-36 through 40]

## **1.2 Planning**

The OPA shall maintain a planning system for assessing the nature, scope, trends, vulnerabilities, special problems, and inherent risks of Government programs and operations and for use in establishing the goals, objectives, and tasks to be accomplished by the OPA within a specific time period. [GAGAS 8.03 through 8.07]

Auditors should select audit topics through the SAI's strategic planning process by analyzing potential topics and conducting research to identify risks and problems; and plan and manage the audit engagement to carry out high-quality audit work efficiently, effectively, and timely. [INTOSAI Performance Audit Principles ISSAI 300-36 & 37]

## **1.3 OPA Resources**

The OPA management team is responsible for assisting the OPA in assuring that the office resources are effectively, efficiently, economically, ethically, and equitably deployed. [GAGAS 1.02 through 1.11]

## **1.4 Assuring Staff Qualifications**

OPA staff shall collectively possess a variety of knowledge, skills, and experience needed to accomplish the OPA mission and audit objective. [GAGAS 4.02 through 4.15; 8.31]

## **1.5 Directing and Controlling**

- a. The OPA management team shall direct and control OPA operations to assure that: (i) all activities are adequately supervised, (ii) performance is consistent with professional standards, and (iii) periodic internal assessments are made of OPA activities and accomplishments. [GAGAS 8.87 through 8.89]
- b. The audit staff is to be properly supervised from the start of planning through the completion of fieldwork and reporting to ensure that the work conforms with *Generally Accepted Government Auditing Standards* and OPA policies. The level and detail of supervision will depend on the experience and training of the staff and the complexity of the assignment. Supervisory responsibilities are spelled out throughout this chapter. The Auditor-in-Charge (AIC) and/or the Audit Supervisor should ensure that (i) conformance with audit standards is obtained, (ii) audit programs are followed, unless changes are justified, authorized and documented, (iii) the audit work is conducted with due professional care, (iv) the audit documentation adequately support findings and conclusions and provide sufficient data to prepare a meaningful report, (v) the audit objectives are met, and (vi) supervisory reviews are timely.
- c. The work of the audit staff at each level and audit phase should be properly supervised during the audit, and documented work should be reviewed by a senior member of the audit staff. [INTOSAI Performance Audit Standard ISSAI 3000-66]

## **1.6 Sufficient, Appropriate Evidence**

- a. Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions. [GAGAS 8.90 through 8.94]
- b. Sufficiency is a measure of the quantity of evidence used to support the findings and conclusions related to the audit objectives. [GAGAS 8.99 through 8.101(b)]
- c. Appropriateness is the measure of the quality of evidence that encompasses its relevance, validity, and reliability in providing support for findings and conclusions related to the audit objectives. [GAGAS 8.102]

## **1.7 Audit Documentation**

- a. Auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Such documentation should be prepared in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions. [GAGAS 8.132 and INTOSAI Performance Audit Principles ISSAI 300- 34]

- b. Auditors should prepare audit documentation that contains evidence of the audit quality and supports the findings, conclusions, and recommendations before they issue their report. [GAGAS 8.133 through 8.135]
- c. When auditors do not comply with applicable GAGAS requirements due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the audit, the auditors should document the departure from the GAGAS requirements and the impact on the audit and on the auditors' conclusions. [GAGAS 8.136]

## **1.8 Reporting**

- a. The Public Auditor shall provide an annual report to the Governor of Guam and the Speaker of the Guam Legislature within 90 days of the close of the calendar year<sup>1</sup>, such report to include recommendations for necessary legislation to improve and protect the integrity of the financial transactions and condition of GovGuam. [1 GCA § 1909(f)]
- b. The Public Auditor shall provide a copy of all audits to all news media on Guam, as well as publish the audit on the Internet. [1 GCA § 1920]
- c. The Public Auditor shall submit to I Liheslaturan Guåhan on a continuous basis recommendations with respect to altering and amending the performance standards assigned to any government of Guam program, as well as recommendations with respect to procedures for evaluating compliance with or achievement of performance standards. Upon enactment of a law implementing a program and performance-based budget for the entire GovGuam, OPA shall implement a continuous program of evaluation and justification review of all GovGuam agencies and shall submit a report of evaluation and justification review findings and recommendations to the Speaker of I Liheslaturan Guåhan, I Maga'låhen Guåhan, the head of the agency that was the subject of the review, and the head of any agency that is substantially affected by the findings and recommendations. Every agency, department and program of the government of Guam must be reviewed at least once annually, and a report must be made to I Liheslaturan Guåhan at least four (4) months prior to the end of a fiscal year. [1 GCA § 1915]
- d. The Public Auditor of Guam shall receive and maintain Procurement Training Compliance Reports, submitted pursuant to 5 GCA § 5141 (n), in an electronic portable document format. [1 GCA §1924]

## **1.9 Confidentiality of OPA Audit Documentation**

The OPA shall establish and follow procedures for safeguarding and protecting all audit documentation, the identity of confidential sources, and privileged and confidential information. Specifically, confidential sources shall not have their identity revealed without their consent, and confidential or privileged information shall not be disclosed unless required by law. [1 GCA § 1909.1]

### **1 GCA § 1909.1. Confidentiality of Investigations.**

(a) Except pursuant to a subpoena issued by a court of competent jurisdiction for good cause shown, or the powers afforded I Liheslaturan Guåhan [the Legislature] under Legislative Investigative Powers, 2 GCA Chapter 3, the Public Auditor shall not be required to disclose any working papers. For the purposes of this Section, working papers means the notes, internal memoranda and records of work performed by the Public Auditor on audits and other investigations made pursuant to this Chapter, including any and all project evidence collected and developed by the Public Auditor.

(b) Information received by the Public Auditor alleging criminal activity or alleging wrongful use of government funds or property is privileged. Neither the Public Auditor nor any person employed by the Public Auditor shall disclose the identity of the person providing that information, unless such failure to disclose infringes upon the Constitutional rights of the accused. Nor shall the Public Auditor, nor any person employed by the Public Auditor, be required to produce any records, documentary evidence, opinions or decisions relative to such privileged communication or information:

(1) In connection with any criminal case, criminal proceeding or any administrative hearing of whatever nature, or

(2) By way of any discovery procedure.

(c) Any person arrested or charged with a criminal offense may petition the Court for an in camera inspection of the records of a privileged communication or information received by the Public Auditor, and which is material to the criminal charge brought against the person. The petition shall allege facts showing that such records would:

(1) Provide evidence favorable to the accused;

(2) Be relative to the issue of guilt; and

(3) Cause a deprivation of a constitutional right if such communication or information is not disclosed. If on the basis of such criteria, the Court determines that the person is entitled to all or any part of such records, it may order its production and disclosure to the degree necessary, protecting to the extent possible, the identity of the person who has informed the Public Auditor of such matter.

(d) Disclosure of a privileged communication or privileged information in violation of this Section shall be a felony of the third degree.

### **1.10 Maintaining Quality Assurance**

- a. All work performed by the OPA shall be in conformity with *Government Auditing Standards*. Any deviation from these Standards should be explained in the report. The most recent Association of Pacific Island Public Auditor (APIPA) Peer Review Guide may be used to maintain the quality assurance program.
- b. The OPA shall establish and maintain a quality assurance program to ensure that work performed adheres to established OPA policies and procedures, meets standards of

performance, and is carried out economically, efficiently, and effectively. [GAGAS 5.02 through 5.80]

- c. OPA should have policies and procedures for the safe custody and retention of audit documentation for a time sufficient to satisfy the legal, regulatory, and administrative requirements for records retention. The integrity, accessibility, and retrievability of the information in audit documentation should not be altered, added to, or deleted without the auditors' knowledge. [GAGAS 5.46 & 5.58]
- d. Monitoring of quality is an ongoing, periodic assessment of work completed on audits to provide OPA management a reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice. [GAGAS 5.47]
- e. The OPA should establish systems and procedures to (a) confirm that integral quality assurance processes have operated satisfactorily; (b) ensure the quality of the audit report; and (c) secure improvements and avoid repetition of weaknesses. [INTOSAI Fundamental Principles of Public-Sector Auditing, ISSAI 100-38]
- f. OPA should obtain an external peer review at least once every three years that is sufficient in scope to provide a reasonable basis for determining whether, for the period under review, OPA's system of quality control was suitably designed and whether the audit organization is complying with its quality control system in order to provide OPA with reasonable assurance of conforming with applicable professional standards. [GAGAS 5.66 through 5.80; 5.84]

### **1.11 Screening Tips/Allegations**

- a. The Public Auditor and/or OPA staff shall evaluate the credibility of hotline tips or allegations received based on the following criteria.
  - i. Is the claim sufficiently specific so as to appear credible?
  - ii. Is the claim sufficiently specific so as to provide the OPA with an investigative strategy?
  - iii. Is it auditable?
  - iv. Does the OPA have the resources and skill levels to initiate an investigation into the matter?
  - v. Does the claim fall within the scope of OPA?
  - vi. Could an investigation reasonably be expected to disclose the potential misuse of Government property?

- vii. Is the magnitude of the claim sufficient to justify the appropriation of audit resources?
- b. All tips and allegations shall be maintained in an electronic file. If the Public Auditor determines that work may be warranted, the Public Auditor will direct an Audit Supervisor to assign a team to conduct a pre-survey and collect background documents related to the allegation.

## **CHAPTER 2: PHASE 1 – ANNUAL AUDIT PLANNING**

- Identify potential audit topics
- Prioritize audit topics through a risk-based approach
- Estimate resource requirements

### **2.0 Purpose**

This chapter sets forth the processes in establishing the Annual Audit Plan, which will be the basis for assigning the workload for the office.

### **2.1 Background**

OPA management is responsible for assuring that OPA resources are used as efficiently and effectively as possible. The OPA planning system is directed at addressing audits mandated by legislation and assessing the nature, scope, trends, social problems, vulnerabilities and inherent risks of government entities. The planning system is designed to produce audit assignments that will promote accountability, efficiency, and effectiveness of government agencies, programs, commissions and bureaus.

To meet OPA planning responsibilities, the Public Auditor established a planning process that:

- Considers all reporting requirements and audits mandated by legislation or statute.
- Identifies the universe of auditable entities to determine coverage, frequency and priority of audits and proactive investigations.
- Identifies the most critical, significant, and vulnerable subjects and areas of the government.
- Analyzes the audit universe to establish the nature, scope, and dollar magnitude of the entities included in the universe.
- Allows flexibility for the OPA to address referrals received.
- Allows input from employees as to which entities they believe are candidates for a near term audit.

### **2.2 Standards**

Strategic planning is the basis for the selection of audit topics. Linked to a SAI's annual planning system, it may be a useful tool in setting priorities and selecting audits and it may serve as a mechanism for selecting future audit themes and a basis for detailed planning. Finally, it may serve as an instrument for strategic policy decisions on the future direction of the audit. Planning might be carried out in the following steps: determining potential audit areas; establishing the selection criteria to be used; and identifying the main sources of information for the potential audits. The strategic planning exercise would normally result in a coherent and cogent audit program for the SAI and serve as a basis for operational planning and resource allocation. [ISSAI 3000, 89-91]

The mandate of performance auditing should cover the state budget and all corresponding government programs. The auditor must be free to select audit areas within its mandate. Political



decisions and goals established by the legislature are the basic frame of reference. A performance audit may, as a result of its findings, question the merits of existing policies. Performance audits are in general ex post audits that deal with current issues. High levels of quality in the work must be promoted and secured. [ISSAI 3000, 89-91]

### **2.3 Policy**

Consistent with sound planning practices, OPA's policy is that office resources are to be used as efficiently and effectively as possible to promote accountability, efficiency, and effectiveness in government entities. The audit schedule will be updated at least annually and no later than by the end of the first quarter of every calendar year.

The Annual Audit Plan should include sufficient flexibility to allow for audits to be performed based on subsequent requests from elected officials, credible tips received from the general public, or based on a current or future event.

Throughout the year, the Public Auditor and the OPA management team may conduct periodic evaluations of the Annual Audit Plan to: (i) identify the causes of variations from the plan, (ii) compare the benefits derived from audits with their cost, and (iii) determine the audits to be assigned to each audit team.

### **2.4 Planning Guidance**

The Public Auditor requires the OPA to maintain records of its audit universe, which identifies the organizations, programs, activities, and functions subject to audit and to prepare audit plans which identify the programs and operations selected for audit, and to define for each:

- a. Specific reasons for the selection.
- b. Overall audit objectives and scope.
- c. Activity and locations to be audited.
- d. Staff and other resources needed.
- e. Expected benefits to be achieved.

### **2.5 Annual Plan Development**

The following describes OPA's Audit Annual Plan development process.

- a. **Staff Appointment.** The Public Auditor will appoint a staff member to initiate the planning process.
- b. **External Feedback.** The assigned staff will prepare letters to be distributed to all elected and appointed officials and agency leadership, soliciting feedback on specific audits or

topics for consideration. In addition, a link should be posted on the OPA website to allow for the general public to provide topics for consideration

- c. **Planning Source Data.** The assigned staff will schedule an Audit Planning meeting where staff members are to provide input on audits they believe would promote the mission of the OPA and should be included in the *Annual Audit Plan*. Feedback should include the reason for the suggestion; the areas which appear to be most vulnerable, significant, or critical; the proposed audit objective; and the potential outcomes expected from the audit (i.e. significance of cost savings, etc.). At a minimum, each staff should be prepared to provide three to five topic suggestions during the scheduled Audit Planning meeting.

The Public Auditor and/or management team member(s) will provide input regarding potential audit issues that arise from management letters and other reports issued by independent accounting firms. Other source data include: hotline tips, citizens' concerns, audit requests, credible evidence reported in local news media, and perceived public sentiment.

- d. **Prior Year Assignments.** Assignments from prior years, which are not started prior to the initiation of the planning period and not expected to be completed prior to the end of the planning period, should not be carried over automatically but should be reassessed to determine their continuing priority.

- e. **Available Staff Hours Projection.** The assigned staff will develop a projection of staff resources (staff hours) available to start new assignments and estimate the number of audits to be completed during the next year. This is accomplished by developing a schedule that considers the following factors:

- i. Available Hours

Total available days represent the total number of Auditors who are expected to be available for assignments multiplied by the number of work hours in the planning year (2080).

- ii. Indirect Hours

Indirect hours represent the estimated days to be used during the planning year for personal leave, holiday, training, and miscellaneous management activities. One work day to be used for such activities is multiplied by eight (8) hours to arrive at the number of hours.

- iii. Work-in-Process Hours

Work-in-process hours are determined by calculating the total hours planned to complete ongoing assignments that are carried over into the new planning year. Work-in-process hours carried over into the new planning year should represent a reassessment of the time needed to complete the carry over assignments.

- iv. Required Audits

Required audits are those specifically included in statute or legislation, which requires the audit to be undertaken by the Public Auditor. While these audits may be given

priority attention, they will be assessed as to the feasibility to conduct the engagement, as well as in consideration of the office's limited resources.

v. **Contingencies**

During the course of the planning year, special requests from elected officials or tips from the community at large may require immediate audit attention. Accordingly, sufficient time should be set aside to address these types of contingencies.

- e. **Audit Priority Ranking.** The assigned staff will request the staff's ranking of audit priorities (scale of 1 to 10, with 10 considered as the staff's first choice and so on) and compile feedback to determine the top 20 audit topics based on ranking.
- f. **Risk Assessment Meeting.** Upon determining the top 20 audit topics, the assigned staff will schedule a meeting to conduct a risk assessment of the audit topics based on established and agreed-upon assessment criteria (i.e., financial impact, public concern/social impact, program risk, leadership interest, etc.) and assigned weights for each criteria (total of 100% for the four or five assessment criteria).

Each of the top 20 audit topics are scored and then provided a total score based on the weighted selection factors. The total scores are used to determine the overall ranking of the audit topics. Additional notes may be included in the Annual Audit Plan to provide a further explanation why certain audit topic(s) may or may not be conducted during the plan year, despite their resulting ranking.

## **2.6 Annual Audit Plan**

The Annual Audit Plan should be made available and accessible to all audit staff. At a minimum, the Annual Audit Plan should:

- a. Contain a lead schedule that reflects a computation of staff hours available for new audits to be commenced during the plan year.
- b. Include sufficient flexibility to allow for audits to be performed based on requests from elected officials, credible tips received from the general public, or based on a current or future event.
- c. Include a summary of the major government entities to be audited and potential audit objective(s).

## **CHAPTER 3: PHASE 2 – PROJECT INITIATION**

- Identify the audit team and qualifications
- Identify impairments (if any)
- Prepare notification letter
- Assign job code
- Discuss project expectations
- Discuss expectations for staff performance appraisals

### **3.0 Purpose**

This chapter sets forth the project initiation procedures.

### **3.1 Standards**

- a. Audit management should assign sufficient staff and specialists with adequate collective professional competence to perform the audit. Staffing an audit includes assigning staff and specialists with the collective knowledge, skills, and experience appropriate for the job, assigning a sufficient number of staff and supervisors to the audit, providing on-the-job training of staff, and engaging specialists when necessary. [GAGAS 4.02-4.15 & 8.31]
- b. In all matters relating to the audit work, the audit organization, the Public Auditor, and the OPA staff involved in performing or supervising the assignment, must be free from personal or external impairments to independence and shall consistently maintain an independent attitude and appearance. [GAGAS 3.18-3.108]
- c. The auditor and the SAI must be independent; the auditor and the SAI must possess the required competence; and the auditor and the SAI must exercise due care and concern in complying with the INTOSAI Auditing Standards. This embraces due care in planning, specifying, gathering and evaluating evidence, and in reporting findings, conclusions and recommendations'. [INTOSAI Fundamental Principles of Public-Sector Auditing, ISSAI 100-36-39]
- d. SAIs should: (a) recruit personnel with suitable qualifications; (b) develop and train SAI employees to enable them to perform their tasks effectively, and to define the basis for the advancement of auditors and other staff; (c) prepare manuals and other written guidance and instructions concerning the conduct of audits; and (d) support the skills and experience available within the SAI and identify the skills which are absent, provide a good distribution of skills to auditing tasks and assign a sufficient number of persons for the audit, and have proper planning and supervision to achieve its goals at the required level of due care and concern. [INTOSAI Fundamental Principles of Public-Sector Auditing, ISSAI 100-39]

### **3.2 Policy**

It is OPA's policy that:

- a. The audit team will collectively possess a variety of knowledge, skills, and experience needed to accomplish the OPA mission and audit objective.
- b. The audit team shall be free from impairments.
- c. The audit team shall provide to the auditee a written notification of the intent to audit and the specific audit objectives.

### **3.3 Audit Team Assignment**

OPA management will periodically consult and re-evaluate the Annual Audit Plan for purposes of determining staff assignments throughout the year. Upon audit team selection for a particular assignment, the audit team will meet with the Public Auditor to discuss project expectations.

The audit team will also meet to discuss team expectations for the purposes of team roles, responsibilities, and performance appraisals.

The audit team should be listed in the Planning Memo, which is approved by the Public Auditor. The Auditor-in-Charge and/or the Audit Supervisor assigned to the audit is responsible for ensuring that the assigned staff possess the knowledge and skills required to successfully complete the assignment, including providing training.

### **3.4 Auditor Independence**

Upon commencement of the assignment, the Public Auditor and team members shall assess their independence to the audit and consider any impairments that may exist before signing the *Statement of Independence* in accordance with GAGAS. For activities not expressly prohibited in the standards, the Public Auditor and team members may consult the *Conceptual Framework Approach to Independence* section provided in GAGAS [GAGAS 3.26-3.63].

It is the individual auditor's responsibility to ensure that he/she is free from actual or perceived impairments by disclosing and discussing with the audit team such actual or potential impairment(s). The audit team will then need to determine whether any potential impairment(s) warrant the removal and replacement of the team member, and document such decision.

### **3.5 Engagement Letter**

Upon commencement of an engagement (survey, audit, evaluation, analysis, etc.), advanced written notification should be sent to the entity to be reviewed. Communication should be made several days in advance of a scheduled entrance conference.

Advanced notification is given to the entity to ensure that the auditee will have sufficient time to plan and allocate support to the audit team, inform appropriate staff, assemble required documentation, and arrange for logistical support for OPA audit staff. The following information should be included in the engagement letter:

- a. The OPA authority to conduct the audit (1 GCA § 1908);
- b. The subject of the survey, audit, analysis, etc.;
- c. The objective(s) and scope of the survey, audit, analysis, etc.;
- d. Names of the assigned staff;
- e. Logistic support needed (if any);
- f. Documentation and information needed at the start of the engagement; and
- g. Deadline to submit requested documentation and/or information.

## **CHAPTER 4: PHASE 3 – SURVEY**

- Identify subject
- Identify performance aspect
- Gather and analyze information
- Develop time budget
- Conduct entrance conference

### **4.0 Purpose**

This chapter sets forth the survey procedures.

### **4.1 Standards**

The survey phase of the audit process is essential to planning an effective review and ensuring optimum use of staff resources. The survey is directed toward (i) identifying potential problem areas, (ii) determining the need and potential benefits to be derived from a detailed review, and (iii) obtaining sufficient information to outline the audit scope, develop an audit plan, and prepare a detailed audit program, including time and resource needs.

### **4.2 Policy**

It is OPA's policy that:

- a. A survey is to be performed for all planned audits prior to the start of the detailed review. The survey should be in sufficient detail to allow the Public Auditor to determine whether to proceed into audit fieldwork, terminate the survey effort with a close-out letter, or prepare a survey letter or report for distribution. Surveys should be made in conformity with the requirements of this chapter section.
- b. The team is required to obtain initial information in order to determine the feasibility of conducting the engagement, as well as fine-tuning the engagement's objectives, scope, and methodology.
- c. An entrance conference is to be held at the beginning of the engagement to discuss with management the engagement's initial objectives, scope, and methodology, as well as the possibility that these elements are subject to change based on information and other factors considered during the survey phase. [GAGAS 8.20-8.22]

### **4.3 Planning the Survey**

The justification, tentative scope, and priority of an audit survey normally originate from the approved annual work plan. An assignment not in the work plan, such as audit requests received after the finalization of the annual work plan, should be approved by the Public Auditor prior to

initiation. The survey should begin with a meeting between the Public Auditor and Management team to determine the audit staff to be assigned to the engagement. The assigned Supervisor will conduct an initial meeting with the Auditor-in-Charge and other staff assigned to discuss the assignment, the survey program, the engagement letter, the entrance conference, and the survey approach.

#### **4.4 Survey Program**

A survey program should be prepared. This program should provide the staff with tentative objectives and guidance for identifying potential findings and weaknesses that can be more fully developed and quantified during the detailed review process. The survey phase should also include gathering sufficient information to familiarize the staff with the important and pertinent aspects of the entity to be audited; identify and evaluate major functions, systems, and operations related to the audit objectives; and to identify potential findings through tests, inquiries and observations. The survey program should include steps for interviewing key management personnel with respect to the OPA internal control questionnaire.

#### **4.5 Entrance Conference**

The audit team should conduct an entrance conference with the auditee's responsible officials at the beginning of each engagement. The entrance conference is intended to (i) acquaint officials with the OPA audit process, (ii) discuss the nature and scope of the planned survey and audit, and (iii) establish a positive and professional working relationship between the OPA staff and the staff of the entity to be audited. The conference also provides the opportunity for an open discussion of areas that may require special attention.

The entrance conference proceedings should be documented in the audit documentation showing attendees, date of the conference, discussion items, survey procedures discussed and agreed upon, and other information to be considered during the audit.

#### **4.6 Survey Approach**

- a. The survey should be approached with the view of obtaining survey information in the most expeditious manner practical. The principal purpose of the survey is to identify areas needing improvement. The survey information should be sufficient to justify a determination to either initiate or forgo the detailed audit. The nature and extent of information gathered during a survey may differ depending on the type of audit that is planned and whether a permanent file is maintained. Throughout the survey, Auditors must be alert to situations or transactions that could be indicative of abuse or illegal acts.
- b. Generally, the type of information to be obtained during the survey follow:
  - i. **Background Information.** Prior to visiting the site or location of the entity to be audited, the assigned staff should review previous OPA reports and audit documentation relating to the subject of the audit. Information from these sources will prepare the staff for more knowledgeable and productive discussions with officials



involved in the audit. Sufficient information should be accumulated at the review site to provide the staff with a general working knowledge of the entity or activity being reviewed. This information should be obtained quickly and without extensive reading of manuals and other materials. This such material could include organizational charts, mission and goals, staff functions, resources, etc. If a permanent file is maintained, the file should be updated by a member of the assigned team.

- ii. **Authority.** The laws and regulations that established and regulate the entity, as related to the audit objectives, should be identified to pinpoint any imposed restrictions or constraints on the entity. [GAGAS 8.68]
- iii. **Goals and Objectives.** A description of the entity's goals and objectives should be identified to understand what the organization, program, or project to be audited is intended to achieve. The staff should also identify the standards, criteria and other performance indicators that are used to measure the entity's performance. Progress and status reports that apply the measures can provide insight into problem areas. [GAGAS 8.36]

#### 4.7 Information Gathering Techniques

- a. **Internal Interviews.** Discussions before and during the survey with officials of the entity being reviewed are a valuable source of information. The officials can provide information on how the entity under review operates and can provide audit leads that may not otherwise surface during the survey. The management control questionnaires should be the basis of interviews with key personnel.
- b. **External Interviews.** On a selected basis, discussions with experts, people directly affected by a program, such as exchange students, academics, international visitors and others with knowledge of the programs or projects being reviewed can provide valuable information to the audit staff. This information can assist the staff to identify program weaknesses and other problems.
- c. **Physical Inspection.** Physical inspections of facilities or projects are indispensable in helping the staff to gain a quick insight into an entity's operations and environment. A tour of facilities supplements and, often times, puts into perspective the information obtained during interviews and analysis of documentary material. During the physical inspection, the staff should be alert to signs of waste or ineffectiveness that indicate weaknesses warranting further review. Backlogs, excess equipment or material, idle personnel, and a poor working environment are indicative of potential problems.
- d. **Testing Transactions and Flow Charting.** Selecting a small number of transactions representative of the operations being reviewed, and charting the flow of the transactions can provide useful insights into the operations from beginning to end. This step can provide the staff with a visual picture of the work process and management control structure. The step-by-step process of following transactions from start to finish enables the staff to test the practices actually followed; compare them to practices and procedures prescribed by

manuals; and, most importantly, allow the staff to determine the existence, adequacy and effectiveness of internal controls. Areas, functions, or activities that do not have adequate internal controls are prime indicators of potential abuses and deficiencies that may warrant detailed review.

- e. **Review of Studies and External Reports.** Scanning management studies, internal management reports, and external reports or studies is a good way of gathering information that may point to potential problem areas. This also helps auditors avoid duplicating review of areas previously covered by others.
  - i. The full use of information developed by others can help reduce survey work. The staff should obtain a list of past, current, and planned management studies and internal and external management reports and program evaluations related to the audit objectives. If information contained in these reports is to be used during the course of the detailed review/fieldwork, the staff should take precautions to ensure the reliability of any information used.
  - ii. The staff should obtain a list of all management reports required or generated by the entity that are related to the audit objectives. Reports used by the entity's management often contain information that identifies potential problem areas that need to be addressed in the survey.
  - iii. Progress and status reports, budgets, operating statements, annual reports, cost reports, and other reports that appear to contain relevant information should be requested and reviewed by the staff. Comparative analyses of report information should provide leads with answering the following questions and should be available to the entity's management if they are to exercise control over their operations. Accordingly, the audit staff should use the same information to evaluate efficiency, economy, and effectiveness of operations.
    - a) Are revenues, expenditures, and obligations consistent with budgeted amounts?
    - b) Is work progressing satisfactorily in comparison to time and cost objectives?
    - c) Are desired program objectives being achieved?
    - d) Are costs incurred commensurate with the benefits derived?
- f. **Follow-Up on Prior Recommendations.** The survey should include follow up on corrective actions taken on recommendations made in prior audits, review and inspection reports that are related to the objectives of the current audit [GAGAS 6.11]. Previous audit reports may have been issued by other organizations such as OPA, OIG, or other cognizant agencies. Definitive conclusions on the adequacy of the corrective actions during the survey phase may not be possible to reach, and in this event, the additional follow-up work required should be included in the detailed audit program.

## 4.8 Evaluating Survey Results

- a. The information obtained during the survey should be continually evaluated to ensure that the survey objectives are accomplished, that potential findings are identified, and that a basis is formed for determining the nature and extent of the additional work needed. The staff should evaluate survey information in a consistent fashion. The support for potential findings should be evaluated in terms of finding characteristics.
  - i. **Criteria.** Criteria tells the reader *what should be*, i.e., the performance standard, generally accepted accounting standard, policy, procedure, regulation, or law for measuring performance or the goals to be achieved. Examples are laws, regulations, directives, policies, procedures, management principles, and good business practices. Consideration should also be given to the adequacy of the law, regulation, or policy and whether an amendment is needed in light of the deficiencies disclosed by the review. [GAGAS 8.68-8.70]
  - ii. **Condition.** By definition, an adverse condition (*what is*) differs from the criteria (*what should be*). The condition should contain factual, detailed information supporting the potential or actual finding. It tells the reader what was found through factual statements. Specific examples and concrete details concerning a reported condition are needed in order to convince a manager of the need for taking corrective action.
  - iii. **Cause.** Cause is the reason for the difference between *what is* and *what should be*, i.e., *why the condition happened*. The cause would include internal control weaknesses, inadequate management actions, or other factors that allowed the condition to happen. “Unknown” is not an acceptable explanation for the cause.
  - iv. **Effect.** Effect tells what resulted from the adverse condition, or *so what?* and its significance or impact. Where possible, the effect should be expressed as a monetary amount or potential savings. Examples include unnecessary expenditures and duplication of effort.
  - v. **Recommendation.** The recommendation describes the action that should be taken to resolve an adverse condition, when to take action, and who should take action. The recommendation should flow directly and logically into what is needed to preclude recurrence of the condition, based on the information and evidence presented in the *condition* and *cause* sections of the finding. The relationship between the recommendation(s) and the underlying cause of the condition should be clear and logical. Solutions and remedial actions proposed should be specific, practical, and cost effective.
- b. Use of the *Potential Audit Finding Work Sheet* will help to analyze potential findings identified in the survey in terms of the characteristics discussed above. In most cases, it may not be possible to complete the work sheet based solely on the survey work; however, the use of the work sheets will facilitate planning for the detailed work required to firm up the findings. As the audit progresses, the work sheet can be updated.

## 4.9 Survey Completion

- a. At the completion of the survey, the staff should have gained sufficient information to recommend either proceeding to the detailed review phase of the audit or terminating the audit (the *Go/No Go* decision point). The Auditor-in-Charge and the Senior Audit Staff assigned to the audit will make the recommendation to the Public Auditor whether to continue the audit or to stop the audit.
- b. **Survey Briefing Memo.** The potential audit findings, recommendation to continue or discontinue the audit, and a description of proposed audit objectives and steps will be summarized in a Survey Memo. This memo is submitted to the Public Auditor for review.
- c. **Continue the Audit—a “Go” Decision.** If the Public Auditor has approved the Auditor-in-Charge’s recommendation to continue the audit, the approval is documented in the Survey Memo. The Public Auditor will convene a meeting with the audit team to discuss the continuation of the audit and whether objectives need to be refined. The audit will proceed to the detailed audit phase. At this point, milestones will be updated to include budgeted hours, fieldwork completion, draft report completion, and final report issuance. Absent extenuating circumstances, the estimated milestones are expected to be met for completing the audit.
- d. **Discontinue Audit—a “No Go” Decision.** If the Auditor-in-Charge’s recommendation is to discontinue the audit, the Auditor-in-Charge will prepare a “No Go” Memorandum to the Public Auditor, justifying discontinuance of the audit, including the date of termination and the reason(s) for termination. [GAGAS 5.25] If the Public Auditor concurs with the recommendation, a letter report or a closeout letter will be issued to appropriate officials:
  - i. The letter report to appropriate officials will describe minor findings identified during the survey that are completely developed (condition, criteria, cause and effect, along with conclusions and recommendations for corrective action).
  - ii. The closeout letter report will advise appropriate officials that the survey has been terminated and that no further work is planned.

## 4.10 Closeout Conference

The audit team will hold a Closeout Conference with appropriate officials of the entity reviewed to advise them of the decision to discontinue the audit. The letter report of minor findings, if there is one, should be discussed at this time. The results of the Closeout Conference should be documented within the audit documentation.

## **CHAPTER 5: PHASE 4 – AUDIT PLANNING**

- Set objective(s) and sub-objective(s)
- Identify the audit steps
- Assign deadlines
- Develop time budget
- Communicate with auditee (scope, objective, methodology, etc.)

### **5.0 Purpose**

This chapter sets forth the policies and guidelines for planning performance audits conducted by OPA.

### **5.1 Standards**

GAGAS 8.03-8.07 outline the standards for planning a performance audit.

Auditors must adequately plan and document the planning of the work necessary to address the audit objectives. The audit work is to be adequately planned to:

- a. Reduce audit risks to an appropriate level for the auditors to provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. Planning is a continuous process throughout the audit. Auditors may need to adjust the audit objectives, scope, and methodology as work is being completed.
- b. Define audit objectives, scope, and methodology to clearly state the scope and the goals of the audit.
- c. Perform an audit survey when necessary to identify specific audit areas and to obtain information for use in planning the audit.
- d. Develop a written audit program that describes the audit scope and methodology that includes suggested steps and procedures to be performed to accomplish the audit objectives.

The auditor should plan the audit in a manner which ensures that an audit of high quality is carried out in an economic, efficient, and effective way and in a timely manner and also identifies the following steps that are ordinarily included in planning an audit [INTOSAI Fundamental Principles of Performance Auditing, ISSAI 300-37 and INTOSAI Performance Audit Standard, ISSA 3000-96]:

- a. Collect information about the audited agency and its organization in order to assess risk and to determine materiality;

- b. Define the objective and scope of the audit;
- c. Undertake preliminary analysis to determine the approach to be adopted and the nature and extent of enquiries to be made later;
- d. Highlight special problems foreseen when planning the audit;
- e. Prepare a budget and a schedule for the audit;
- f. Identify staff requirements and a team for the audit; and
- g. Familiarize the audited entity about the scope, objectives and the assessment criteria of the audit and discuss with them as necessary. (INTOSAI Fundamental Principles of Performance Auditing ISSAI 300-37.)

## **5.2 Policy**

Audit teams should maintain a planning system for assessing the nature, scope, trends, vulnerabilities, special problems, and inherent risks of government programs and operations and for use in establishing the goals, objectives, and tasks to be accomplished by the OPA within a specific time period. [GAGAS 8.03-8.07]

## **5.3 Detailed Audit Program**

- a. Following a "Go Decision," the Auditor-in-Charge should oversee preparation of a detailed audit program directed at developing and quantifying the potential findings that were identified and documented during the survey.
- b. A well-developed audit program provides focus and direction to the detailed review and is considered essential to carrying out the audit, analysis, review, etc. efficiently and effectively. Although the detailed audit program is essential to the efficient and effective conduct and management of an audit, the audit program should not be used as a checklist of work steps to be performed in a manner that inhibits individual initiative, imagination, professional judgment, and resourcefulness.
- c. Some of the benefits derived from audit programs are:
  - i. They provide, for each phase of work, a systematic plan that can be communicated to all assigned staff members.
  - ii. They provide a systematic basis for assigning work to supervisors and assistants.
  - iii. They enable OPA management and other reviewers to compare performance with approved plans, standards, and requirements.

- iv. They provide valuable assistance in training inexperienced staff by providing them with a defined path for completing an assignment.
- v. They provide the basis of a summary record of work performed.
- vi. They aid supervisors by reducing the amount of direct supervisory effort needed.
- vii. They allow for the coordination of efforts when the audit programs or guidelines are to be used at multiple locations.

## 5.4 Audit Planning Memorandum

[GAGAS 8.33]

Every audit conducted by the OPA must have a *Planning Memorandum* which serves as the written audit plan. The planning memorandum (Memo) should contain:

- a. **Introduction.** The introduction section of the audit program should contain general background information on the entity being reviewed, its history, relevant legislation, etc. The introduction should contain sufficient information to provide the staff with an understanding of the objectives of the review and should be as brief as possible. Long, detailed narratives of the entity's procedures are not necessary unless they serve some special purpose. Comments concerning work previously done by the OPA or others that relate to the current assignment should be included.
- b. **Statement of Objectives.** The objectives of an assignment are the specific goals the staff is working to achieve. The audit program will be based on an overall objective and potentially, a number of separate, sub-objectives.
- c. **Audit Steps.** The audit steps are the detailed instructions for carrying out the work required to satisfy the objectives described in the audit program. Audit steps should be as specific as possible and organized in a manner that will facilitate reaching conclusions on the objectives and preparing findings while the review is still in progress. The audit steps provide the framework for ensuring that findings possess all the characteristics of a fully developed finding. Some flexibility is necessary in carrying out the detailed audit steps because of changes in conditions or other events that may require a redirection of the audit effort. While implementing the audit program, the staff should be alert to opportunities to meet the objectives with a reduced review effort.

Depending on the audit objective(s), the following should be considered when drafting the audit steps.

- i. A description of how internal controls will be tested and how the results of the tests will impact the audit plan.
- ii. A description of how sample sizes will be determined, if applicable.

- iii. A discussion of the legal and/or regulatory compliance issues related to the auditee and how relevant issues will be covered in the audit.
  - iv. A discussion of what steps will be taken to identify performance criteria.
  - v. A description of steps to be taken to identify any previous audits which could affect the current audit and how the Auditors will determine what steps have been taken to correct previous findings.
  - vi. A description of sources of potential data which may be utilized to satisfy audit objectives.
  - vii. Consideration of the risks of fraud occurring that is significant within the context of the audit objectives, and potential procedures to detect any such fraud. [GAGAS 8.71 to 8.72]
- d. **Team Members.** The Memo should include a listing of the team members assigned to the audit and their anticipated role(s) in the assignment. This section should also include a statement as to whether or not the audit team possesses the skills, knowledge and expertise to fulfill the audit objectives, with an explanation of how *on the job* training will be provided to the audit staff.
- e. **Use of Other Auditors or Experts.** The Memo should include a statement as to whether or not it will be necessary to draw on the expertise of outside auditors or experts to fulfill the audit objectives. If the work of others is to be utilized, the plan must include a description of tests that will be conducted on the work of other auditors or experts. [GAGAS 8.80-8.82]
- f. **Hotline Tips.** The Memo should include a statement discussing whether or not Hotline Tips were reviewed and whether or not there were any citizens' concerns which could be incorporated into the audit.
- g. **Audit Milestones.** This section should identify estimated dates for:
- i. Fieldwork completion;
  - ii. Draft audit report to Supervisor;
  - iii. Draft report to the Public Auditor;
  - iv. Draft report to the Consultant;
  - v. Draft report to the audited entity;
  - vi. Draft report and audit documentation to Quality Assurance Reviewer;



- vii. Draft report to cold reader;
- viii. Report finalization and issuance; and
- ix. Audit closure.
- h. **Budget Hours.** In conjunction with the proposed audit milestones, this section should address the estimated number of hours the audit team believes it will take to complete the assignment, including the allocation of hours for each of the team members, the Public Auditor, Quality Assurance Reviewer, cold reader, etc. The audit budget hours should take into consideration holidays, personal leave, and the audit team members' other assignments and the timing of when those assignments would need to be completed.
- i. **Special Instructions.** This section of the audit planning memorandum should provide special instructions concerning the management of the assignment. For example:
  - i. The identification and use of prior work by OPA or other reviewing activities that has a bearing on and application to the assignment.
  - ii. The procedures for handling significant or unusual developments that may arise during the course of the audit.
  - iii. The office policy that may have a unique bearing on the audit.
  - iv. Other important matters not covered elsewhere in the planning memorandum.

## **5.5 Approval and Retention of Planning Memorandum and Audit Program**

- a. The Public Auditor approves the Planning Memorandum prior to the resumption of post-survey fieldwork. The Audit Supervisor should give special consideration before signing the planning memorandum as to whether or not the audit team possesses the skills, knowledge, and expertise to fulfill the audit objectives.
- b. The audit program is to be prepared by the Auditor-in-Charge assigned to the audit and approved by the Audit Supervisor assigned before work begins. The audit program is an evolving document and changes can be made as the assignment progresses. The Audit Supervisor must approve any modifications to the Audit Program. Upon completion of the assignment, the final audit program should be indexed to the audit documentation showing the audit steps accomplished. This copy of the audit program should be retained with the audit documentation.

## **5.6 Access to Planning Documents**

OPA planning documents (planning memorandum, audit program, and other documents necessary to facilitate planning the engagement) are internal management documents defining the scope, nature, approach to completing an OPA audit in the most efficient and effective manner practical,

and detailed audit steps and are protected pursuant to 1 GCA § 1909.1 Confidentiality of Investigations. As such, they are not normally available for inspection or use by parties outside the OPA. Access to planning documents are subject to the same restrictions as access to audit documentation. (See Chapter 1, Section 1.9.)

## **CHAPTER 6: PHASE 5 – FIELDWORK**

- Collect and analyze information
- Conduct tests, if applicable
- Develop elements of finding
- Prepare audit documentation
- Discuss preliminary findings and recommendations with auditee

### **6.0 Purpose**

This chapter sets forth the policies and guidelines for the fieldwork phase of performance audits conducted by OPA.

### **6.1 Standards**

GAGAS Chapter 8 and INTOSAI Performance Audit Principles, ISSAI 300 outline the field work standards for performance audits.

### **6.2 Policy**

- a. The OPA shall maintain audit documentation providing evidence that the performance audit was conducted in accordance with fieldwork requirements related to planning the audit; supervising staff; obtaining sufficient, appropriate evidence; and preparing audit documentation. [GAGAS 8.01]
- b. The fieldwork will be conducted in conformity with the standards contained in the *Government Auditing Standards*, issued by the United States Comptroller General. When deemed necessary, the fieldwork may also be conducted in accordance with INTOSAI Auditing Standards or other prescribed standards.

### **6.3 Main Steps in Fieldwork**

[GAGAS 8.90 to 8.94 and 8.132 to 8.136; INTOSAI Performance Audit Principles, ISSAI 300-38]

The main steps in the fieldwork phase of the audit are:

- a. Gathering and verifying evidence;
- b. Analyzing audit evidence; and
- c. Preparing audit documentation.

## **6.4 Adequate Supervision**

[GAGAS 8.87 and INTOSAI Performance Audit Principles, ISSAI 300-31, and Performance Audit Standard, ISSAI 3000-66]

- a. The fieldwork is to be properly supervised by the Auditor-in-Charge and/or the Audit Supervisor. Audit supervision involves providing sufficient guidance and direction to staff assigned to the audit to address the audit objectives and following applicable requirements, while staying informed about significant problems encountered, reviewing the work performed, and providing effective on the job training. The nature and extent of the supervision of staff and the audit work review may vary depending on the complexity of the work and the experience of the staff.
- b. When multi-disciplinary audit teams are used, adequate direction, supervision and review are necessary to ensure that the different perspectives of team members, their experience and specialties are appropriately used in the audit. All team members should understand the objectives of the audit, the terms of reference of work assigned to them, and the nature of obligations imposed on them by applicable auditing standards. Adequate direction, supervision, and review will assist in such an understanding.

## **6.5 Internal Control**

[GAGAS 8.39 to 8.40, 8.49]

- a. Auditors should obtain an understanding of internal control that is significant within the context of the audit objectives. Auditors should assess whether internal control has been properly designed and implemented and should perform procedures designed to obtain sufficient, appropriate evidence to support their assessment about the effectiveness of those controls.
- b. Auditors may obtain an understanding of internal control through inquiries, observations, inspection of documents and records, review of other auditors' reports, or direct tests.

## **6.6 Information Systems Controls**

[GAGAS 8.59 to 8.62]

- a. Understanding information systems controls is important when information systems are used extensively throughout the program under audit and the fundamental business processes related to the audit objectives rely on information systems. These controls consist of those internal controls that are dependent on information systems processing and include general controls, application controls, and user controls.
- b. Auditors should be primarily interested in those information systems controls that are significant to the audit objectives.

## **6.7 Provisions of Laws, Regulations, Contracts, and Grant Agreements**

[GAGAS 8.68]

- a. Auditors should identify any provisions of laws, regulations, contracts, or grant agreements that are significant within the context of the audit objectives and assess the risk that noncompliance with such provisions could occur. Based on that risk assessment, the auditors should design and perform procedures to obtain reasonable assurance of detecting instances of noncompliance with such provisions.
- b. The audit team should consider:
  - i. The complexity or newness of the laws, regulations, contracts or grant agreements; and
  - ii. Whether the entity has controls that are effective in preventing or detecting noncompliance with the provisions.

## **6.8 Fraud**

[GAGAS 8.71 to 8.72]

- a. Auditors should assess risks of fraud occurring that are significant within the context of the audit objectives. Fraud involves obtaining something of value through willful misrepresentation. Whether the act is, in fact, fraud is a determination to be made through the judicial or other adjudication system and is beyond the auditors' professional responsibility.
- b. Audit teams should discuss fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could allow individuals to commit fraud.
- c. When auditors identify factors or risks related to fraud that have occurred or are likely to have occurred that they believe are significant within the context of the audit objectives, auditors should design procedures to obtain reasonable assurance of detecting any such fraud.
- d. When information comes to auditors' attention indicating that fraud significant within the context of the audit objectives may have occurred, auditors should extend the audit steps and procedures, as necessary, (1) to determine whether fraud has likely occurred and if so, (2) determine its effect on the audit findings.
- e. If the fraud that may have occurred is not significant within the context of the audit objectives, the auditors may conduct additional audit work as a separate engagement or refer the matter to other parties with oversight responsibilities or jurisdiction.

## 6.9 Abuse

[GAGAS 8.122 to 8.123]

- a. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.
- b. Abuse includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.
- c. Abuse does not necessarily involve fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements.
- d. Because the determination of abuse is subjective, auditors are not required to detect abuse in performance audits; however, if auditors become aware of abuse that could be quantitatively or qualitatively significant to the program under audit, auditors should apply audit procedures specifically directed to ascertain the potential effect on the program under audit within the context of the audit objectives. After performing the additional work, auditors may discover that the abuse represents potential fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements.

## 6.10 Investigations and Legal Proceedings

[GAGAS 8.29]

- a. Laws, regulations, or policies may require auditors to report to law enforcement or other investigatory authority (e.g., Guam Police Department, Office of the Attorney General, or Federal Bureau of Investigation) indications of certain types of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse before performing additional audit procedures.
- b. When investigations or legal proceedings are initiated or in process, auditors should evaluate the impact on the current audit. In some cases, it may be appropriate for the auditors to work with investigators or other legal authorities or withdraw from or defer further work to avoid interfering with the ongoing investigation or legal proceeding. The audit team should document its determination on whether they will work with the investigators or other legal authorities or withdraw from or defer further work.
- c. In order to report to law enforcement or other investigatory authority certain types of fraud, non-compliance, or abuse, the team, together with the Public Auditor should decide who will initiate communication as well as who will be the main point of contact within the team. A meeting should be coordinated with the entity(s) to discuss the area(s) of concern and the next steps to be taken. The audit team should periodically follow-up on the status of the entity's investigation and/or legal proceedings and memorialize such correspondences within the audit file, no fewer than once every three months.

## 6.11 Audit Sampling

- a. To the extent practical, all testing performed by the OPA will be consistent with statistical sampling techniques. Reliance on statistical testing is not intended to be a substitute for the use of the Auditor's judgment and discretion. The testing decisions will be influenced by such factors as prior experience with the auditee or subject matter of the audit, the results of the management control interviews, and the materiality and sensitivity of the transactions subject to review.
- b. The following general guidelines should be considered in selecting items to be tested and in determining the extent of the examination.
  - i. All large transactions should be considered for examination ("large" is a relative term that will need to be defined based on the particular audit situation.)
  - ii. Transactions of an unusual or sensitive nature should be reviewed.
  - iii. More extensive tests may be necessary in areas where procedures or internal controls are known to be weak.
  - iv. Special attention should be given to those areas where incorrect charges (e.g., potential unallowable charges to a grant) would have the greatest effect on the costs to the government.
- c. Depending on the audit objectives, "non-statistical" or "statistical" sampling techniques may be employed.
  - i. **Non-Statistical Sampling.** Non-statistical sampling involves selecting items from a universe for examination based on some subjective decision made by the Auditor. This sampling technique is mainly used when it is not necessary to generalize (project) the sample results to the universe. The technique may be used as a form of discovery sampling to increase the Auditors' knowledge about certain portions of the universe (such as sampling to show vulnerability to noncompliance with laws and regulations, or weaknesses in internal controls.) Also, Auditors may deliberately select cases in a particular universe that represent the largest dollar amount or greatest potential for error. The sample results, however, must be used with care and may not be used to draw statistically defensible conclusions about an entire universe. If an estimate is derived from the results of a non-statistical sample, the audit report should fully disclose the details of the sample and the basis of the estimate. The report should clearly demonstrate that the sample is not a statistical sample.
  - ii. **Statistical Sampling.** Statistical sampling involves a random selection of items from a universe in such a way that personal bias or subjective considerations are eliminated; every item in the universe to which the sample results are to be generalized has an equal

or known probability of being selected, and items are selected independently. Statistical sampling is used when the audit objective is to draw conclusions about a universe.

## **6.12 Data Gathering**

Refer to Chapter 4, Section 4.7 for information gathering techniques.

## **6.13 Developing, Documenting, and Communicating Audit Findings**

[GAGAS 9.18 to 9.23]

- a. Fully developed findings provide the substance of OPA reports. To be fully developed, a finding must consist of the elements of a finding (criteria, condition, cause, effect, recommendation) that are relevant to the audit objectives and conclusions. (See Chapter 4, Section 4.8)

Fully developed findings must be adequately supported by sufficient and appropriate evidence to clearly demonstrate the basis of the finding characteristics, and that allow for logical and reasonable conclusions and recommendations. (See Chapter 1, Section 1.6)

- b. [GAGAS 8.104 to 8.107] ISSAI 3000-106 categorizes evidence into four types: physical, testimonial, documentary, and analytical.

- i. Physical Evidence

(A) Physical evidence is obtained by observation and inspection of people, property, or events. The evidence can take the form of photographs, charts, maps, graphs, physical samples, memoranda summarizing the matters inspected or observed, and other sources. A picture of an unsafe condition is far more compelling than a written description.

(B) An observation should be corroborated when the observation of a physical condition is critical to achieving the audit objectives. This may be achieved by having two or more auditors make the observation, if possible, accompanied by representatives of the agency.

- ii. Testimonial Evidence

(A) Testimonial evidence is obtained through responses to inquiries, surveys, or interviews that can provide important leads that are not always obtainable through other forms of audit work. They can be made by employees of the agency, beneficiaries or clients of the program being audited, experts or consultants contracted to provide corroborating evidence on an audit, or by members of the general public.



(B) Corroboration of testimonial evidence is required if it is to be used as evidence rather than simply as background. This could be by:

1. Written confirmation by the interviewee;
  2. Weight of multiple independent sources revealing the same facts; or
  3. Checking records later.
- c) In assessing the reliability and relevance of testimonial evidence, the auditor needs to have regard to the credibility of the interviewee; that is, the position, knowledge, expertise and forthrightness of the person being interviewed.

iii. Documentary Evidence

(A) Documentary evidence is the most common form of audit evidence and is usually in physical or electronic form.

(B) *External documentary evidence* may include letters or memoranda received by the agency, suppliers' invoices, leases, contracts, external and internal audits and other reports, and third-party confirmations. *Internal documentary evidence* originates within the audited agency and includes items such as accounting records, copies of outgoing correspondence, job descriptions, plans, budgets, internal reports and memoranda, statistics summarizing performance and internal policies and procedures.

(C) The reliability and relevance of documentary evidence should be assessed in relation to the objectives of the audit. For example, the existence of a procedures manual is not evidence that the manual is put into practice. As with testimonial evidence, the position, knowledge and expertise of the author or approver of the document may need to be assessed.

(D) Documents that are the output of management information and control systems (e.g., the accounting system) will need to be assessed in the light of the internal controls that operate within that system. Auditors who intend to rely on such evidence should assess the system's internal controls.

iv. Analytical Evidence

(A) Analytical evidence is compiled by the audit staff from other types of evidence and includes computations, comparisons, rational arguments, interpretations, and the separation of information into components.

(B) The quality of analytical evidence depends on the accuracy and reliability of the data used, the level of detail, and the logic applied in the analysis.

(C) Findings or deficiencies in internal control, fraud, noncompliance with provisions

of laws, regulations, contracts, or grant agreements, and/or abuse should be communicated to the appropriate management officials for comment as soon as possible to establish the accuracy of the factual information presented and the reasonableness of the conclusions and recommendations drawn from the information. Management comments, when available, should be objectively evaluated prior to the completion of the fieldwork.

(D) When a control deficiency results in noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, early communication is important to allow management to take prompt corrective action to prevent further noncompliance.

## **6.14 Audit Recommendations**

[GAGAS 9.23 and 9.28]

- a. Each finding/deficiency may contain one or more recommendations, which should be specific with respect to the actions that are needed to eliminate or reduce the condition(s)/deficiencies identified.
- b. It is OPA's policy that only those that the audit team has identified as a "recommendation" will be tracked and followed-up on after the audit's issuance. Any actions suggested or urged for an auditee or official to take within the audit report will not be tracked nor followed-up on after the audit's issuance.
- c. When possible, the recommendation(s) should address the root cause or causes of the reported problems and should follow logically from what was presented in the finding.
- d. Background information or reasons for making the recommendations should not be included.
- e. Recommendations require careful review to ensure that they are realistic, reasonable, and add value. In addition, implementation of the recommendation(s) should be practical.
- f. Recommendations should be targeted at the person/position with authority to take action and should be measurable and reasonably attainable. Recommendations should indicate broadly what issues might be examined by management when seeking solutions and should focus on the more significant issues requiring attention. Less significant issues should be referred to agency management for action.
- g. Recommendations should address the objectives of the performance audit, i.e. economy, efficiency and effectiveness or accountability, as appropriate.
- h. A good test for the auditor is to consider how the recommendation would be followed up, how the implementation of the recommendation could be tested, and what specific actions the agency can undertake to implement the recommendation.

- i. Most recommendations will have some sort of cost impact, and management has competing priorities for resources.
- j. Management will also often try to use audit recommendations to obtain further resources from the government. The team should ensure that its recommendations do not drift into the area of government policy making, recommending that extra resources be applied to one policy area that must ultimately be at the expense of another. If the audit reveals that it would be beneficial to obtain extra resources, the recommendation should respect government budgeting processes and recommend that the auditee try to obtain increased funding through the relevant process. The auditee may use the audit report as support for this proposal.

# **CHAPTER 7:**

## **PHASE 6 – REPORTING**

- Prepare draft report
- Present report and obtain auditee response
- Obtain Editorial, Consulting, and Quality Assurance Review (QAR) review
- Conduct exit conference
- Issue and publicize report

### **7.0 Purpose**

This chapter sets forth the policies and guidelines for the reporting phase of performance audits conducted by OPA. Specifically, this chapter describes the types of reports issued; the report format in terms of report parts and sections; and the general character of the report contents. This chapter also describes the steps and procedures for processing draft and final reports through the quality control stages of review, referencing, approval, and distribution.

### **7.1 Reporting Standards**

- a. GAGAS Chapter 9, INTOSAI Fundamental Principles of Public-Sector Auditing ISSAI 100-51, INTOSAI Performance Audit Principles, ISSAI 300-39 through 41, and INTOSAI Performance Audit Standard, ISSAI 3000-16 outline the reporting requirements for performance audits.
- b. Written reports generally should be prepared to communicate the results of each government audit. Written reports are necessary to (i) communicate the results of audits to officials at all levels of Government, (ii) make the results less susceptible to misunderstanding, (iii) make the results available for public inspection, and (iv) facilitate follow up to determine whether appropriate corrective actions have been taken. [GAGAS 9.06 and 9.07]
- c. The audit report should be reliable. The report should be informative, and if provided, have logical and clear recommendations that are linked to the audit objectives and the findings. The auditors should report audit objectives, scope, methodology and sources used, as well as audit findings, conclusions, and recommendations. The report should be easy to understand the purposes of the audit and interpret the results and should be complete, accurate, objective, convincing, and as clear and concise as possible. [ISSAI 3000-126]
- d. Audit organizations should establish policies and procedures for audit performance, documentation, reporting, and monitoring of quality in the audit organization. [GAGAS 5.22 to 5.24]

### **7.2 Standards for Performance Audit Report Contents**

At a minimum, GAGAS 9.10 to 9.14 require auditors to prepare performance audit reports that contain:

- a. The objectives, scope, and methodology of the audit. [GAGAS 9.10 to 9.14]  
The report should include a description of the audit objectives and the audit scope and methodology used for addressing the audit objectives. This information enables readers to understand the purpose of the audit, to judge the merits of the audit work and what is reported, and to understand any significant limitations.
- b. The audit results, including findings, conclusions, and recommendations, as appropriate. [GAGAS 9.18 to 9.23]
  - i. The audit report should present sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives.
  - ii. The findings should be placed in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding.
  - iii. Background information may be provided to establish the context of the overall message and to help the reader understand the findings and significance of the issues discussed.
  - iv. The report should also discuss deficiencies in internal control, instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that have occurred or are likely to have occurred and are significant within the context of the audit objective.
  - v. Auditors should report known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse directly to parties outside the audited entity under the following circumstances:
    - A) When the entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulations, auditors should first communicate the failure to report such information with those charged with governance. If the entity still does not report this information to the specified external parties, then the auditors should report the information directly to the specified external parties.
    - B) When entity management fails to take timely and appropriate steps to respond to known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that is significant to the findings and conclusions and involves funding received directly or indirectly from a government agency, the auditors must first report this to those charged with governance. If the audited entity still does not take timely and appropriate steps, then the auditors should report the entity's failure directly to the funding agency.

- vi. Auditors should report conclusions based on the audit objectives and the audit findings. The strength of such conclusions depends on the sufficiency and appropriateness of evidence supporting the findings and the soundness of the logic used to formulate the conclusions.
  - vii. Effective recommendations encourage improvements in the conduct of government programs and operations. They are effective when they are addressed to parties that have the authority to act and when the recommended actions are specific, practical, cost effective, and measurable.
- c. A statement about the auditors' compliance with GAGAS. [GAGAS 9.03 to 9.05]
- i. When auditors comply with all applicable GAGAS, they should use the following language:  
  
*We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.*
  - ii. When auditors do not comply with all applicable GAGAS, they should include a modified compliance statement in the audit report.
- d. A summary of the views of responsible officials. [GAGAS 9.50 to 9.53]
- e. If applicable, the nature of any confidential or sensitive information omitted. [GAGAS 9.61 to 9.63]

### **7.3 Policy**

- a. OPA reports must communicate the results of audit assignments as accurately and fairly as possible.
- b. The audit report shall be in conformity with the standards contained in the Government Auditing Standards, issued by the United States Comptroller General. When deemed necessary, the report may also be prepared in accordance with INTOSAI Auditing Standards or other prescribed standards.
- c. Reports are to be issued timely so as to make the information available for timely use by management, executive and legislative officials, and other interested parties.
- d. Audit findings must be fully developed and presented in a clear, concise, and convincing manner. Findings should be presented objectively and should place primary emphasis on matters needing corrective action by management.

- e. Report conclusions should follow logically from the facts presented and recommendations must be actionable and directed toward those having the authority to take corrective action.
- f. The tone of the report should be constructive and should emphasize needed improvements, rather than level criticisms.
- g. To be of maximum use, the report must be timely. A carefully prepared report may be of little use to management if the report arrives too late.
- h. The Public Auditor has established specific policies and procedures governing the preparation, review, and referencing of reports.
- i. Reports are to conform to the types and formats described in this chapter.
- j. Preparation of the report is to be properly supervised by the Auditor-in-Charge and/or Audit Supervisor(s).
- k. An exit conference is to be held at the completion of the fieldwork to discuss the results of the audit with management and to obtain their position on the audit findings and recommendations.
- l. During instances when recommendations are made, a draft report is to be transmitted to the auditee with a request for a formal, written response.
- m. Draft reports are to be cross-indexed to the audit documentation and reviewed by an experienced Auditor (Quality Assurance Reviewer) who was not assigned to the engagement and prior to receipt of management comments.
- n. Final reports, including management responses, are to be reviewed by appropriate OPA supervisory levels prior to approval and release.
- o. Reports are to be unclassified, except when a security classification is required by regulation or when the Public Auditor deems restriction on distribution necessary.
- p. Final reports are to be issued after receipt of management's comments on the draft report, unless there are significant changes, which require special attention by the audit team and the Public Auditor.
- q. A copy of the final report is to be cross-indexed and referenced and included as part of the audit file after report issuance.
- r. Final audit report should be posted on the OPA website and mass email notification shall be sent to the website subscription list.

- r. A minimum of five printed hard copies of the Final Report are to be maintained in the OPA Library.

## 7.4 Report Categories

- a. The results of performance audits may be issued as either a *regular report* or a *letter report*. These two report categories differ only in format, but the same review, reporting, and distribution standards apply to both categories.
- b. The criterion for determining which report category to use is governed primarily by the length of the report and the complexity of the message being conveyed. When the body of a report exceeds five pages in length, the regular report format is necessary for proper organization and presentation.
- c. The report should be complete, accurate, objective, and convincing and should be as clear and concise as the subject matter permits.

## 7.5 Report Types

OPA may issue the following report types.

- a. **Performance Audit Reports.** Performance audit reports are issued as a result of economy, efficiency, and effectiveness audits conducted by the OPA. They are distinguished by the designation "Performance Audit" on the cover.
- b. **Compliance Audit Reports.** Compliance audits are a subset of performance audits conducted by the OPA and answer the objective or objectives of whether the audit subject is in compliance with specified laws, regulations, rules, policies, etc. They are distinguished by the designation "Compliance" on the cover.
- c. **Legislative Mandate Reports.** These audits are conducted as a result of a law(s) or regulation(s) requiring OPA to conduct the audit, analysis, review, etc. They are distinguished by the designation "Legislative Mandate" on the cover.
- d. **Financial and Financial-Related Audit Reports.** These reports are issued as a result of grant or contract audits conducted by non-federal auditors for the OPA. It is the policy of the OPA to generally utilize private audit firms to perform financial audits, however, the OPA will perform these types of audits when it is determined by the Public Auditor to be appropriate. They are distinguished by the designation "Financial Audit Report" on the cover.

## 7.6 Report Attributes

The presentation and structure of the performance audit report should make the target audience motivated to read it promptly, understand it easily, accept what it has to say, and support or



implement the recommendations. To achieve this, the report must be objective, concise, timely, and persuasive. [ISSAI 3000-116 and GAGAS 9.17]

a. Objective

- i. An objective performance audit report should be presented with any relevant evidence, whether in favor of or in opposition to the auditor's opinion.
- ii. Auditors should refrain from presenting only the evidence that supports his/her opinion thus relying on the auditee to present evidence refuting the auditor's opinion. This is not an objective approach. When such countering evidence is produced by the auditee, the auditor and the audit report will lose credibility, indicating that the auditor has not performed sufficient work to gather and analyze all evidence on which to base audit conclusions.

b. Concise

- i. An audit is often the result of many hundreds of hours of work and involves perhaps thousands of pages of audit documentation and audit evidence. The role of the author of the report is to distil this material into as concise a report as possible.
- ii. To this end, the performance auditor must develop his or her writing skills. Auditors need to be able to review their words and find a way to express their ideas in the shortest possible way, replacing long words with shorter ones, and reducing the number of sentences in an argument without detracting from that argument.
- iii. The auditor should also go through the report carefully and test every point to see if they are all necessary. This test is simple: if this point was left out, would the report be less effective at meeting its objectives?

c. Timely

- i. While the audit report should be drafted as the audit progresses, a draft report should be completed as quickly as possible after the completion of the audit field work. The process should commence during the fieldwork, and completing the report should be a matter of urgency once the auditor has gathered all the required information. There are two reasons for this.
  - A) The first reason presumes that the audit report is going to result in improvement in processes and structures and that those improvements will enable the entity to achieve its objectives more efficiently or effectively; manage its assets more securely; or even ensure its compliance with legislation. The sooner those changes are implemented, the better.
  - B) The second reason is that a delay in producing the audit report makes the auditor appear to be inefficient. Where delays occur, audit management should

communicate the reasons for the delays to the auditee. As part of maintaining professional relationships with the auditee, it is important that they are fully acquainted with the audit process, including the time needed to analyze audit evidence and consider what the analysis means.

- ii. Performance audit report sections should be drafted when findings are identified and refined throughout the audit process as further information becomes available. The report should be completed as soon as possible after the end of audit fieldwork.

d. Persuasive

- i. A performance audit report is used to make a case for change. No matter how compelling the findings of the audit, auditee decision-makers may disagree with the findings. A report that contains strong findings and valid conclusions may not be sufficient for management to immediately accept and implement the recommendations. In some cases, management has criticized the credibility of the findings and has rejected the recommendations. A persuasive and convincing report may increase the chances of a positive outcome but does not guarantee that the recommendations will be accepted.
- ii. The author of the report must consider the point of view of the audience of the report and what will persuade management or officials to take appropriate action to address the findings.
- iii. To be persuasive, there must be clearly defined and logical links from the audit evidence to the findings, conclusions, and recommendations. If this chain of links is broken at any point, then the reader can dismiss the argument from that point on. If, for example, the findings do not necessarily lead to the conclusions drawn by the auditor, then the reader may reject the conclusions and the recommendations, even if the recommendations actually solve the problems highlighted by the findings.

e. Balanced Reporting

- i. When the auditor makes positive statements about events or activities that the entity performs well, auditees appreciate these statements. While audits are expected to add value to a program, these positive statements in an audit report may seem to add little value to the agency. Identifying positive practices can illustrate examples of benchmarks or good practice to other parts of public service. Recognizing positive practices might encourage management to support and continue those practices, rather than inadvertently discontinuing them. The auditor should be mindful of occurrences wherein the auditee has achieved a noteworthy accomplishment.
- ii. An auditor should not make statements that he or she has not gathered enough evidence to support. An auditor should not be influenced to make a positive comment about some aspect of the management of an activity by the desire of OPA management or the auditee for positive comments. Where an auditor does feel it is possible to make a

positive comment, such statement should be supported by evidence. In public administration, not all aspects of an agency's management of a particular activity or program are working well. Equally, not all aspects need to be improved. Where auditors find areas of good practice, this should be acknowledged while focusing attention on developing recommendations to strengthen areas requiring improvement.

## **7.7 OPA Performance Audit Report Contents**

Regular reports normally should contain: (a) a Report Cover, (b) a Title Page, (c) a Table of Contents, (d) an Executive Summary, (e) an Introduction, (f) the Results of Audit, (g) Other Matters, (h) Conclusion(s) and Recommendations, (i) Management Response and OPA Reply, (j) Appendices, and (k) Key Contributors Page. Each of these major report components and the elements comprising them are described below.

### **a. Report Cover**

The audit report cover should be used for final reports only.

### **b. Title Page**

The first interior page of the report is the Title Page, which should be printed on OPA letterhead and should have the following elements.

- i. The report title should be centered towards the top of the page, which describes the agency or entity audited (i.e., Government of Guam-Wide Overtime Analysis, Recycling Revolving Fund, Office of the Attorney General's Child Support Enforcement Program, etc.)
- ii. The type of report (e.g., Performance Audit, Legislative Mandate, etc.)
- iii. The audit scope (e.g., October 2012 through September 2014)
- iv. The report number (e.g., OPA Report No. 15-05)
- v. The month and year of report issuance (e.g., July 2015)
- vi. Distribution list (should be located on the lower left hand corner of the page and lists the parties that the report has been distributed to)

### **c. Table of Contents**

The Table of Contents follows the Title Page and identifies the pages for the major sections included in the body of the report. The titles of appendices should also be included in the Table of Contents.

### **d. Executive Summary**

- i. The Executive Summary immediately follows the Table of Contents, and should be printed on OPA letterhead.
- ii. The purpose of the Executive Summary is to provide the reader with an overview of what was reviewed, what was found, what OPA concluded, and what substantive recommendations are being made. This section should also highlight any significant management comments as they may relate to the recommendations.
- iii. The caption "**EXECUTIVE SUMMARY**" should be typed in bold with all capital letters at the top of the page. The Executive Summary is a digest of the introduction, review results, report recommendations, and management comments. The Executive Summary should be limited to two pages and should be presented in the following format:
  - A) The opening paragraph(s) should summarize the results of audit, including significant findings within the report, as well as briefly describe the entity or program audited, identify the projects or programs reviewed, describe the purpose of the review and the period covered, and identify the dollar amounts involved. The purpose of this section is to provide quick insight into the significance and scope of the audit.
  - B) The conclusions and recommendations should be stated in general terms and may be followed by a brief statement of management's comments.

e. Introduction

The Introduction should be printed on OPA letterhead. At a minimum, the Introduction should include a "Background" section and describe the reason for the audit and/or describe the audit subject. The appendix reference(s) where the "Objectives, Scope, and Methodology" and "Prior Audit Findings" are located should also be included within this section.

- i. Background
  - 1) This subsection should include sufficient general background information to provide the reader with an adequate understanding of what was reviewed. This subsection is used to help the reader understand the purpose, nature, and size of the program, function, or activity audited, and any special problems, circumstances, or events related to the audit. For example, this subsection may include legislative implementing criteria affecting the program, function, or activity. Data on available resources, such as personnel and funding, may also be included. This major subsection should be kept concise as possible.
- ii. Objectives, Scope, and Methodology (Shown in the Appendix)

- A) This subsection should specifically describe the type of audit conducted (performance, investigative, legislative mandate, or financial) and its specific objectives.
- B) This subsection should provide a statement of how the audit objectives were achieved and generally describe the audit procedures followed, the sampling methodology, and the tests made.
- C) The scope statement should describe the time period covered by the audit, the coverage and the depth of the audit work performed, as well as the techniques used for gathering and analyzing evidence. This information should be tailored to describe the work actually done and should relate to the objectives established for the audit. The scope statement should, as applicable:
  - 1. Explain the relationship between the universe and what was audited including a statement as to whether or not the results of the tests performed can be extrapolated to the population as a whole.
  - 2. Identify the time period covered by the audit.
  - 3. Identify organizations and geographic locations at which audit work was conducted.
  - 4. Cite the types and sources of the evidence obtained, and the techniques applied to verify and analyze the evidence.
  - 5. State whether interviews with appropriate officials were conducted.
- 4) When describing the scope, Auditors should avoid creating the impression that the work done and the areas covered were more extensive than was actually the case.
- 5) Any scope impairment and its effect on achieving the audit objectives should be discussed, and when necessary for clarification, areas not examined or specifically excluded from the audit should be explained. The extent to which the work of others was relied on and considered should be clearly stated. This subsection should disclose any limitations on the audit, particularly with respect to access to records and officials. A statement should be included on whether previously reported findings and recommendations were addressed. Sub-side captions with initial capital letters and underscored may be used if necessary.
- 6) This subsection should conclude with a statement that the audit was made in accordance with generally accepted government auditing standards. If applicable standards were not followed, the standards not followed and reasons should be disclosed in this subsection.

iii. Prior Audit Coverage (Shown in the Appendix)

A) This subsection should contain any findings related to the scope and objectives of the OPA audit from reports by other Auditors in the preceding three-year period.

f. Results of Audit

- i. The first portion of the Results of Audit section is a summary of the audit findings in order of significance based on qualitative or quantitative materiality, followed by the full development of the findings in the logical order from which they were outlined in the summary.
- ii. There is no substitute for judgment and experience in determining what constitutes a finding significant enough to be included in an OPA report. Findings that result in cost recoveries, major cost savings, or potential major cost savings would normally be included. Also, findings that involve major program weaknesses or significant losses or wastes of resources should be included.
- iii. A finding that involves a failure to comply with a control procedure that will not result or potentially result in significant loss, waste, or fraud would not necessarily be included in an OPA report. For purposes of determining significant findings, a qualitative materiality judgment should be used.
- iv. For performance audits, reports should be presented in a format that ensures all elements of a finding relevant to the audit objectives are addressed (criteria, condition, cause, effect, and recommendation). (See Chapter 1, Section 1.8 and Chapter 4, Section 4.8)
- v. The use of photographs, graphs, and other visual aids in OPA reports is encouraged since graphic material may have a greater impact than words describing the same situation. Practical use of visual aids can (i) reduce the volume of writing necessary to explain certain situations, (ii) describe conditions more accurately than a written narration, (iii) reduce complex situations to easily understood images, and (iv) increase comprehension of the report. When photographs are used, pertinent information about the photograph such as when, where, and by whom it was taken should be included in the finding within the report or caption under the photograph.
- vi. Staff members drafting report recommendations and supervisors responsible for reviewing them should bear in mind that the object of the recommendation is to correct the cause of the condition described in the finding. The recommendation should be directed to an action official at the proper management level; should be worded in a manner so as to leave no doubt of the actions required to satisfy the recommendations; and should be general enough that OPA is not viewed as making a management decision on behalf of the audited entity.
  - 1) Since the requirements of each situation will differ, it is not possible to determine in advance how a particular recommendation can or should be framed. Report

recommendations calling upon the action official to "consider," "consult with," "encourage," "investigate," "request," "study," "urge," "work with," etc. are difficult for management to act upon and often do not achieve the action needed to correct the cause of the deficiencies reported.

- 2) Equally important, imprecise wording of the recommendations makes it difficult to substantiate in the recommendation follow-up process that adequate corrective actions were taken.
- vii. Normally, no separate section dealing with compliance and internal controls is required for performance audit reports. In accordance with *Government Auditing Standards*, the evaluation of internal controls and reviews of compliance with laws and regulations during performance audits will normally be limited to the problem areas identified in the survey and the related audit objectives.
  - viii. Significant weaknesses in internal controls that are identified would be reported in findings as the cause of the deficient performance identified during the audit, along with recommendations for corrective action.
  - ix. Similarly, for audit objectives that require an assessment of compliance with laws and regulations, findings would include all significant instances of noncompliance. The findings would identify the specific laws and regulations not complied with and the cause and effect of the noncompliance. A statement should be made in the Objectives, Scope, and Methodology section that the review of internal controls and compliance was limited to the finding areas presented in the report.
- g. Other Matters
- i. If appropriate, there may be a section titled "Other Matters," discussing matters that were identified during the audit that were not included elsewhere in the report but are important enough to be brought to management's attention.
  - ii. Considerable judgment should be exercised in determining what should be included in this subsection as nothing should be introduced that will detract management's attention from the major findings and recommendations.
  - iii. Normally, only those matters of a relatively minor nature in relation to the scope and objectives should be presented. Each item included in this subsection should be presented in general terms in not more than one or two paragraphs.
  - iv. In addition, if information was omitted from the report because it is deemed privileged or confidential, the omission should be commented on in this section. The nature of the omitted information should be described, and the basis for omitting the information should be explained.
- h. Conclusions and Recommendations.

- i. The Conclusions and Recommendations is a separate section immediately following the Results of Audit section of the report.
  - ii. This section should summarize the audit findings and list all the recommendations made within the audit report sequentially. An excessive number of recommendations should be avoided.
- i. Classification of Monetary Amounts
- i. The Classification of Monetary Amounts is a separate section immediately following the Conclusions and Recommendations but preceding the Management Response and OPA Reply section.
  - ii. This section identifies and summarizes the questioned costs, potential savings, lost revenues, and other financial impact by audit findings.
- j. Management Response and OPA Reply
- i. After the draft report has been reviewed and approved for release by the Public Auditor, it should be provided to appropriate management officials for review and comments. A meeting is then scheduled with the auditee and the OPA audit staff to discuss the draft audit report.
  - ii. The Public Auditor requires that management officials be given a reasonable opportunity to review the draft report and provide comments. A "reasonable opportunity" is dependent on the number and magnitude of matters requiring a response. The Auditee will generally be given two weeks (10 work days) from receipt of the draft report to provide an official response, unless a shorter time frame is agreed upon by the Auditee, audit team, and Public Auditor. If the Auditee requests additional time, up to two additional weeks may be allowed at the discretion of the audit team and Public Auditor. If the responses are not received within the time frame allowed, the report will be issued without management comments and the report will so indicate.
  - iii. The complete text of the management comments should be appended to the report unless deemed inappropriate by the Public Auditor, e.g., too voluminous, cumbersome, in violation of confidentiality or other laws, contains inappropriate content, etc.
  - iv. When a determination is made that the finding is not valid based on information provided by management in response to the draft report, the finding should be deleted from the report. The portion of the management response addressing the deleted finding should also be deleted. The management response appended to the report should contain an appropriate explanation such as "Deleted - Relates to Matter Not Included in Final Report."



- v. Where management has proposed or has taken the action required by a recommendation, the management action may be described as part of the finding. The OPA comments should include OPA's agreement/disagreement with the action and state whether (i) the management decision process is complete and (ii) final action has been completed.
- vi. The report will also contain a response by the OPA to the management response, if appropriate.
- vii. The signature of the Public Auditor or his/her designee (in the event of the Public Auditor's recusal due to a conflict of interest in the audit) shall be affixed as the last item on this page, signifying the completion of the report.

k. Appendices

This section may include financial or statistical information to support material included in the report and other supplementary material that is not required for the understanding of the report, but is included to provide additional or more detailed information. An example of such material would be:

- i. Objective(s), Scope, & Methodology
- ii. Prior Audit Coverage
- iii. Official Management Response
- iv. Status of Audit Recommendations
- v. Laws, Rules, and Regulations (optional)
- vi. Other appendices deemed necessary

l. Acknowledgements Page

This is the last page of every performance audit report and letter report. It should be printed on OPA letterhead and should consist of:

- i. Report title.
- ii. Report number.
- iii. Issue month and year.
- iv. The names of the audit team members and their position.
- v. OPA mission statement.
- vi. OPA vision.
- vii. OPA core value.
- viii. Information on how to report fraud, waste, and abuse.

## 7.8 Letter Report Contents

The first page of letter reports should be printed on the OPA letterhead. They are subject to the same quality standards as regular OPA reports but are issued when the matters being reported can be discussed in five pages or fewer, excluding appendices.

- a. The letter report should be addressed to a level of management having the authority to initiate action on the report recommendations. If the letter report requires action by more than one element or official, each official should be addressed in the letter.
- b. Letter reports should be prepared for the signature of the Public Auditor.
- c. The subject of the letter report should be a descriptive title of the matter(s) discussed in the report.
- d. The report should include the following.

- i. Opening Paragraph

The opening paragraph should briefly describe the findings that will be discussed in the report.

- ii. Background, Objectives, Scope, and Methodology

The background, objectives, scope, and methodology, should be similar to those found in the regular report format, but should be written succinctly. (Refer to Chapter 7, Section 7.7e)

- iii. Results of Audit

The headings within this section should be descriptive of the findings stated in brief and constructive terms. The findings should be fully developed along the same lines as for a regular report (e.g., condition, criteria, cause, effect, and recommendations). Additional headings/sub-headings to identify the development of the finding elements should be avoided due to the brevity of the report.

- iv. Conclusions and Recommendations

Similar to the section titled the same in a regular report, this section should discuss the audit team's conclusions and sequentially list the recommendations made in the report. (Refer to Chapter 7, Section 7.7h)

- v. Managements Response and OPA Reply

Management response and OPA replies to the comments made by management may either follow each finding presented or be presented at the end.

vi. Appendices

Appendices should be presented in the same manner as is done for a regular report. (Refer to Chapter 7, Section 7.7k)

vii. Acknowledgements Page

This last page should be presented in the same manner as is done for a regular report. (Refer to Chapter 7, Section 7.7l)

## **7.9 Report Format and Presentation**

The following format governs the presentation of information in audit reports.

- a. Printed reports should generally use both sides of each page.
- b. Reports should be single spaced in paragraph format.
- c. Reports should use OPA-official fonts/typefaces for consistency with other OPA-issued reports.
  - i. Serif
    1. Times New Roman
    2. Crimson Text
    3. Cambria
  - ii. Sans Serif
    1. Open Sans
    2. Calibri
    3. Helvetica
- d. The report should be sequentially paginated in Arabic numerals beginning with the Introduction section; page numbers should be centered at the bottom of each page.
- e. Acronyms
  - i. They should be defined the first time they are introduced.
  - ii. They should be defined in the first major part of the report. If the audit team anticipates that there will be many acronyms within the report, a “Glossary of Acronyms” should follow the Table of Contents.
- f. Numbers
  - i. Zero (0) to nine (9) should be spelled out (e.g., zero, one, two, etc.)

ii. Ten (10) or more should be presented in their numeric form.

g. Monetary Amounts

Monetary amounts should be consistent in their presentation throughout a report. Depending on the values and what message the team is trying to get across, the amounts should be rounded to the nearest:

- i. Million
- ii. One-hundred thousand
- iii. Ten thousand
- iv. Thousand
- v. Hundred
- vi. Ten
- vii. Dollar

- 1) For example, \$8,653,479 may be presented as \$8.7 million, \$8.7M, \$8.65M, etc.
- 2) For example, \$423,958.75 may be presented as \$424,000, \$420,000, \$400 thousand, \$423,960, or \$423,959.

## 7.10 Quality Control and Assurance Review

In keeping with the Government Auditing Standards' general standard on quality control, the OPA has established quality control procedures for processing audits to ensure that the reports meet all professional standards and applicable legal and regulatory requirements, as well as OPA policies. The procedures include supervisory review and approval of the draft report at various stages of the report's development. [GAGAS Chapter 5]

### a. Staff Responsibilities

- i. The Auditor-in-Charge has primary responsibility for drafting the audit report in conformity with *Government Auditing Standards* and OPA policies and procedures.
- ii. The staff Auditor is primarily responsible for referencing/indexing the draft report to the supporting audit documentation, under the supervision of the Audit Supervisor and/or Auditor-in-Charge who is responsible for ensuring that the report is fully supported, meets the applicable *Government Auditing Standards* and is prepared in accordance with OPA policies and procedures. This responsibility is discharged, in part, by review and verification of the report contents to the supporting audit documentation.
- iii. The Auditor-in-Charge and/or Audit Supervisor is responsible for exercising executive level supervision over the preparation of the draft report to include ensuring that the audit positions taken and recommendations made in the report are reasonable.
- iv. The Public Auditor is responsible for reviewing the draft report, for assuring that potentially sensitive or controversial matters have been handled in an appropriate manner, and for making a final review of the report before approving it for release for consultant review and management comments.
- v. Discussions that take place during the course of the audit on developing findings, audit positions, and recommendations among the staff Auditor, Auditor-in-Charge, Audit

Supervisor, and the Public Auditor should minimize report changes and delays during the draft report review process.

b. Review Process

- i. After the audit documentation has been reviewed by the Auditor-in-Charge or Supervisor and the draft report has been referenced to the audit documentation, the draft report is ready for review and processing.
- ii. The Quality Control/Assurance Review (QAR) process starts with the submission of the referenced draft report to an experienced Auditor or Audit Supervisor not involved in the audit or assignment.
- iii. To expedite the QAR process, the initial draft report will be processed through all appropriate supervisory levels of review before the report is returned to the audit staff for any revisions or changes that may be necessary. At any point in the review process, however, it may be necessary for the reviewer and audit team to meet to discuss questions the reviewer may have. In general, the process will be as follows:
  - (A) The Staff Auditor and/or Auditor-in-Charge will reference the draft report and cross-index to the supporting audit documentation and will submit to the next reviewer level (Auditor-in-Charge or Audit Supervisor) for review.
  - (B) The Auditor-in-Charge will provide the indexed draft report and supporting audit documentation to the Audit Supervisor for supervisory review.
  - (C) The Audit Supervisor will review the report, giving special attention to OPA reporting format and the following matters:
    - I. Reasonableness and appropriateness of the audit positions taken and the recommendations made on the basis of the report content.
    - II. Clarity of the report presentation and consistency with report requirements and format.
    - III. Deviations from established OPA policy and procedures.
    - IV. When the Auditor-in-Charge or Audit Supervisor has completed the first review of the draft report, he/she will send the draft report and any review notes to the Staff Auditor and Auditor-in-Charge for the changes and/or revisions as necessary.
  - (D) The audit Staff and Auditor-in-Charge will review the draft report with the Audit Supervisor's review notes, make the necessary changes or comments and forward the report package to the Audit Supervisor for final review and approval.

- (E) After the Supervisor's approval, the draft report is submitted to the Public Auditor for review and approval.
- (F) The audit team will meet with the Public Auditor for any matters that are to be addressed and/or changes to the draft report.
- (G) The audit team is to resolve all open matters and points raised. Necessary changes to the draft report should be made by the Auditor-in-Charge or Lead Staff Auditor and indexed to the audit documentation.
- (H) After referencing and resolution of any questions raised during the referencing process, a final draft report will be prepared by the Auditor-in-Charge or Staff Auditor and submitted for QAR.
- (I) The assigned QAR Reviewer should:
  - I. Read the entire draft report to gain an understanding of the report's content. The reviewer should evaluate the report content for conformance with *Government Auditing Standards* and the format requirements established in this chapter. This evaluation should focus on the completeness of the report content. The reviewer should ascertain whether sufficient information has been included in each section and subsection of the report to provide an adequate understanding of the matters reported.
  - II. Special emphasis should be placed on the review of the audit findings to ensure that each finding characteristic is presented in the opening paragraph and is discussed and developed in the body of the report.
  - III. Verify numbers and dollar amounts to the supporting audit documentation. All quantities and/or dollar amounts set forth in schedule form, in the report's narrative, or shown on exhibits and schedules attached to the report, are to be footed, cross footed, and checked to the supporting audit documentation.
  - IV. Verify factual statements to the supporting documentation in the audit documentation to ascertain that the statements are indeed factual and are not allegations, suppositions, or conclusions.
  - V. Verify references to statutes, citations, regulations, directives, etc. to ensure that each reference is accurate, current, and documented in the audit documentation.
  - VI. Verify names of organizations, places, publications, etc. to ensure that each name and its spelling are correct.
  - VII. Verify expert opinions to the audit documentation to ascertain that the opinions are as stated in the report and that the qualifications of the expert are documented.

VIII. Verify quotations for verbatim accuracy (when necessary) and to ensure that they are not being used out of context.

IX. Document notes and/or comments on the QAR spreadsheet. Subsequent actions by the Auditor-in-Charge or Audit Supervisor in response to the reviewer's comments should also be noted on the QAR spreadsheet.

X. Prepare QAR checklist.

(J) The final draft will be submitted to the Public Auditor for review and approval.

### **7.11 Report Distribution & Transmittal Letters**

The memo transmitting the final report should be addressed to the appropriate level of management having the authority and responsibility to initiate action on the report recommendations. If the report involves more than one government agency or more than one activity within an Agency, or more than one action official, a transmittal letter to each official should be prepared.

- a. The transmittal letters should be prepared for the Public Auditor's signature. In the event the Public Auditor is off-island or on personal leave, his/her designee may sign the audit report on his/her behalf.
- b. The transmittal letter for the audited entity(s) should include a specific request that the action official provide written notice within 60 days of any additional information relating to actions planned or taken to implement the report recommendation(s).
- c. Written audit reports are to be submitted to the Governor of Guam, Lt. Governor, Speaker of the Guam Legislature, Senators, the Director of the Department of Administration, the Director of the Bureau of Budget Management and Research, the head of the agency under audit, and any other officials deemed appropriate, such as the Attorney General and external funding organizations, unless legal restrictions, ethical considerations, or other arrangements prevent it.
- d. Copies of the reports should also be sent to other officials who may be responsible for taking action on audit findings and recommendations as determined by the Public Auditor.
- e. Unless restricted by law, regulation, or requested by cognizant legal authorities, copies of all OPA reports will be posted on the OPA website at [www.opaguam.org](http://www.opaguam.org).
- f. A notification that the report has been issued and available on OPA's website may also be provided to all media outlets, along with the executive summary, highlights, or other information.



## **CHAPTER 8: PHASE 7 – CLOSE-OUT**

- Prepare and present lessons learned
- Obtain media coverage articles
- Finalize all audit documentation within TeamMate
- Back-up audit file

### **8.0 Purpose**

This chapter sets forth the policies and guidelines for the close-out phase of performance audits conducted by OPA. Specifically, this chapter describes the steps and procedures for closing out all activities of an audit after its report issuance.

### **8.1 Standards**

- a. When performing GAGAS audits, audit organizations should have policies and procedures for the safe custody and retention of audit documentation for a time sufficient to satisfy legal, regulatory, and administrative requirements for records retention. Whether audit documentation is in paper, electronic, or other media, the integrity, accessibility, and retrievability of the underlying information could be compromised if the documentation is altered, added to, or deleted without the auditors' knowledge or if the documentation is lost or damaged. For audit documentation that is retained electronically, the audit organization should establish effective information systems controls concerning accessing and updating the audit documentation. [GAGAS 5.46]
- b. The auditor should assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis, no later than 60 days following the report release date. [AU-C §§ 230.15 to 230.19<sup>3</sup>]

### **8.2 Policy**

- a. Audit documentation is to be finalized no later than 60 days after the audit has been issued, unless other extenuating circumstances require the audit to remain open for an extended period of time. Such extenuating circumstances may be documented within the audit file.
- b. At a minimum, the following procedures are to be completed prior to the audit close-out:
  - i. Prepare and present lessons learned;
  - ii. Obtain media coverage articles;
  - iii. Finalize all audit documentation within TeamMate; and

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<sup>3</sup> Codification of Statements on Auditing Standards, AICPA Professional Standards, 2021.

- iv. Back-up audit file within an electronic media (i.e., CD, flash drive, etc.) and store back-up in designated area.

### **8.3 Lessons Learned Preparation and Presentation**

- a. The audit team should utilize the Lessons Learned template provided within the TeamMate audit file.
- b. At the minimum, the following information should be provided:
  - i. Audit Information (i.e., audited entity, audit code, report number, and report title).
  - ii. Audit team (i.e., Supervisor, Auditor-in-Charge, and Staff (if any))
  - iii. Audit duration (i.e., initiation date, entrance conference date, exit conference date, and issuance date)
  - iv. Audit hours (i.e., budgeted, amended (if any), actual, and variance)
  - v. Breakdown of actual hours by staff and audit code
  - vi. Discussion of lessons learned
- c. The audit team should respond to the following questions.
  - i. What went well and why?
  - ii. What could have been done better and how?
  - iii. Did anything go differently than expected?
  - iv. What serious issues were encountered during the audit and how were they dealt with?
  - v. What improvements would you recommend for similar audits in the future?
  - vi. What were the most valuable lessons learned?
- d. The audit team should also obtain and document any QAR feedback.
- e. The audit team should present the lessons learned during a scheduled Lessons Learned staff meeting.

### **8.4 Media Coverage**

- a. The audit team should review all media sources (newspapers, magazines, radio and news websites, etc.) for any coverage related to the audit throughout the engagement and at least

one week after the audit release. Not all audits will be covered by the media and some audit subjects will generate more press than others.

- b. If any media coverage exists, a copy of the news article, interview, etc. should be maintained within TeamMate.

## **8.5 Finalize Audit Documentation within TeamMate**

- a. Since the audit objective(s) vary from audit to audit, some programs, procedures, and templates within the TeamMate performance audit file may not be necessary. The audit team must conspicuously mark such programs, procedures, and templates as “Not Used” and ensure proper sign-offs.
- b. All audit documentation within TeamMate should have a minimum of two sign-offs (one preparer and one reviewer). For audit documentation prepared by the Audit Staff or Auditor-in-Charge, there would be two reviewer sign-offs (one by the Auditor-in-Charge or Audit Supervisor and the other by the QAR). In the instances in which the Audit Supervisor signed-off on the documentation as the preparer, only the QAR can sign-off as the reviewer.
- c. All programs and procedures within TeamMate should identify the source, purpose, and conclusion and relevant supporting documentation should be uploaded and hyperlinked for ease of review.
- d. For audits that identify recommendations, the audit team should ensure that the Findings (or *Issues*) and Recommendations are developed within TeamMate as part of the Close-Out process to ensure that the recommendation may be tracked in Team Central upon audit documentation finalization and close-out.

## **8.6 Back-Up Audit File**

Upon finalization of all audit documentation within TeamMate, the audit team should prepare a back-up audit file (i.e., CD, flash drive, etc.) that is to be stored in a designated area for safekeeping.

## **8.7 Close-Out and Push to Team Central**

Refer to TeamMate Guidelines for specific procedures.

## **CHAPTER 9: PHASE 8- FOLLOW-UP**

- Monitor implementation of recommendations
- Conduct follow-up audit (if necessary)

### **9.0 Purpose**

This chapter describes the policies, standards, and procedures for following up recommendations included in reports prepared by or for the OPA.

### **9.1 Background**

Following up, making management decisions, and taking final actions on recommendations are an integral part of good internal management controls. The importance of following up on audit report recommendations was exemplified by a Presidential statement, which identified recommendation follow-up as a major component of Federal Government efforts to combat fraud, waste, and abuse. In the Federal Government, a high level official in each agency and department is designated to work with the Inspector General in assuring that recommendations are promptly resolved.

### **9.2 Standards**

- a. Audit reports facilitate follow-up to determine whether appropriate corrective actions have been taken. [GAGAS 9.08]
- b. The audited management's responsibility is to decide which of the audit organization's or outside third party's recommendations to implement. [GAGAS 3.80 and 3.81(e)]
- c. The Governor, the Committee on Rules of the Guam Legislature, and the Chief Justice of the Supreme Court of Guam shall prepare corrective action plans in accordance with GAGAS, shall document the progress in implementing the recommendations of the audit prepared and transmitted to them by the Public Auditor, and shall endeavor to have implementation completed no later than the beginning of the next fiscal year. If implementation is determined not to be feasible, the reason shall be communicated in writing to the Public Auditor who shall either concur with non-implementation or take action under §1913. [1 GCA §1912]
- d. In the event the Governor, the Committee on Rules of the Guam Legislature, or the Chief Justice of the Supreme Court of Guam fails to implement the required corrective action plan, fails to provide a satisfactory explanation as to why such recommendations have not been implemented to the Public Auditor, or if the Public Auditor has not concurred with the non-implementation, the Public Auditor may file in the Superior Court of Guam an action for a Writ of Mandate to force the implementation of the recommendations and the attendant corrective action plan. [1 GCA §1913]

### **9.3 Policy**

The OPA will periodically follow-up on corrective action plans submitted by auditees to ensure that the full benefits of audit recommendations are realized. The OPA will:

- a. Establish a system for monitoring the status of report recommendations until management agreement and final action have been achieved.
- b. Monitor agency adherence to report reply due dates and take prompt follow up action when replies are due but not received or when the replies received do not meet the criteria for a management decision or final action.
- c. Determine when final action has been achieved and inform the appropriate agency official of the determination.

### **9.4 Follow-up Procedures**

There are two major steps that need to be accomplished to ensure that Government agency officials act upon OPA recommendations. The first is a "Management Decision" or Corrective Action Plan, and the second is "Final Action." These steps are described below:

- a. Management Decision or Corrective Action Plan

A Management Decision or Corrective Action Plan is developed when the OPA and Agency management agree on the validity of the finding, the need for and nature of corrective action, and a time frame for implementing the agreed-to action. OPA will make every effort practical to obtain a management decision on all report recommendations within six (6) months of the issuance of the report. To accomplish this, close coordination will be maintained between OPA and Agency management during the management decision process. This coordination should be achieved without impairing the independence and proper exercise of responsibility of either party.

- b. Final Action

The purpose of report recommendations is to recover costs, achieve savings, and improve the efficiency, economy and effectiveness of government operations. This is accomplished when a government agency has completed the Corrective Action Plan to remedy deficiencies reported by OPA. Unless otherwise directed by the Public Auditor, a recommendation will not be closed without satisfactory evidence from agency management that acceptable corrective action has been completely implemented.

### **9.5 Management Decision or Corrective Action Plan**

- a. Potential Monetary Recovery

Management Decision is reached when the government agency involved determines the amount of cost to be recovered and forwards a letter to the applicable individual or entity, requesting recovery.

b. All Other Recommendations

Management Decisions are reached on procedural, compliance, and other recommendations when the government agency involved develops a time-phased corrective action plan to address the OPA recommendations.

## **9.6 Final Action**

- a. Potential Monetary Recovery. When a recommendation involves a potential monetary recovery from an individual or an entity, an appropriate basis for final action is:
  - i. Evidence of actual offset of monetary collection against amounts due the individual or entity;
  - ii. Evidence that the amount due has been established as a receivable on the books of the government agency involved; or
  - iii. A written management opinion that establishes a satisfactory basis for non- recovery.
- b. Compliance with Laws and Regulations. When a recommendation involves a procedural action related to compliance with laws or regulations, an appropriate basis for final action is:
  - i. A written report from management supported by sufficient documentary evidence to demonstrate that satisfactory corrective action has been fully implemented; or
  - ii. A written statement or policy from management that sets forth satisfactory legal or administrative grounds for non-implementation of the recommendation.
- c. Procedural. When a recommendation involves procedural matters that improve the efficiency, effectiveness or economy of an agency's operations or programs, an appropriate basis for final action is the same as that for closing recommendations involving compliance with laws and regulations.
- d. Legal Considerations. All written statements concerning a legal basis for not implementing a recommendation must be submitted to the Public Auditor's Legal Counsel before OPA takes Final Action to close the recommendation.

## **9.7 Follow-Up Responsibility**

- a. Auditor-in-Charge. The Auditor-in-Charge or his/her designee is responsible for tracking the status of recommendations for audits which he/she has performed. This is a continuing responsibility until final actions are taken on all recommendations in a report. The staff

member assigned to the audit within the resulting report recommendations is also responsible for assisting the Auditor-in-Charge in preparing all correspondence and the analysis of actions to be taken on recommendations after report issuance. Copies of correspondence and the analysis of the actions to be taken on recommendations as a result of the correspondence should be included in a recommendation follow-up file.

- b. Audit Supervisor. The Audit Supervisor will make a preliminary determination as to whether or not the actions promised or taken by management represent final action and will recommend to the Public Auditor whether such recommendation should be closed or remain open.
- c. Public Auditor. The Public Auditor is responsible for making the final determination as to whether or not the actions taken by management represent final action. The Public Auditor will also make a determination with regards to the elevation of audit issues when efforts with a Department or Agency become unproductive.

## **9.8 Procedures for Corrective Action Plans**

Every effort must be made to reach consensus with the auditee management with regards to OPA recommendations within six months of report issuance. A Corrective Action Plan should be requested after consensus is reached. Recommendations for which management decisions are not reached within this time period may be reported and explained in the OPA Annual Report. The following procedures represent the minimum actions required to accomplish the objective of obtaining corrective action plans on recommendations within the specified time period.

- a. First 180-Days.
  - i. Notification of Action Plan. When a consensus on the corrective action plan has been reached, the Auditee is notified that the Agency has up to six months to submit a corrective action plan. This notification should be made in the body of the report as well as in the transmittal letter. The transmittal letter should state the due date for the action plan to be submitted. The transmittal letter and the comment in the audit report constitute the first notice for submission of the action plan.
  - ii. Second Notice. Approximately 60 days from the issuance of the report, a reminder letter should be sent to the Auditee informing the Agency that they now have four months to submit an action plan.
  - iii. Third Notice. Approximately 120 days from the issuance of the report, if the action plan has not been received, another reminder letter should be sent to the Auditee informing the Agency that they now have only two months to submit an action plan.
  - iv. Late Submission. After six months has passed from the issuance of the audit report, if the corrective action plan has not been received, a letter should go to the Auditee informing the Agency that their action plan is now past due. Every effort should be made to contact senior management and/or the Agency Head to secure the action plan. The Public Auditor should also initiate contact with the Agency Head. If a written

response is not provided within a reasonable time period, the matter may be referred to the Governor and the Speaker of the Legislature.

v. **Insufficient Information.** When a management reply does not provide sufficient information on which to satisfy the requirements of a corrective action plan, the Auditor-in-Charge and/or Audit Supervisor should meet with the management of the Auditee specifying the additional information needed and/or other reasons for not accepting management's response. After gaining a consensus on the additional information needed, a follow-up letter should be sent to the Auditee to document the request for additional information. If the matter is not resolved within a reasonable time from the receipt of the follow-up letter, the matter may be referred to the Governor of Guam and the Speaker of the Guam Legislature.

vi. **Sufficient Information.**

A. When an Audit Supervisor preliminarily determines that a reply satisfies the requirements of a corrective action plan, the Auditor-in-Charge should prepare a letter for the Public Auditor's signature advising the head of the agency that the corrective action plan is acceptable.

B. In the event that the Auditor-in-Charge and Audit Supervisor find that the corrective action plan adequately describes how the Auditee addressed the report recommendation(s), the Auditor-in-Charge should prepare a letter for the Public Auditor's signature advising the head of the agency that the report recommendation(s) has/have been closed.

b. **After 180 Days.**

i. If the recommendations remain without corrective action plans after 180 days, the Public Auditor may refer the matter to the Governor of Guam and the Speaker of the Guam Legislature. This referral should include the OPA's recommendations for further follow-up action.



# **CHAPTER 10: AUDIT DOCUMENTATION PREPARATION GUIDELINES**

## **10.0 Purpose**

This chapter describes the standards for organizing and recording evidence in the audit documentation, and provides guidance and procedures for supervisory review and access to the audit documentation by persons outside the OPA.

## **10.1 Background**

The preparation of audit documentation should be adequately planned and supervised to ensure that the purpose and scope of the work performed is sufficiently documented to support the findings, conclusions and recommendations presented in an OPA report. Audit documentation should be systematically arranged and organized to facilitate their use and supervisory review.

## **10.2 Standards**

Because audit documentation represents the accumulation of physical, documentary, testimonial, and analytical evidence gathered or developed during the course of an assignment, these become the foundation for report preparation and substantiation.

- a. **Completeness and Accuracy.** Audit documentation should be complete and accurate in order to provide proper support for audit findings, judgments and conclusions and to demonstrate the nature and scope of the work performed.
- b. **Clarity and Understanding.** Audit documentation should be complete and concise, but understandable enough to stand on its own without detailed supplementary oral explanations. An experienced Auditor using the audit documentation should be able to readily determine the purpose and scope of the work done, as well as the source of information included in the papers and the preparer's conclusions. Conciseness is important, but clarity and completeness should not be sacrificed.
- c. **Legibility and Neatness.** Audit documentation should be legible and as neat as practicable. While most audit documentation will be prepared electronically, there may be cases in which hand written notes are necessary and should be done so neatly and legibly. Crowding and writing between lines should be avoided by anticipating space needs, arranging headings in a logical manner, and organizing material for the audit documentation before preparing them. Sloppy audit documentation may invalidate their worth as evidence.
- d. **Relevance.** The information included in audit documentation should be restricted to matters that are materially important and relevant to the objectives of the assignment. There are no substitutes for a working understanding of the review objectives, the reasons for

performing a specific task, and the relationship of the task to the objectives. This understanding flows from well-planned and well-organized audit programs and effective instructions by supervisors. The practice of having audit documentation contain clear statements of "purpose" is necessary to ensure that the accumulation of information is properly tied to objectives.

### **10.3 Policy**

Audit documentation is to be prepared in accordance with Government Auditing Standards and the additional requirements established in this Manual. Auditors are required to sign-off on all audit documentation they prepared. The Auditor-In-Charge and/or Audit Supervisor must review and sign-off on all of the audit documentation as evidence of supervisory review. In cases when the Audit Supervisor signs off as the preparer on audit documentation and there is no secondary sign-off, the Quality Assurance Reviewer must review and sign-off on such audit documentation as evidence of supervisory review.

### **10.4 Guidance**

Audit documentation should be maintained electronically and utilize the performance audit template found in TeamMate, whenever possible. Audit documentation (or a group of logically placed documentation within TeamMate) should contain the purpose, content, source and conclusions.

- a. Document Title/Heading. Each audit document (or series of logically arranged audit documents within a folder) should include a title that identifies the document(s). Manual audit documentation should have a heading that includes: (i) the audit subject (name of the organization, mission, program, or activity); (ii) the title of the document; and (iii) the OPA job number. The heading is necessary to ensure that the audit documents are combined with the correct assignment in the event that the documents get separated.
- b. Content. The audit program establishes the content of the audit documentation. The specific audit steps should describe the nature of the work to be done and the types of evidence to be obtained and documented. In addition:
  - i. Each audit document containing attached documents should contain page numbers on each attached page to facilitate referencing to a specific page. The pertinent information contained in the attachment should be highlighted to focus the reviewer's attention to that information.
  - ii. Each audit document containing documentary evidence, such as a contract, should include a cover sheet containing the preparer's analysis or summary of the pertinent information contained in the document.
  - iii. Narrative audit documentation recording interviews and conferences should include a list of the names and titles of all attendees, (ii) the date and place and (iii) the purpose of the interview or conference. (See Section 3.7.d.)

- iv. Audit documents should be cross-indexed to other pertinent audit documents. The cross-indexing should appear near the placement of the relevant information on the audit documentation. Cross-indexing should be in red to distinguish the index designation from other information.
- v. Schedules in audit documentation should contain captions or a legend, which adequately describe the content of each column.
- vi. All symbols appearing on an audit document should be explained. Various symbols can be used to advantage to explain audit verifications or steps performed, e.g., footing and cross footing columns, and other repetitive verifications. A legend in red should be included on the document explaining the symbols.
- vii. Audit documentation containing mathematical computations should be double checked to ensure accuracy.
- c. Source. Each stand-alone audit documentation or a series of audit documentation should specifically identify the source of the information contained in the document. The source should include the name and title of the person providing the information or a complete website address (if obtained from the internet). When appropriate, the source should also include the name of the source record or document and the office responsible for controlling the record or document.
- d. Purpose. Each stand-alone audit documentation or series of audit documentation should include a statement of the purpose. The purpose should include the reasons for developing and analyzing the information contained in the document, and the use to be made of the information in relation to the audit objectives. When appropriate, the purpose should contain a statement explaining the scope of the work performed. The scope statement should describe the period covered by the information obtained and the basis for selecting the period covered. The scope may also describe the basis for selecting items for review and the relationship of the items reviewed to the total number of items in the universe.
- e. Conclusion. When appropriate, the audit documentation should include a narrative conclusion relating to the purpose of the document. The conclusion should concisely and clearly state the results of the preparer's analysis and evaluation of the information obtained. The conclusion should be sufficient to provide a complete understanding of the audit document to the reviewer.
- f. Recommendations. When appropriate, audit documentation will contain a reference to a finding sheet.
- g. Refer to separate TeamMate Guidance document for additional information.

## **10.5 Cross-Indexing/Cross-Referencing**

Cross-indexing/cross-referencing is the process of recording the index designations on audit documentation to identify supporting or related information contained in other audit documents. Complete and accurate cross-indexing of audit documentation is essential for proper analysis, review, and interpretation of assignment results. All related audit documentation should be cross-indexed because the relationship of one set of facts to another may not be readily apparent to the next person who uses an audit document, and relationships may not be as clear when staff members refer to the audit document at a later date. The following audit documentation should be cross-indexed:

- a. Summary audit documentation with supporting audit documents.
- b. Draft reports and final reports with the summary and/or supporting audit documentation, as appropriate.
- c. Audit documentation with related audit documentation.
- d. Audit documentation with the audit program.
- e. Review sheets with audit documentation.

## **10.6 Review of Audit Documentation**

As a part of the OPA Internal Quality Control System, audit documentation should be reviewed in accordance with the requirements established in this section. The purpose of the review is to determine whether (i) the audit documentation was prepared in accordance with the requirements and standards in this Chapter, (ii) the audit program was followed and the audit objectives were met, (iii) the audit documentation adequately supports findings and conclusions and provide sufficient information to prepare a meaningful report.

The Auditor-in-Charge is expected to supervise the development of the audit documentation and to make a formal review of all of the audit documentation for each work segment review area while in progress or when completed. This oversight and review will facilitate the discussion of audit issues with management officials, and the preparation of written findings and the draft report for review and approval by the Senior Auditor or Audit Supervisor.

The Auditor-in-Charge or Audit Supervisor is expected to review all of the audit documentation prior to the draft report review process. This procedure will enable the staff to answer any questions raised and to ensure that the assignment is complete in all respects. The staffing of the assignment and the nature and significance of the findings largely determine the nature and extent of this review.

Each review should be documented through review sheets that serve as a guide and control over any additional work or information required.

- a. Comments where additional work or explanations are required.

- b. Areas requiring clarification, revision, and additional analysis or interpretation.
- c. Comments on the quality of the audit documentation, the date and extent of the review.

The Senior Auditor and/or Audit Supervisor should take the necessary steps to ensure that all questions and comments are resolved before the draft report is issued. Each review sheet should be cross-indexed to the additional work or the staff's explanations or comments. The reviewer is required to: initial the relevant audit documentation and review sheets; direct further action, if necessary; or take other steps necessary for final clearance of all review items.

### **10.7 Access to Audit Documentation**

Audit documentation developed during the course of an assignment becomes the official record of the OPA and must be adequately safeguarded to prevent unauthorized use or premature disclosure. Access to audit documentation is restricted to personnel within the OPA, pursuant to 1 GCA § 1921.1, *Confidentiality of Investigations*. Circumstances may arise where the information contained in the audit documentation may be useful to authorities in the performance of their official duties. The general policy of the OPA is to furnish information to those duly authorized officials based on a valid request and who demonstrate a need to know. The Public Auditor shall make the determination of the need to know.

During the course of the assignment, management officials may request information contained in the audit documentation concerning discrepancies and deficiencies. This type of inquiry should be directed to the Senior Auditor or Audit Supervisor. Before providing any information, the Senior Auditor or Audit Supervisor should review the audit documentation containing the information requested to determine whether the information was received in confidence and should not be disclosed. Rather than providing the actual audit documentation to the management official, the staff should copy the information needed. In the event an illegal act is suspected, the audit documentation should not be turned over to anyone without consultation with the Public Auditor.

It is the policy of the Public Auditor to cooperate fully with cognizant authorities and to make available to their representatives upon request, audit documentation for completed audits on which a report has been issued. Release of audit documentation to the news media or the general public will be subject to special consideration by the Public Auditor and legal advice. Audit documentation may be subject to review by Legislative Committees, courts of law, administrative tribunals, and others; OPA staff should ensure that audit documentation meet the standards described in this chapter and include only pertinent information from credible sources.

### **10.8 Storage and Disposition of Audit Documentation**

Upon completion of an audit, unclassified audit documentation will be stored within the OPA's office area. Classified papers will be stored in a secured location.

Audit documentation will be disposed of consistent with OPA's Record Retention Policy, 2015.

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