

REGULATIONS OF CONNECTICUT STATE AGENCIES

Department of Energy and Environmental Protection

Public Utilities Regulatory Authority

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Generally Accepted Management Audit Standards

Consultant Standards and Ethics for Performance of Management Analysis

Sec. 16-8-1. All audits to be performed in accordance with generally accepted management standards

(a) All audits authorized pursuant to § 16-8 of the General Statutes of Connecticut shall be performed in accordance with generally accepted management audit standards. Such generally accepted management audit standards shall include, but not be limited to, the "Consultant Standards and Ethics for Performance of Management Analysis," approved by the National Association of Regulatory Utility Commissioners in July 1989, as revised by the Department of Public Utility Control.

(b) The revised "Consultant Standards and Ethics for Performance of Management Analysis" are set forth in §§ 16-8-2 through 16-8-4 Regulations of Connecticut State Agencies.

(Effective October 24, 1995)

Sec. 16-8-2. General standards

(a) Competence and qualifications of consulting firms and consultants

(1) Management audit teams or independent consulting firms shall propose an engagement only if the consultants proposed to perform the engagement possess qualifications at least comparable to those of recognized professionals in the area in which advice and assistance is to be rendered, and shall ensure that others assigned to the engagement, including subcontractors, are similarly qualified.

(2) The consultants proposed to perform the engagement must collectively possess adequate technical training and professional proficiency in each discipline needed to carry out the audit responsibilities. All consultants proposed to perform the engagement must have adequate technical training and professional proficiency in the assigned area and adequate experience as auditors.

(3) Other qualifications include, but are not limited to, standards adhered to in performance of the engagement, conceptual approach to project and administrative management of the audit, thoroughness of the workplan, ability to guarantee stability in assigned staff, experience in management process reviews, experience in the industry, and availability to begin and complete the review in a timely fashion.

(b) Demonstration of qualifications

(1) Qualifications for performing an audit shall be presented in terms of competence, relevant experience, and professional standing.

(2) The consulting firm and consultants or the management audit team must be willing and able to demonstrate educational background and/or professional proficiency appropriate to perform the engagement. Such demonstration may be in the form of detailed and specific resumes, previous work products, oral presentations, and verifiable references for each consultant.

(c) Independence and objectivity of consultants

(1) At the earliest opportunity, the consulting firm and consultants or the management audit team shall disclose to the department all relationships, circumstances or interests that might influence, or give the appearance of influencing, judgment or impairing objectivity.

(2) Consulting firms and consultants or the management audit team shall not serve the department under terms or conditions that might impair their objectivity or independence.

(3) Consultants and management audit teams must be objective in performing audits. In all matters relating to the engagement, the consulting firm and the consultants must be free from personal or external impairments to independence, and shall assume an independent position with the department and the auditee making certain that advice to the department or auditee is based on impartial consideration of all pertinent facts and responsible opinions.

(4) The consulting firm and consultants or the management audit team shall refrain from entering into any activity which may be in conflict with the interest of the department or auditee which would prejudice the ability to objectively carry out their duties and responsibilities.

(d) Professional behavior and integrity

(1) Consulting firms or management audit teams, in the course of their practices, shall maintain a professional attitude and behavior toward those they serve, their fellow practitioners, their own employees, and the public at large.

(2) Consulting firms and consultants or management audit teams shall avoid not only improprieties, but also the appearance of improprieties, and make every effort to ensure that the highest level of integrity is maintained.

(3) Consulting firms and consultants or management audit teams shall exercise honesty, objectivity, proficiency, and diligence in the performance of their duties and responsibilities.

(e) Due professional care. Consultants and management audit teams shall exercise due professional care in performing audits. Due professional care requires the application of the care and skill expected of a prudent and competent consultant in the same or similar circumstances.

(f) Proprietary or confidential information

(1) The consultant and management audit team shall enter into a nondisclosure agreement with the auditee. The nondisclosure agreement shall clearly define the treatment of material which the auditee deems confidential or proprietary. Said nondisclosure agreement must be approved by the department. Consultants and management audit teams shall not take personal, financial, or other advantage of material or inside information resulting from their professional relationship with the department or auditees; nor shall they provide the basis on which others might take such advantage.

(2) Consultants and management audit teams shall not use proprietary information learned from, or developed for, previous clients or auditees without first obtaining the consent of such clients/auditees.

(3) Consultants and management audit teams shall hold as strictly confidential all information concerning the affairs of the department and auditee that is gathered during the course of a professional engagement, except when the department has released such information for public use.

(4) Consultants and management audit teams shall not, without prior permission, use or divulge copyright material and proprietary data, procedures, materials, or techniques that others have developed, but have not released for public use.

(g) Conditions of service

(1) Consulting firms or management audit teams shall, before accepting an engagement, confer with the department in sufficient detail and gather sufficient facts to gain an understanding of the objectives to be achieved, the scope of assistance needed, and the possible benefits that may accrue as a result of the study.

(2) Consulting firms or management audit teams will advise the department of any significant reservations they have regarding anticipated benefits of an engage-

ment. They shall not accept an engagement in which they cannot serve the department effectively.

(3) Consulting firms or management audit teams shall agree with the department in advance on the objectives, scope, and approach for the proposed engagement.

(4) Consulting firms or management audit teams shall perform each engagement on an individualized basis and shall develop recommendations designed specifically to meet the particular requirements of the department. The objective in each engagement shall be to develop solutions that are cost effective, realistic, and practical. Such solutions shall be clearly understandable by the department and auditee and capable of being implemented at a reasonable cost and within a reasonable time frame by the auditee. Consultants shall be prepared to assist, to whatever extent required, with the implementation of approved recommendations, or the preparation and presentation of expert testimony, provided that such assistance shall not in any manner impair the consultants' objectivity or independence.

(5) Consulting firms or management audit teams shall discuss with the department any significant changes in the objectives, scope, approach, anticipated benefits or other aspects of the engagement, and obtain the department's agreement to such changes in writing before taking action.

(6) Consulting firms or management audit teams shall comply with all federal laws and regulations regarding discrimination in the employment of individuals and the selection of sub-contractors.

(h) Contents of proposal

(1) Consulting firm or management audit team proposals shall be directly responsive to the department's request for proposal. The written proposal shall outline the objectives, scope, and fee basis for the proposed service or engagement. The proposal shall identify the specific functions to be performed and the consultant who shall perform each function, the hourly fee of each consultant, and the estimated hours of each consultant necessary to complete each function.

(2) The proposal shall clearly set forth the audit procedures and controls and any reservations the consulting firm might have about meeting, in full or in part, any of the department's objectives.

(i) **Disclosure.** Neither the consulting firm nor management audit teams nor individual consultants shall release or otherwise publicly disclose information pertaining to the request for proposal, the proposal, the workplan, or the engagement without prior written approval from the department, unless such information has been released to the public.

(j) Gifts and gratuities

(1) In order to maintain complete objectivity in all matters relating to an engagement, consultants will not accept gifts, gratuities, or other valuable consideration from the auditee, the department, or any person interested in the organization being audited.

(2) Consultants and management audit teams shall not accept fees, commissions, or other valuable consideration from individuals or organizations for recommending equipment, supplies, or services in the course of providing service to the department.

(k) **Commitment to continued assignment of personnel.** The consultants proposed and accepted by the department shall not be substituted unless the department agrees in writing to a modification either before or during the performance of the engagement.

(l) Fees, expenses, and charges

(1) Consulting firms shall charge reasonable fees which are commensurate with the nature of services performed, the responsibility assumed, the actual time required, and the consultants' experience and ability.

(2) The valuation of services and the procedures by which charges are made shall be based upon agreement between the consulting firm and the department. The actual billed amount of fees, expenses and other charges shall not exceed the originally estimated amount without prior written approval of the department. Interim promotions awarded to consultants shall not change agreed-upon billing rates or hours committed to the engagement.

(3) Invoices shall contain a detailed accounting of the hours worked by each consultant and each employee for each day worked and of other direct and indirect expenses broken down by cost element, including dates, time periods, quantities and hours, as applicable. Detailed time sheets and other supporting documents, such as expense vouchers, lodging receipts and invoices shall be provided to the department. The department reserves the right to audit the consulting firm with respect to such invoices and supporting documents.

(m) Advance estimates of savings

(1) Consulting firms or management audit teams shall not offer the possibility of monetary benefit before the audit is begun, unless there is a factual and documented basis for making such an estimate.

(2) Consulting firms or management audit teams will neither promise any short-term benefit at the expense of the long-term welfare of the auditee or department, nor guarantee a specific monetary benefit that is not within their control to deliver.

(n) Employment offers to department or auditee personnel. Consulting firms shall not solicit employees of the department or auditee for employment by themselves or by others, except with the consent of the department or auditee. If approached by employees of the department or auditee regarding employment, consultants shall make certain the department or auditee has consented before entering into any specific negotiations with those employees.

(Effective October 24, 1995)

Sec. 16-8-3. Examination and workpaper standards**(a) Engagement management**

(1) The consulting firm's or management audit team's Engagement Director and/or Project Manager shall properly manage the audit. This individual shall have sole responsibility and authority over the work performed by the team assigned, and shall ensure that every aspect of the engagement is adequately planned and assistants, if any, are properly supervised. The Engagement Director and/or Project Manager shall be the primary contact with the department.

(2) As part of the control over the engagement, the Engagement Director and/or Project Manager shall also establish and oversee plans to carry out the responsibilities of each team member to ensure that the project is completed on time and in a manner satisfactory to the department.

(b) Audit methodology/procedures. In order to sufficiently plan for the conduct of the audit, all audit methodologies/procedures, as required by the department, shall be specifically identified and agreed upon by the consulting firm or management audit team and the department prior to commencing field work and shall be adhered to by the consulting firm or management audit team.

(c) Identification of issues and questions

(1) The consulting firm or management audit teams shall be required to conduct sufficient fieldwork to assure that all significant issues within the scope of the audit have been identified.

(2) As issues are identified, and after consultation with the auditee, the consultants and management audit teams shall inform the department of the issue, the potential impact, and the practical solution of the pending recommendation.

(3) In the event the consultants and management audit teams believe an identified issue warrants further study in order to provide a practical solution, the consultant shall notify the auditee and the department as early as possible of the issue, the reasons for the need for further study, and the potential impact of the study, including potential costs and benefits.

(d) Compliance with RFP, contract, laws, and regulations

(1) Consultants and management audit teams shall review the methodologies/procedures planned to be used during the audit to ensure compliance with all aspects of the department's needs and request for proposal, including all policies, plans, and procedures specified, and laws and regulations which could impact the audit, and shall ensure that the consultant's approach is in compliance with the requirements.

(2) In the event that some aspect of the consultant's approach does not comply with any of the policies, procedures, laws and regulations, it is the consultant's responsibility to notify the department of such deficiency and amend the approach in a manner which is acceptable to the department.

(e) Planning and workplan content

(1) Consulting firms or management audit teams shall ensure that the engagement is well planned so that sufficient and relevant information is obtained and evaluated. Planning also includes the proper scheduling of personnel and events so that the conduct of the engagement shall be efficient and cost effective.

(2) Consulting firms or management audit teams shall submit a detailed workplan for the proposed review in accordance with the specific requirements of the department. The workplan shall reflect a clear understanding of the activities and functions under review. Every aspect of the work should be adequately planned by the consulting firm or management audit teams in such a manner as to identify the who, what, when, where, why, and how of each anticipated audit step. The workplan shall set up specific criteria for identifying ways to measure performances of the auditee and reflect professional objectivity and judgment in comparing the current performance of the auditee against the established standards. The workplan should lead to the preparation and communication of findings and conclusions in areas that are efficient, and recommendations in areas where there are opportunities for improvement.

(3) The department shall be notified immediately of any deviations from the identified plan of action.

(f) Supervision, control, and scheduling

(1) Consulting firms or management audit teams shall demonstrate a commitment to the quality of their advice, assistance and resultant products through sufficient planning, reviews, and controls.

(2) Consultants and management audit teams shall assure that audits are properly supervised. Such assurances shall include, but not be limited to, elements of experience and project controls, both manual and automated, which shall ensure that the audit shall be completed in a timely and effective manner.

(3) Audits shall be properly supervised so as to provide adequate control over the entire audit team. Worksteps shall be scheduled far enough in advance so as to allow preparation by all parties, which shall minimize disruption to the auditee. Consulting firms and management audit teams shall place specific emphasis on completing the audit in accordance with the schedule agreed to by the consulting firm, the department, and the auditee, and the budget agreed to by the consulting firm and the department.

(g) **Timeliness.** Reports are to be issued by the consultant or the management audit team on or before the dates agreed upon by the department, consultant, management audit team and the auditee. Reports are to be issued promptly so as to make the information available for timely use by the department, auditee, and other interested parties. Any anticipated deviation from the agreed upon dates shall be communicated to the department and the auditee as early as possible, and shall require the prior agreement of the department and the auditee.

(h) **Workpapers, evidence, documents, and supporting data**

(1) Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the consultant's findings, conclusions, and recommendations regarding the organization, program, activity, or function under examination. All evidentiary materials upon which conclusions or recommendations are based must be filed in a systematic, easily retrievable manner in the form of working papers. The collection, usage, filing and retention of documents shall be consistent with the department's requirements.

(2) Evidence supporting each and every factual statement, exhibit, or graph shall be documented and retained in the form of working papers. Consultants shall assure the reliability and integrity of all relevant information.

(i) **Third party views.** If required by the department, the consulting firm shall solicit and collect views of appropriate third parties, and shall report responses as survey results or use the information for planning follow-up audit work, as directed by the department.

(j) **Impairments.** When external factors restrict the audit or interfere with the consulting firm's ability to meet the engagement objectives or form objective opinions and conclusions, the consultant shall attempt to remove the limitation or, failing that, report the limitation to the department.

(k) **Information sources**

(1) Consulting firms shall ensure the integrity and completeness of all source information relied upon in the course of the engagement.

(2) If industry comparisons are utilized in the course of the review, the exact purpose of the comparisons, the extent of the reliance upon and use of comparisons, and the relevance of the comparisons should be clearly set forth and approved by the department. All industry comparisons must be supported by sufficient and credible evidence. Industry comparisons shall not be used as the sole basis for a recommended improvement or underlying conclusion.

(Effective October 24, 1995)

Sec. 16-8-4. Reporting standards

(a) **Periodic reporting oral and/or written.** A written report shall be presented to the department after the audit examination is completed. Interim reports are to be transmitted in accordance with the engagement contract.

(b) **Timeliness of reporting.** Reports, both interim and final, shall be issued on or before the dates agreed to by the consulting firm or management audit team, the

department and the auditee. If for any reason, the consulting firm or management audit team shall be unable to meet such dates, the consulting firm or management audit team shall notify the department and the auditee at the earliest possible date.

(c) **Report form and content.** Unless otherwise provided by the department, the report shall:

(1) Include a statement of the audit objectives and a description of the audit scope and methodology;

(2) Include a statement of professional standards adhered to in the examination and report;

(3) Include a description of the strengths and weaknesses found in the auditee's management and operations;

(4) Include a description of noteworthy accomplishments, particularly when management improvements in one area may be applicable elsewhere;

(5) Include recommendations for actions to improve problem areas noted in the audit, and to improve operations; the underlying causes of problems reported to assist in implementing corrective actions;

(6) Except as required by a prudence review or other department-stated objectives, place primary emphasis on improvement rather than on criticism of the past; critical comments shall be presented in a balanced perspective considering any unusual difficulties or circumstances faced by the auditee;

(7) Quantify the potential benefits, net of costs, to be realized if the auditee were to implement the recommended improvements and provide the basis for such qualifications;

(8) State the qualitative benefits of implementing the recommended improvements;

(9) Include a listing of significant issues and questions, if any, needing further study and consideration;

(10) Include a statement as to whether any pertinent information has been omitted because it is deemed privileged or confidential, describe the nature of such information, and state the law or other basis under which it is withheld;

(11) Be written in a narrative form and in language as clear and simple as the subject matter permits;

(12) Be concise but, at the same time, detailed enough to be understood by users;

(13) Be objective and present factual data completely to fully inform the users;

(14) Present factual data accurately and fairly, and include only information, findings, and conclusions that are adequately supported by sufficient evidence in the working papers to demonstrate or prove the bases for the matters reported and their correctness and reasonableness;

(15) Present findings and conclusions in a convincing manner;

(16) Set priorities for recommendations based on their impact and importance;

(17) Provide sufficient information to acquaint department personnel and auditee personnel with the principles, methods, and techniques applied, so that the improvements suggested or installed may be properly managed or implemented and continued after completion of the engagement; and

(18) Address the steps required to implement a recommendation and present a timeframe, which the auditee has agreed to be reasonable, within which the recommended improvements could be implemented.

(d) **Noteworthy accomplishments.** Reports may acknowledge satisfactory performance and corrective action. Such acknowledgments may include, but are not limited to, areas wherein the auditee's methods/operations are considered to be at

the forefront of the state of the art. However, in that the primary purpose of the audit is to identify potential improvements, a simple acknowledgment of the well-managed area shall suffice.

(e) **Draft report review.** Before the final management audit report is issued, the consulting firm or management audit team shall present a draft report to the auditee for the sole purpose of permitting the auditee to verify the accuracy of the facts contained in the draft report. Other than the Department, no person or party, including the auditee and the Office of Consumer Counsel, shall view or otherwise be privy to the auditor's proposed conclusions and recommendations. At any time during the audit, and upon the Department's request, the auditor shall provide the Department a copy of any draft report. The Department may (1) verify the accuracy of facts contained in any draft report; (2) ensure a draft report's conformity with department regulations and with the scope of the audit; or (3) discuss with the auditor the contents of any draft report including the proposed conclusions and recommendations. The Department shall review draft reports within a reasonable period of time enabling the publication of the final audit report.

(f) **Findings of fraud or abuse (oral or written)**

(1) Consultants shall be alert to situations or transactions that could be indicative of fraud, abuse, or illegal expenditures and acts. If such indications exist, the consultant shall report the indications as appropriate to the auditee, including the chairman of the auditee's audit committee and the internal audit manager of the auditee, and inform the department. Consultants shall extend the workplan and procedures to identify the effect on management and operations as required by the department.

(2) Findings of fraud, abuse, or illegal acts may be covered in a separate report, as required by the department. The consultant and the department shall report serious indications of fraud, abuse or illegal expenditures and acts to the proper authorities as they deem fit pursuant to their professional judgment.

(g) **Forecasts.** Forecasts shall be substantiated by responsible opinions, statements and documentation. Forecasting methodologies shall be identified and described. All pertinent data sources and assumptions shall also be identified.

(Effective October 24, 1995; amended March 4, 2010)