Audit Readiness Fundamentals
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Audit Readiness: Secretary of Defense’s Call to Action

- Laws dating back to 1990, required the DoD to have fully auditable financial statements (1990 Chief Financial Officers Act, 1994 Government Management Reform Act)
- In addition to the legislative mandate for audit readiness, the DoD is facing increasing pressure from the American public to responsibly spend tax dollars, while costs are exponentially rising

In response, Secretary of Defense Panetta issued a memorandum on 13 October 2011:

“This is a priority for me and will be an ‘all hands’ effort across the Department.”

“As a key next step, we must improve financial information and move towards auditable financial statements.”

“Achieve audit readiness for Statements of Budgetary Resources (SBR) by the end of 2014.”

“…auditability is a goal that every commander, every manager, and every functional specialist must understand and embrace to improve efficiency and accountability at the DoD.”

Secretary Panetta’s memo emphasizes that all members of the DON should support audit readiness activities to improve financial information
What Does it Mean to be Audit Ready?

Are you audit ready?
Audit Readiness Basics

What is Audit Readiness?

☑️ the state of being prepared at all times to demonstrate proper manual and automated processes and documentation (e.g., process controls) that are executed in accordance of regulation, policy, and appropriate accounting standards

☒ a one-time event; sustainability will be the focus in the future

☒ accomplished solely through the financial management community

What is a Financial Audit?

☑️ an independent evaluation of whether an organization’s financial statements are fairly presented and in accordance with appropriate accounting standards

☒ an audit of agency operations to determine whether federal funds are being spent efficiently and effectively

☒ a workforce assessment
Benefits of Audit Readiness

Department of the Navy (DON)

- Allows the DON to make more informed budgetary decisions
- Produces more efficient business processes to better support warfighting excellence
- Improves effectiveness of Command and DON-level business and financial operations
- Improves credibility with Congress and taxpayers

Command / Organization

- Improved business processes resulting in more efficient and well-prioritized use of funds
- Reduces the risk of waste, fraud and abuse through improved internal controls
- Better use of resources through better validation of budget status and identification of dollars unused before they expire
- Allows for more accurate updates to program lifecycle cost estimates and benchmarking

Individual

- Improves job efficiency by reducing the time spent on rework and validating data
- Increases the DON’s workforce’s ability to be responsible fiscal stewards of public funds
The DoD and DON Have a Plan and Timeline for Achieving Audit Readiness

Financial Improvement and Audit Readiness (FIAR) guidance: DoD’s strategy to improve its financial management operations, resulting in an unqualified audit opinion on its financial statements.

Integrated Plan of Action and Milestones (PoAM): uses FIAR guidance and lays out the DON’s strategy for achieving audit readiness of the DON Statement of Budgetary Resources (SBR) - the first of four DON financial statements – by 30 September 2013.

- Procure-to-Pay Audit Ready by 31 Dec 2012
- SBR Audit Ready by 30 Sept 2013
- Existence & Completeness (E&C) Examination from 1 Jan 2014 – 3 Sept 2016
- DON Financial Statements Audit Ready by 30 Sept 2016

DON Financial Statements
Statement of Budgetary Resources (SBR)- Summary of the flow of funds in and out of the DON
Balance Sheet- Summary of the financial balances of all assets and liabilities
Statement of Net Cost- Summary of DON net cost of operations for a given period
Statement of Change in Net Position- Summary of changes to net position during the reporting period
Field Activities Impact Financial Statements

- Most business events that take place in the field result in a financial transaction.
- Those business events that create a financial transaction can be traced and must be supported.
- Once these events occur, and lead to a financial transaction, the reporting process begins.
Your Day to Day Activities Make an Impact on Audit Readiness

“Doing Things Right” Enables Auditability

- All transactions within end-to-end business processes must be **traceable, supportable, repeatable, and sustainable**
- Each financial transaction needs to be accounted for everyday. *Examples*:

<table>
<thead>
<tr>
<th>Event</th>
<th>How to account for it?</th>
<th>Impact</th>
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<tr>
<td>Timesheets</td>
<td>Reviewing and validating the time worked, coding, and location are accurately entered before submitting</td>
<td>Inaccurate time keeping can affect knowing how much time is REALLY needed to complete the job – upcoming jobs could be shorted</td>
</tr>
<tr>
<td>Travel</td>
<td>Documenting travel location, duration, expenses, and keeping receipts</td>
<td>Unapproved and excess spending impacts travel funds – travel could be limited to only vital trips</td>
</tr>
<tr>
<td>Accepting Goods</td>
<td>Matching receiving reports to the order document</td>
<td>Missing inventory impacts ordering supplies – the right part could not be available at the right time</td>
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Whether undergoing DON testing or an independent third-party audit, the entire DON community should understand the basics of the audit process.

**What to Expect During the Audit**

**Who?**
- Financial statement auditors will talk to:
  - Individuals at all levels and possibly external parties with whom the organization transacts business
  - Individuals throughout the end-to-end processes associated with sampled transactions

**What?**
- Financial statement auditors will talk to individuals to:
  - Identify key controls and assess their design and operating effectiveness
  - Confirm that the process is compliant
  - Gather supporting documentation for samples of transactions and perform testing

**How?**
- Financial statement auditors will review end-to-end business operations, evaluate the controls in place, and evaluate supporting documentation
- To support audit readiness activities, leadership can:
  - Validate audit readiness of financial recording and reporting processes for all business segments
  - Ensure controls are in place to enable accurate and timely recording of processes
  - Organize documents, use the audit trail checklist, and highlight key fields on the supporting documents
  - Be prepared to answer questions on your role in the business process and provide an explanation of how the documents you provided support the audited transaction
How Can You Support Audit Readiness?

- **Obtain confidence** in your processes assuring they are standardized, repeatable, well documented, sustainable, and support accountability

- Ensure that your **actions are clear to others within and outside** of your area

- Verify your work steps and **transactions are fully documented, correct and available on demand**

- **Communicate with co-workers and other entities** about what problems have come up and how you can help each other be successful

- **Collaborate to solve problems** across the DON and build upon each others skills and experiences

- Work to **institutionalize a culture of self-inspection and standardization**

- Coordinate with others, realizing that **everyone’s job is necessary** and understand how they work together

- **Prepare for the audit** by familiarizing yourself with the audit process

- **Educate yourself** starting with the resources on the next slide to learn more
Additional Resources

1. For more information on how FMO can support you, please visit the updated FMO website: http://www.fmo.navy.mil/

2. For more information and resources on audit readiness, please visit the FMO Audit Readiness Information Center (ARIC):
   http://www.fmo.navy.mil/AuditReadiness/audit_readiness_information_center.html

The ARIC contains information and documents such as:
- The Audit Readiness Video you saw in today’s briefing
- Tone from the Top: messages of urgency from senior leadership
- Audit Readiness Frequently Asked Questions (FAQs)
- Executive briefings and papers related to audit readiness
- Testimonies and Questions for the Record (QFRs) related to audit readiness
- Audit reports and lessons learned
- How executives are accountable for supporting audit readiness
- Back-Up -
Day-to-Day Business Operations Impact DON Financial Statements

Achieving audit readiness is the responsibility of every DON employee across all functional communities, with daily actions impacting DON financial statements.

1. SBR
   - Impacted when decisions affect the funds the DON has or where the DON’s funds are intended to be spent

2. Balance Sheet
   - Impacted when the DON gains or loses an asset (e.g., cash or property) or a liability (e.g., a payment owed to a vendor)

3. Statement of Net Cost
   - Impacted when the DON incurs an expense. In this example, the expense is incurred at delivery, which causes the DON to owe the vendor a payment

4. Statement of Change in Net Position
   - Impacted when the DON’s operations result in an expense or a change in total financing sources, and by the total appropriated funds that are not used in a period. In this example, the expense of the product impacts this statement

DFAS performs final three-way match and pays vendor final invoice.