



**U.S. ARMY**

# Army Audit Readiness Training What to Expect from the Audit



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Office of the Assistant Secretary of the Army  
(Financial Management & Comptroller) (OASA(FM&C))

*Accountability & Audit Readiness:  
Sustaining Army's Strength*



# Agenda

- SBA Overview and Audit Expectations
- Financial Statement Audit Phases
- Information Technology and the Audit
- Questions: Open Discussion
- Leadership Closing Remarks
- Appendix A: Audit Phases Reference Material
- Appendix B: Information Technology Reference Material

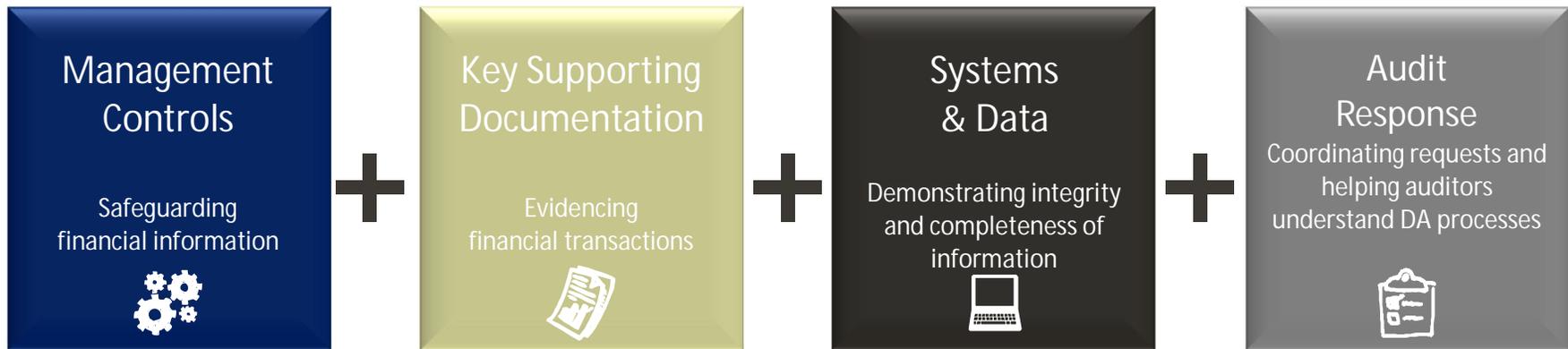


## SBA Overview and Audit Expectations



# FY15 SBA Audit Focus: Improving Army's Business Processes and IT Systems

- Established a segment approach, based on major business processes, to audit readiness which enables Army to prepare key parts of its business prior to the SBA audit
- With Enterprise-wide support, Army has made significant progress in the following areas to enhance preparation for the SBA audit:

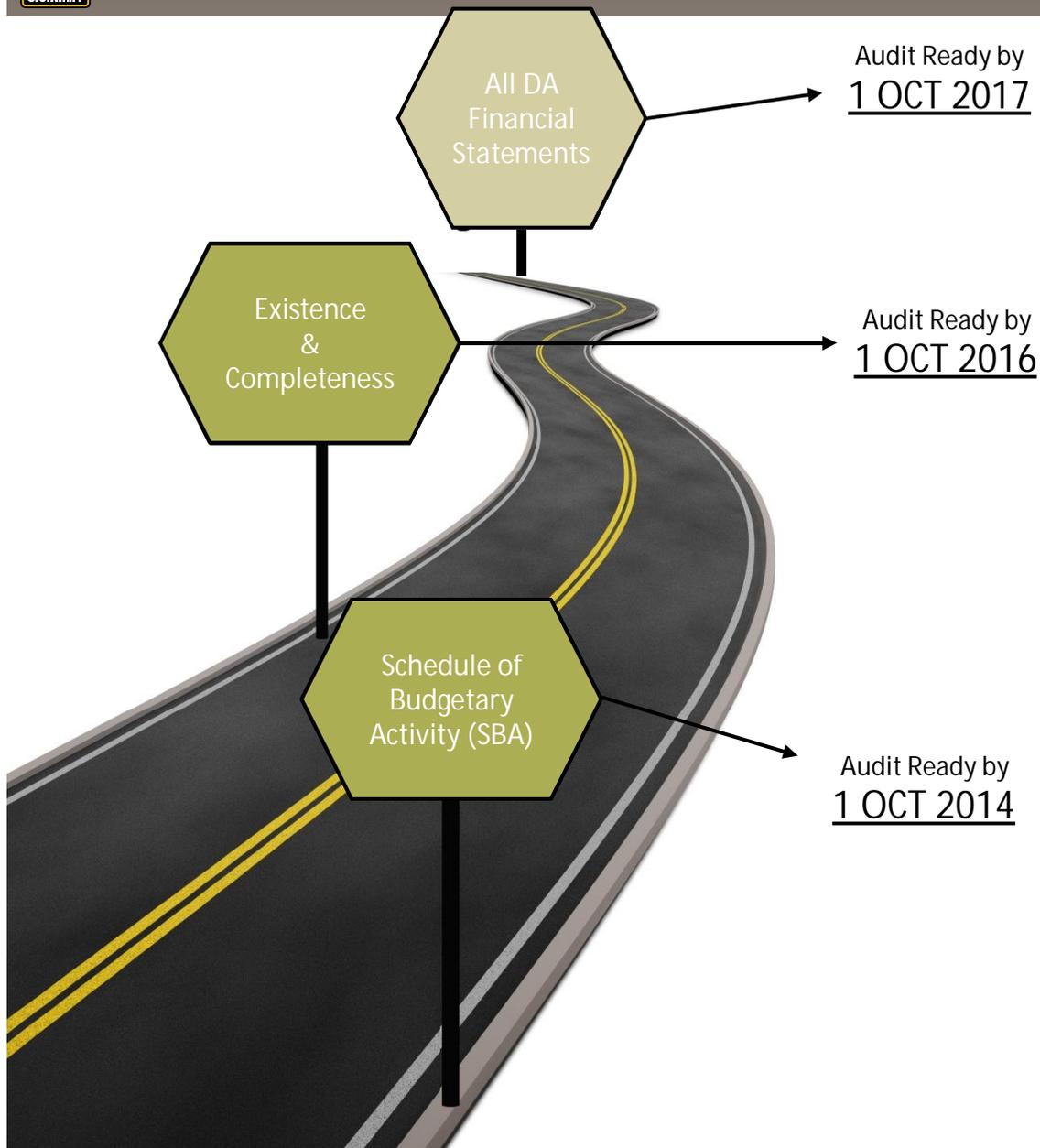


## Army Major Business Process Assertions & Examinations

Civilian Pay (CIVPAY)	Fund Balance with Treasury (FBWT)	Military Pay (MILPAY)	Financial Reporting (FR)	Fund Distribution (FD)
Contractual Services and Acquisition of Services (CSAA)	Reimbursables – Inbound (Acceptor)	Appropriations Received (AR)		



# Audit Readiness Mandates – Our Road to Financial Auditability



- Army defined a critical path of activities that enable compliance with the National Defense Authorization Act (NDAA) mandate to report to Congress the results of full financial statement audits by 2017
- Recent guidance from OUSD(C) added an additional requirement to Army's critical path to 2017. This new requirement states:
  - Military Departments must initiate an audit of the SBA on 1 OCT 2014
- Given this new requirement, Army is undergoing an effort to prepare for the first year audit and to communicate to all stakeholders the impact and implications this will have on them



# Audit Standards Defined

## What does an SBA Audit cover?

- All transactions that occur in FY 2015 using FY 2015 appropriation

## Financial Audit Defined:

- The *Schedule of Budgetary Activity (SBA)* audit will review current-year financial data to verify:
  - Each financial transaction is supported by source documentation, including invoices, proof of receipt for goods/services, and contracts;
  - Alignment of “checkbook” balances with transaction-level detail; and
  - Consistency and evidence of required management controls for Army’s business processes and financial systems.
- Audit feedback and findings improve business processes and enable:
  - Enhanced efficiency and prioritization in the use of funds;
  - Strengthened internal controls that reduce the risk of waste, fraud, and abuse; and
  - Enhanced accuracy and efficiency in the execution of the key business processes that support the mission.

The Army’s SBA Audit will begin in early FY15 and will require different tempo, support, and criteria.



# Schedule of Budgetary Activity (SBA) Financial Audit

The Army is **heading into the first full scale audit** of its SBA in FY15



As an enterprise, we have **spent several years focusing on Audit Readiness** initiatives and have made significant achievements **to improve our internal controls and** business processes.

As the FY15 SBA Financial Audit draws near, we are shifting our focus from Audit Readiness to Audit Response.

This discussion is one of many OASA (FM&C) outreach efforts to confirm that:

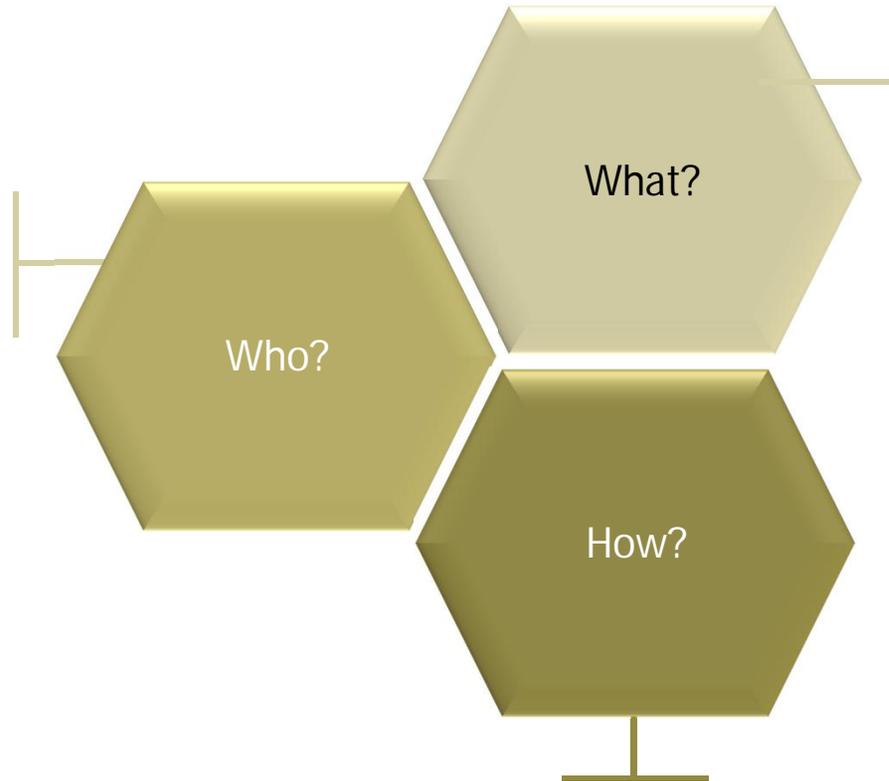
- Enterprise has the knowledge and resources to support all phases of the full scale financial audit;
- Commands have the guidance and resources necessary to balance competing priorities;
- Unique Command challenges are identified and addressed; and,
- Training requirements are taken into consideration.



# What to Expect During the Audit

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



Financial statement auditors will talk to individuals in order 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

Financial statement auditors will review end-to-end business operations, evaluate the controls in place, and evaluate supporting documentation. To support, 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 transactions
- Organize documents, use the audit trail checklist, and highlight key fields on the supporting documents



# Engaging with Auditors: Be Prepared

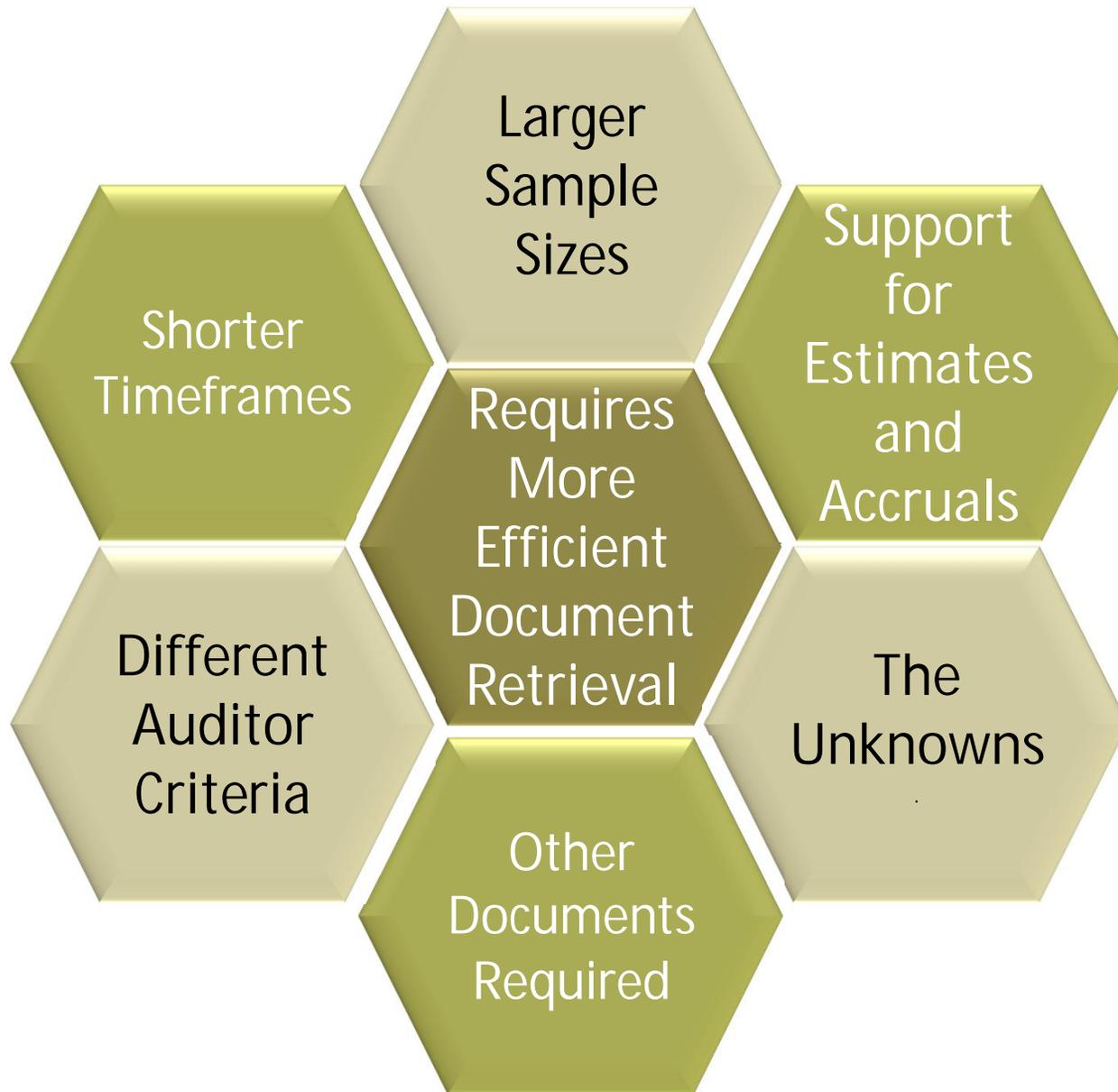
- Auditors expect and appreciate an organization that is “in control” and understands its operations.
- Anticipate/identify problems and prepare explanations beforehand.
- If you know an action is a mistake, they will know it’s a mistake. Auditors do this for a living and are familiar with most excuses.
- Be honest and be consistent.
- Only answer the question that is being asked; NO more, NO less.
- Do not offer subjective opinions or theories. Avoid words such as “probably” or “should be.”
- Prepare for the audit by familiarizing yourself with the audit process and business processes being audited.
- All questions should be in writing when feasible.
- Ensure you fully understand the question being asked before submitting documentation or responding to the auditor.



*Credibility Accessibility Accountability*



# How Will the Audit be Different from the Examinations?





## Financial Statement Audit vs. Other Types of Audits

- A financial statement audit is NOT:
  - An Internal Audit (as performed by Army Audit Agency)
  - A Performance Audit
  - A Compliance Audit
  - An Internal Review or Inspection
- The scope, sample size, and tests performed under financial statement audit will be significantly larger any of the above audits or reviews.
- Federal financial statement audits must follow a specific approach established by GAO in its Financial Audit Manual (FAM), as must be performed under Generally Accepted Government Auditing Standards (GAGAS), the yellow book.



## Types of Transactions Tested During the SBA Audit

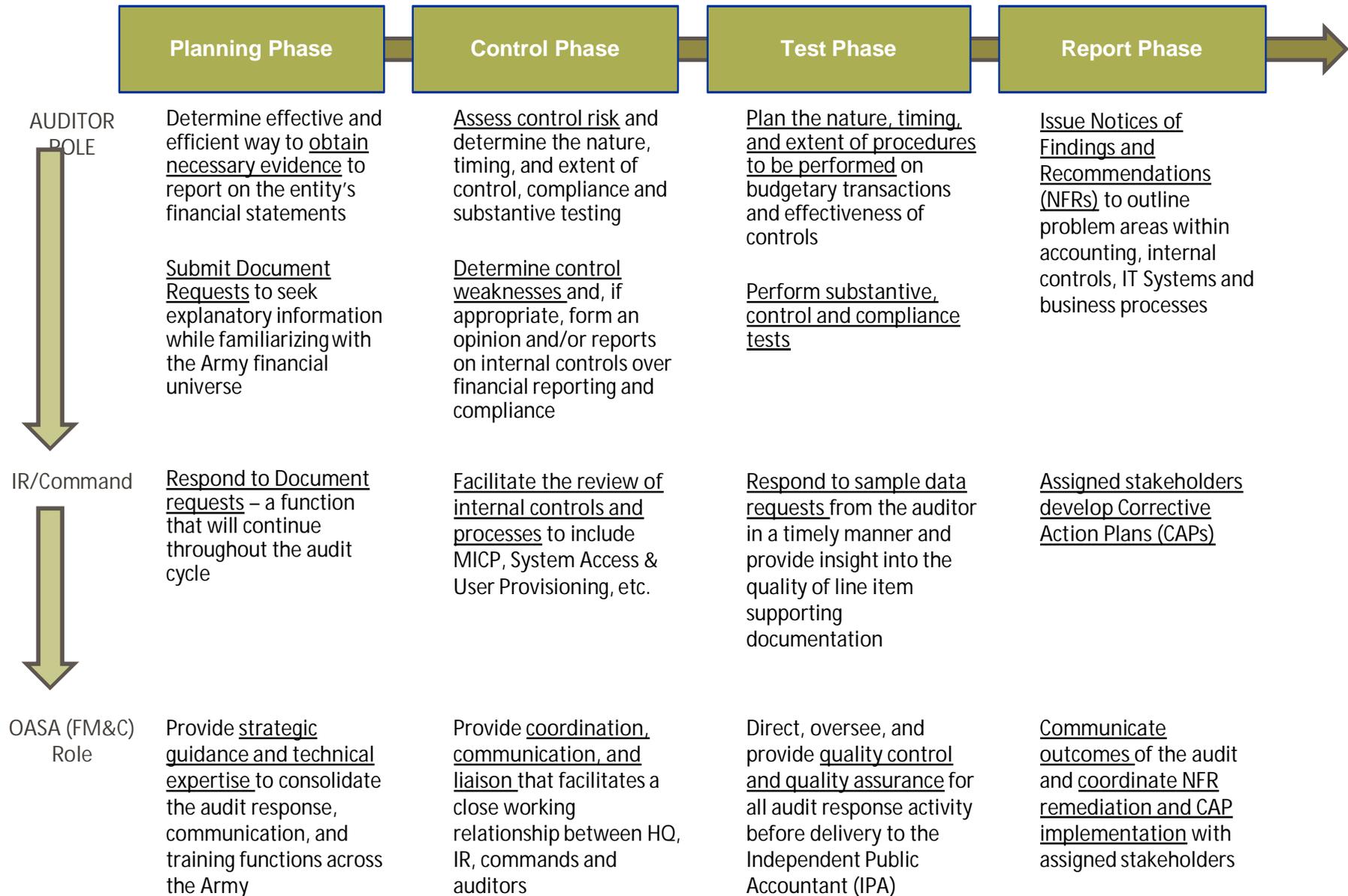
- The SBA presents selected Army financial information for a given fiscal year.
- The auditors will test transactions that relate to the information on the SBA:
  - Obligations and De-obligations
  - Expenses and Reversals
  - Disbursements and Collections/Credits
  - Budget Authority
- Any business process (e.g., MilPay, RWO, CVP) that results in any of these types of transactions may be subject to testing during the audit.
- Army field-level personnel may be involved in the response to none, some, or all of this testing.
- For example, personnel in the field may not be required to provide Treasury Warrants (budget authority testing), but may be called upon to provide MIPRs in support of obligation testing.



## Financial Statement Audit Phases



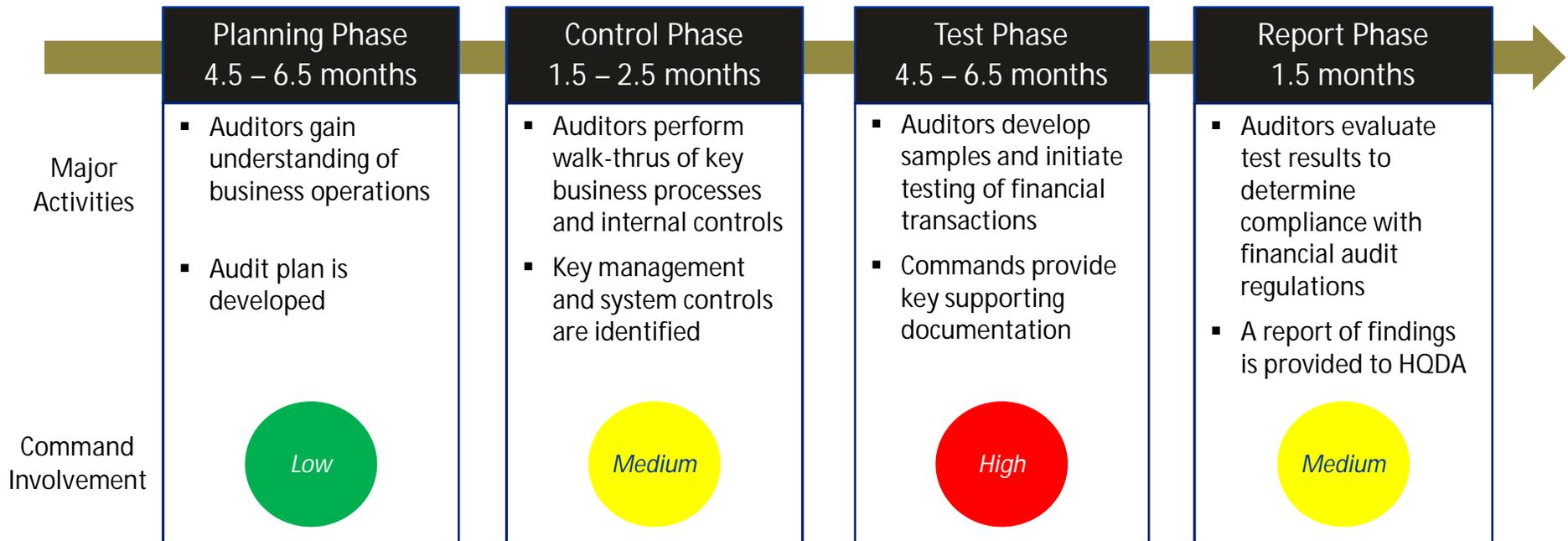
# Audit Lifecycle Roles and Responsibilities





# SBA Financial Statement Audit Sequence of Events

- The FY15 SBA Audit will consist of four major phases over approximately 12-17 months
- The key activities and levels of Command involvement vary in each phase



Note: The SBA audit won't necessarily follow the general audit timelines listed above



# Planning Phase: Army Impact

## OASA FM&C

- Obtain the announcement letter from the auditors and disseminate it to the entire Army
- Provide the auditors with:
  - entity level control documentation
  - a description of any significant changes since the prior audit / exam
  - reconciled 1st quarter financial statement
  - a status on the remediation of prior year audit findings
- Meet with the auditors to understand their plan and develop the Army's plan to support the audit
- Update the list of POCs for key business processes and audit support

## Army Field Activities

- Update process and control documentation to prepare for the auditors
- Provide HQ with:
  - Any significant changes to processes or controls
  - Updated organization audit POCs
  - A status on the remediation of prior year findings



# Internal Control Phase: Army Impact

## OASA FM&C

- Must provide process documentation for entity level process and controls (such as the financial reporting process)
  - May be required to coordinate or host walkthroughs and testing for entity level controls
- Coordinates the auditors site visits among HQ activities and field activities
- Begin receiving NFRs and coordinating the response

## Army Field Activities

- Update process and control documentation to prepare for the auditors
- Provide HQ with:
  - Any significant changes to processes or controls
  - Updated organization audit POCs
  - A status on the remediation of prior year findings
- May host site visits during which the auditors will perform walk thoughts and then select and test control samples
  - Walkthroughs test design and are over a single instance of the control
  - Control samples test operating effectiveness and will generally cover 45 instances of a control
- Begin responding to NFRs



## Testing Phase: Army Impact

### OASA FM&C

- Must receive samples from auditors and coordinate with the all the commands to obtain responses
- Coordinates the auditors testing site visits among HQ activities and field activities
- Maintain frequent communication with the auditors and the field to ensure no items are missed
- Continue receiving NFRs and coordinating the response

### Army Field Activities

- Provide sample documentation within required time frames
- Provide HQ with:
  - Responses to follow up items
  - Any additional documentation required
- May host site visits during which the auditors will perform substantive testing procedures
  - This could include physical inventories for existence and completeness testing
  - Samples may be provided in advance or may not be provided until testing begins on site
- Continue responding to NFRs



## Reporting Phase: Army Impact

### OASA FM&C

- Time is of the essence during all reporting activities
- Coordinate any last minute audit requests
- Receive and record any auditor proposed adjustments
  - Or disagree with adjustments
- Receive the final NFRs
- Receive and respond to the management letter
- Create the final AFR, which includes the auditor's opinion letter

### Army Field Activities

- Promptly (with 24 hours) respond to any follow up items or audit requests
- Provide HQ with:
  - Responses to NFRs that impact that command
  - Responses to sections of the management letter that impact the command
- Responding to final NFRs



## Information Technology and the Audit



# Information Technology Audit

- An information technology audit, or information systems audit, is an examination of the management controls within an information technology (IT) infrastructure.
- The evaluation of obtained evidence determines if the information systems are safeguarding assets, maintaining data integrity, and operating effectively to achieve the organization's goals or objectives.
- These reviews are performed in conjunction with the financial statement audit.

Systems  
& Data

Demonstrating integrity  
and completeness of  
information



# Information Technology Overview

- IT systems play a large role in storing, creating, and transmitting Army financial information.
- The auditors will perform separate procedures and tests for IT systems.
- The phases of the IT audit are similar to those of the financial audit:
  - Planning
  - Internal Control/Testing
  - Reporting
- The auditors will consider the Army's primary general ledger system (GFEBs, GCSS-A) and their legacy GL systems (STANFINS) feeder systems (e.g., DCPS, DTS, WAWF), and financial reporting system (DDRS).
- The auditors will perform testing using the same approaches used in the financial audit (walkthroughs, observation, re-performance, etc.).
- IT controls will be assessed for design and operating effectiveness.
- IT NFRs will be issued from controls that do not pass
  - The impact of IT control failures can be more pervasive to the audit than financial control failures.
  - If a key system does not have sufficient controls then the auditors cannot rely on controls for the entire process



## Questions – Open Discussion



Appendix A:  
Financial Statement Audit  
Phases Reference Material



## Audit Planning Phase: Auditor Perspective

- During the Planning Phase, auditors collect information the information required to obtain an understanding of the Army and its business.
- The requests are often referred to as “PBC” requests and provided to the Army in form of a list of request.
- One of the key outputs of the Planning Phases is an assessment of materiality.
- This determination will shape what, how, when, and how much the auditors test during the audit.
  - This process requires the auditors to identify the key business processes that impact the Army’s SBA.
- They utilize the background information and their materiality assessment to develop their audit plan and test plan.
  - The audit plan is a high level document where the auditor outlines how they will obtain reasonable assurance over each significant line on the financial statement.
  - The test plan is more detailed document where the document their planned testing procedures over the accounts that make up each line item.
  - These documents cannot be provided to the Army according to audit standards.
- The Planning Phase requires a high level of interaction between the Army and the auditor.



## Internal Control Phase: Auditor Perspective

- During the Internal Control Phase, auditors will obtain an understanding of the Army's internal controls.
  - They then perform tests to determine whether they are designed effectively, and if so, whether they are operating effectively.
  - They will collect the Army's process and internal control documentation and then create cycle memorandums documenting the Army's processes.
  - In those they will identify which controls are key (and will be subject to testing).
- A control is designed effectively if, assuming it operates as intended, the control achieves the necessary financial reporting objectives
  - Test of design determines if the control being performed would catch an error at all.
  - An example of an ineffectively designed control would be if the three way match for payment (approved invoice, contract, receiving report) was mandated to occur subsequent to payment being made.
  - If a control fails a test of design no further testing is performed.



## Internal Control Phase: Auditor Perspective (Continued)

- A control is operating effectively if it is operating as intended.
  - Operating effectiveness means that the control is actually being performed and that it is being performed as documented.
  - Using the above example, the control would be operating ineffectively if the three way match was mandated to occur prior to payment but was actually occurring subsequent to payment.
- Auditors will test design and operating effectiveness in several ways:
  - Walkthroughs with process owners
  - Re-performance of certain activities
  - Observation of certain activities being performed



## Test Phase: Auditor Perspective

- During the Testing Phase, auditors will reconcile transaction universes, select samples, and obtain supporting documentation to allow them to form an opinion on the Army's SBA balances.
  - Sample sizes for the testing phase are impacted by the results of the internal control phase.
  - If the auditors can rely on internal controls the testing phase will contain significantly less samples.
  - The more internal control failures the auditors find the higher the number of samples.
  - Additionally, when internal controls have major failure (material weakness) the more testing the auditors must perform at period end.
- The auditors will also collect data, information, and supporting documentation related to the Army's compliance with certain laws and regulations (e.g., the Anti-Deficiency Act or the Improper Payments Elimination and Recovery Act).
  - This can lead to audit findings but should not impact the opinion over the financial statements.



## Test Phase: Auditor Perspective (Continued)

- The Army will be responsible for responding to the auditors in the timeframes specified with the information, data, and supporting documentation requested.
- The auditors will also issue a number of follow-up questions that may require written responses and/or additional information, data, or supporting documentation.
- Any requests not responded to by the Army by the “pencils down” date set by the auditors will be considered exceptions.



## Reporting Phase: Auditor Perspective

- During the Reporting Phase, auditors compile the results of their work performed during prior phases.
  - During this phase the bulk of the work is being performed by the auditor and the client has mostly completed their audit obligations.
  - In order to conclude the auditor has to wrap up all procedures and consolidate all findings into a single position.
- Based on the results of their work, the auditors will develop an opinion on the Army's financial statements. There are four possible outcomes:
  - Unmodified Opinion: The Army financial statements are fairly presented and comply with GAAP.
  - Modified Opinion: The Army financial statements are fairly presented and comply with GAAP, with one or more deviations (which would be described).
  - Adverse Opinion: The Army financial statements contain material misstatements and are not reliable.
  - Disclaimer of Opinion: The auditor was not able to perform sufficient procedures to develop an opinion.



## Reporting Phase: Auditor Perspective (Continued)

- In addition to the audit opinion, the auditors will provide written communication of findings or deficiencies identified through the course of their work:
  - Notifications of Findings and Recommendations (NFRs) – The auditors will provide written description of any findings, including the condition, criteria, cause, and effect.
  - Management Letter – The auditors will communicate any additional findings that did not rise to the level of an NFR, as well as note any internal control findings.



# Information Technology Controls Assessment

- IT systems will be assessed based upon the Information Technology General Controls (ITGCs) and the application specific controls.
- IT auditors will conduct a walkthrough of the control design and assess if the control is appropriately designed prior to testing. If the control design is ineffective, the auditor will issue NFR and not test the control.
- IT controls testing will focus on the existence of control artifacts. For example, completed access request forms or change control records.
- IT auditors will expect that policies and procedures exist to document the existence of the IT controls.
- IT auditors use a control hierarchy to determine if the controls are sufficient to place reliance on the application processing.
- When IT controls fail, IT auditors should determine if mitigating or compensating controls exist and are operating effectively.



## Appendix B: IT Audit Reference Material



# Information Technology Controls Hierarchy

- IT auditors will perform a modified FISCAM audit based upon the FIAR guidance.
- The auditor may add procedures based upon their planned assessed level of risk and the requirements of the financial auditor.
- IT General Controls
  - Security Management (SM)
  - Access Control (AS)
  - Configuration Management (CM)
  - Segregation of Duties (SD)
  - Contingency Planning (CP)
- Application Controls
  - Application Level General Controls (AS)
  - Business Process Controls (BP)
  - Interface Controls (IN)
  - Data Management System Controls



# Information Technology Audit Phases

- **Planning**
  - Request information on applications that support the financial process
  - Request copies of IT controls policies and procedures
  - Request copies of the system security plans (SSP)
  - Meet with the financial auditor to plan the audit procedures
  
- **Fieldwork**
  - Walkthrough the ITGCs and document the ITGC controls
  - Walkthrough the application and document the application controls
  - Walkthroughs will include a test of one or validation of application functions
  - Test controls documented during the walkthroughs using a sampling approach consistent with the testing requirements of GAO FAM
  
- **Reporting**
  - Communicate design deficiencies or testing exceptions to the point of contact for the control and validate the accuracy of the finding
  - Meet with the financial audit team to communicate the results and assess the impact to the financial statements
  - Communicate findings to the auditee and obtain management response



# Information Technology Controls Hierarchy

- IT auditors will perform a modified FISCAM audit based upon the FIAR guidance.
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- IT General Controls –
  - Security Management (SM)
  - Access Control (AS)
  - Configuration Management (CM)
  - Contingency Planning (CP)
- Application Controls
  - Application Level General Controls (AS)
  - Business Process Controls (BP)
  - Interface Controls (IN)
  - Database Controls (DB)



## Information Technology Audit Readiness

- Preparing for the audit can best be accomplished by completing a pre-audit of the information technology controls.
- Gain an understanding of the in scope financial transaction process flow from origination to posting.
- Document the applications that impact the completeness and accuracy of the financial transaction.
- Document the application controls and the related IT general controls.
- Periodically test the ITGC and application controls and retain evidence of the testing for inspection by the IT Auditor.
- If tests fail, prepare a corrective action plan to remediate the control prior to the start of the audit.