

OUSD(C) Web-based Curriculum Development

FIAR 102: Audit Readiness

June 2013



Welcome

Welcome to the Department of Defense (DoD) Financial Improvement and Audit Readiness (FIAR) course, Audit Readiness (FIAR 102). This course, designed by the Office of the Under Secretary of Defense (Comptroller) (OUSDC), FIAR Directorate, discusses the step-by-step FIAR Methodology and its work products. Additionally, the course explains the Internal Controls over Financial Reporting (ICFR) deliverables that are essential to the success of the FIAR Methodology.

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Navigation and Course Features

	The Course Index defines key terms used in course. The Table of Contents provides the ability to find information quickly based on key topics. Resources offer additional information on the course subject.
	Closed Captioning can be displayed in the lower bar. Closed Captioning is turned off by default. Click the button to turn it on/off.
	Use the Audio Controls to adjust volume and to pause/play narration and closed caption text.
	Use the Forward and Back arrows to navigate and the Refresh button to refresh/restart the current screen.
	Click Help , in the top right corner of the screen, to view these instructions at any time during the course.

new You can download and print a PDF version of this course for reference by [clicking here!](#)

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Navigation and Course Features

Three important elements of this course are the Course Index, Table of Contents, and Resources. The Course Index defines key DoD and financial management terms used in this course, and identifies where in the course these terms are discussed. The Table of Contents provides the ability to find information quickly based on key topics. Resources offer additional information on the course subject. Links to each are located on the bottom of the left-hand navigation menu.

Closed Captioning can be displayed in the lower bar. Closed Captioning is turned “off” by default. Click the Closed Caption button to turn it on or off based on your preference. The on/off button is located in the bottom-left menu tray.

Use the Audio Controls to adjust volume and to pause or play narration and Closed Caption text. The audio controls are also located in the bottom-left menu tray.

Use the Forward and Back arrows to navigate the course screens and the Refresh button to refresh or restart a current screen. These controls are located in the bottom-right menu tray.

Click Help, in the top right corner of the screen, to view these instructions at any time during the course.

Now, you can download and print the PDF version of this course for reference by clicking on the link at the bottom of this screen. You will also be able to find the PDF version of this course in the Resources section, and may download the file at any time. There will also be a download link provided on the final screen of this course as a reminder.

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DEPARTMENT OF DEFENSE
UNITED STATES OF AMERICA

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Navigation and Course Features

- To complete course, work through each module/screen and complete each **Knowledge Check**.
- You **will not** be able to advance until you have completed each screen.
- You may use the left-hand navigation menu and the Table of Contents to move between course screens; however, links for screens that have not been completed **will not** be enabled.
- You must complete a final exam with a **minimum score of 70%** to obtain CPE credit.
- You have **one year** from beginning this course to complete the course and final exam.
- If you need to leave the course, the system will **automatically bookmark** the last page visited.

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Navigation and Course Features (cont.)

To complete the course, please work through each module and screen, and complete each Knowledge Check.

You will not be able to advance until you have completed each screen.

You may use the left-hand navigation menu and the Table of Contents to move between course screens; however, links for screens that have not been completed will not be enabled.

At the end of the course, you must complete a final exam to obtain CPE credit. A minimum score of 70% is required to receive credit. You will have up to one year from the date you begin this course to complete the course and achieve the required score on the final exam.

If you need to leave the course and cannot complete it, the system will automatically bookmark the last page visited and will send you there when you return to the course.

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Financial Improvement and Audit Readiness (FIAR) Training

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Course Learning Objectives

At the conclusion of this course, you will be able to:

- Define the purpose and objectives of the FIAR Methodology
- Identify when audit readiness work products are prepared during the Methodology, such as:
 - Statement to Process Analysis, Quantitative Drill Downs and Systems Inventory Lists
 - Process Narratives and Flows
 - Controls Assessments
 - Test Plans and Corrective Action Plans

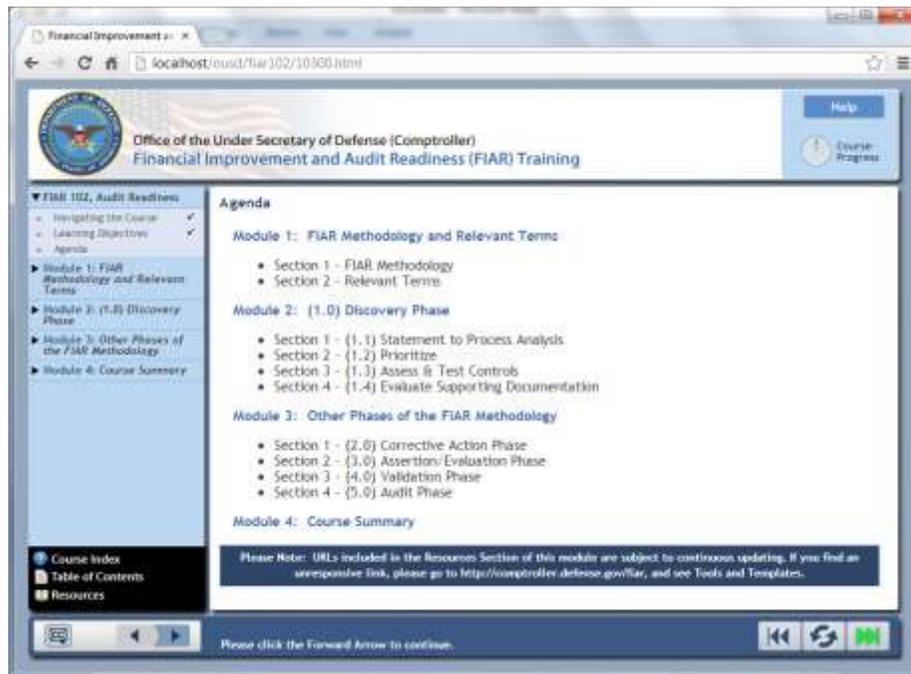
Please click the Forward Arrow to continue.

Course Learning Objectives

At the conclusion of this course, you will be able to:

- define the purpose and objectives of the FIAR Methodology; and
- identify when audit readiness work products are prepared during the Methodology, such as the Statement to Process Analysis Quantitative Drill Downs and Systems Inventory Lists, Process Narratives and Flows, Controls Assessments, and Test Plans and Corrective Action Plans.

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Agenda

To achieve these learning objectives, the course consists of four modules:

Module 1: FIAR Methodology and Relevant Terms

- Section 1 - FIAR Methodology
- Section 2 - Relevant Terms

Module 2: (1.0) Discovery Phase

- Section 1 – (1.1) Statement to Process Analysis
- Section 2 – (1.2) Prioritize
- Section 3 – (1.3) Assess & Test Controls
- Section 4 – (1.4) Evaluate Supporting Documentation

Module 3: Other Phases of the FIAR Methodology

- Section 1 – (2.0) Corrective Action Phase
- Section 2 – (3.0) Assertion/Evaluation Phase
- Section 3 – (4.0) Validation Phase
- Section 4 – (5.0) Audit Phase

And Module 4: The Course Summary.

Please note - URLs included in the Resources section of this module are subject to continuous updating. If you find an unresponsive link, please go to <http://comptroller.defense.gov/fiar> and see Tools and Templates.

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Module 1: FIAR Methodology and Relevant Terms

- 1.0 Overview
- 1.1 FIAR Methodology
- 1.2 Relevant Terms
- 1.3 Key Points

Module 2: (1.0) Discovery Phase

Module 3: Other Phases of the FIAR Methodology

Module 4: Course Summary

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MODULE 1:
FIAR Methodology and Relevant Terms

FIAR Methodology and Relevant Terms

1.0 Discovery Phase

Other Phases of the FIAR Methodology

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Module 1 Intro: FIAR Methodology and Relevant Terms

In this module, you will be introduced to the FIAR Methodology and terms that are relevant for completing your FIAR activities.

Please click the Forward arrow to continue.

1.1 FIAR Methodology

The FIAR Methodology is a set of standardized steps, mandated by OUSD(C), that reporting entities must follow to achieve audit readiness. The FIAR Methodology is comprised of phases, key tasks and underlying detailed activities that result in defined work products and are synchronized with the standard Financial Improvement Plan (FIP).

A FIP is a standard framework or template that organizes and prioritizes the financial improvement efforts of the reporting entities and aligns to the FIAR Methodology. It provides a consistent, structured approach for measuring auditability progress, allows transparency into the challenges facing DoD, and highlights progress.

The FIAR Methodology is a refined and revised set of “Business Rules” that builds upon the previous audit readiness approach, lessons learned from earlier audit readiness initiatives, and results and feedback from auditors of DoD reporting entities that have gone to audit. For example, testing of both controls and supporting documentation is now required because it is the most efficient way to achieve audit readiness.

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Financial Improvement and Audit Readiness (FIAR) Training

1.1 FIAR Methodology (cont.)

What is the FIAR Methodology and its purpose?

- The FIAR Methodology was developed to help the Department address congressional mandates and to achieve financial improvement and audit readiness
- The purpose of the FIAR Methodology is to establish a standardized set of procedures which all Department reporting entities must follow, resulting in a uniform approach to audit readiness across the Department
- The FIAR Methodology defines a comprehensive list of audit readiness activities, helping ensure that reporting entities complete all activities necessary to become audit ready
- The FIAR Methodology creates a direct link between the FIPs and the FIAR Methodology, allowing for consistent and uniform reporting of audit readiness progress and accomplishments across the Department
- The FIAR Methodology defines and formalizes the Department's approach for becoming audit ready and provides a clearer path for those designing and executing audit readiness plans at the reporting entity level

Please click the Forward Arrow to continue.

1.1 FIAR Methodology, continued

The FIAR Methodology was developed to help the Department address congressional mandates and to achieve financial improvement and audit readiness. The purpose of the FIAR Methodology is to establish a standardized set of procedures which all Department reporting entities must follow, resulting in a uniform approach to audit readiness across the Department. The FIAR Methodology defines a comprehensive list of audit readiness activities, helping ensure that reporting entities complete all activities necessary to become audit ready. Furthermore, the FIAR Methodology creates a direct link between the FIPs and the FIAR Methodology, allowing for consistent and uniform reporting of audit readiness progress and accomplishments across the Department.

Overall, the FIAR Methodology defines and formalizes the Department's approach for becoming audit ready and provides a clearer path for those designing and executing audit readiness plans at the reporting entity level.

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Financial Improvement and Audit Readiness (FIAR) Training

1.1.1 GAO/PCIE Financial Audit Manual

What sources were used to develop the FIAR Methodology?

GAO/PCIE Financial Audit Manual (FAM)	GAO Federal Information System Controls Audit Manual (FISCAM)	American Institute of Certified Public Accountants (AICPA)	FIAR Guidance
<ul style="list-style-type: none"> Compliance with Government Auditing Standards, laws, & OIGB guidance Focus on areas of higher risk and materiality Integrated approach designed to gather audit evidence efficiently Consistency of application through a documented methodology 	<ul style="list-style-type: none"> Focus on top-down risk-based approach that considers materiality and significance Evaluation of entity-wide controls and their effect on audit risk Evaluation of general controls and their impact on application controls Evaluation of security management at all levels (entity-wide, system and application levels) 	<ul style="list-style-type: none"> Focus on internal controls over financial reporting (ICOFR) Assessing the risks of material misstatements Perform risk assessments to obtain an understanding of the entity and its environment Focus on reliability of financial reporting and compliance with applicable laws and regulations 	<ul style="list-style-type: none"> Identify financial reporting objectives Prepare process and systems documentation Prepare controls assessment Execute tests of controls Summarize test results Identify, evaluate, and classify deficiencies Submit annual ICOFR BOA and material weakness CAP summary

http://comptroller.defense.gov/fiar/documents/FIAR_Guidance.pdf

Please click the Forward Arrow to continue.

1.1.1 GAO/PCIE Financial Audit Manual

Before we discuss the details of the FIAR Methodology, let's discuss the sources that were used to develop the Methodology. The sources referenced are the guidelines followed by financial statement and IT auditors who perform financial statement audits.

As such, reporting entities should be familiar with these documents and design their audit readiness activities to meet the requirements set forth in these sources.

First, the Government Accountability Office (GAO) and the President's Council on Integrity and Efficiency (PCIE) jointly issued the GAO/PCIE Financial Audit Manual (FAM). The FAM presents a methodology to perform financial statement audits of Federal entities in accordance with professional standards. The FAM focuses on areas of higher risk and materiality; presents an integrated approach designed to gather audit evidence efficiently; and aims for consistency of application through a documented methodology.

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1.1.2 FISCAM

What sources were used to develop the FIAR Methodology?

GAO/PCIE Financial Audit Manual (FAM)	GAO Federal Information System Controls Audit Manual (FISCAM)	American Institute of Certified Public Accountants (AICPA)	FIAR Guidance
<ul style="list-style-type: none"> Compliance with Government Auditing Standards, laws, & OIGB guidance Focus on areas of higher risk and materiality Integrated approach designed to gather audit evidence efficiently Consistency of application through a documented methodology 	<ul style="list-style-type: none"> Focus on top-down risk-based approach that considers materiality and significance Evaluation of entity-wide controls and their effect on audit risk Evaluation of general controls and their impact on application controls Evaluation of security management at all levels (entity-wide, system and application levels) 	<ul style="list-style-type: none"> Focus on internal controls over financial reporting (ICOFR) Assessing the risks of material misstatements Perform risk assessments to obtain an understanding of the entity and its environment Focus on reliability of financial reporting and compliance with applicable laws and regulations 	<ul style="list-style-type: none"> Identify financial reporting objectives Prepare process and systems documentation Prepare controls assessment Execute tests of controls Summarize test results Identify, evaluate, and classify deficiencies Submit annual ICOFR BOA and material weakness CAP summary

http://comptroller.defense.gov/fiar/documents/FIAR_Guidance.pdf

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1.1.2 FISCAM

Second, when evaluating IT application and general controls, the GAO Federal Information System Controls Audit Manual (FISCAM) is the primary authoritative source for identifying relevant control objectives and control techniques that need to be addressed when assessing the design and operating effectiveness of IT controls. The FISCAM focuses on a top-down risk based approach that considers materiality and significance; and evaluation of: entity wide controls and their effect on audit risk; general controls and their impact on application controls; and security management at all levels (entity wide, system, and application).

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1.1.3 AICPA

What sources were used to develop the FIAR Methodology?

GAO/PCIE Financial Audit Manual (FAM)	GAO Federal Information System Controls Audit Manual (FISCAM)	American Institute of Certified Public Accountants (AICPA)	FIAR Guidance
<ul style="list-style-type: none"> Compliance with Government Auditing Standards, laws, & OIGB guidance Focus on areas of higher risk and materiality Integrated approach designed to gather audit evidence efficiently Consistency of application through a documented methodology 	<ul style="list-style-type: none"> Focus on top-down risk-based approach that considers materiality and significance Evaluation of entity-wide controls and their effect on audit risk Evaluation of general controls and their impact on application controls Evaluation of security management at all levels (entity-wide, system and application levels) 	<ul style="list-style-type: none"> Focus on internal controls over financial reporting (ICOFR) Assessing the risks of material misstatements Perform risk assessments to obtain an understanding of the entity and its environment Focus on reliability of financial reporting and compliance with applicable laws and regulations 	<ul style="list-style-type: none"> Identify financial reporting objectives Prepare process and systems documentation Prepare controls assessment Execute tests of controls Summarize test results Identify, evaluate, and classify deficiencies Submit annual ICOFR BOA and material weakness CAP summary

http://comptroller.defense.gov/fiar/documents/FIAR_Guidance.pdf

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1.1.3 AICPA

In addition, we incorporated content from other accounting and audit readiness documents and publications, such as those issued by the American Institute of Certified Public Accountants (AICPA). These focus on internal controls over financial reporting (ICOFR); assessing the risks of material misstatements; performing risk assessments to obtain an understanding of the entity and its environment; and the reliability of financial reporting and compliance with applicable laws and regulations.

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Financial Improvement and Audit Readiness (FIAR) Training

1.1.4 FIAR Guidance

What sources were used to develop the FIAR Methodology?

GAO/PCIE Financial Audit Manual (FAM)	GAO Federal Information System Controls Audit Manual (FISCAM)	American Institute of Certified Public Accountants (AICPA)	FIAR Guidance
<ul style="list-style-type: none"> Compliance with Government Auditing Standards, laws, & OIGB guidance Focus on areas of higher risk and materiality Integrated approach designed to gather audit evidence efficiently Consistency of application through a documented methodology 	<ul style="list-style-type: none"> Focus on top-down risk-based approach that considers materiality and significance Evaluation of entity-wide controls and their effect on audit risk Evaluation of general controls and their impact on application controls Evaluation of security management at all levels (entity-wide, system and application levels) 	<ul style="list-style-type: none"> Focus on internal controls over financial reporting (ICOFR) Assessing the risks of material misstatements Perform risk assessments to obtain an understanding of the entity and its environment Focus on reliability of financial reporting and compliance with applicable laws and regulations 	<ul style="list-style-type: none"> Identify financial reporting objectives Prepare process and systems documentation Prepare controls assessment Execute tests of controls Summarize test results Identify, evaluate, and classify deficiencies Submit annual ICOFR SOA and material weakness CAP summary

http://comptroller.defense.gov/fiar/documents/FIAR_Guidance.pdf

Please click the Forward Arrow to continue.

1.1.4 FIAR Guidance

OUSD(C) has taken key information from these reference sources and incorporated them into the FIAR Guidance. The FIAR Guidance provides guidance to identify financial reporting objectives; prepare process and systems documentation; prepare controls assessment; execute tests of controls; summarize test results; identify, evaluate, and classify deficiencies; and submit the annual ICOFR Statement of Assurance (SOA) and material weakness Corrective Action Plan (CAP) summary.

Please click the Forward arrow to continue.



1.1.5 FIAR Methodology Phases and Key Tasks

As noted previously, the FIAR Methodology is comprised of phases and key tasks, and can be summarized as follows:

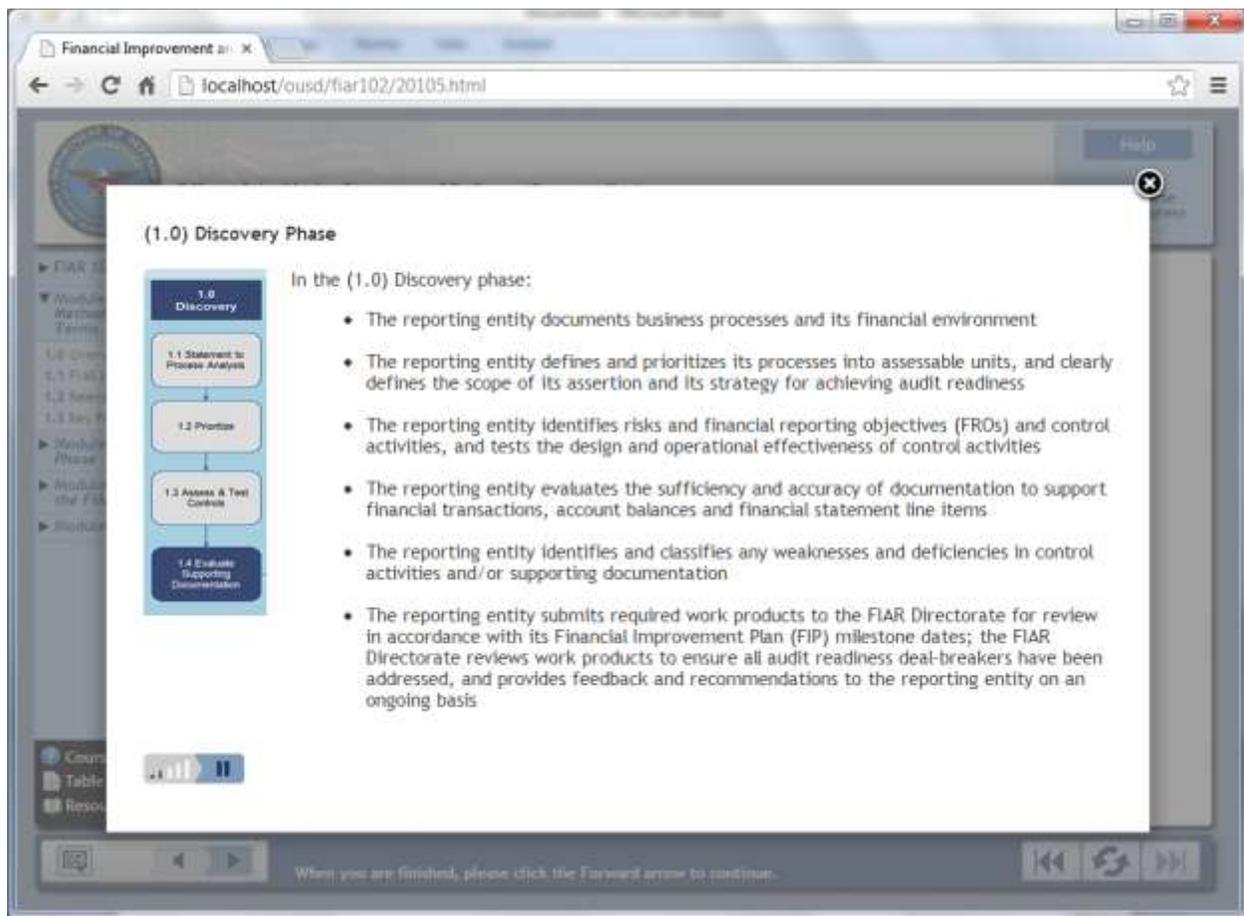
- The (1.0) Discovery phase and key tasks;
- The (2.0) Corrective Action phase and key tasks;
- The (3.0) Assertion/Evaluation phase and key tasks;
- The (4.0) Validation phase and key tasks;
- The (5.0) Audit phase and key tasks;

The tasks in grey boxes must be repeated on a continuous basis as they are critical in achieving and maintaining auditability and reliable financial information. These tasks are (1.1) Statement to Process Analysis, (1.2) Prioritize, and (1.3) Assess & Test Controls in (1.0) Discovery phase; all of the tasks in (2.0) Corrective Action; and all of the tasks in (5.0) Audit.

Over the course of this module, we will spend much time discussing each phase and the underlying key tasks in more detail.

Please click each phase for more information on their key tasks.

When you are finished, please click the Forward arrow to continue.



(1.0) Discovery phase

In the (1.0) Discovery phase:

- The reporting entity documents business processes and its financial environment;
- The reporting entity defines and prioritizes its processes into assessable units, and clearly defines the scope of its assertion and its strategy for achieving audit readiness;
- The reporting entity identifies risks and financial reporting objectives (FROs) and control activities, and tests the design and operational effectiveness of control activities;
- The reporting entity evaluates the sufficiency and accuracy of documentation to support financial transactions, account balances and financial statement line items;
- The reporting entity identifies and classifies any weaknesses and deficiencies in control activities and/or supporting documentation; and,
- The reporting entity submits required work products to the FIAR Directorate for review in accordance with its Financial Improvement Plan (FIP) milestone dates; the FIAR Directorate reviews work products to ensure all audit readiness deal-breakers have been addressed, and provides feedback and recommendations to the reporting entity on an ongoing basis.

Please click the “X” in the upper-right corner to close this window and continue.

(2.0) Corrective Action Phase

In the (2.0) Corrective Action phase:

- The reporting entity defines and designs audit readiness environment, to include requirements for remediating deficiencies in internal controls and supporting documentation
- The reporting entity develops concrete corrective action plans (CAPs) to resolve each deficiency identified during the Discovery phase
- The reporting entity develops budget estimates of required resources (i.e., funding and staffing) to execute CAPs
- The reporting entity executes CAPs and performs procedures to verify that CAPs have successfully remediated the deficiencies
- The reporting entity notifies the FIAR Directorate that Reporting entity is ready for an examination of its assessable unit

(2.0) Corrective Action phase

In the (2.0) Corrective Action phase:

- The reporting entity defines and designs audit readiness environment, to include requirements for remediating deficiencies in internal controls and supporting documentation;
- The reporting entity develops concrete corrective action plans (CAPs) to resolve each deficiency identified during the Discovery phase;
- The reporting entity develops budget estimates of required resources (i.e., funding and staffing) to execute CAPs;
- The reporting entity executes CAPs and performs procedures to verify that CAPs have successfully remediated the deficiencies; and,
- The reporting entity notifies the FIAR Directorate that Reporting entity is ready for an examination of its assessable unit.

Please click the “X” in the upper-right corner to close this window and continue.

The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/20105.html'. The page content includes the title '(3.0) Assertion/Evaluation Phase' and a list of steps: 3.0 Assertion/Evaluation, 3.1 Review, 3.2 Engage Auditor, 3.3 Assertion Evaluation, and 3.4 Address Deficiencies. A list of bullet points describes the process: FIAR Directorate evaluates documentation to determine audit readiness state; FIAR Directorate provides feedback to the Reporting Entity on its status of audit readiness; FIAR Directorate engages auditor to perform an examination of the reporting entity's audit readiness assertion and auditor identifies deficiencies, if any; The reporting entity evaluates the nature and extent of deficiencies noted and implements corrective actions to remediate deficiencies; and The reporting entity performs procedures to verify that corrective actions successfully remediated auditor identified deficiencies. A close button (X) is visible in the upper right corner of the content area.

(3.0) Assertion/Evaluation phase

In the (3.0) Assertion/Evaluation phase:

- FIAR Directorate evaluates documentation to determine audit readiness state;
- FIAR Directorate provides feedback to the Reporting Entity on its status of audit readiness;
- FIAR Directorate engages auditor to perform an examination of the reporting entity's audit readiness assertion and auditor identifies deficiencies, if any;
- The reporting entity evaluates the nature and extent of deficiencies noted and implements corrective actions to remediate deficiencies; and,
- The reporting entity performs procedures to verify that corrective actions successfully remediated auditor identified deficiencies.

Please click the "X" in the upper-right corner to close this window and continue.

(4.0) Discovery phase

In the (4.0) Validation phase:

- The reporting entity submits examination report and additional documentation demonstrating successful remediation of auditor identified deficiencies to the FIAR Directorate and Department of Defense Office of Inspector General (DoD OIG); and
- FIAR Directorate reviews examination report and additional documentation supporting successful remediation of deficiencies, and determines reporting entity's audit readiness state.

Please click the “X” in the upper-right corner to close this window and continue.

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Module 3: Other the FIAR Methodology

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(5.0) Audit Phase

In the (5.0) Audit phase:

- The reporting entity engages an auditor
- The reporting entity supports specified elements audit (Wave 3) or full scope financial statement audits
- The auditor issues audit opinion

5.0 Audit

5.1 Engage Auditor

5.2 Support Audit

5.3 Auditor Issues Report

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(5.0) Discovery phase

In the (5.0) Audit phase:

- The reporting entity engages an auditor ;
- The reporting entity supports specified elements audit (Wave 3) or full scope financial statement audits; and
- The auditor issues audit opinion.

Please click the “X” in the upper-right corner to close this window and continue.

Financial Improvement and Audit Readiness (FIAR) Training

1.1.6 Strategy to Execute the FIAR Methodology

What is the strategy to execute the FIAR Methodology?

Waves and steps are prioritized based on:

- Departmental priorities
- Known challenges
- Related dependencies of financial statements, line items, and business processes on one another

Please click the Forward Arrow to continue.

1.1.6 Strategy to Execute the FIAR Methodology

The strategy to execute the FIAR Methodology groups and prioritizes the material business processes (that result in activity reported on various financial statement line items) within **four waves**, and then summarizes the steps each reporting entity must take to address each wave. The waves and steps are prioritized based on the Departmental priorities, known challenges, and the related dependencies of financial statements, line items, and business processes on one another. We will describe each Wave in the following screens.

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Financial Improvement and Audit Readiness (FIAR) Training

1.1.6.1 Wave 1 - Appropriations Received Audit

What is the strategy to execute the FIAR Methodology?

Wave 1: Appropriations Received Audit
Includes Fund Balance with Treasury

Wave 2: SBR Audit

Wave 3: Mission Critical Asset Existence & Completeness Audit

Wave 4: Full Audit Except for Existing Asset Valuation

Wave 1 - Appropriations Received Audit:

- Accurate and timely recording of appropriations and other budget activity
- Inaccurate budget authority information could result in over obligation and expenditures resulting in Anti-Deficiency Act (ADA) violations

Please click the Forward Arrow to continue.

1.1.6.1 Wave 1 – Appropriations Received Audit

Accurate and timely recording of appropriations and other budget activity is critical because it provides the budget authority needed to commit, obligate, and expend funds. Absent accurate and timely budget authority information, the Department’s ability to fund its mission and operational requirements could be jeopardized and could affect the Department’s ability to defend the Nation and its allies. Inaccurate budget authority information could also result in over obligation and expenditures resulting in Anti-deficiency Act violations.

Please click the Forward arrow to continue.

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1.1.6.2 Wave 2 - Statement of Budgetary Resources (SBR)

What is the strategy to execute the FIAR Methodology?

Wave 1	Wave 2	Wave 3	Wave 4
Appropriations Received Audit	SBR Audit	Mission Critical Asset Existence & Completeness Audit	Full Audit Except for Existing Asset Valuation
	Includes Fund Balance with Treasury		

Wave 2 - Statement of Budgetary Resources (SBR):

- Includes all processes, internal controls, systems, and supporting documentation that must be audit ready
- Includes Funds Balance with Treasury reconciliations and reporting

Please click the Forward Arrow to continue.

1.1.6.2 Wave 2 – Statement of Budgetary Resources (SBR) Audit

The Statement of Budgetary Resources (SBR) presents all budgetary resources that a reporting entity has available, the status of those resources at period end, a reconciliation of changes in obligated balances from the beginning to the end of the period, and cash collections and disbursements for the period reported. A Wave 2 SBR audit includes all processes, internal controls, systems and supporting documentation that must be audit ready before the SBR can be audited. Significant processes in this wave include Procure-to-Pay, Hire-to-Retire, Order-to-Cash, and Budget-to-Report, including Funds Balance with Treasury reconciliations and reporting.

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1.1.6.3 Wave 3 - Mission Critical Asset Existence & Completeness (E&C) Audit

What is the strategy to execute the FIAR Methodology?

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graph LR
    W1[Wave 1: Appropriations Received Audit  
Includes Fund Balance with Treasury] --> W2[Wave 2: SBR Audit]
    W2 --> W3[Wave 3: Mission Critical Asset Existence & Completeness Audit]
    W3 --> W4[Wave 4: Full Audit Except for Existing Asset Valuation]
  
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Wave 3 - Mission Critical Asset Existence & Completeness (E&C) Audit:

- Focuses primarily on the E&C financial statement assertions
- All assets in the Accountable Property System of Record

Please click the Forward Arrow to continue.

1.1.6.3 Wave 3 – Mission Critical Asset Existence & Completeness (E&C) Audit

Mission Critical Asset E&C audit focuses primarily on the E&C financial statement assertions, but also includes the Rights assertion and portions of the Presentation and Disclosure assertion. That is, reporting entities must ensure that all assets recorded in their Accountable Property System of Record exist (Existence), all of the reporting entities' assets are recorded in their system (Completeness), reporting entities have the right to report all assets (Rights), and assets are consistently categorized, summarized, and reported period to period (Presentation and Disclosure).

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Financial Improvement and Audit Readiness (FIAR) Training

1.1.6.4 Wave 4 - Full Audit Except for Existing Asset Valuation

What is the strategy to execute the FIAR Methodology?

Wave 1: Appropriations Received Audit (Includes Fund Balance with Treasury)

Wave 2: SBR Audit

Wave 3: Mission Critical Asset Existence & Completeness Audit

Wave 4: Full Audit Except for Existing Asset Valuation

Wave 4 - Full Audit Except for Existing Asset Valuation:

- > Includes all material reporting entity line items, account balances, and financial transactions impacting the Balance Sheet, Statement of Net Cost, and Statement of Net Position not covered by Waves 2 or 3
- > Complete Waves 1-3 before beginning work on Wave 4

Please click the Forward Arrow to continue.

1.1.6.4 Wave 4 – Full Audit Except for Existing Asset Valuation

Assertions for this wave include all material reporting entity line items, account balances and financial transactions impacting the Balance Sheet, Statement of Net Cost, and Statement of Net Position not covered by Waves 2 or 3 (for example, Environmental and Disposal Liability). The FIAR priorities require reporting entities to devote their resources and efforts towards completing Waves 1 through 3 before beginning work on Wave 4. Nevertheless, much of the work to complete Waves 1 through 3 impacts the requirements and objectives for Wave 4.

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The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/20107.html'. The page header features the Department of Defense seal and the text 'Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness (FIAR) Training'. A 'Help' button and a 'Course Progress' indicator are visible in the top right. The left sidebar contains a navigation menu with the following items: 'FIAR 102, Audit Readiness' (checked), 'Module 1: FIAR Methodology and Relevant Terms' (expanded), '1.0 Overview' (checked), '1.1 FIAR Methodology', '1.2 Relevant Terms', '1.3 Key Points', 'Module 2: (1.0) Discovery Phase', 'Module 3: Other Phases of the FIAR Methodology', and 'Module 4: Course Summary'. Below the sidebar are links for 'Course Index', 'Table of Contents', and 'Resources'. The main content area is titled '1.1.7 Assertion Documentation Requirements' and contains the question 'What are the FIAR Methodology assertion documentation requirements?'. The answer is provided in a bulleted list: 'The FIAR Methodology requires reporting entities to prepare and submit required assertion documentation (work products) to support their audit readiness assertion for their assessable units or financial statements', 'Assertion documentation must be submitted electronically through the FIAR Planning Tool', and 'Examples of work products include: Overall Statement to Process Analysis, Quantitative Drill Down Levels 1 & 2, Systems Inventory Lists, Process Narratives and Flowcharts, Controls Assessments, Test Plans, and Corrective Action Plans'. At the bottom of the page, there are navigation controls including a 'Please click the Forward Arrow to continue.' message and buttons for back, forward, and refresh.

1.1.7 Assertion Documentation Requirements

As reporting entities complete the key tasks and activities required by the FIAR Methodology, they are required to prepare and submit “audit ready” assertion documentation supporting their audit readiness assertion. Assertion documentation must be submitted electronically through the FIAR Planning Tool.

Examples of work products include an overall Statement to Process Analysis; Quantitative Drill Down levels 1 and 2; systems inventory lists; process narratives and flowcharts; controls assessments; test plans; and corrective action plans.

Please click the Forward arrow to continue.



1.1.8 Graphical Depiction of Assertion Documentation Requirements

This is a graphical depiction of the work products that must be included in the assertion documentation. Reporting entities are required to submit documentation along with their audit readiness assertions to the FIAR Directorate and the DoD Office of the Inspector General (OIG). The work products are prepared at the completion of each task or activity of the FIAR Methodology and should be included with the audit readiness assertion.

These documents should **not** be prepared solely for the purposes of assertion. Instead, these documents should have been prepared as resulting work papers from executing the key activities required by the FIAR Methodology, and should be submitted to the FIAR Directorate upon completion. The work products will be reviewed by the FIAR Directorate as they are submitted by the reporting entities.

This graphic of the required documentation is also available in the FIAR Guidance in section 3.C.2.

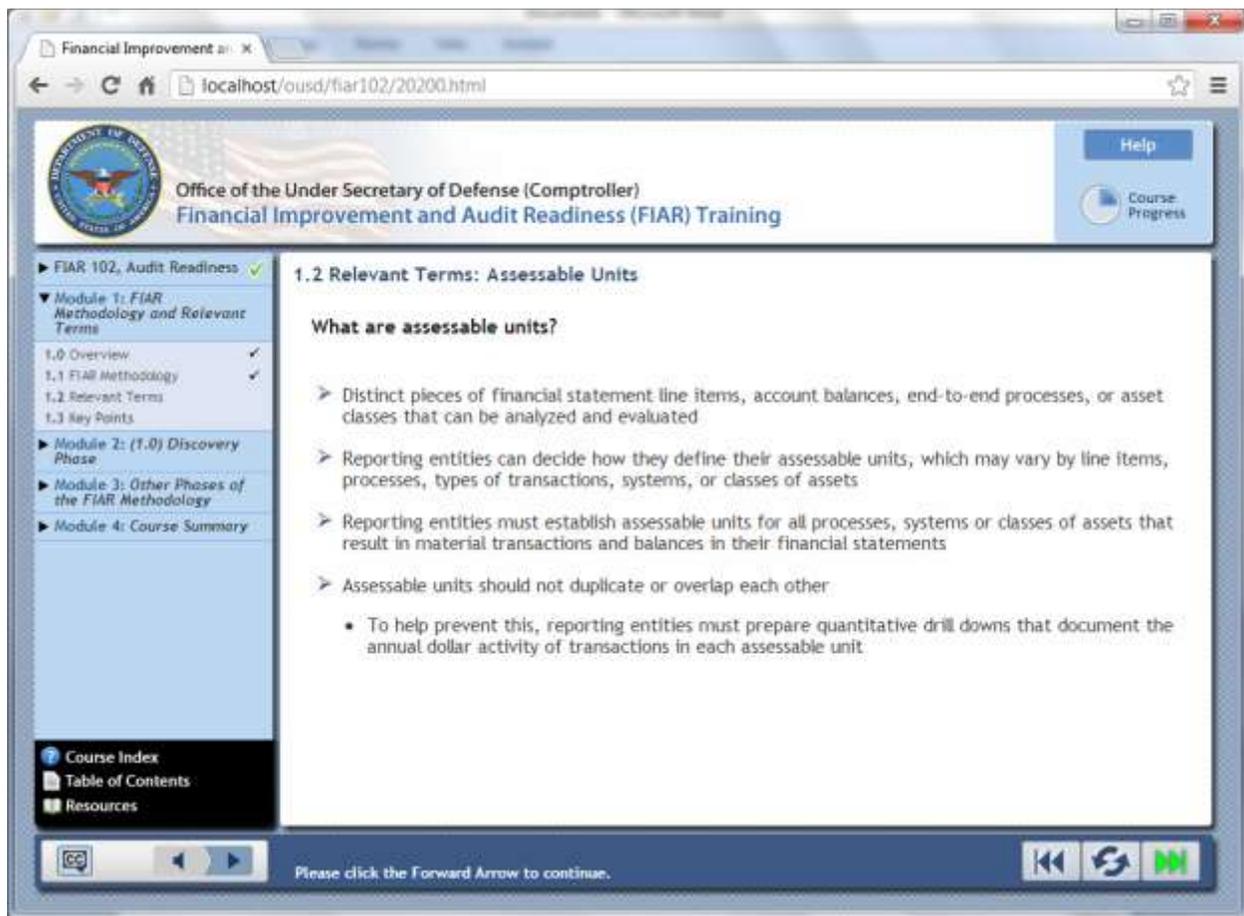
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The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/20109.html'. The page header features the Department of Defense seal and the text 'Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness (FIAR) Training'. A 'Help' button and a 'Course Progress' indicator are visible in the top right. The left sidebar contains a navigation menu for 'FIAR 102, Audit Readiness', with 'Module 1: FIAR Methodology and Relevant Terms' expanded to show '1.0 Overview' (checked), '1.1 FIAR Methodology', '1.2 Relevant Terms', and '1.3 Key Points'. Below the menu are links for 'Course Index', 'Table of Contents', and 'Resources'. The main content area is titled '1.1.9 Additional Assertion Documentation Requirements' and contains the question 'What are the FIAR Methodology assertion documentation requirements (cont.)?'. The answer is a list of requirements: reporting entities must prepare work products simultaneously with task completion, submit completed work products for ongoing review, update work products for accuracy, and continue updates annually. The footer includes a 'Please click the Forward Arrow to continue.' message and navigation buttons for back, forward, and refresh.

1.1.9 Additional Assertion Documentation Requirements

As reporting entities execute the key tasks and activities of the FIAR Methodology, they should prepare the work products simultaneously with the completion of each task. Reporting entities must submit completed work products to the FIAR Directorate for review on an ongoing basis. The work products should be updated as necessary to ensure accuracy and reflect changes to business processes and underlying controls activities; system(s) and systems environment; and the key risks of material misstatement and financial reporting objectives. The reporting entity should continue to update the work products on an annual basis even after reaching audit readiness.

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1.2 Relevant Terms: Assessable Units

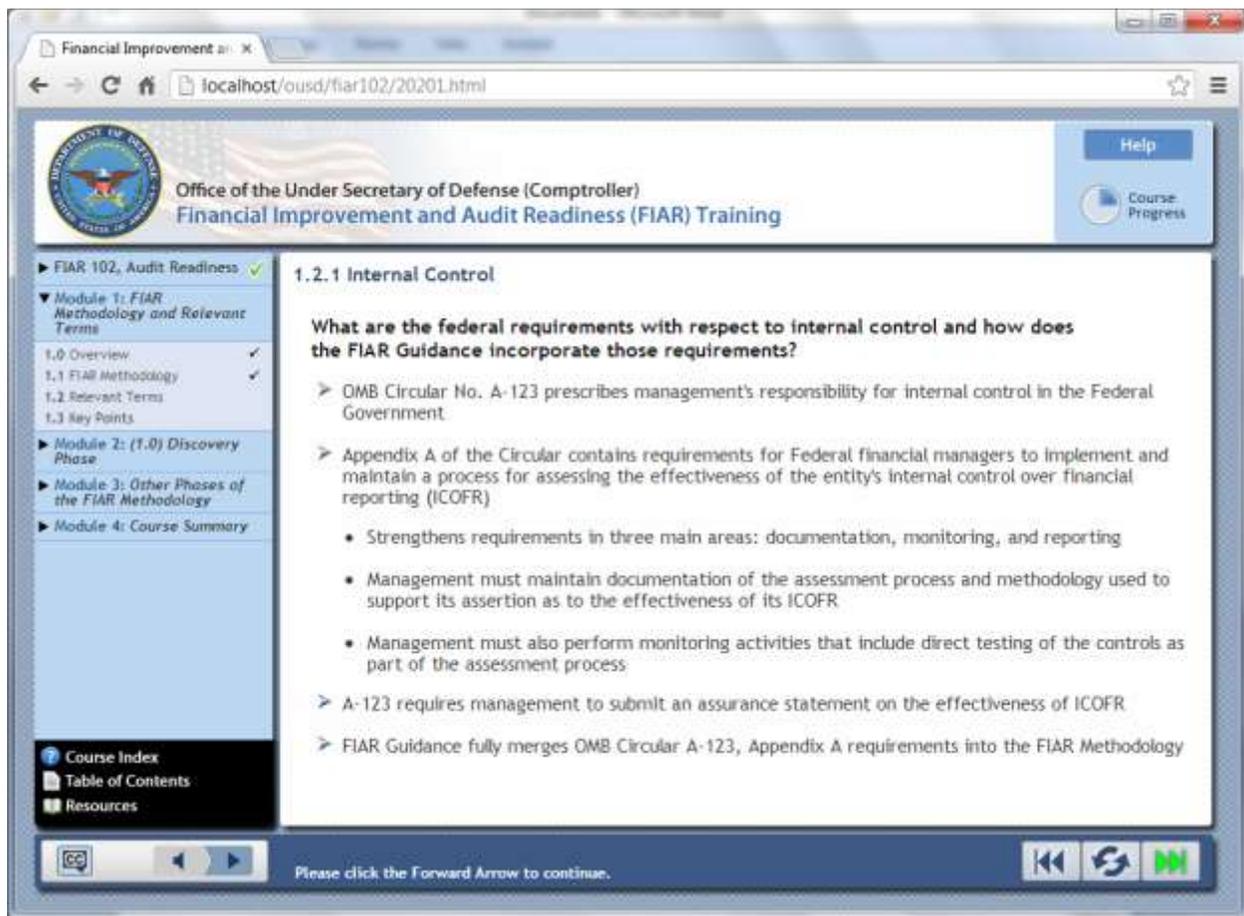
DoD reporting entities are required to separate their audit readiness efforts into distinct pieces of financial statement line items, account balances, end-to-end processes, or asset classes that can be analyzed and evaluated. These are called assessable units.

Reporting entities can decide how they want to define their assessable units, which can vary by line items, processes, types of transactions, systems, or classes of assets, depending on the related wave and the reporting entity's preferences. Assessable units must be established for all processes, systems, or classes of assets that result in material transactions and balances in their financial statements. Furthermore, assessable units must align to a financial statement line item without any overlap. It is important to note that assessable units should not duplicate or overlap with each other. To help prevent this, reporting entities must prepare quantitative drill downs to document the annual dollar activity of transactions in each assessable unit. Examples of assessable units include environmental liabilities, which is a financial statement line item; accruals, which is a process for Accounts Payable, a financial statement line item; and Contract Payments, which is a component of the Obligation, a financial statement line item.

Other examples of assessable units include appropriations received, military payroll, vendor payments, contract payments, real property, and operating materials and supplies.

We will provide examples of actual assessable units identified by reporting entities as well as the quantitative drill down analysis.

Please click the Forward arrow to continue.



1.2.1 Internal Control

As you may know, the work products, resulting from the execution of the FIAR Methodology, are similar, identical in some instances, to the deliverables required to comply with the Department's A-123, Appendix A ICOFR guidance. Let's briefly introduce OMB Circular A-123 and its requirements for those of you not familiar with the standard.

A-123 prescribes management's responsibilities for internal control and A-123, Appendix A contains requirements for Federal financial managers to implement and maintain a process for assessing the effectiveness of the entity's internal control over financial reporting. A-123, Appendix A emphasizes management's responsibility for establishing and maintaining effective internal control over financial reporting. In general, A-123, Appendix A strengthens requirements in three main areas: documentation, monitoring, and reporting.

A-123, Appendix A also requires that documentation be maintained not only of the controls in place, but also of the assessment process and methodology management used to support its assertion as to the effectiveness of the internal control over financial reporting. In addition, A-123 requires that management perform monitoring activities that include direct testing of the controls as part of the assessment process.

Finally, A-123 requires an assurance statement from management on the effectiveness of internal control over financial reporting. This assurance statement should be incorporated into management's overall assurance statement provided under the requirements of the Federal Managers' Financial Integrity Act (FMFIA).

The FIAR Guidance fully merges OMB Circular A-123, Appendix A requirements into the FIAR Methodology.

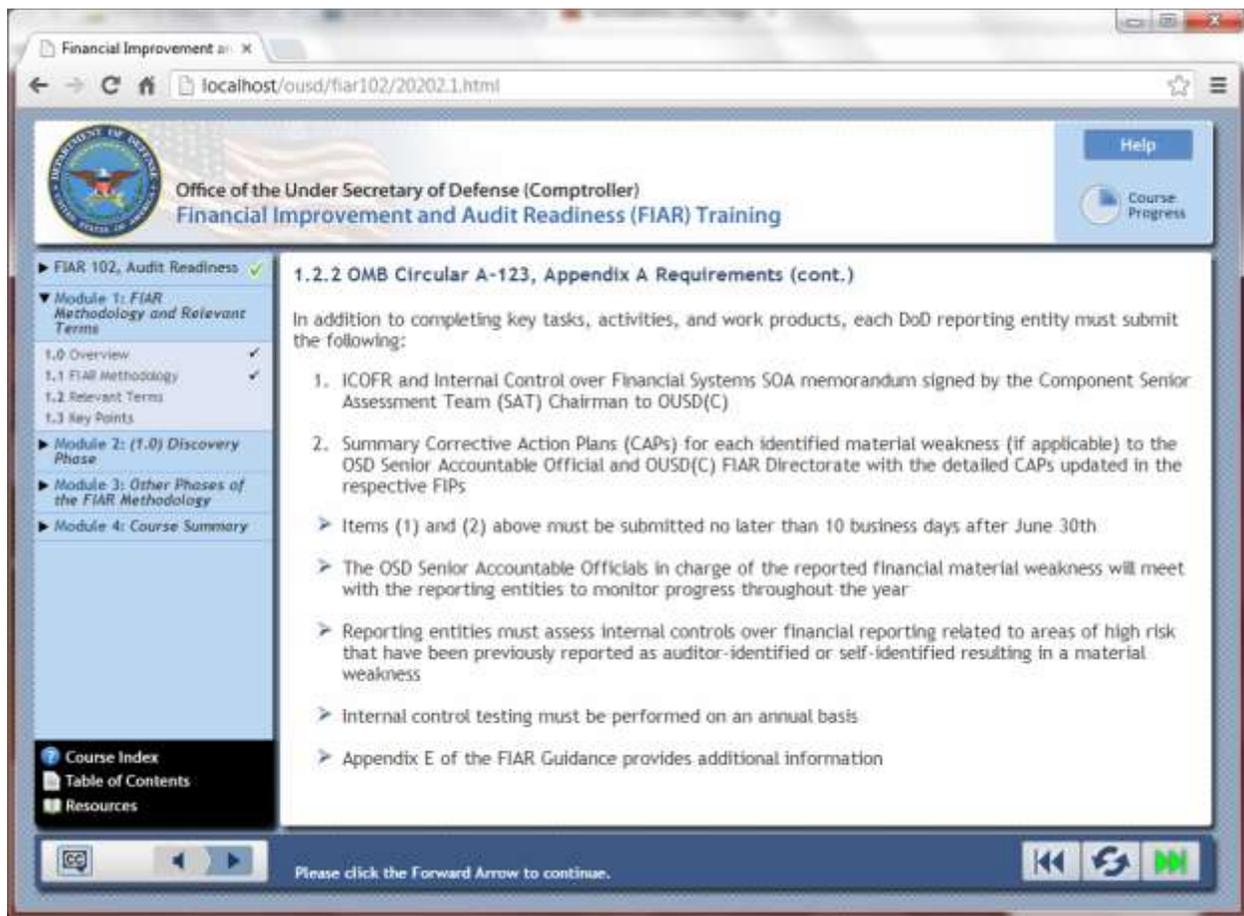
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1.2.2 OMB Circular A-123, Appendix A Requirements

To increase the efficiency of performing audit readiness activities while meeting the requirements of OMB A-123, Appendix A, the USD(C) Memorandum, signed by the Under Secretary of Defense (Comptroller), titled “Changes to the Annual Internal Control Over Financial Reporting (ICOFR) Statement of Assurance (SOA) Reporting Requirements,” dated April 22, 2011, states that the ICOFR guidance will be fully integrated with the next FIAR Guidance update. Therefore, the FIAR Guidance fully merged OMB Circular A-123, Appendix A requirements into the FIAR Methodology, resulting in compliance with both the Chief Financial Officers (CFO) Act and OMB A-123, Appendix A.

While the ICOFR requirements have been integrated with FIAR, the reporting entities should submit interim work products (that is, process flowcharts and narratives, risk assessments, test plans, etc.) to the FIAR Directorate in accordance with their FIP milestone dates. This will allow FIAR to monitor the Department’s progress and provide the reporting entities with feedback prior to submission of their audit readiness assertion documentation.

Please click the Forward arrow to continue.



1.2.2 OMB Circular A-123, Appendix A Requirements, continued

In addition to completing key tasks, activities, and work products, each DoD reporting entity must submit the following:

1. ICOFR and Internal Control over Financial Systems SOA memorandum signed by the Component Senior Assessment Team (SAT) Chairman to OUSD(C). (Refer to FIAR Guidance website for *additional reporting instructions*, the latest *Statement of Assurance Memorandum* template and example *Statement of Assurance Memorandum*). Refer to DoD FMR Volume 1 Chapter 3 for guidance related to Internal Control over Financial Systems.
2. Summary Corrective Action Plans (CAPs) for each identified material weakness (if applicable) to the OSD Senior Accountable Official and OUSD(C) FIAR Directorate with the detailed CAPs updated in the respective FIPs. (Refer to FIAR Guidance website for the *Corrective Action Plan (CAP) Development Instructions* document, latest *Corrective Action Plan Template* and example *Corrective Action Plan*).

Items (1) and (2) above must be submitted no later than 10 business days after June 30th. The OSD Senior Accountable Officials in charge of the reported financial material weakness will meet with the reporting entities that have reported financial material weaknesses to monitor progress throughout the year for the Department.

Reporting entities must assess internal controls over financial reporting related to areas of high risk that have been previously reported as auditor-identified or self-identified resulting in a material weakness. Note that internal control testing must be performed on an annual basis. Therefore, reporting entities must continue to perform the related procedures each year even after reporting entities have attained an audit ready state.

Note: Appendix E of the FIAR Guidance provides a detailed OMB Circular A-123, Appendix A crosswalk to the FIAR Guidance, and is available in the Resources section of this course.

Please click the Forward arrow to continue.

Financial Improvement and Audit Readiness (FIAR) Training

Office of the Under Secretary of Defense (Comptroller)

1.2.3 Requirements to Successfully Execute the FIAR Methodology

What are reporting entities required to do to successfully execute the FIAR Methodology?

- Reporting entities are required to implement the FIAR Guidance and apply the FIAR Methodology to achieve audit readiness
- All material transactions and balances must be subjected to key tasks in the FIAR Methodology
- Reporting entities must ensure that all material transactions and balances are identified
- Cumulative, aggregated balances of the immaterial transactions must not exceed materiality threshold
 - The FIAR Guidance does not establish or define materiality thresholds for reporting entities
 - Reporting entities should exercise professional judgment when defining materiality amounts/threshold
 - Financial statement auditors use 3 percent of a financial statement balance for planning purposes as a basis for determining a materiality threshold
 - Reporting entities should use discretion to determine material transactions and balances
- For example, if Contract Pay is considered to be a material assessable unit or process to the financial statements, it must be subjected to the FIAR Methodology
 - Reporting entities must first identify the different types of contracts that are executed, and then determine the types of contracts that result in material transactions impacting the financial statements
 - Reporting entities should track the amount of transactions and balances that are deemed immaterial
 - Reporting entities should ensure that the cumulative amount of immaterial transactions and balances do not exceed the materiality threshold

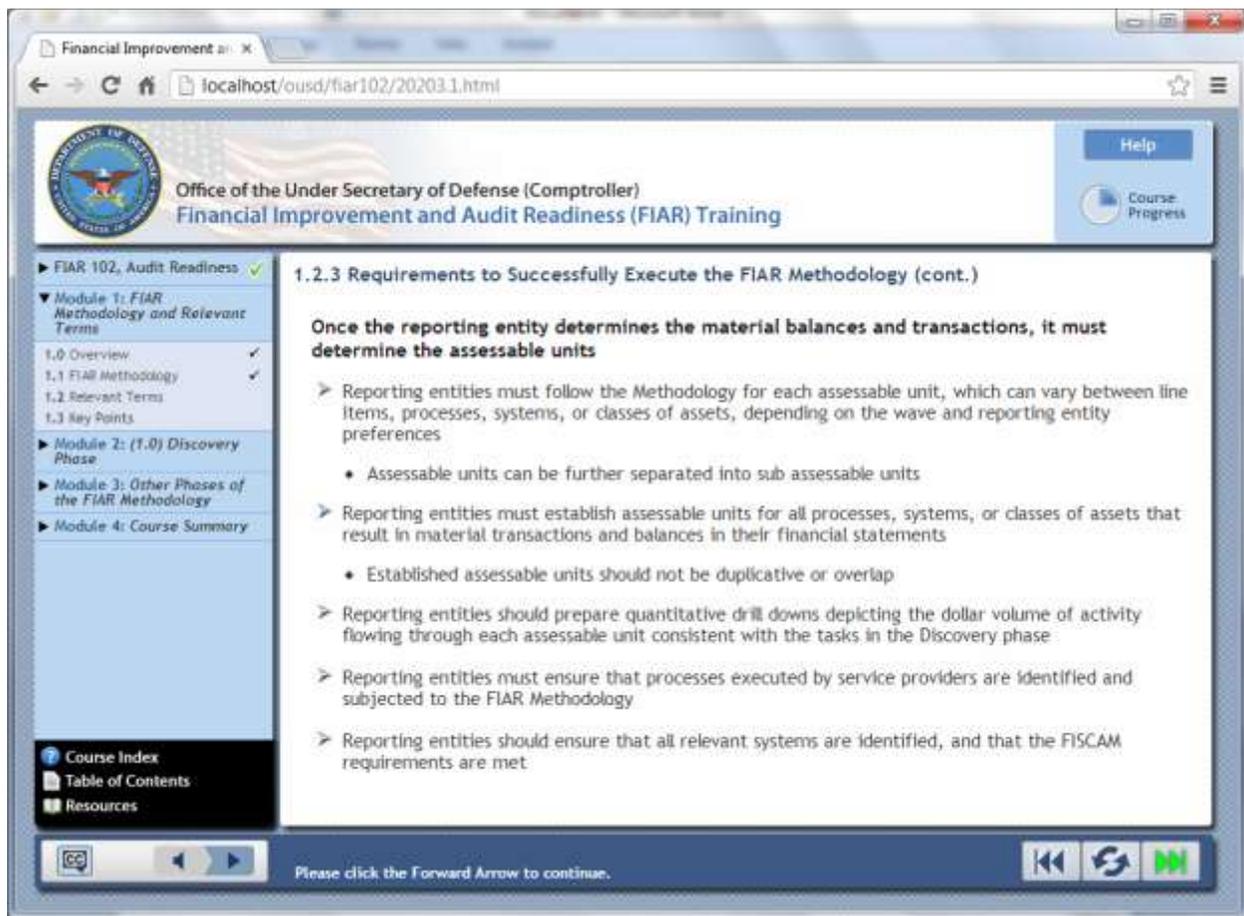
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1.2.3 Requirements to Successfully Execute the FIAR Methodology

Before we discuss each phase, key tasks, and detailed activities of the FIAR Methodology, let's discuss how reporting entities should apply the FIAR Methodology. The reporting entities are required to implement the FIAR Guidance and apply the FIAR Methodology to achieve audit readiness. To demonstrate audit readiness, all material transactions and balances must be subjected to key tasks detailed in the FIAR Methodology. Reporting entities must ensure that all material transactions and balances are identified in their entirety. Furthermore, the cumulative, aggregated balances of the immaterial transactions must not exceed the materiality threshold. The FIAR Guidance does not establish or define materiality thresholds for reporting entities; reporting entities should exercise professional judgment when defining materiality amounts/threshold for their particular financial statements and corresponding line items. Generally, financial statement auditors use 3 percent of a financial statement balance for planning purposes as a basis for determining a materiality threshold. In other words, financial statement auditors subject 97 percent of transactions and balances to audit procedures. Accordingly, the reporting entity should use discretion to determine material transactions and balances.

For example, if Contract Pay is considered to be a material assessable unit or process to the financial statements, it must be subjected to the FIAR Methodology. Depending on the type of operations, the reporting entity may have numerous types of contracts (such as, fixed fee, less than \$100K, time and material) -- some material and others immaterial. The reporting entity must first identify the different types of contracts that are executed, and then determine the types of contracts that result in material transactions impacting the financial statements. Furthermore, the reporting entity should track the amount of transactions and balances that are deemed immaterial and therefore not subjected to the FIAR Methodology. The reporting entity should ensure that the cumulative amount of immaterial transactions and balances do not exceed the materiality threshold. If the cumulative balance does exceed the materiality threshold, then some of the immaterial transactions and balances must be subjected to the FIAR Methodology.

Please click the Forward arrow to continue.



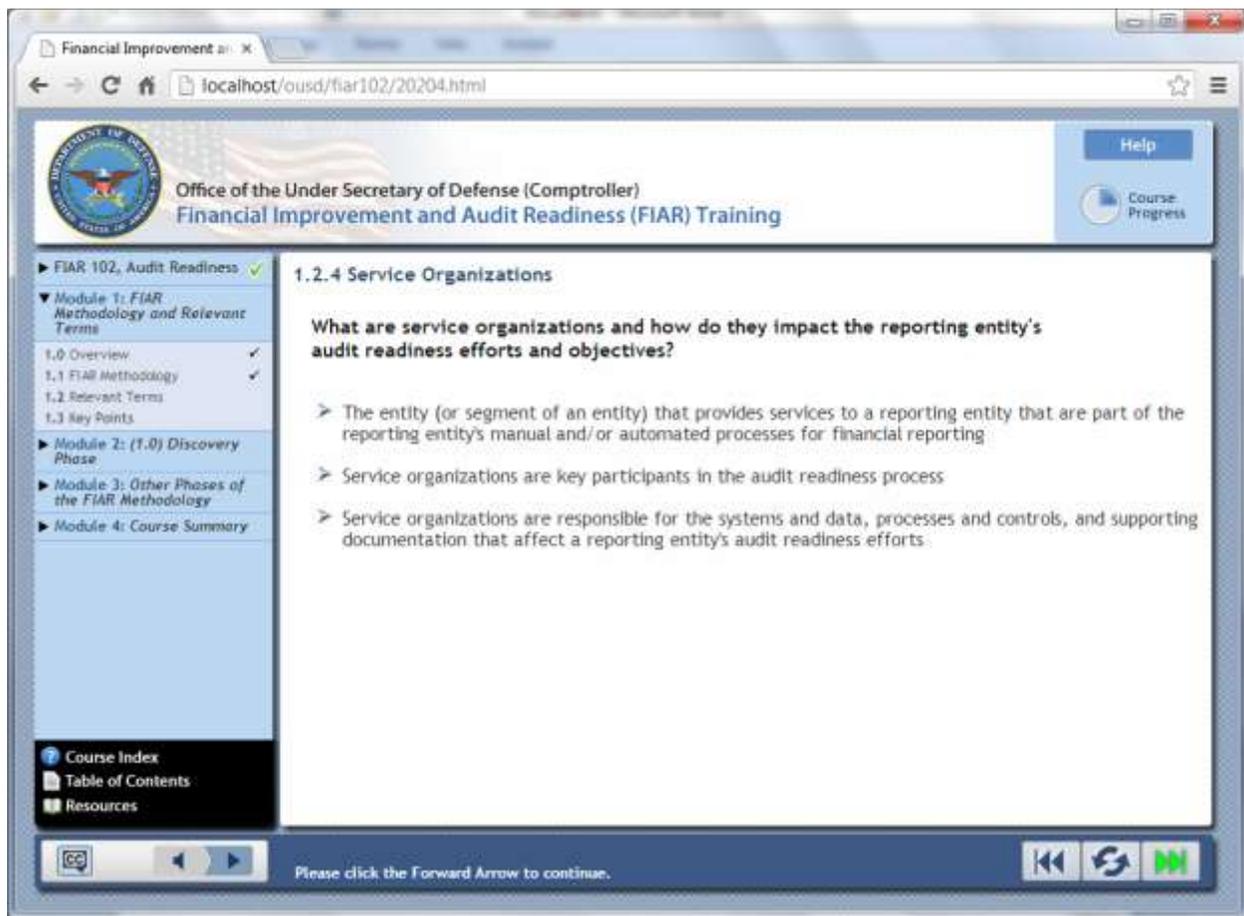
1.2.3 Requirements to Successfully Execute the FIAR Methodology, continued

Once the reporting entity determines the material balances and transactions, it must determine the assessable units. Reporting entities must follow the Methodology for each assessable unit. Assessable units can vary between line items, processes, systems, or classes of assets, depending on the wave and reporting entity preferences. These assessable units can be further separated into sub assessable units at the entity's discretion. Reporting entities must establish assessable units for all processes, systems, or classes of assets that result in material transactions and balances in their financial statements. Additionally, established assessable units should not be duplicative or overlap. To ensure completeness of assessable units, reporting entities should prepare quantitative drill downs depicting the dollar volume of activity flowing through each assessable unit consistent with the tasks in the *Discovery* phase. Wave-specific considerations when identifying assessable units are included in the following paragraphs.

Although reporting entities are ultimately responsible for getting their assessable units and financial statements audits ready, they must ensure that processes executed by service providers are identified and subjected to the FIAR Methodology.

Finally, reporting entities should ensure that all relevant systems are identified, and that the FISCAM requirements are met (that is, the reporting entity identifies control objectives and related information technology general and application controls for all in-scope systems impacting audit readiness).

Please click the Forward arrow to continue.



1.2.4 Service Organizations

What are service organizations and how do they impact the reporting entity's audit readiness efforts and objectives? A service organization is an entity (or segment of an entity) that provides services to a reporting entity that are part of the reporting entity's manual and/or automated processes for financial reporting. Service organizations are key participants in the audit readiness process since they are responsible for the systems and data, processes and controls, and supporting documentation that affect a reporting entity's audit readiness efforts.

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The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/20205.html'. The page header includes the Department of Defense logo and the text 'Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness (FIAR) Training'. A 'Help' button and a 'Course Progress' indicator are visible in the top right. The left sidebar contains a navigation menu with the following items: 'FIAR 102, Audit Readiness' (checked), 'Module 1: FIAR Methodology and Relevant Terms' (expanded), '1.0 Overview' (checked), '1.1 FIAR Methodology' (checked), '1.2 Relevant Terms', '1.3 Key Points', 'Module 2: (1.0) Discovery Phase', 'Module 3: Other Phases of the FIAR Methodology', and 'Module 4: Course Summary'. Below the menu are links for 'Course Index', 'Table of Contents', and 'Resources'. The main content area is titled '1.2.5 Service Organizations (cont.)' and contains the following text: 'What are service organizations and how do they impact the reporting entity's audit readiness efforts and objectives (cont.)?'. Below this is a list of three bullet points: 'Reporting entities are ultimately responsible for ensuring audit readiness for all business processes and financial statements, including those activities and controls performed by the service providers', 'Reporting entities must communicate with service providers to understand:', and 'Reporting entities and service organizations must document roles and responsibilities of each organization in a Service Level Agreement (SLA) and/or Memorandum of Understanding (MOU)'. The second bullet point is further detailed with three sub-bullets: 'Process completed by the service organization', 'Internal control activities implemented by the service organization', and 'Documents developed and retained by the service organization'. At the bottom of the page, there is a navigation bar with a 'Please click the Forward Arrow to continue.' message and several navigation icons.

1.2.5 Service Organizations (cont.)

Each reporting entity's management is responsible for the entire end-to-end process and the underlying internal controls, including those involving service providers. Reporting entities and service providers must agree to the process completed by the service organization, the internal controls implemented by the service organization, and the documents developed and retained by the service organization. Reporting entities and service organizations must develop a Service level Agreement (SLA) or Memorandum of Understanding (MOU) detailing their respective roles and responsibilities.

Please click the Forward arrow to continue.

The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/20206.html'. The page header includes the Department of Defense seal and the text 'Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness (FIAR) Training'. A 'Help' button and 'Course Progress' indicator are visible in the top right. The main content area is titled '1.2.6 Shared Service Provider and Reporting Entity Responsibilities' and contains the question 'What are the shared service provider and reporting entity responsibilities?'. Below the question, a list of responsibilities is provided, including maintaining open communications, providing system and financial information, providing access to subject matter experts, collaborating to discover and correct audit impediments, establishing a common understanding of the method for obtaining assurance, and agreeing on rules for the creation, completion, and retention of supporting documentation. A navigation bar at the bottom of the page includes a 'Please click the Forward Arrow to continue.' instruction and several navigation icons.

1.2.6 Shared Service Provider and Reporting Entity Responsibilities

The service provider and the reporting entity are mutually responsible for supporting each other, to include maintaining open communications and coordinating with one another and their supporting contractors; providing system and financial information in agreed upon timeframes; providing access to subject matter experts or contractors supporting those organizations in agreed upon time frames; collaborating to discover and correct audit impediments; establishing a common, detailed understanding of the method for obtaining assurance; and agreeing on rules for the creation, completion, and retention of supporting documentation required for service provider affected financial transactions.

Please click the Forward arrow to continue.

Financial Improvement and Audit Readiness (FIAR) Training

Office of the Under Secretary of Defense (Comptroller)

1.3 Module 1 Key Points

The key points that you should take away from Module One are:

- The FIAR Methodology is a *set of standardized steps*, mandated by the OUSD(C) that reporting entities must follow to achieve audit readiness.
- The FIAR Methodology is *comprised of phases, key tasks, and detailed activities that must be executed in a sequential order* to achieve audit readiness.
- *The FIAR Methodology has fully incorporated the requirements of OMB Circular A-123, Appendix A.* Accordingly, the FIAR Methodology work products can be leveraged to support management's annual Statement of Assurance (SOA) memorandum.
- *The reporting entity is responsible for ensuring audit readiness for the end-to-end business process*, including processes managed by service providers.
- *The reporting entity is responsible for defining assessable units* that will follow the FIAR Methodology.

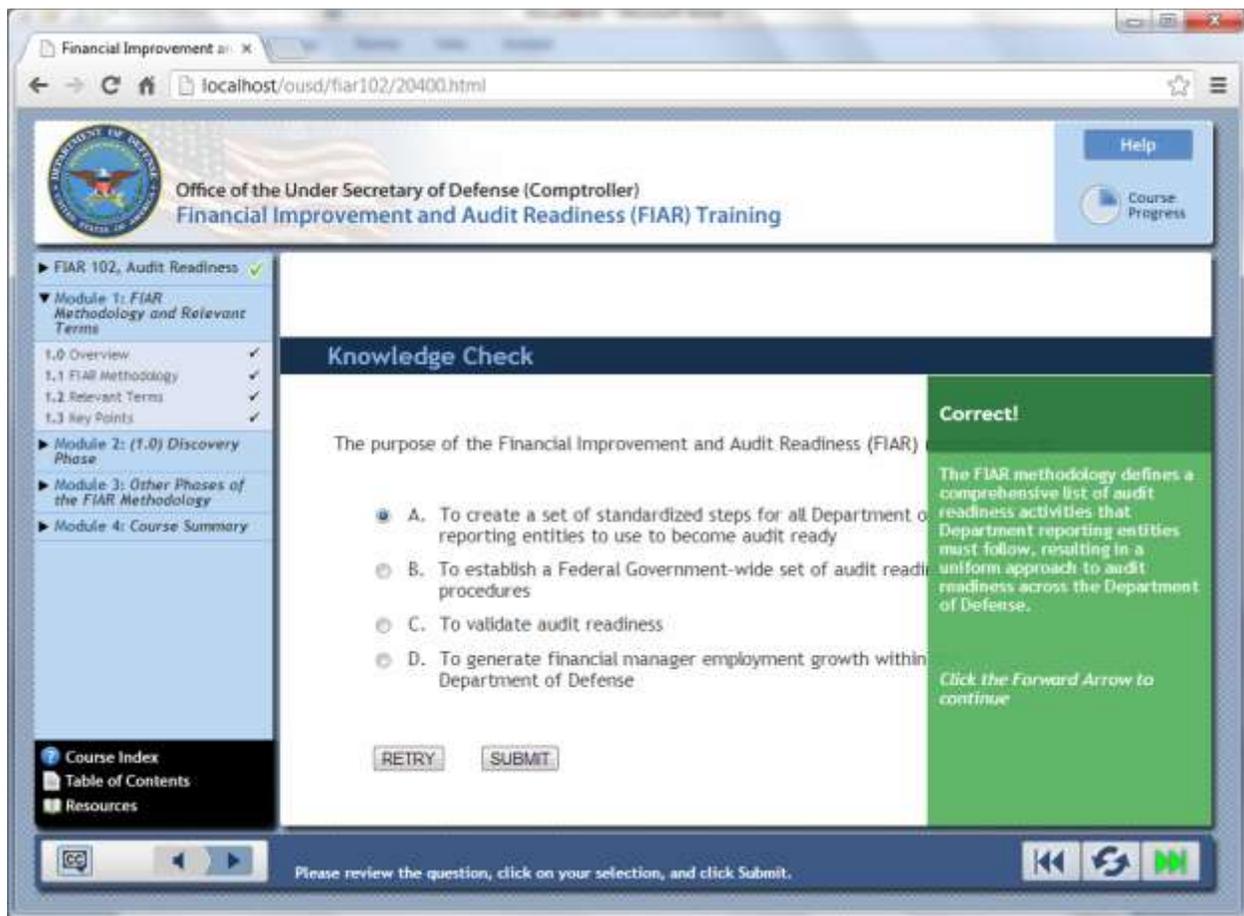
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1.3 Module 1 Key Points

The key points that you should take away from Module One are:

- The FIAR Methodology is a set of standardized steps, mandated by the OUSD(C) that reporting entities must follow to achieve audit readiness.
- The FIAR Methodology is comprised of phases, key tasks, and detailed activities that must be executed in a sequential order to achieve audit readiness.
- The FIAR Methodology has fully incorporated the requirements of OMB Circular A-123, Appendix A. Accordingly, the FIAR Methodology work products can be leveraged to support management's annual Statement of Assurance (SOA) memorandum.
- The reporting entity is responsible for ensuring audit readiness for the end-to-end business process, including processes managed by service providers.
- The reporting entity is responsible for defining assessable units that will follow the FIAR Methodology.

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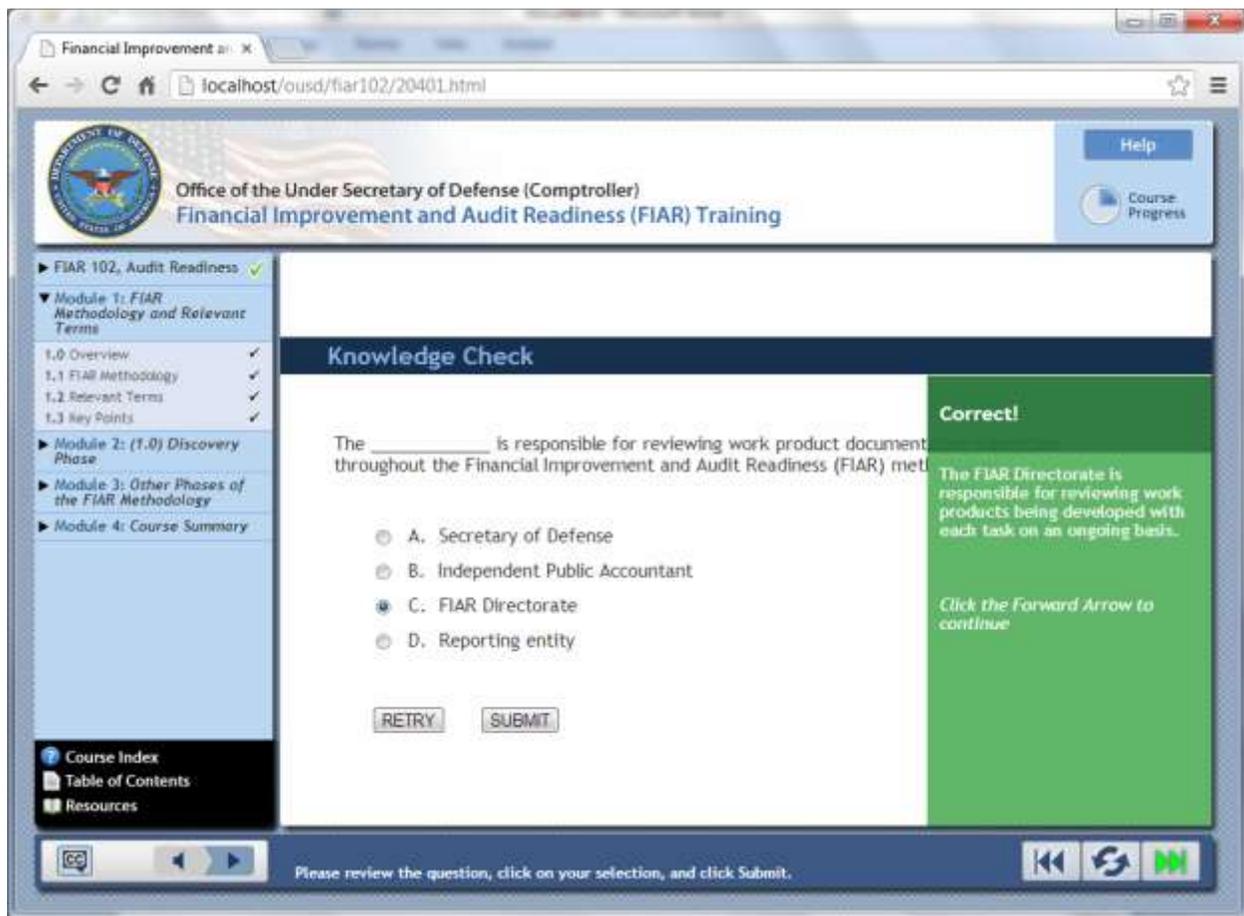


The purpose of the Financial Improvement and Audit Readiness (FIAR) methodology is:

- A. **To create a set of standardized steps for all Department of Defense reporting entities to use to become audit ready**
- B. To establish a Federal Government-wide set of audit readiness procedures
- C. To validate audit readiness
- D. To generate financial manager employment growth within the Department of Defense

Explanation:

- a) *Correct! The FIAR methodology defines a comprehensive list of audit readiness activities that Department reporting entities must follow, resulting in a uniform approach to audit readiness across the Department of Defense.*
- b) *Incorrect. Other Federal entities may or may not create their own set of audit readiness procedures but are not subject to the FIAR methodology.*
- c) *Incorrect. Validation is a distinct phase within the overall FIAR methodology.*
- d) *Incorrect. While the Department may need to hire additional financial management professionals in order to successfully achieve FIAR results, this is not the purpose behind the creation of the methodology.*



The _____ is responsible for reviewing work product documentation submitted throughout the Financial Improvement and Audit Readiness (FIAR) methodology.

- A. Secretary of Defense
- B. Independent Public Accountant
- C. FIAR Directorate**
- D. Reporting entity

Explanation:

- a) *Incorrect. The Secretary of Defense is responsible for overseeing all activities of the Department of Defense, but is not specifically responsible for reviewing work products developed throughout the FIAR process.*
- b) *Incorrect. The independent public accountant is engaged during task (3.2) – Engage Auditor – to perform an examination over the subject matter being asserted as audit ready.*
- c) *Correct! The FIAR Directorate is responsible for reviewing work products being developed with each task on an ongoing basis.*
- d) *Incorrect. The reporting entity is responsible for developing the appropriate work products during each task of the FIAR process.*

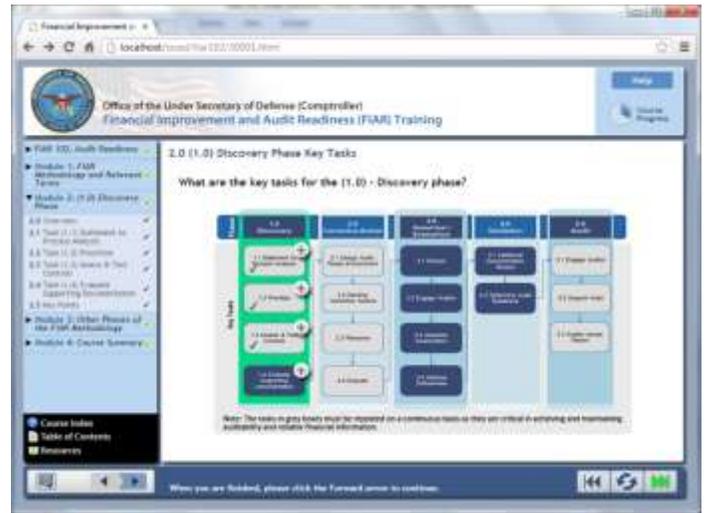
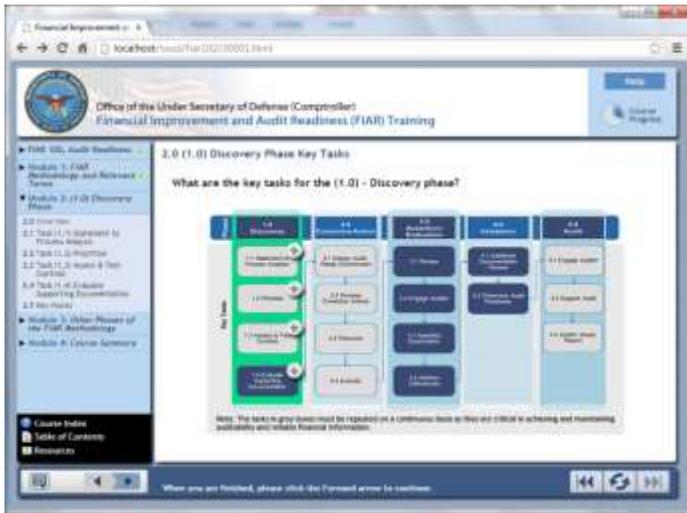
Module 2 Intro: (1.0) Discovery Phase

Module Two will discuss the Discovery phase of the FIAR Methodology, and identify the key tasks that the reporting entities are required to complete as part of Discovery.

Reporting entities are responsible for:

- Documenting material financial statement line items and key end-to-end processes impacting line items;
- Defining and prioritizing processes into assessable units;
- Defining scope of audit readiness assertion and strategy for achieving audit readiness;
- Identifying risks, financial reporting objectives, and control activities;
- Testing the design and operational effectiveness of control activities;
- Evaluating the sufficiency and accuracy of supporting documentation;
- Identifying and classifying any weaknesses and deficiencies in control activities and supporting documentation; and,
- Submitting required work products to the FIAR Directorate for review.

Please click the Forward arrow to continue.



2.0 (1.0) Discovery Phase Key Tasks

The first phase is the (1.0) Discovery phase, which is an overall assessment of the reporting entity's audit readiness state, and is comprised of four key tasks:

- (1.1) Statement to Process Analysis;
- (1.2) Prioritize;
- (1.3) Assess & Test Controls; and,
- (1.4) Evaluate Supporting Documentation.

Please click each key task for more information on the activities involved in this phase.

When you are finished, please click the Forward arrow to continue.

The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/30001.html'. The page title is 'Financial Improvement' and the header identifies the 'Office of the Under Secretary of Defense (Comptroller)'. A sidebar on the left lists course modules and tasks. A central pop-up window is titled '(1.1) Statement to Process Analysis' and contains the following content:

(1.1) Statement to Process Analysis

Phase

1.0 Discovery

Key Tasks

1.1 Statement to Process Analysis

1.2 Prioritize

1.3 Assess & Test Controls

1.4 Evaluate Supporting Documentation

(1.1) Statement to Process Analysis involves identifying the financial statements and its line items, for example, Balance Sheet and Property, Plant, & Equipment; the significant business processes and sub-processes associated with the line items, for example, Equipment and types of equipment; and the related systems, for example, Automated Personal Property Management Systems (APPMS), Corps of Engineers Financial Management System (CEFMS), etc., that result in accounting transactions and balances reported on each of the financial statement line item or may impact manual controls that rely on reports generated from the system.

(1.1) Statement to Process Analysis

(1.1) Statement to Process Analysis involves identifying the financial statements and its line items, for example, Balance Sheet and Property, Plant, & Equipment; the significant business processes and sub-processes associated with the line items, for example, Equipment and types of equipment; and the related systems, for example, Automated Personal Property Management Systems (APPMS), Corps of Engineers Financial Management System (CEFMS), etc., that result in accounting transactions and balances reported on each of the financial statement line item or may impact manual controls that rely on reports generated from the system.

Please click the “X” in the upper-right corner to close this window and continue.

The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/30001.html'. The page content is a presentation slide from the 'Office of the Under Secretary of Defense (Comptroller)'. The slide is titled '(1.2) Prioritize' and features a vertical flowchart of 'Key Tasks' with four steps: 1.0 Discovery, 1.1 Statement to Process Analyst, 1.2 Prioritize (highlighted with a red border), and 1.4 Evaluate Supporting Documentation. To the right of the flowchart, a text box explains that task 1.2 involves ranking business processes for audit readiness. The browser interface includes a sidebar with a course index and navigation controls at the bottom.

(1.2) Prioritize

(1.2) Prioritize involves taking the business processes already identified in the previous task and ranking them in a prioritized order to define which processes and systems will be first reviewed for audit readiness purposes. For example, there may be five processes associated with a line item and the priority and the timing for achieving audit readiness for each process is determined during this activity.

Please click the “X” in the upper-right corner to close this window and continue.

The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/30001.html'. The page content is a presentation slide from the 'Office of the Under Secretary of Defense (Comptroller)'. The slide title is '(1.3) Assess & Test Controls'. On the left side of the slide, there is a vertical flowchart labeled 'Key Tasks' with four steps: 1.0 Discovery, 1.1 Statement to Process Analysis, 1.2 Prioritize, and 1.4 Evaluate Supporting Documentation. The 1.2 Prioritize step is highlighted with a red border. To the right of the flowchart, the text reads: '(1.3) Assess & Test Controls is the activity in which the reporting entity prepares or reviews existing process and system documentation to identify gaps, evaluates control design, and performs tests of the operating effectiveness of control activities. For example, the approval of purchases (a control activity), is (1) evaluated for effective design to ensure transactions and balances are timely and accurately recorded, and (2) tested to ensure the control is operating as designed.' The browser interface includes a navigation bar at the bottom with a message: 'When you are finished, please click the Forward arrow to continue.'

(1.3) Assess & Test Controls

(1.3) Assess & Test Controls is the activity in which the reporting entity prepares or reviews existing process and system documentation to identify gaps, evaluates control design, and performs tests of the operating effectiveness of control activities. For example, the approval of purchases (a control activity), is (1) evaluated for effective design to ensure transactions and balances are timely and accurately recorded, and (2) tested to ensure the control is operating as designed.

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localhost/ousd/fiar102/30001.html

Office of the Under Secretary of Defense (Comptroller)

(1.4) Evaluate Supporting Documentation

Key Tasks

- 1.0 Discovery
- 1.1 Statement to Process Analysts
- 1.2 Prioritize
- 1.3 Assess & Test Controls
- 1.4 Evaluate Supporting Documentation

(1.4) Evaluate Supporting Documentation requires obtaining detailed populations for all relevant financial statement line items at the transaction or item level; defining what is adequate supporting documentation for each type of transaction, then testing to verify that transactions are individually supported by sufficient supporting documentation.

When you are finished, please click the Forward arrow to continue.

(1.4) Evaluate Supporting Documentation

(1.4) Evaluate Supporting Documentation requires obtaining detailed populations for all relevant financial statement line items at the transaction or item level; defining what is adequate supporting documentation for each type of transaction, then testing to verify that transactions are individually supported by sufficient supporting documentation.

Please click the “X” in the upper-right corner to close this window and continue.

Financial Improvement and Audit Readiness (FIAR) Training

Office of the Under Secretary of Defense (Comptroller)

2.1 Task (1.1) Statement to Process Analysis

What happens during the (1.1) - Statement to Process Analysis task?

left corner of the chart shows the current phase (Discovery phase in this example). Below the phase you will see all the key tasks, for example, 1.1 Statement to Process Analysis,

2.1 Task (1.1) Statement to Process Analysis

The next few screens will provide an overview of the specific activities and resulting work products for each phase and key tasks. These charts have a common look and feel, and are consistent with the information presented in the FIAR Guidance. Take a minute to review the layout of these graphics, which should be read from left to right, top to bottom. The upper left corner of the chart shows the current phase (Discovery phase in this example). Below the phase you will see all the key tasks, for example, 1.1 Statement to Process Analysis, contained within the phase---with the box highlighted in white indicating the specific key task focused at this time. The next column highlighted to the right is the column for the activities, which shows the specific activities that comprise the key task. In this example, there are three activities. To the right of the activities, you will see the Detailed Activities column providing an in-depth narrative description for each activity. The far right column, Resulting Work Products, summarizes the work products that should be produced as a result of performing the activities. Any work product with a star indicates that the work product must be submitted to the FIAR Directorate for review during the Validation phase, which we'll talk more about later in this course. All three of the work products in this example will eventually be submitted as assertion documentation.

Please click the Forward arrow to continue.



2.1 Task (1.1) Statement to Process Analysis, continued

Now that we've covered the overall layout of these screens, let's discuss what happens during the (1.1) Statement to Process Analysis key task, which is comprised of three primary activities:

- Overall process and system drill-down analysis – During this activity for each line item on your financial statements, identify the assessable units, sub-units, and the relevant systems. For example, assessable units for Property, Plant, and Equipment (PP&E) may include the specific type of PP&E items such as equipment, buildings, etc. A reporting entity may have various types of equipment and each type can be an assessable unit. Furthermore, the reporting entity may further segregate or break-down the type of equipment, e.g., by location, and this would be referred to as the sub-unit. For each assessable unit and sub-unit, the reporting entity should identify the relevant systems that either process financial transactions related to that assessable unit or store important financial data related to the assessable unit that will ultimately impact the financial statements.
- Prepare a quantitative drill down – level 1 and level 2 – After the process and system drill down analysis is complete, the quantitative drill downs should be used to identify and report the annual dollar activity flowing through each assessable unit and sub assessable unit for each line item. Level 1 is at the assessable unit level, while level 2 is at the sub assessable unit level, if applicable. As a reminder, reporting entities define their own assessable units depending on their material business processes and business environment.

Once these activities are complete and the work products are prepared, reporting entities will be able to clearly demonstrate the connection of their assessable units, business processes and systems to their financial statements. This linkage will be essential throughout the audit readiness process, as it will help everyone understand how potential issues with processes, controls and systems directly impact a reporting entity's ability to obtain an unqualified opinion on its financial statements.

Please click the Forward arrow to continue.

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2.1.1 SBR Example of a Process and System Drill Down Analysis

What happens during the (1.1) - Statement to Process Analysis task?

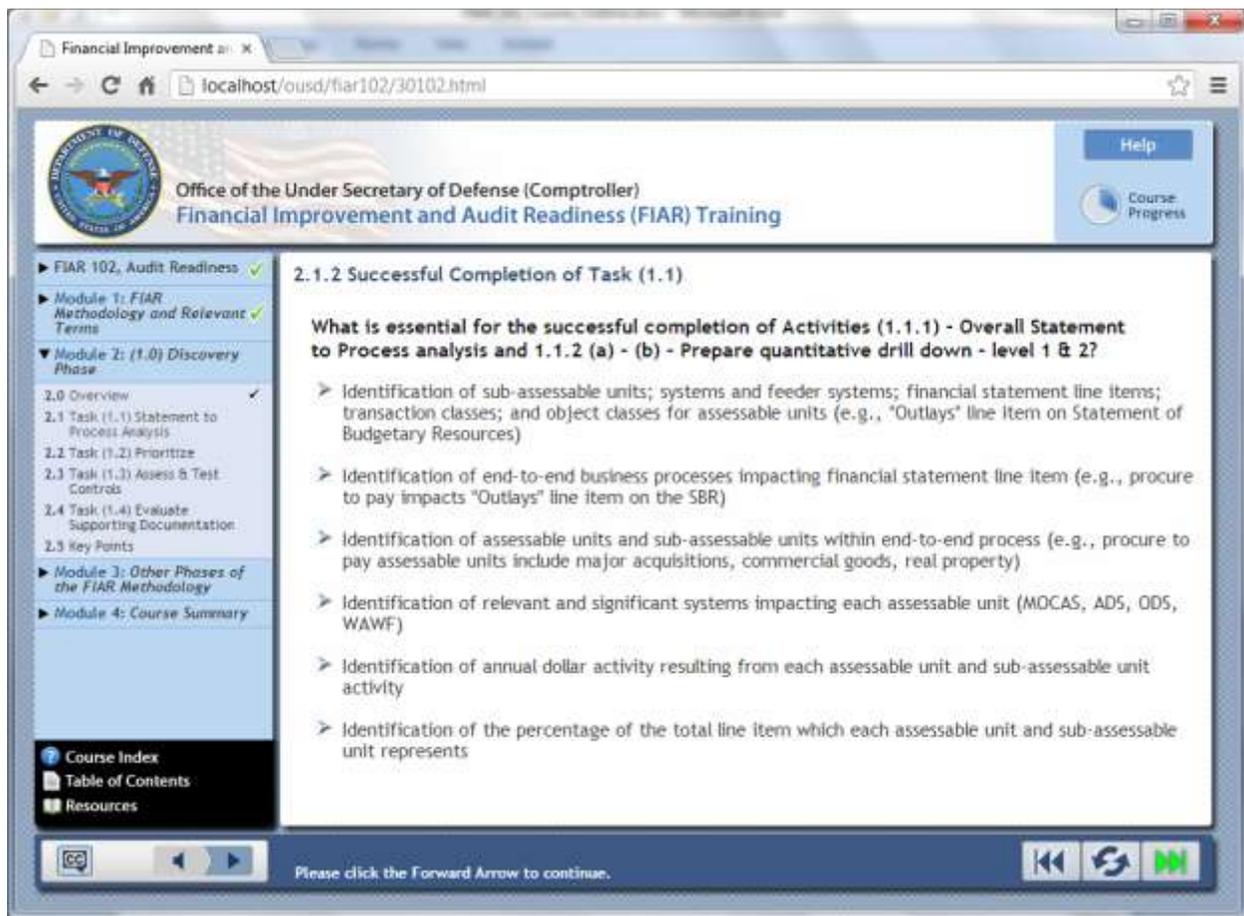
SBR Example ---Process and System Drill Down Analysis

2 Statement of Budgetary Resources (SBR) assessable unit resulting from performing detailed activity (1.1.1 Overall Statement to Process Analysis). Reporting entities should prepare

2.1 Task (1.1) Statement to Process Analysis, continued

This figure is an example of a process and system drill down analysis work product for Wave 2 Statement of Budgetary Resources (SBR) assessable unit resulting from performing detailed activity (1.1.1 Overall Statement to Process Analysis). Reporting entities should prepare this work product to identify and demonstrate the relationship of relevant processes, assessable units, assessable sub-units, and systems to the financial statement. Note the analysis starts with a financial statement and one of its line items.

Please click the Forward arrow to continue.



2.1.2 Successful Completion of Task (1.1)

Successful completion of task (1.1) requires that the reporting entity identify sub-assessable units, systems and feeder systems; financial statement line items; transaction classes; and object classes for assessable units, for example, the “Outlays” line item on Statement of Budgetary Resources).

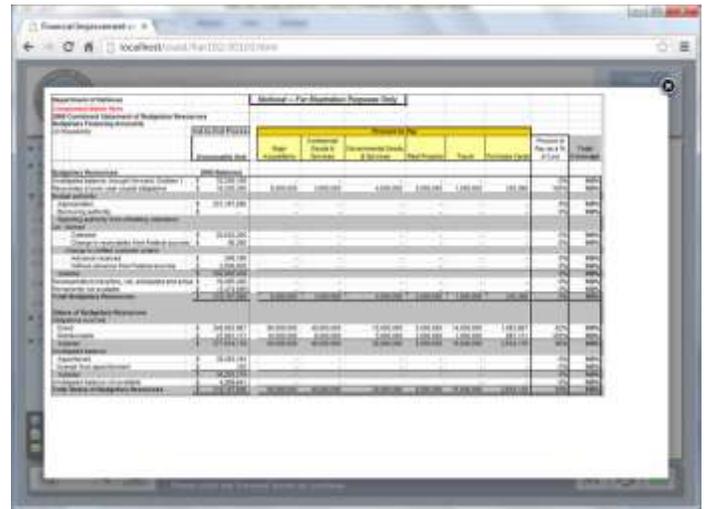
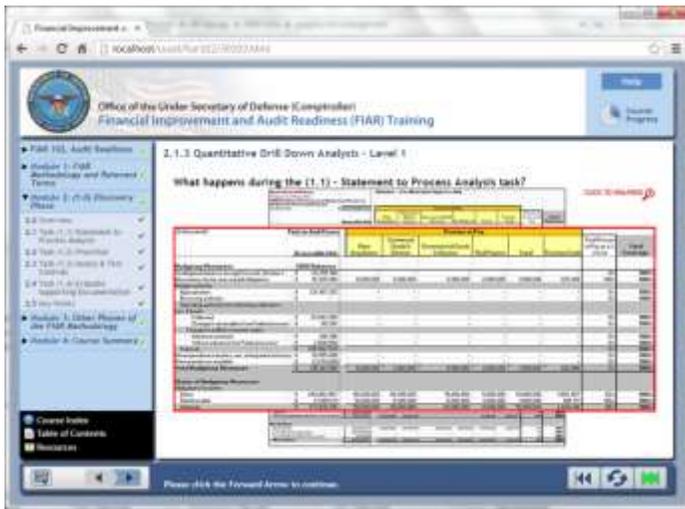
Identification of end-to-end business processes impacting financial statement line item, for example, procure-to-pay impacts “Outlays” line item on the SBR.

Identification of assessable units and sub-assessable units within end-to-end process, for example, procure-to-pay assessable units include major acquisitions, commercial goods, real property.

Identification of relevant and significant systems impacting each assessable unit (Mechanization Of Contract Administration Services (MOCAS), Automated Disbursing System (ADS), Operational Data Store (ODS), Wide Area Workflow (WAWF)).

Successful completion of task (1.1.2a and 1.1.2b) requires that the reporting entity identify annual dollar activity resulting from each assessable unit and sub-assessable unit activity, and percentage of the total line item each assessable unit and sub-assessable unit represents, for assessable units.

Please click the Forward arrow to continue.



2.1.3 Quantitative Drill Down Analysis – Level 1

This spreadsheet shows the Quantitative Drill Down Analysis – Level 1. During this activity for each line item on your financial statements, identify the assessable units, sub-units, and the relevant systems. For example, assessable units for Procure to Pay may include the specific types of procurement activities such as Major Acquisitions, Commercial Goods and Services, Governmental Goods and Services, Real Property, Travel and Purchase Cards.

Note that the amounts for each line item, the assessable units of “Procure to Pay” total to 100%. For example, line item “Recoveries of prior year unpaid obligations” includes dollar amounts for each assessable unit and sums to 100 percent of the “Procure to Pay” Process.

For each assessable unit, the reporting entity should identify the relevant systems that either process financial transactions related to that assessable unit or store important financial data related to the assessable unit that will ultimately impact the financial statements. Note that the spreadsheet details the break-out of the SBR by end-to-end processes and the assessable units that comprise the end-to-end processes. Additionally, 100 percent of each line item is segregated into the assessable units.

Please click the Forward arrow to continue.

2.1.4 Quantitative Drill Down Analysis – Level 2

This spreadsheet shows the Quantitative Drill Down Analysis – Level 2. Working from the previous screen, a reporting entity may have various types of transactions within each assessable unit. The reporting entity may further segregate or break-down the type of transaction referred to as the sub-unit.

In our example of Commercial Goods and Services under “**Process** to Pay”, assessable sub-units could include Medical, Utilities, Fuel, Rent, General Consulting, and Transportation. Again, using the line item “Recoveries of prior year unpaid obligations” as an example, note that the amounts for each line item under Commercial Goods and Services total to 100 percent.

For each assessable unit and sub-unit, the reporting entity should identify the relevant systems that either process financial transactions related to that assessable unit or store important financial data related to the assessable unit that will ultimately impact the financial statements. Note that the spreadsheet details the break-out of the assessable units identified in conjunction with the quantitative drill down analysis for Level 1.

Please click the Forward arrow to continue.

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2.1.5 Key Work Products for Task (1.1)

What are the key work products for tasks (1.1) Statement to Process Analysis?

Work Product:	Statement to Process Analysis
FIP Task:	1.1.1
Purpose:	To depict the relationship between financial statement line items or asset/transaction classes and the underlying processes, assessable units and sub-units, and systems impacting the line items or asset/transaction classes.

Work Product:	Quantitative Drill Down - Level 1 & 2
FIP Task:	1.1.2
Purpose:	To identify quantitatively material financial statement line items and business processes on which to focus audit readiness efforts by depicting the dollar activity of each assessable and sub-assessable unit and corresponding percentage of the total financial statement line item they represent.
Examples:	http://comptroller.defense.gov/fiar/documents/workproducts/wv2_sbr_qnt_drill_L1.pdf http://comptroller.defense.gov/fiar/documents/workproducts/wv2_sbr_qnt_drill_L2.pdf

Please Note: URLs included in the Resources Section of this module are subject to continuous updating. If you find an unresponsive link, please go to <http://comptroller.defense.gov/Fiar>, and see Tools and Templates.

The key work products produced during task (1.1) - Statement to Process Analysis are the

2.1.5 Key Work Products for Task (1.1)

The key work products produced during task (1.1) – *Statement to Process Analysis* are the *Statement to Process Analysis* and *Quantitative Drill Down – Level 1 and 2*. The purpose of the *Statement to Process Analysis* is to depict the relationship between financial statement line items or asset/transaction classes and the underlying processes, assessable units and sub-units, and systems impacting the line items or asset/transaction classes.

The purpose of the *Quantitative Drill Downs – Level 1 and 2* is to identify quantitatively material areas on which to focus audit readiness efforts by depicting the dollar activity of each assessable and sub-assessable unit, and corresponding percentage of the total financial statement line item.

We will discuss the examples in the next two screens.

Please click the Forward arrow to continue.

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2.1.6 Key Work Products for Task (1.1) (cont.)

Existence & Completeness (E&C) Example - Statement to Process Analysis

CLICK TO ENLARGE

Component	Financial Statement Line Item	Processes - General Categories	Assessable Units	Assessable Sub-Units	Financial AF&S
	General Fund				
	Balance Sheet Line Items: Property, Plant & Equipment (PPE) and Inventory & Related Property				
		Military Equipment	Ships	Combat - Fixed Wing	REMS
		Real Property	Aircraft	Combat - Rotary Wing	
		General Equipment	Tracked Vehicles	Aircraft - Fixed Wing	
		Inventory	Wheeled Vehicles	Aircraft - Rotary Wing	
		Operating Materials & Supplies (OMAS)	Satellites	Other - Fixed Wing Other - Rotary Wing	

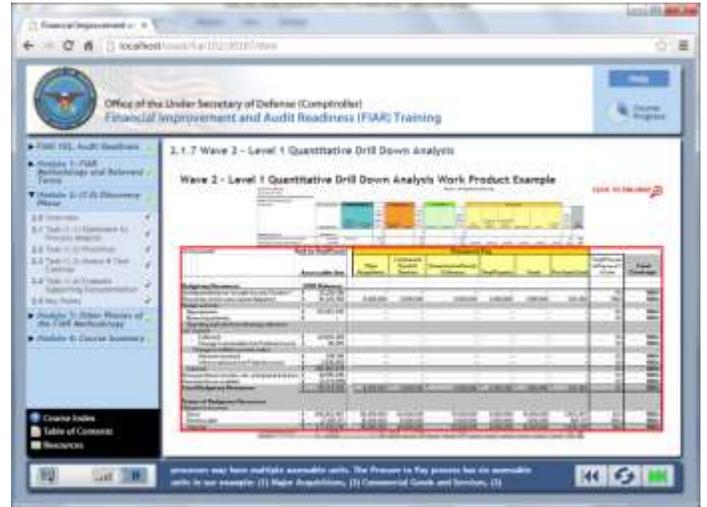
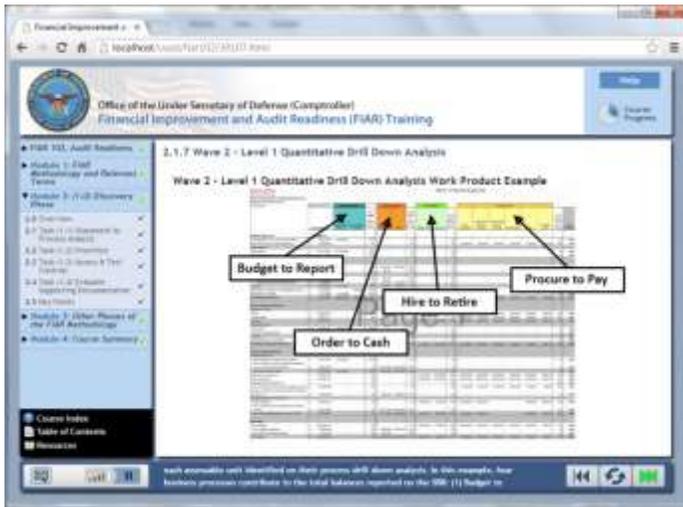
Please click the Forward Arrow to continue.

2.1.6 Key Work Products for Task (1.1) (cont.)

For example, in addition to the example of a process and system drill down analysis work product for Wave 2 Statement of Budgetary Resources (SBR) assessable unit shown earlier, this graphic provides an example of a statement to process analysis work product resulting from performing detailed activity “1.1.1. Overall Statement to Process Analysis” for Wave 3 – Existence and Completeness of Mission Critical Assets.” Reporting entities should prepare this work product to identify and demonstrate the relationship of relevant processes, assessable units, assessable sub-units, and systems to their respective Balance Sheet line items.

For example, under Military Equipment, there are Assessable Units of Ships, Aircraft, Tracked Vehicles, etc. And under Aircraft, there are Assessable sub-units of Combat- Fixed Wing, Combat-Rotary Wing, Aircraft – Fixed Wing, etc.

Please click the Forward arrow to continue.



2.1.7 Wave 2 – Level 1 Quantitative Drill Down Analysis

In the first example, this Statement of Budgetary Resources (SBR) spreadsheet shows a Quantitative Drill Down Analysis – Level 1 work product for Wave 2 from performing detailed activity "1.1.2 (a) Prepare quantitative drill down – level 1." Reporting entities should prepare this work product to summarize and report the annual dollar activity resulting from each assessable unit identified on their process drill down analysis. In this example, four business processes contribute to the total balances reported on the SBR: (1) Budget to Report, (2) Order to Cash, (3) Hire to Retire, and (4) Procure to Pay. Each of those four processes may have multiple assessable units. The Procure to Pay process has six assessable units in our example: (1) Major Acquisitions, (2) Commercial Goods and Services, (3) Governmental Goods and Services, (4) Real Property, (5) Travel, and (6) Purchase Cards. The total balances for each assessable unit tie to the total for the business process. The total of the four business processes ties to the total amount reported on the each line item of the SBR.

Please click the Forward arrow to continue.

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Help
Course Progress

FIAR 102, Audit Readiness ✓
Module 1: FIAR Methodology and Relevant Terms ✓
Module 2: (1.0) Discovery Phase ✓
2.0 Overview ✓
2.1 Task (1.1) Statement to Process Analysis ✓
2.2 Task (1.2) Prioritize ✓
2.3 Task (1.3) Assess & Test Controls ✓
2.4 Task (1.4) Evaluate Supporting Documentation ✓
2.5 Key Points ✓
Module 3: Other Phases of the FIAR Methodology ✓
Module 4: Course Summary ✓

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2.1.8 Wave 2 - Level 2 Quantitative Drill Down Analysis

Wave 2 - Level 2 Quantitative Drill Down Analysis Work Product Example

CLICK TO ENLARGE

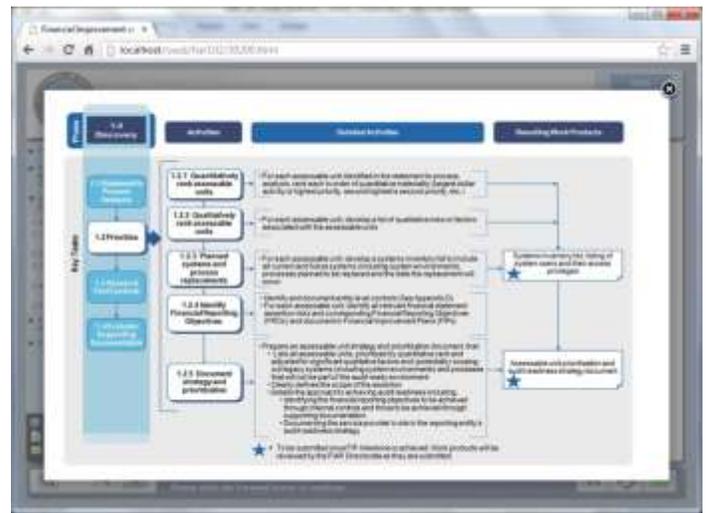
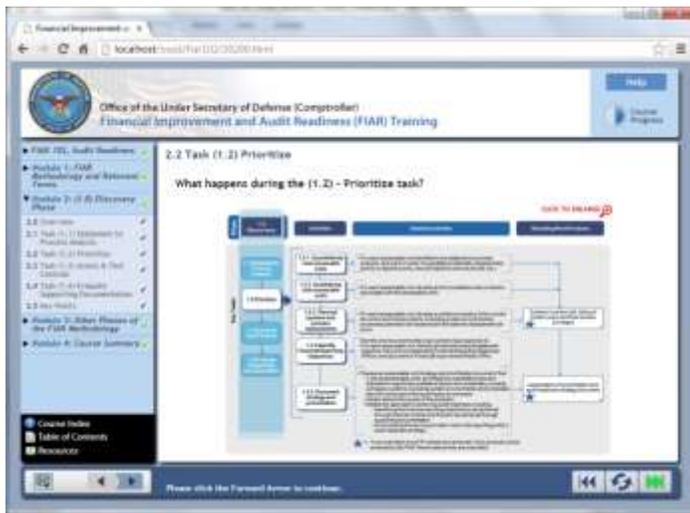
Budgetary Financing Accounts (In Incurrence)	End-to-End Process		Procure to Pay					
	Assessable Unit		Commercial Goods & Services					
	Assessable Unit	Assessable Sub-Unit	Medical	Utilities	Fuel	Rent	General Consulting	Transportation
	\$ Activity	%	\$ Activity	%	\$ Activity	%	\$ Activity	%
Budgetary Resources	2008 Revenues							
Midpoint interest, brought forward, October 1								
Revenue of prior year unpaid obligations	\$ 3,000,000		\$ 600,000	20%	\$ 100,000	3%	\$ 1,000,000	33%
Initial authority								
Appropriation	\$		\$		\$		\$	
Remaining authority	\$		\$		\$		\$	
Spending authority from existing obligations								
Carried								
Collected	\$		\$		\$		\$	
Change in receivables from Federal sources	\$		\$		\$		\$	
Change in unfilled customer orders	\$		\$		\$		\$	
Advance received	\$		\$		\$		\$	
Without advance from Federal sources	\$		\$		\$		\$	
Subtotal	\$		\$		\$		\$	
Unexpended transfers, set, amended and actual	\$		\$		\$		\$	
Temporarily not available	\$		\$		\$		\$	
Total Budgetary Resources	\$ 3,000,000		\$ 600,000	20%	\$ 100,000	3%	\$ 1,000,000	33%
Status of Budgetary Resources								
Repayments Incurred	\$		\$		\$		\$	
Direct	\$ 40,000,000		\$ 8,000,000	20%	\$ 2,000,000	5%	\$ 14,000,000	35%
Indirect	\$ 5,000,000		\$ 1,000,000	20%	\$ 250,000	5%	\$ 2,500,000	50%
Subtotal	\$ 45,000,000		\$ 9,000,000	20%	\$ 2,250,000	5%	\$ 16,500,000	37%

Identified in their process drill down analysis. As we take a closer look at the Commercial Goods & Services assessable unit in the Procure to Pay process, it includes six assessable

2.1.8 Wave 2 – Level 2 Quantitative Drill Down Analysis

In the second example, the SBR spreadsheet shows a Quantitative Drill Down Analysis – Level 2 work product for Wave 2 from performing detailed activity "1.1.2 (b) Prepare quantitative drill down – level 2." Reporting entities should prepare this work product to summarize and report the annual dollar activity resulting from each assessable sub unit identified on their process drill down analysis. As we take a closer look at the Commercial Goods & Services assessable unit in the Procure to Pay process, it includes six assessable sub units: (1) Medical, (2) Utilities, (3) Fuel, (4) Rent, (5) General Consulting, and (6) Transportation. The total of assessable sub unit balances should tie to the total balance of the assessable unit.

Please click the Forward arrow to continue.



2.2 Task (1.2) Prioritize

Once reporting entities have completed their (1.1) Statement to Process Analysis, they will move to Task (1.2) Prioritize. During the Prioritize key task, Reporting entities will be required to prepare and submit an assessable unit prioritization and audit readiness strategy document that clearly defines the scope of their audit readiness assertion.

When defining the scope, reporting entities must:

- Provide an overall summary of the assertion;
- Identify the “in-scope” processes and manual controls;
- Identify the “in-scope” IT Applications, Micro-Applications and associated IT General and Application controls;
- Identify the key supporting documents (KSDs) included in the assertion;
- Identify the role of the service providers (including discussion of relevant SSAE Number 16 reports and self-review efforts); and,
- Identify any exclusions (processes, controls, systems) from the scope of the assertion.

By clearly defining the scope of the audit readiness assertions, reporting entities will help facilitate a more effective review of the assertion documentation by the FIAR Directorate. Once these activities are complete and the work products are prepared, reporting entities will be able to demonstrate they maintain a complete listing of systems relevant to audit readiness efforts and documentation supporting the basis for how assessable units were prioritized for audit readiness.

Appendix D of FIAR Guidance provides additional details.

Please click the Forward arrow to continue.

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2.2.1 Successful Completion of Task (1.2)

What is essential for the successful completion of key task (1.2) Prioritize?

For all key systems, the reporting entities should:

- Have a listing of all system users and their systems user access rights and develop a systems inventory list which identifies all current and future systems, system users, and user access privileges
- Rank each assessable unit in order of quantitative materiality
- Consider significant qualitative risks or factors
- Identify and document entity level controls
- Identify all relevant risks of material misstatement
- Identify all applicable financial reporting objectives
- Clearly define the scope of each assertion and strategy for achieving audit readiness including the service provider's role in the audit readiness process
 - Identification of FROs to be achieved through internal controls vs. supporting documentation testing

Please click the Forward Arrow to continue.

2.2.1 Successful Completion of Task (1.2)

In order to successfully complete task (1.2), the reporting entities should, first, have a clear understanding of the key systems used within the assessable unit. For all key systems, the reporting entities should have a listing of all system users and their systems user access rights and develop a systems inventory list which identifies all current and future systems, system users, and user access privileges. Next, rank each assessable unit in order of quantitative materiality and consider significant qualitative risks or factors. Identify and document entity level controls, all relevant risks of material misstatement, and all applicable financial reporting objectives. Lastly, clearly define the scope of each assertion and strategy for achieving audit readiness including the service provider's role in the audit readiness process. Reporting entities must determine and document which Financial Reporting Objectives (FROs) will be achieved through internal controls vs. supporting documentation testing.

Please click the Forward arrow to continue.

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2.2.2 Key Work Products for Task (1.2)

What are the key work products for tasks (1.1) Statement to Process Analysis? (cont.)

Work Product:	Systems inventory List
FIP Task:	1.2.3
Purpose:	To identify the universe of systems to include existing and future systems, listing of system users, and user access privileges affecting the assessable unit being asserted as audit ready
Example:	http://comptroller.defense.gov/fiar/documents/workproducts/System Inv_List.pdf

Work Product:	Assessable unit prioritization and audit readiness strategy document
FIP Task:	1.2.5
Purpose:	To clearly define the scope of the audit readiness assertion and detail the strategy for achieving audit readiness
Example:	http://comptroller.defense.gov/fiar/documents/workproducts/WV2_SBR_AUP.docx

Please Note: URLs included in the Resources Section of this module are subject to continuous updating. If you find an unresponsive link, please go to <http://comptroller.defense.gov/fiar>, and see Tools and Templates.

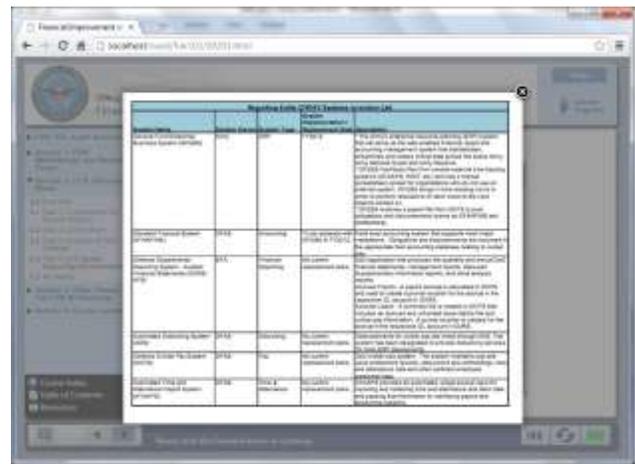
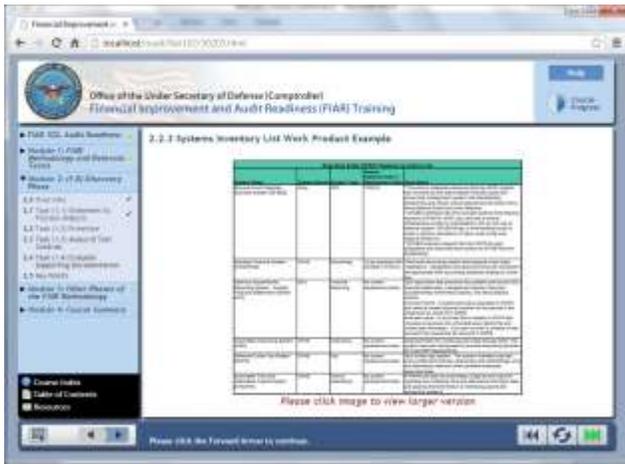
Now let's discuss the key work products developed at the completion of task (1.2) - Prioritize. First, the reporting entity must complete (1.2.3) the Systems Inventory List, the purpose of

2.2.2 Key Work Products for Task (1.2)

Now let's discuss the key work products developed at the completion of task (1.2) – *Prioritize*. First, the reporting entity must complete (1.2.3) the Systems Inventory List, the purpose of which is to identify the universe of systems to include existing and future systems, listing of system users, and user access privileges affecting the assessable unit being asserted as audit ready. Next, (1.2.5) the assessable unit prioritization and audit readiness strategy document, which is to clearly define the scope of the audit readiness assertion and detail the strategy for achieving audit readiness.

We will discuss the examples in the next two screens.

Please click the Forward arrow to continue.



2.2.3 Systems Inventory List Work Product Example

In the first example, the table provides an example of a systems inventory list that identifies the population of current and future systems within scope for an assessable unit. The inventory list identifies the systems by name, owner, type and status of implementation. It also includes relevant descriptive information that could be used in prioritization of audit readiness activities.

Please click the Forward arrow to continue.

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2.2.4 Wave 2- Assessable Unit Prioritization Document Work Product Example

Wave 2- Assessable Unit Prioritization Document Work Product Example

Priority Ranking	End-to-End Process	Assessable Unit	Assessable Sub-unit	\$	Qualitative Risk	Determination of Priority
1	Hire to Retire	Civilian Pay	Payroll Processing	\$15,315,147,000	Multiple system interfaces and data transfers and high volume of activity	Material & qualitatively higher risk
2	Hire to Retire	Civilian Pay	Time & Attendance	\$15,322,815,000	High volume of activity	Material & qualitatively higher risk
3	Hire to Retire	Civilian Pay	Hiring	\$25,567,000		Material
4	Hire to Retire	Civilian Pay	Separations	0		Immaterial and low risk

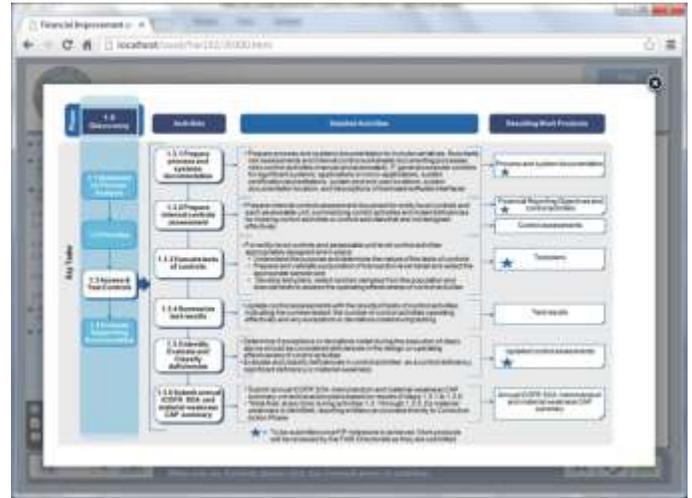
Department of Defense
Insert Component's Name
Insert Financial Line Item
Risk Assessment and Priority Ranking Report
As of March XX, 20XX

This example illustrates the assessable sub-unit prioritization work product for the

2.2.4 Wave 2- Assessable Unit Prioritization Document Work Product Example

This example illustrates the assessable sub unit prioritization work product for the Civilian Pay SBR assessable unit. Both quantitative (dollars at risk) and qualitative considerations may impact prioritization of audit readiness activities. Qualitative considerations include, but are not limited to, the nature and complexity of system interfaces, volume of transactional activity, dependency on manual error-prone processes, etc. When prioritizing audit readiness activities, management considers the combination of quantitative and qualitative considerations when assessing the potential magnitude and likelihood of errors in financial reporting.

Please click the Forward arrow to continue.



2.3 Task (1.3) Assess and Test Controls

Once the task (1.2) Prioritize is finished, reporting entities should begin (1.3) Assessing and Testing Controls. During the (1.3) Assess and Test Controls key task, six primary activities must be completed:

- (1.3.1) Prepare process and systems documentation;
- (1.3.2) Prepare internal control assessments;
- (1.3.3) Execute tests of controls;
- (1.3.4) Summarize test results;
- (1.3.5) Identify, evaluate, and classify deficiencies; and,
- (1.3.6) Submit annual ICOFR SOA and material weakness CAP summary.

Once these activities are complete and the work products are prepared, reporting entities will be able to demonstrate they have identified and evaluated all key control activities, noting which controls are reliable and which have deficiencies in design, operating effectiveness, or documentation that require corrective action.

Please click each primary activity for more information on the steps involved in this key task.

When you are finished, please click the Forward arrow to continue.

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(1.3.1) Prepare Process and Systems Documentation

1.1 Determine to Process, Analyze
1.2 Review
1.3 Assess & Test Controls
1.4 Identify Supporting Documentation

1.3.1 Prepare process and systems documentation
1.3.2 Prepare internal controls assessment
1.3.3 Execute tests of controls
1.3.4 Summarize test results
1.3.5 Identify, Evaluate and Classify deficiencies
1.3.6 Submit annual ICPIR SOA and material weakness CAP summary

(1.3.1) Prepare process and systems documentation. For each assessable unit, reporting entities should complete narratives, process flows, risk assessments and control worksheets documenting processes, risks (linked to financial statement assertions), control activities (manual and automated), IT general computer controls for significant systems, systems certifications/accreditations, system and end user locations, system documentation locations and descriptions of hardware/software interfaces. This is a very important task because essentially all of the documentation prepared as a result of this activity will support and be included in audit readiness assertion documentation.

When you are finished, please click the Forward arrow to continue.

(1.3.1) Prepare process and systems documentation

(1.3.1) Prepare process and systems documentation. For each assessable unit, reporting entities should complete narratives, process flows, risk assessments and control worksheets documenting processes, risks (linked to financial statement assertions), control activities (manual and automated), IT general computer controls for significant systems, systems certifications/accreditations, system and end user locations, system documentation locations and descriptions of hardware/software interfaces. This is a very important task because essentially all of the documentation prepared as a result of this activity will support and be included in audit readiness assertion documentation.

Please click the “X” in the upper-right corner to close this window and continue.

(1.3.2) Prepare Internal Control Assessments

(1.3.2) Prepare internal control assessments. Using the information gained when preparing process and systems documentation, reporting entities must then prepare internal control assessments for each assessable unit, summarizing the control activities and noting deficiencies for missing control activities or for control activities that are not designed effectively.

(1.3.2) Prepare internal control assessments

(1.3.2) Prepare internal control assessments. Using the information gained when preparing process and systems documentation, reporting entities must then prepare internal control assessments for each assessable unit, summarizing the control activities and noting deficiencies for missing control activities or for control activities that are not designed effectively.

Please click the “X” in the upper-right corner to close this window and continue.

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(1.3.3) Execute Tests of Controls

1.1 Determine the Process, Analysis
1.2 Overview
1.3 Assess & Test Controls
1.4 Identify Reporting Requirements

1.3.1 Prepare process and systems documentation
1.3.2 Prepare internal controls assessment
1.3.3 Execute tests of controls
1.3.4 Summarize test results
1.3.5 Identify, Evaluate and Classify deficiencies
1.3.6 Submit annual ICPIR, SOA and material readiness CAP summary

(1.3.3) Execute tests of controls. For those controls deemed to be designed effectively, reporting entities should then execute tests of control activities. This includes developing and executing test plans to assess each key control. Test plans must include the individual test procedures that were used to evaluate the operating effectiveness of control activities, as well as the test results. During this module, we will discuss how to develop test plans and execute testing of controls.

When you are finished, please click the Forward arrow to continue.

(1.3.3) Execute tests of controls

(1.3.3) Execute tests of controls. For those controls deemed to be designed effectively, reporting entities should then execute tests of control activities. This includes developing and executing test plans to assess each key control. Test plans must include the individual test procedures that were used to evaluate the operating effectiveness of control activities, as well as the test results. During this module, we will discuss how to develop test plans and execute testing of controls.

Please click the “X” in the upper-right corner to close this window and continue.

The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/30300.html'. The page content is from the 'Office of the Under Secretary of Defense (Comptroller)'. A modal window is open, displaying a slide titled '(1.3.4) Summarize Test Results'. The slide features a flowchart on the left with a vertical column labeled 'Key Tasks' containing four blue boxes: '1.1 Determine to Test, Analyze', '1.2 Prepare', '1.3 Assess & Test Controls', and '1.4 Summarize Reporting Recommendations'. To the right of the flowchart is a vertical list of six white boxes with black text: '1.3.1 Prepare process and systems documentation', '1.3.2 Prepare internal controls assessment', '1.3.3 Execute tests of controls', '1.3.4 Summarize test results' (highlighted in yellow), '1.3.5 Identify, Evaluate and Classify deficiencies', and '1.3.6 Submit annual ICPS, SOA and material weakness CAP summary'. To the right of the flowchart is a text box with the following text: '(1.3.4) Summarize test results. Once controls testing is complete, reporting entities should update their controls assessments with the results of their testing, noting number of items tested, and which controls were found to be operating effectively. For example, if the reporting entity tested controls related to procurement, it will document the number of items tested and the number of deficiencies.' The slide also includes a 'Help' button in the top right, a 'Close Progress' button, and a 'When you are finished, please click the Forward arrow to continue.' message at the bottom.

(1.3.4) Summarize test results

(1.3.4) Summarize test results. Once controls testing is complete, reporting entities should update their controls assessments with the results of their testing, noting number of items tested, and which controls were found to be operating effectively. For example, if the reporting entity tested controls related to procurement, it will document the number of items tested and the number of deficiencies.

Please click the “X” in the upper-right corner to close this window and continue.

The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/30300.html'. The page content includes a header for the 'Office of the Under Secretary of Defense (Comptroller)' and a navigation menu on the left. A central presentation slide is displayed, titled '(1.3.5) Identify, Evaluate, and Classify Deficiencies'. The slide features a flowchart on the left and a text box on the right. The flowchart lists the following steps:

- 1.1 Determine the Process, Analysis
- 1.2 Prepare the Test Controls
- 1.3 Execute tests of controls
- 1.4 Summarize test results
- 1.5 Identify, Evaluate and Classify deficiencies
- 1.6 Submit annual ICPIR, SOA and material weakness CAP summary

The text box on the right contains the following text: '(1.3.5) Identify, evaluate, and classify deficiencies. Any control activities found to have operating or documentation deficiencies should be noted on the controls assessment and indicated as requiring corrective action. The reporting entity will assess the deficiencies identified through Activity 1.3.3 and 1.3.4 to determine the extent of corrective action that will be required.'

(1.3.5) Identify, evaluate, and classify deficiencies

(1.3.5) Identify, evaluate, and classify deficiencies. Any control activities found to have operating or documentation deficiencies should be noted on the controls assessment and indicated as requiring corrective action. The reporting entity will assess the deficiencies identified through Activity 1.3.3 and 1.3.4 to determine the extent of corrective action that will be required.

Please click the “X” in the upper-right corner to close this window and continue.

(1.3.6) Submit annual ICOFR SOA and material weakness CAP summary

(1.3.6) Submit annual ICOFR SOA and material weakness CAP summary. Submit the SOA memorandum and material weakness CAP summary corrective action plan.

Please click the “X” in the upper-right corner to close this window and continue.

Financial Improvement and Audit Readiness (FIAR) Training

Office of the Under Secretary of Defense (Comptroller)

2.3.1 Key Work Products for Task (1.3)

What are the key work products for task (1.3) Assess & Test Controls?

Work Product:	Test Plans and Test Results
FIP Task:	1.3.3 and 1.3.4
Purpose:	To document the testing of controls including control activity tested, frequency of control execution, transaction population and sample size, test technique, test procedure, number of exceptions noted, and classification of deficiency
Examples:	http://comptroller.defense.gov/fiar/documents/workproducts/Test_Plan_Template.xlsx http://comptroller.defense.gov/fiar/documents/workproducts/Exmpl_SBR_Test_Pln.pdf http://comptroller.defense.gov/fiar/documents/workproducts/Exmpl_EC_Test_Pln.pdf

Work Product:	Annual ICOFR Statement of Assurance memorandum and material weakness CAP summary
FIP Task:	1.3.6
Purpose:	To summarize the results of the internal controls over financial reporting assessment, identify areas of significant deficiencies and material weaknesses, and specify corrective action plans to remediate all material weaknesses identified. The Statement of Assurance is required under the Federal Managers Financial Integrity Act (FMFIA) and the Department's Manager's Internal Control (MIC) program
Example:	http://comptroller.defense.gov/fiar/documents/workproducts/icofr_soa_memo_temp.docx http://comptroller.defense.gov/fiar/documents/workproducts/cap_template.pptx

The key work products produced from task (1.3) - Assess & Test Controls are (1.3.3) and (1.3.4)

2.3.1 Key Work Products for Task (1.3)

The key work products produced from task (1.3) – *Assess & Test Controls* are (1.3.3) and (1.3.4) Test Plans and Test Results which document the testing of controls including the control activity tested, frequency of control execution, transaction population and sample size, test technique, test procedure, number of exceptions noted, and classification of deficiency; and (1.3.6) Annual ICOFR SOA memorandum and material weakness CAP Summary which summarizes the results of the internal controls over financial reporting assessment, identifies areas of significant deficiencies and material weaknesses, and specifies corrective action plans to remediate all material weaknesses identified. The Statement of Assurance is required under the Federal Managers Financial Integrity Act (FMFIA) and the Department’s Manager’s Internal Control (MIC) program. Template examples of these work products are available in the FIAR Guidance Tools and Templates.

Please click the Forward arrow to continue.



2.4 Task (1.4) Evaluate Supporting Documentation

Reporting entities must perform FIAR Methodology task (1.4) Evaluate Supporting Documentation. During this key task, reporting entities must complete six primary activities:

- (1.4.1) Prepare the population;
- (1.4.2) Perform data mining;
- (1.4.3) Identify and document supporting documentation;
- (1.4.4) Determine retention requirements;
- (1.4.5) Test existence of supporting documentation; and,
- (1.4.6) Summarize test results.

Once these activities are complete and the work products are prepared, reporting entities will be able to demonstrate they can readily extract detailed populations for all significant activity and balances from their systems and these populations reconcile to their trial balances. Furthermore, reporting entities will be able to demonstrate, through test results, areas where sufficient audit documentation exists and any areas where corrective action is required to become audit ready.

Please click each primary activity for more information on the steps involved in this key task.

When you are finished, please click the Forward arrow to continue.

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Office of the Under Secretary of Defense (Comptroller)

(1.4.1) Prepare the Population

1.1 Determine to Proceed Analysis
1.2 Prioritize
1.3 Review & Test Controls
1.4 Evaluate Supporting Documentation

1.4.1 Prepare the population
1.4.2 Perform data mining
1.4.3 Identify and document supporting documentation
1.4.4 Determine selection requirements
1.4.5 Test reliability of supporting documentation
1.4.6 Summarize test results

(1.4.1) Prepare the population - Reporting entities should begin this activity by extracting and preparing in detail a population at transaction-level (e.g., disbursements or asset-level). The total dollar amount of the detail population should be reconciled to the trial balance and ultimately, the financial statements. This reconciliation should be documented and readily available to support the completeness of the population.

When you are finished, please click the Forward arrow to continue.

(1.4.1) Prepare the population

(1.4.1) Prepare the population – Reporting entities should begin this activity by extracting and preparing in detail a population at transaction-level (e.g., disbursements or asset-level). The total dollar amount of the detail population should be reconciled to the trial balance and ultimately, the financial statements. This reconciliation should be documented and readily available to support the completeness of the population.

Please click the “X” in the upper-right corner to close this window and continue.

(1.4.2) Perform Data Mining

Key Tasks

- 1.1 Determine to Process Available
- 1.2 Prioritize
- 1.3 Review & Test Content
- 1.4 Evaluate Supporting Documentation

1.4.2 Perform data mining

1.4.1 Prepare the population

1.4.3 Identify and document supporting documentation

1.4.4 Determine retention requirements

1.4.5 Test relevance of supporting documentation

1.4.6 Summarize test results

(1.4.2) Perform data mining - Once the completeness of the population is demonstrated, reporting entities should perform initial data mining on the file to check for any basic errors (e.g., negative disbursements, missing fields, etc.). For example, a listing of accounts payables should be reviewed to ensure there are no negative amounts, or asset listings could be reviewed to ensure every item has an asset identification number. Documentation of the different types of mining performed and the results of any necessary clean-up should be retained to demonstrate work performed by the reporting entity.

(1.4.2) Perform data mining

(1.4.2) Perform data mining – Once the completeness of the population is demonstrated, reporting entities should perform initial data mining on the file to check for any basic errors (e.g., negative disbursements, missing fields, etc.). For example, a listing of accounts payables should be reviewed to ensure there are no negative amounts, or asset listings could be reviewed to ensure every item has an asset identification number. Documentation of the different types of mining performed and the results of any necessary clean-up should be retained to demonstrate work performed by the reporting entity.

Please click the “X” in the upper-right corner to close this window and continue.

(1.4.3) Identify and Document Supporting Documentation

(1.4.3) Identify and document supporting documentation - Once the population is prepared, reporting entities need to define and document supporting documentation requirements for each major type of transaction or balance. Reporting entities can refer to the FIAR Guidance for minimum Key Supporting Documents (or KSDs) by audit prioritization wave. It is important to ensure that KSDs are defined to address all relevant financial statement assertions (Existence, Completeness, Rights & Obligations, Valuation and Presentation & Disclosure). The conclusions around what constitutes KSDs for each transaction type should be documented in supporting documentation matrices (or equivalent forms).

(1.4.3) Identify and document supporting documentation

(1.4.3) Identify and document supporting documentation – Once the population is prepared, reporting entities need to define and document supporting documentation requirements for each major type of transaction or balance. Reporting entities can refer to the FIAR Guidance for minimum Key Supporting Documents (or KSDs) by audit prioritization wave. It is important to ensure that KSDs are defined to address all relevant financial statement assertions (Existence, Completeness, Rights & Obligations, Valuation and Presentation & Disclosure). The conclusions around what constitutes KSDs for each transaction type should be documented in supporting documentation matrices (or equivalent forms).

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Office of the Under Secretary of Defense (Comptroller)

(1.4.4) Determine Retention Requirements

Key Tasks

- 1.1 Determine to Proceed Analysis
- 1.2 Prioritize
- 1.3 Review & Test Controls
- 1.4 Evaluate Supporting Documentation
- 1.4.1 Prepare the population
- 1.4.2 Perform data mining
- 1.4.3 Identify and document supporting documentation
- 1.4.4 Determine retention requirements**
- 1.4.5 Test existence of supporting documentation
- 1.4.6 Summarize test results

(1.4.4) Determine retention requirements - Reporting entities should then define the minimum document retention period (e.g., seven years, for audit readiness purposes, for each of the KSDs identified in the previous step). A lack of sufficient supporting documentation is a common cause of unsuccessful first-time financial statement audits, so it's important to define what must be kept and for how long. The conclusions on the minimum amount of time each KSD must be retained for audit readiness purposes should be documented in an Aging Analysis (or may even be included in the Supporting Documentation Matrices completed in the previous activity).

When you are finished, please click the Forward arrow to continue.

(1.4.4) Determine retention requirements

(1.4.4) Determine retention requirements – Reporting entities should then define the minimum document retention period (e.g., seven years, for audit readiness purposes, for each of the KSDs identified in the previous step). A lack of sufficient supporting documentation is a common cause of unsuccessful first-time financial statement audits, so it's important to define what must be kept and for how long. The conclusions on the minimum amount of time each KSD must be retained for audit readiness purposes should be documented in an Aging Analysis (or may even be included in the Supporting Documentation Matrices completed in the previous activity).

Please click the “X” in the upper-right corner to close this window and continue.

The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/30400.html'. The page content includes the 'Office of the Under Secretary of Defense (Comptroller)' logo and a sidebar with a course index. A pop-up window is overlaid on the page, titled '(1.4.5) Test Existence of Supporting Documentation'. The pop-up contains a flowchart on the left and a text description on the right. The flowchart shows a sequence of steps: 1.1 Determine to Perform Analysis, 1.2 Prioritize, 1.3 Review & Test Controls, 1.4 Evaluate Supporting Documentation, 1.4.1 Prepare the population, 1.4.2 Perform data mining, 1.4.3 Identify and document supporting documentation, 1.4.4 Determine retention requirements, 1.4.5 Test existence of supporting documentation, and 1.4.6 Summarize test results. The text description explains that test plans should be developed, sample items should be selected from the population that was reconciled to the trial balance, and testing should be executed. It emphasizes ensuring existing documentation (e.g., invoices, receiving reports, etc.) supporting the selected sample items is consistent with the required KSDs defined earlier, as well as ensuring the KSDs are retained for a sufficient period of time to support audit readiness. An important point to note is when reviewing supporting documentation, be sure to determine the source of the documentation, the ability to retrieve this same documentation during an audit, and the controls over the documentation to ensure it is retained for a sufficient time in the future. The test plans should be updated with the results of the individual tests and retained for audit readiness assertion purposes.

(1.4.5) Test existence of supporting documentation

(1.4.5) Test existence of supporting documentation – Test plans should be developed, sample items should be selected from the population that was reconciled to the trial balance, and testing should be executed. Testing should focus on ensuring existing documentation (e.g., invoices, receiving reports, etc.) supporting the selected sample items is consistent with the required KSDs defined earlier, as well as, ensuring the KSDs are retained for a sufficient period of time to support audit readiness. An important point to note is when reviewing supporting documentation, be sure to determine the source of the documentation, the ability to retrieve this same documentation during an audit, and the controls over the documentation to ensure it is retained for a sufficient time in the future. The test plans should be updated with the results of the individual tests and retained for audit readiness assertion purposes.

Please click the “X” in the upper-right corner to close this window and continue.

(1.4.6) Summarize Test Results

(1.4.6) Summarize test results - Once testing is complete, the results should be summarized in an Evaluation of Test Results, including the identification of audit supporting documentation deficiencies that need to be remediated during the Corrective Action phase. The Evaluation of Test Results should be retained to memorialize the reporting entity's conclusions surrounding its evaluation of supporting documentation. For example, the summary may note the total number of sample items, number of errors, dollar impact, relevant locations, and users and personnel who contributed to the errors.

(1.4.6) Summarize test results

(1.4.6) Summarize test results – Once testing is complete, the results should be summarized in an Evaluation of Test Results, including the identification of audit supporting documentation deficiencies that need to be remediated during the Corrective Action phase. The Evaluation of Test Results should be retained to memorialize the reporting entity's conclusions surrounding its evaluation of supporting documentation. For example, the summary may note the total number of sample items, number of errors, dollar impact, relevant locations, and users and personnel who contributed to the errors.

Please click the “X” in the upper-right corner to close this window and continue.

The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/30401.html'. The page header features the Department of Defense seal and the text 'Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness (FIAR) Training'. A 'Help' button and 'Course Progress' indicator are in the top right. The left sidebar contains a navigation menu with the following items: 'FIAR 102, Audit Readiness', 'Module 1: FIAR Methodology and Relevant Terms', 'Module 2: (1.0) Discovery Phase', '2.0 Overview', '2.1 Task (1.1) Statement to Process Analysts', '2.2 Task (1.2) Prioritize', '2.3 Task (1.3) Assess & Test Controls', '2.4 Task (1.4) Evaluate Supporting Documentation', '2.5 Key Points', 'Module 3: Other Phases of the FIAR Methodology', and 'Module 4: Course Summary'. The main content area is titled '2.4.1 Successful Completion of Task (1.4)' and contains the following text: 'What is the key to the successful completion of the (1.4) - Evaluate Supporting Documentation task? Prepare the population (1.4.1):' followed by three bullet points: 'Obtain the listing of transactions for the test period (e.g., all payments to vendors made from October 1 to March 31)', 'Reconcile population of transactions to account balances/general ledger and financial statements', and 'Maintain documentation of the reconciliation including support for all material journal vouchers'. Below this, it says 'Perform data mining of population to identify (1.4.2):' followed by three bullet points: 'Abnormal balances (e.g., expense transaction with a credit balance)', 'Erroneous transactions (e.g., duplicate payments)', and 'Missing Data Fields (e.g., payroll file missing employee SSN or other employee identification information)'. The footer contains a 'Please click the Forward Arrow to continue.' message and navigation icons.

2.4.1 Successful Completion of Task (1.4)

In order to successfully execute tests of supporting documentation, reporting entities must execute the following tasks. First, prepare the population (1.4.1) by obtaining the listing of transactions for the test period (for example, all payments to vendors made from October 1 to March 31); reconcile the population of transactions to account balances/general ledger and financial statements; and maintain documentation of the reconciliation, including support for all material journal vouchers. Second, perform data mining of the population to identify (1.4.2) abnormal balances (for example, an expense transaction with a credit balance); erroneous transactions (for example, duplicate payments); and missing data fields (for example, a payroll file missing an employee social security number (SSN) or other employee identification information).

Please click the Forward arrow to continue.

2.4.2 Successful Completion of Task (1.4) (cont.)

Next, identify and document supporting documentation (1.4.3) by identifying key supporting documents needed to support transactions by name of document (such as invoice, DD Form 250, or DD Form 1354); purpose of test (for example, determining whether invoice amount supports payment to vendor); location of document; and type of document (electronic or paper invoice). Then, determine documentation retention requirements (1.4.4); and the length of time data and documentation must be maintained to support audit readiness assertion.

Please click the Forward arrow to continue.

2.4.3 Successful Completion of Task (1.4) (cont.)

In the next key element for the successful completion of the task (1.4) – *Evaluate Supporting Documentation*, reporting entities must test the existence of supporting documentation (1.4.5). The reporting entity will develop a test plan and test procedures; select a random sample of transactions from the population; test the existence of supporting documentation (for example, are all disbursements supported by a valid invoice and purchase order); evaluate the quality of supporting documentation; and assess the location and sources of supporting documentation, verifying policies and procedures and control activities to ensure supporting documentation is retained for a sufficient period of time.

Upon completion of the test procedures, the reporting entity will summarize test results (1.4.6), by identifying any exceptions or deficiencies and determining if test exceptions exceed tolerable misstatement.

Please click the Forward arrow to continue.

Financial Improvement and Audit Readiness (FIAR) Training

2.4.4 Key Work Products for Task (1.4)

What are the key work products for task (1.4) - Evaluate Supporting Documentation?

Work Product:	Transaction population and reconciliation
FIP Task:	1.4.1
Purpose:	To identify a population of transaction-level detail for each assessable unit being asserted as audit ready, demonstrate that the population reconciles to the general ledger accounts and financial statements, and maintain documentation of the reconciliation

Work Product:	Data mining and corrective actions
FIP Task:	1.4.2
Purpose:	To identify any abnormal balances, invalid transactions or missing data fields in the population file, and identify appropriate corrective actions

Work Product:	Supporting documentation criteria matrix
FIP Task:	1.4.3
Purpose:	To identify key documents needed to support financial transactions and financial statement balances

The key work products for task (1.4) - Evaluating Supporting Documentation are: (1.4.1) -

2.4.4 Key Work Products for Task (1.4)

The key work products for task (1.4) – *Evaluating Supporting Documentation* are:

- (1.4.1) – Transaction population and reconciliation: The purpose of this task is to identify a population of transaction-level detail for each assessable unit being asserted as audit ready, demonstrate that the population reconciles to the general ledger accounts and financial statements, and maintain documentation of the reconciliation.
- (1.4.2) – Data mining and corrective actions: The purpose is to identify any abnormal balances, invalid transactions or missing data fields in the population file, and identify appropriate corrective actions; and
- (1.4.3) – Supporting documentation criteria matrix: The purpose is to identify key documents needed to support financial transactions and financial statement balances.

Please click the Forward arrow to continue.

Financial Improvement and Audit Readiness (FIAR) Training

2.4.5 Key Work Products for Task (1.4) (cont.)

What are the key work products for task (1.4) - Evaluate Supporting Documentation? (cont.)

Work Product:	Aging analysis
FIP Task:	1.4.4
Purpose:	To document length of time supporting documentation must be retained to support audit readiness assertion

Work Product:	Test plans, test results, and document retention assessment
FIP Task:	1.4.5
Purpose:	To document testing of financial transactions and balances, and evaluate the quality, location and sources of supporting documentation, verifying policies and procedures and control activities to ensure a sufficient document retention period is maintained

Work Product:	Evaluation of test results
FIP Task:	1.4.6
Purpose:	To summarize test results, and identify deficiencies in supporting documentation

Continuing, additional key work products for task (1.4) - Evaluating Supporting Documentation

2.4.5 Key Work Products for Task (1.4) (cont.)

Continuing, additional key work products for task (1.4) – *Evaluating Supporting Documentation* are:

- (1.4.4) – Aging Analysis: The purpose is to document length of time supporting documentation must be retained to support audit readiness assertion;
- (1.4.5) – Test Plans and Test Results: The purpose is to document testing of financial transactions and balances, and evaluate the quality, location and sources of supporting documentation, verifying policies and procedures and control activities to ensure a sufficient document retention period is maintained; and
- (1.4.6) – Evaluation of Test Results: The purpose is to summarize test results, and identify deficiencies in supporting documentation.

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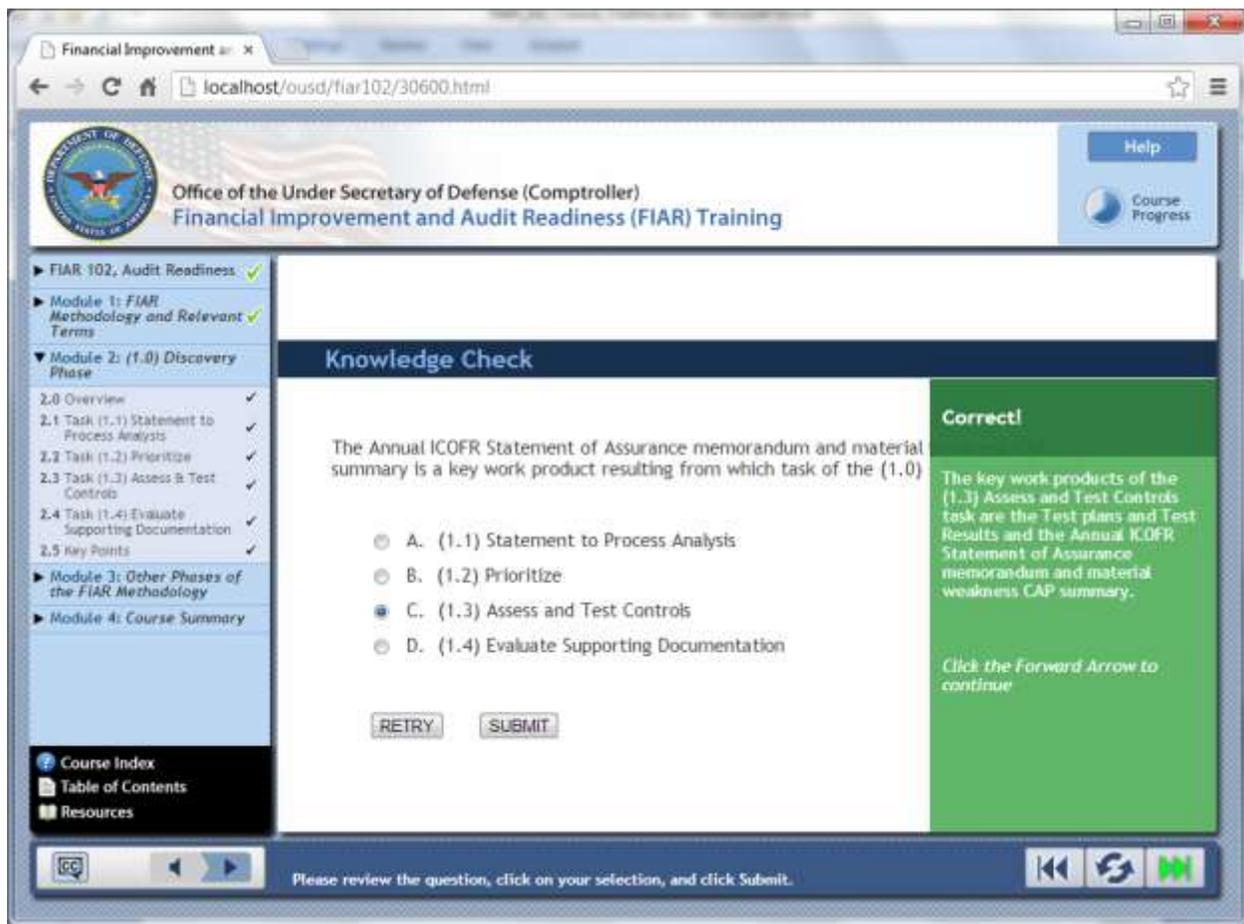
The screenshot shows a web browser window with the URL `localhost/ousd/fiar102/30500.html`. The page header identifies the 'Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness (FIAR) Training'. The left sidebar contains a navigation menu with the following items: FIAR 102, Audit Readiness; Module 1: FIAR Methodology and Relevant Terms; Module 2: (1.0) Discovery Phase (expanded); 2.0 Overview; 2.1 Task (1.1) Statement to Process Analysis; 2.2 Task (1.2) Prioritize; 2.3 Task (1.3) Assess & Test Controls; 2.4 Task (1.4) Evaluate Supporting Documentation; 2.5 Key Points (selected); Module 3: Other Phases of the FIAR Methodology; and Module 4: Course Summary. The main content area is titled '2.5 Module 2 Key Points' and contains the text: 'The key points that you should take away from Module Two are:' followed by three bullet points. The footer of the page features a navigation bar with a forward arrow and the text 'Please click the Forward Arrow to continue.' along with other navigation icons.

2.5 Module 2 Key Points

The key points that you should take away from Module Two are:

- Completing the (1.1) – *Statement to Process Analysis* tasks requires using the financial statements and identifying the processes associated with each financial statement line item.
- Identifying assessable units requires an understanding of operations.
- Preparing a narrative and process flow for an end-to-end process requires having an understanding of the entire process, conducting walk-through(s) and reviewing the documents associated with the process.
- Completing the (1.0) – *Discovery* phase requires identifying and documenting processes from inception to reporting and the related key risks of material misstatement, financial reporting objectives, and controls, as well as performing supporting documentation testing.

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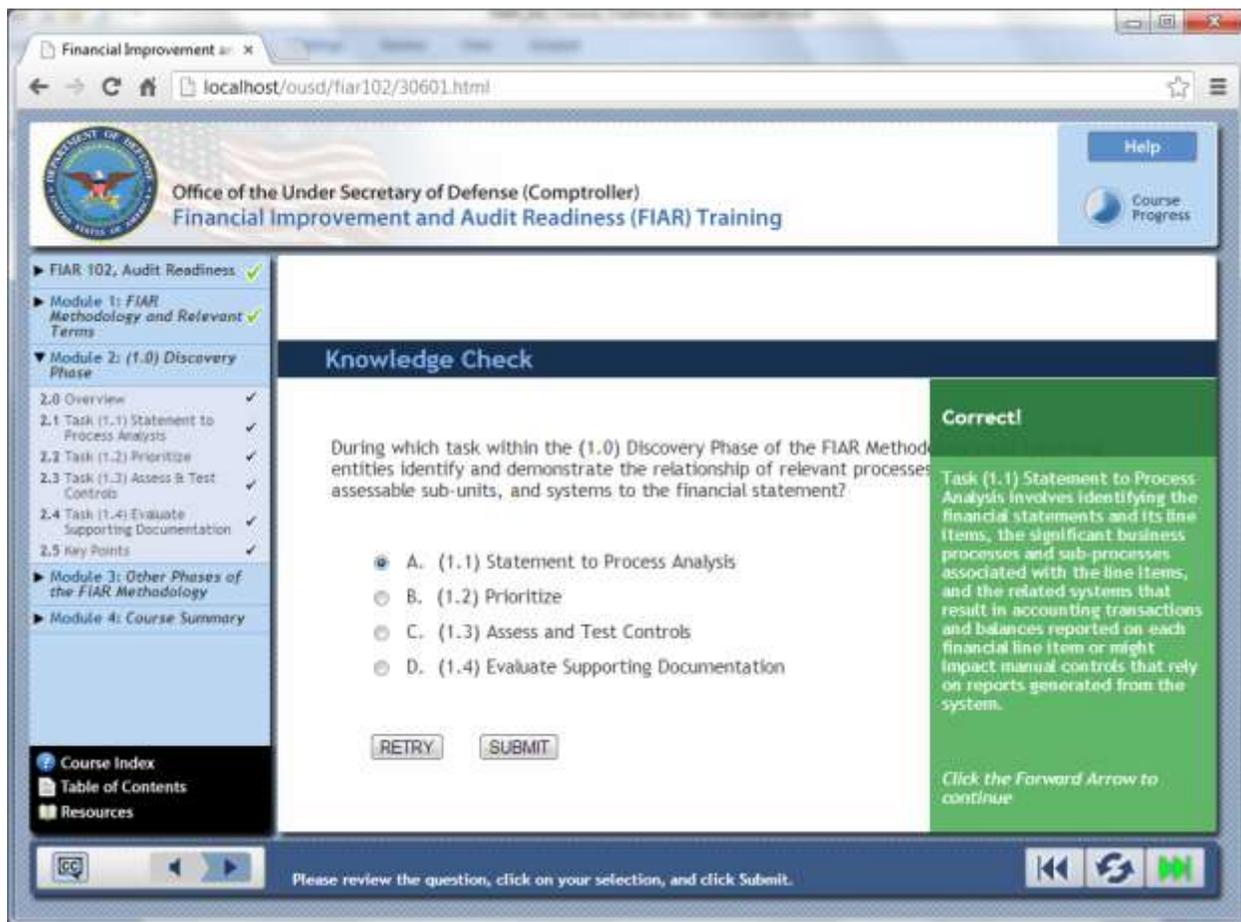


The Annual ICOFR Statement of Assurance memorandum and material weakness CAP summary is a key work product resulting from which task of the (1.0) – Discovery Phase?

- A. (1.1) Statement to Process Analysis
- B. (1.2) Prioritize
- C. (1.3) Assess and Test Controls**
- D. (1.4) Evaluate Supporting Documentation

Explanation

- a) *Incorrect. The key work products of the (1.1) Statement to Process Analysis task are the Statement to Process Analysis and Quantitative Drill Down Level 1 & 2*
- b) *Incorrect. The key work products of the (1.2) Prioritize task are the Systems Inventory List and the Assessable unit prioritization and audit readiness strategy document.*
- c) *Correct! The key work products of the (1.3) Assess and Test Controls task are the Test plans and Test Results and the Annual ICOFR Statement of Assurance memorandum and material weakness CAP summary.*
- d) *Incorrect. The key work products of the (1.4) Evaluate Supporting Documentation task are Transaction population and reconciliation; Data mining and corrective actions; Supporting documentation criteria matrix; Aging analysis; Test plans, test results and document retention assessment; and the Evaluation of test results.*



During which task within the (1.0) Discovery Phase of the FIAR Methodology must reporting entities identify and demonstrate the relationship of relevant processes, assessable units, assessable sub-units, and systems to the financial statement?

- A. (1.1) Statement to Process Analysis
- B. (1.2) Prioritize
- C. (1.3) Assess and Test Controls
- D. (1.4) Evaluate Supporting Documentation

Explanation:

- a) *Correct! Task (1.1) Statement to Process Analysis involves identifying the financial statements and its line items, the significant business processes and sub-processes associated with the line items, and the related systems that result in accounting transactions and balances reported on each financial line item or might impact manual controls that rely on reports generated from the system.*
- b) *Incorrect. Task (1.2) Prioritize involves taking identified business processes and ranking them in a prioritized order to define which processes and systems will be first reviewed for audit readiness purposes.*
- c) *Incorrect. Task (1.3) Assess & Test Controls is when the reporting entity prepares or reviews existing process and system documentation to identify gaps, evaluate control design, and perform tests of the operating effectiveness of control activities.*
- d) *Incorrect. Task (1.4) Evaluate Supporting Documentation requires obtaining detailed populations for all relevant financial statement line items at the transaction or item level, defining what is adequate supporting documentation for each type of transaction, and then testing to verify that transactions are individually supported by sufficient supporting documentation.*

The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/40000.html'. The page header identifies the 'Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness (FIAR) Training'. A sidebar on the left lists course sections, with 'Module 3: Other Phases of the FIAR Methodology' expanded to show sub-sections like '3.0 Overview', '3.1 Key Tasks for (2.0) Corrective Action Phase', etc. The main content area features the title 'MODULE 3: Other Phases of the FIAR Methodology' and a flow diagram with three blue arrow-shaped boxes: 'FIAR Methodology and Relevant Terms', '1.0 Discovery Phase', and 'Other Phases of the FIAR Methodology'. The bottom of the page has a dark blue bar with navigation icons and the text 'Please click the Forward Arrow to continue.'

Module 3 Intro: Other Phases of FIAR Methodology

This module will discuss the remaining phases of the FIAR Methodology.

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Financial Improvement and Audit Readiness (FIAR) Training

Help
Course Progress

FIAR 102, Audit Readiness ✓
Module 1: FIAR Methodology and Relevant Terms ✓
Module 2: (1.0) Discovery Phase ✓
Module 3: Other Phases of the FIAR Methodology
3.0 Overview ✓
3.1 Key Tasks for (2.0) Corrective Action Phase
3.2 Key Tasks for (3.0) Assertion/Evaluation Phase
3.3 Key Tasks for (4.0) Validation Phase
3.4 Key Tasks for (5.0) Audit Phase
3.5 Key Points
Module 4: Course Summary

Course Index
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Resources

3.1 Key Tasks for (2.0) Corrective Action Phase

What are the key tasks for the (2.0) - Corrective Action phase?

Phases	1.0 Discovery	2.0 Corrective Action	3.0 Assertion/Evaluation	4.0 Validation	5.0 Audit
Key Tasks	1.1 Statement to Process Analysis 1.2 Prioritize 1.3 Assess & Test Controls 1.4 Evaluate Supporting Documentation	2.1 Design Audit-Ready Environment 2.2 Develop Corrective Action 2.3 Resource 2.4 Execute	3.1 Review 3.2 Engage Auditor 3.3 Assertion Examination 3.4 Address Deficiencies	4.1 Additional Documentation Review 4.2 Determine Audit Readiness	5.1 Engage Auditor 5.2 Support Audit 5.3 Auditor Issues Report

Note: The tasks in grey boxes must be repeated on a continuous basis as they are critical in achieving and maintaining auditability and reliable financial information.

Please click the Forward Arrow to continue.

3.1 Key Tasks for (2.0) Corrective Action Phase

There are four key tasks in the (2.0) – *Corrective Action* phase.

- (2.1) –Design Audit Ready Environment,
- (2.2) –Develop Corrective Action Plan,
- (2.3) – Resource, and
- (2.4) – Execute.

Please click the Forward arrow to continue.

The screenshot shows a web browser window with the URL `localhost/ousd/fiar102/40101.html`. The page header identifies the user as being in the 'Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness (FIAR) Training'. The main content area is titled '3.1.1 Task (2.1) Design Audit Ready Environment' and asks 'What happens during the (2.1) - Design Audit Ready Environment task?'. A flowchart illustrates the process:

Phase	Key Tasks	Activities	Detailed Activities	Resulting Work Products
2.0 Corrective Action	2.1 Design Audit Ready Environment	2.1.1 Mitigate deficiencies in control activities	Define requirements and design solutions to mitigate deficiencies for control activities, processes and/or systems, and policies	"To-be" process flows and narratives, CONOPS, systems requirements, and policies and procedures
			2.1.2 Mitigate deficiencies in supporting documentation	
	2.2 Develop Corrective Actions			
	2.3 Review			
	2.4 Example			

At the bottom of the page, a progress indicator states: 'To begin the (2.0) - Corrective Action phase, reporting entities must design their audit-ready'. Navigation controls for back, forward, and search are visible at the bottom right.

3.1.1 Task (2.1) Design Audit Ready Environment

To begin the (2.0) – *Corrective Action* phase, reporting entities must design their audit-ready environment, that is, the process and controls to achieve audit readiness. This is comprised of two primary activities. The first, (2.1.1) is to mitigate deficiencies in control activities, for example, signatures by reviewers when a control is performed. During this activity, reporting entities should design solutions to mitigating deficiencies for control activities, processes and/or systems, and policies and procedures. These solutions should be documented as “to-be” process flows and narratives, CONOPS, systems requirements documents and policies and procedures.

The second, (2.1.2) mitigate deficiencies in supporting documentation, for example, developing and retaining documents detailing approval of requisitions. This is similar to the previous activity, except that solutions should be designed to mitigate deficiencies in supporting documentation. Solutions for documentation issues should be summarized in solutions documentation that summarizes how the deficiency will be resolved or overcome.

Once these activities are complete and the work products are prepared, reporting entities will be able to begin developing corrective action plans to achieve these audit ready environment solutions.

Please click the Forward arrow to continue.

The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/40102.html'. The page header includes the Department of Defense logo and the text 'Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness (FIAR) Training'. A 'Help' button and 'Course Progress' indicator are in the top right. The left sidebar contains a course index with the following items: FIAR 102, Audit Readiness; Module 1: FIAR Methodology and Relevant Terms; Module 2: (1.0) Discovery Phase; Module 3: Other Phases of the FIAR Methodology; 3.0 Overview; 3.1 Key Tasks for (2.0) Corrective Action Phase; 3.2 Key Tasks for (3.0) Assertion/Evaluation Phase; 3.3 Key Tasks for (4.0) Validation Phase; 3.4 Key Tasks for (5.0) Audit Phase; 3.5 Key Points; and Module 4: Course Summary. The main content area is titled '3.1.2 Task (2.2) Develop Corrective Action Plan' and asks 'What happens during the (2.2) - Develop Corrective Action Plan task?'. It features a flowchart with the following structure:

Phase	Activities	Detailed Activities	Resulting Work Products
2.0 Corrective Action	2.1 Design Audit Ready Environment		
	2.2 Develop Corrective Actions	2.2.1 Develop plan and update FIP	Updated "Corrective Action" section of FIP
	2.3 Resources		
	2.4 Exercise		

The detailed activities for 2.2.1 include:

- Develop corrective actions, or update existing corrective actions, in reporting entity FIPs that will execute the "to-be" solution, including updating policies and procedures, preparing systems design documents and drafting documentation templates.
- Updates to FIPs should include classification of the deficiency (control deficiency, significant deficiency or material weakness) and target completion dates.
- Corrective actions must be developed for each deficiency identified during execution of tests 1.3 and 1.4.

The footer of the page contains the text: 'Next, reporting entities must (2.2) develop corrective actions to implement audit ready' and navigation controls (back, forward, refresh).

3.1.2 Task (2.2) Develop Corrective Action Plan

Next, reporting entities must (2.2) develop corrective actions to implement audit ready environment solutions. This is comprised of one primary activity, which requires the reporting entities to develop a corrective action plan and update FIP (2.2.1). Reporting entities must then develop implementation plans to achieve the audit ready environment, including updating policies and procedures, preparing systems design documents and drafting documentation templates. The component actions and planned tasks for corrective action should be documented in formal corrective action plans, along with any supporting documents developed. Once the corrective action plan is developed, the reporting entity must update their FIPs to reflect the specific actions needed to become audit ready and identify the target completion dates for each major task.

This may require the reporting entity to update or develop policies and procedures, systems design documentation, and documentation templates.

Once these activities are complete and the work products are prepared, reporting entities will be able to begin estimating and obtaining required resources to implement these corrective action plans.

Please click the Forward arrow to continue.

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3.1.3 Task (2.3) Resource

What happens during the (2.3) - Resource task?

CLICK TO ENLARGE

Phase: 2.0 Corrective Action

Key Tasks: 2.1 Design Audit Ready Environment, 2.2 Develop Corrective Actions, 2.3 Resource, 2.4 Execute

2.3.1 Develop budget estimates: Develop budget estimates of required resources to execute corrective action plans. Resulting Work Product: Detailed estimates, including FTEs and funds.

2.3.2 Prepare budget justification: Prepare and submit budget justification/resource management decision materials as needed. Resulting Work Product: Resource Management Decisions (RMDs).

To effectively implement corrective action plans, reporting entities obtain sufficient

3.1.3 Task (2.3) Resource

To effectively implement corrective action plans, reporting entities obtain sufficient resources. Obtaining these resources is comprised of two primary activities:

- (2.3.1) Develop budget estimates – Reporting entities need to develop estimates of resources needed to implement corrective action plans. This includes both the Full-Time Equivalents (or FTEs) and funds needed to implement all of the required processes, procedures, control activities, systems, documentation and other organizational and operational changes. These resource estimates should be documented to assist with the next activity.
- (2.3.2) Prepare budget justification – Includes preparing and submitting budget justifications (or resource management decision materials) as needed to formally request and obtain the necessary resources. Any differences between when the funding is anticipated versus when received should be reflected in the timeline for corrective action plans documented in the FIPs.

Once these activities are complete and the work products are prepared, reporting entities will be able to begin executing corrective action plans.

Please click the Forward arrow to continue.

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3.1.4 Task (2.4) Execute

What happens during the (2.4) - Execute task?

Phase: 2.0 Corrective Action

Key Tasks: 2.1 Design Audit Ready Environment, 2.2 Develop Corrective Actions, 2.3 Review, 2.4 Execute

Activities: Detailed Activities, Resulting Work Products

CLICK TO ENLARGE

- Execute systems, process, controls and documentation changes included in Corrective Action Plans.
- On a monthly basis, update Financial Improvement Plans (FIPs) to reflect progress and accomplishments, including any scope and timeline changes that result during execution.
- Verify that corrective action plans have been implemented at the reporting entity. Consider repeating Discovery Phase key tasks 1.3 and 1.4, to verify successful implementation of corrective action plans.
- Confirm that audit readiness "dealbreakers" (p 51-52) have been addressed.
- Notify FIAR Directorate that corrective actions have been implemented and that the reporting entity is ready for an examination by an IIA or the OIG OIG of its assessable units, as defined in the standard Management Assertion criteria (p 22-23).

Updated FIPs

Notification to FIAR Directorate of corrective action plan implementation

The final key task in the Corrective Action phase is to execute the corrective action plans.

3.1.4 Task (2.4) Execute

The final key task in the Corrective Action phase is to execute the corrective action plans. This includes executing corrective action for systems, process, controls and documentation changes as defined in the corrective action plans. On a monthly basis, the reporting entity should update the FIPs to reflect progress and accomplishments, including any scope or timeline changes that are identified or realized during execution.

Once these activities are complete and the work products are prepared, reporting entities will be able to begin the Assertion/Evaluation phase.

In the detailed activities in this slide you see some pages cited in parentheses. These pages refer to the FIAR Guidance of March 2013.

Please click the Forward arrow to continue.

3.1.5 Successful Completion of Task (2.1)

The key to successful completion of task (2.1) – *Design Audit Ready Environment* is to mitigate deficiencies in control activities (2.1.1). Reporting entities define requirements and design solutions to mitigate deficiencies noted during testing, including business process, internal control, and system deficiencies. Also, to mitigate deficiencies in supporting documentation (2.1.2), reporting entities will refine requirements and design solutions to mitigate supporting documentation deficiencies noted during testing, including missing documentation, weaknesses in document retention policies, and inadequate documentation.

Please click the Forward arrow to continue.

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3.1.6 Successful Completion of Tasks (2.2) and (2.3)

What is the key to the successful completion of tasks (2.2) - Develop Corrective Actions and (2.3) - Resource?

- Develop corrective actions and update FIP (2.2.1)
 - Corrective actions must be concrete, measurable and sustainable, including performing system upgrades, updating policy and procedure documents, implementing new controls or improving weaknesses in existing controls
 - Update FIPs to include description of deficiency, deficiency level, description of corrective action, and target completion dates
- Develop budget estimates (2.3.1)
 - Identify required resources (both funding and full time equivalents) necessary to execute corrective action plans
- Prepare budget justification (2.3.2)
 - Submit budget justification/resource management decision materials as needed

Please click the Forward Arrow to continue.

3.1.6 Successful Completion of Tasks (2.2) and (2.3)

What is the key to the successful completion of tasks (2.2) – *Develop Corrective Actions* and (2.3) – *Resource*? To successfully complete these two tasks, the reporting entity must:

- Develop corrective actions and update FIP (2.2.1). Corrective actions must be concrete, measurable and sustainable, including performing system upgrades, updating policy and procedure documents, implementing new controls or improving weaknesses in existing controls; and update FIPs to include description of deficiency, deficiency level, description of corrective action and target completion dates.
- Develop budget estimates (2.3.1). Identify required resources (both funding and full time equivalents) necessary to execute corrective action plans.
- Prepare budget justification (2.3.2). Submit budget justification/ resource management decision materials as needed.

Please click the Forward arrow to continue.

3.1.7 Successful Completion of Task (2.4)

To successfully complete the (2.4) – *Execute* task, reporting entities must execute systems, process, and internal control improvements noted in corrective action plans; update FIPs on at least a monthly basis to reflect progress, accomplishments, and identify any scope or timeline changes in execution of corrective actions; and perform procedures to verify that corrective actions have been successfully implemented by confirming that audit readiness deal breakers have been addressed and notifying the FIAR Directorate that corrective actions have been implemented and the reporting entity is ready for an examination, by an Independent Public Accountant (IPA) or DoD OIG, of its assessable units.

Please click the Forward arrow to continue.

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3.1.8 Work Products for Tasks (2.1) and (2.2)

What are the work products for the (2.1) - Design Audit Ready Environment and (2.2) - Develop Corrective Action tasks?

Work Product:	"To-be" process flows and narratives, CONOPS, systems requirements, and policies and procedures
FIP Task:	2.1.1
Purpose:	To document requirements and design solutions to mitigate weaknesses in control activities, processes, and/or systems

Work Product:	Solution document summarizing resolution of documentation deficiencies
FIP Task:	2.1.2
Purpose:	To document requirements and design solutions to mitigate deficiencies in supporting documentation

Work Product:	Updated "corrective action" section of FIP
FIP Task:	2.2.1
Purpose:	To document corrective actions, including target completion dates, in the Financial Improvement Plans
Template:	http://comptroller.defense.gov/fiar/documents/workproducts/Standard_FIP_Template.xlsx

The key work products produced from task (2.1) - Design Audit Ready Environment are the

3.1.8 Work Products for Tasks (2.1) and (2.2)

The key work products produced from task (2.1) – *Design Audit Ready Environment* are the “To-be” process flows and narratives, CONOPS, system requirements, policies and procedures, and the solution document that summarizes how documentation deficiencies will be resolved or overcome. The purpose of the first work product (2.1.1) is to document requirements and design solutions to mitigate weaknesses in control activities, processes, and/or systems. The purpose of the second work product (2.1.2) is to document requirements and design solutions to mitigate deficiencies in supporting documentation.

The key work product produced from task (2.2) – *Develop Corrective Actions* is the updated corrective action section of FIP that summarizes the “to be solution,” and target completion dates for each corrective action. The standard FIP template is available in the FIAR Tools and Templates files on the FIAR website, and in the Resource section of this module.

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3.1.9 Work Products for Tasks (2.3) and (2.4)

What are the work products for the (2.3) Resource, and (2.4) Execute tasks?

Work Product:	Detailed estimates, including FTEs and funds
FIP Task:	2.3.1
Purpose:	To document budget estimates of required resources to execute corrective action plans

Work Product:	Resource Management Decision Materials
FIP Task:	2.3.2
Purpose:	To justify resources requested to execute corrective action plans

Work Product:	Updated FIPs and Notification to FIAR Directorate of corrective action plan implementation
FIP Task:	2.4
Purpose:	To document execution of corrective actions and reflect progress, including identifying any scope or timeline changes. Notification to FIAR Directorate serves as reporting entity's assertion that corrective action plans have been successfully implemented and all key audit readiness dealbreakers have been addressed

The key work products produced from task (2.3) - Resource are: (2.3.1) the detailed estimates

3.1.9 Work Products for Tasks (2.3) and (2.4)

The key work products produced from task (2.3) – Resource are:

- (2.3.1) the detailed estimates of all resources required to execute corrective actions, including both full time equivalents and funding requirements which documents budget estimates of required resources to execute corrective action plans;
- (2.3.2) Resource Management Decision materials needed to justify resources requested (budget requests) to execute corrective action plans; and
- (2.4) updated FIPs and Notification to the FIAR Directorate of the corrective action plan implementation to document execution of corrective actions and reflect progress, including identifying any scope or timeline changes. Notification to the FIAR Directorate serves as the reporting entity's assertion that corrective action plans have been successfully implemented and all key audit readiness deal breakers have been addressed.

Please click the Forward arrow to continue.

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Help
Course Progress

FIAR 102, Audit Readiness ✓
Module 1: FIAR Methodology and Relevant Terms ✓
Module 2: (1.0) Discovery Phase ✓
▼ Module 3: Other Phases of the FIAR Methodology
3.0 Overview ✓
3.1 Key Tasks for (2.0) Corrective Action Phase ✓
3.2 Key Tasks for (3.0) Assertion/Evaluation Phase
3.3 Key Tasks for (4.0) Validation Phase
3.4 Key Tasks for (5.0) Audit Phase
3.5 Key Points
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3.2 Key Tasks for (3.0) Assertion/Evaluation Phase

What are the key tasks for the (3.0) - Assertion/Evaluation phase?

Phase	1.0 Discovery	2.0 Corrective Action	3.0 Assertion/Evaluation	4.0 Validation	5.0 Audit
Key Tasks	1.1 Statement to Process Analysis 1.2 Prioritize 1.3 Assess & Test Controls 1.4 Evaluate Supporting Documentation	2.1 Design Audit-Ready Environment 2.2 Develop Corrective Actions 2.3 Resource 2.4 Execute	3.1 Review 3.2 Engage Auditor 3.3 Assertion Examination 3.4 Address Deficiencies	4.1 Additional Documentation Review 4.2 Determine Audit Readiness	5.1 Engage Auditor 5.2 Support Audit 5.3 Auditor Issues Report

Note: The tasks in grey boxes must be repeated on a continuous basis as they are critical in achieving and maintaining auditability and reliable financial information.

Please click the Forward Arrow to continue.

3.2 Key Tasks for (3.0) Assertion/Evaluation Phase

Now we'll discuss the (3.0) Evaluation phase in more detail. This phase contains the activities needed to confirm if the corrective action plans were effective. The primary tasks in this phase are:

- (3.1) Review: OUSD(C) reviews the assertion documentation for subject matter being asserted and provides feedback;
- (3.2) Engage Auditor: reporting entities provide management assertion letter for the assessable unit being asserted and OUSD(C) engages an independent public accountant to perform an examination over management's assertion;
- (3.3) Assertion Examination: the independent public accountant performs the examination and opines on management assertion by providing an examination report which identifies deficiencies; and,
- (3.4) Address Deficiencies: reporting entities address deficiencies identified during the examination.

Now let's discuss each of these key tasks in more detail.

Please click the Forward arrow to continue.

3.2.1 Task (3.1) Review

During the (3.1) – Review task, OUSD(C) reviews the work products prepared during the discovery and corrective action tasks and provides feedback to the reporting entity on its audit ready status for the assessable and sub-assessable unit.

Please click the Forward arrow to continue.

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3.2.2 Task (3.2) Engage Auditor

What happens during the (3.2) - Engage Auditor task?

CLICK TO ENLARGE

Phase: 3.0 Assertion/Evaluation

Activities: Detailed Activities

Resulting Work Products

Key Tasks:

- 3.1 Review
- 3.2 Engage Auditor
- 3.3 Assertion Examination
- 3.4 Address Deficiencies

Management's assertion

Select work products from Figure 55, as requested by the auditor

* To be submitted once FIF milestone is achieved. Work products will be reviewed by the FIAR Directorate as they are submitted.

After receiving feedback and addressing comments from OUSD(C), during task (3.2) - Engage

3.2.2 Task (3.2) Engage Auditor

After receiving feedback and addressing comments from OUSD(C), during task (3.2) – *Engage Auditor*, the reporting entities prepare a management assertion letter declaring that the subject matter is audit ready. The OUSD(C) engages an IPA to perform an examination over the subject matter being asserted.

In the detailed activities in this slide you see some pages cited in parentheses. These pages refer to the FIAR Guidance of March 2013.

Please click the Forward arrow to continue.

3.2.3 Task (3.3) Assertion Examination

During key task (3.3) – *Assertion Examination*, an IPA, or the DoD OIG, performs an examination to validate whether the subject matter being asserted is audit ready, including identifying deficiencies in internal controls or supporting documentation. If the IPA issues an unqualified opinion, the reporting entities can proceed to the Audit phase. If the opinion is other than unqualified, the reporting entities should proceed to task 3.4.

In the detailed activities in this slide you see section 2.C. This refers to the FIAR Guidance of March 2013.

Please click the Forward arrow to continue.

The screenshot shows a web browser window with the URL `localhost/ousd/fiar102/40204.html`. The page header identifies the organization as the Office of the Under Secretary of Defense (Comptroller) and the course as 'Financial Improvement and Audit Readiness (FIAR) Training'. The main content area is titled '3.2.4 Task (3.4) Address Deficiencies' and asks 'What happens during the (3.4) - Address Deficiencies task?'. A flowchart illustrates the process, starting with '3.0 Assertion / Evaluation' and '3.1 Review', leading to '3.2 Engage Auditor' and '3.3 Assertion Examination', and finally '3.4 Address Deficiencies'. A callout box for task 3.4 lists the following steps:

- Other than Unqualified opinion
- Evaluate the nature and extent of the deficiencies noted
- Implement corrective actions to remediate deficiencies
- Verify that corrective actions have been implemented and deficiencies have been remediated
- Proceed to Validation Phase

The flowchart also shows 'Updated PPs' as a result of the process. The sidebar on the left lists the course index, including 'Module 3: Other Phases of the FIAR Methodology' and 'Module 4: Course Summary'. The footer contains a video player with the text 'In key task (3.4) - Address Deficiencies, the reporting entities should address the' and navigation controls.

3.2.4 Task (3.4) Address Deficiencies

In key task (3.4) – *Address Deficiencies*, the reporting entities should address the deficiencies, identified by the IPA during task (3.3) – *Assertion Examination*, by evaluating the nature and extent of the deficiencies noted; implementing corrective actions; and verifying implementation of corrective actions by determining if deficiencies have been remediated. Once completed, the reporting entities proceed to Validation phase.

Please click the Forward arrow to continue.

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3.2.5 Successful Completion of Tasks (3.1), (3.2), (3.3), and (3.4)

What is essential for the successful completion of tasks (3.1) - Review, (3.2) - Engage Auditor, (3.3) - Assertion Examination, and (3.4) - Address Deficiencies?

- FIAR Directorate must review reporting entity's work products developed during the Discovery and Corrective Action phases
- FIAR Directorate must provide feedback to reporting entity on its audit readiness assertion
- Reporting entity must provide a management assertion letter declaring that assessable unit is audit ready in conformity with internal control and supporting documentation criteria
- IPA or DoD OIG must perform examination to determine whether assessable unit is audit ready, and identify deficiencies in internal controls and supporting documentation, if any
- Reporting entity must:
 - Evaluate nature and extent of deficiencies identified during the examination
 - Implement corrective actions to remediate deficiencies
 - Perform procedures to verify that correction actions have successfully remediated deficiencies

Please click the Forward Arrow to continue.

3.2.5 Successful Completion of Tasks (3.1), (3.2), (3.3), and (3.4)

What is essential for the successful completion of *tasks (3.1) – Review, (3.2) – Engage Auditor, (3.3) – Assertion Examination, and (3.4) – Address Deficiencies?* The FIAR Directorate must review the reporting entity's work products developed during the Discovery and Corrective Action phases, and must provide feedback to the reporting entity on its audit readiness assertion. The reporting entity must provide a management assertion letter declaring that the assessable unit is audit ready in conformity with internal control and supporting documentation criteria. An IPA, or DoD OIG, must perform an examination to determine whether the assessable unit is audit ready, and identify deficiencies in internal controls and supporting documentation, if any. The reporting entity must evaluate the nature and extent of deficiencies identified during examination; implement corrective actions to remediate deficiencies; and perform procedures to verify that correction actions have successfully remediated deficiencies.

Now, let's discuss these key tasks in more detail.

Please click the Forward arrow to continue.

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3.2.6 Work Products for Tasks (3.1), (3.2), (3.3), and (3.4)

What are the work products for the (3.0) - Assertion/Evaluation phase?

Work Product:	Results of FIAR Directorate Review
FIP Task:	3.1
Purpose:	To communicate results of FIAR Directorate's review of reporting entity's work products, and provide feedback to reporting entity on its status of audit readiness
Work Product:	Management's Assertion
FIP Task:	3.2
Purpose:	To declare that the subject matter (Assessable unit) is audit ready in conformity with the internal control and supporting documentation criteria identified in the FIAR Guidance
Work Product:	Examination Report
FIP Task:	3.3
Purpose:	To communicate results of IPA examination of reporting entity's audit readiness assertion, including identifying any deficiencies in internal controls and/or supporting documentation
Work Product:	Updated FIPs
FIP Task:	3.4
Purpose:	To document completion of corrective actions to address deficiencies noted by IPA during examination

The required work products of the Assertion/Evaluation phase are the results of the FIAR

3.2.6 Work Products for Tasks (3.1), (3.2), (3.3), and (3.4)

The required work products of the Assertion/Evaluation phase are the results of the FIAR Directorate Review which communicate results of the FIAR Directorate's review of the reporting entity's work products, and provides feedback to the reporting entity on its status of audit readiness; and Management's Assertion which declares that the subject matter (the assessable unit) is audit ready in conformity with the internal control and supporting documentation criteria identified in the FIAR Guidance. Also, the Examination Report which communicates the results of an IPA examination of the reporting entity's audit readiness assertion, including identifying any deficiencies in internal controls and/or supporting documentation; and the updated FIPs which document completion of corrective actions to address deficiencies noted by IPA during examination.

Please click the Forward arrow to continue.

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3.3 Key Tasks for (4.0) Validation Phase

What are the key tasks for the (4.0) - Validation phase?

4.0 Validation

4.1 Additional Documentation Review

- Submit additional documentation demonstrating that (FA or DoD OIG) identified deficiencies in activities 3.3.1 and 3.3.2 have been successfully remediated and that the reporting entity is audit ready.

4.2 Determinative Audit Readiness

- FIAR Directorate and the DoD OIG, if applicable, review the examination report and additional documentation provided by the reporting entity demonstrating remediation of deficiencies.
- DoD OIG communicates the results of its review to the FIAR Directorate.
- FIAR Directorate makes a final determination of the assessable unit's audit readiness state and communicates to the reporting entity whether to proceed to the Audit Phase or return to the Corrective Action Phase.
- Note: Overall Wave 1 and Wave 2 assessable units validated as audit ready will be required to sustain their audit readiness state until the reporting entity commences a full scope financial statement audit of the SBA.

Documentation demonstrating remediation of deficiencies

FIAR Directorate's final determination of audit readiness

★ To be submitted once FIP milestone is achieved. Work products will be reviewed by the FIAR Directorate as they are submitted.

Once a reporting entity addresses the deficiencies identified during the examination,

3.3 Key Tasks for (4.0) Validation Phase

Once a reporting entity addresses the deficiencies identified during the examination, additional documentation should be submitted to OUSD(C) that demonstrates the remediation of all deficiencies. Based on the additional documentation submitted, OUSD(C) will determine if all deficiencies were remediated and make a determination as to whether the subject matter is audit ready.

Please click the Forward arrow to continue.

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3.3.1 Successful Completion of Tasks (4.1) and (4.2)

What is essential for the successful completion of tasks (4.1) - Additional Documentation Review and (4.2) - Determine Audit Readiness?

- Reporting entity must submit additional documentation demonstrating that auditor-identified deficiencies have been successfully remediated
- FIAR Directorate and OIG must review the examination report and additional documentation demonstrating remediation of deficiencies
- DoD OIG must communicate results of its review to the FIAR Directorate
- FIAR Directorate must ultimately determine assessable unit's audit readiness state
- FIAR Directorate must communicate to the reporting entity whether to proceed to the Audit phase or return to the Corrective Action phase

Note: Overall Wave 1 and Wave 2 assessable units validated as audit ready will remain in sustainment until the reporting entity undergoes a full scope SBR audit.

Please click the Forward Arrow to continue.

3.3.1 Successful Completion of Tasks (4.1) and (4.2)

To successfully complete the key tasks of the Validation phase, the reporting entity must submit additional documentation demonstrating that auditor-identified deficiencies have been successfully remediated. The FIAR Directorate and DoD OIG must review the examination report and additional documentation demonstrating remediation of deficiencies. The DoD OIG must communicate results of its review to the FIAR Directorate. Then the FIAR Directorate must ultimately determine the assessable unit's audit readiness state and communicate to the reporting entity whether to proceed to the Audit phase or return to the Corrective Action phase.

Note: Overall Wave 1 and Wave 2 assessable units validated as audit ready will remain in sustainment until the reporting entity undergoes a full scope SBR audit.

Please click the Forward arrow to continue.

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3.3.2 Work Products for Tasks (4.1) and (4.2)

What are the key work products for tasks (4.1) - Additional Documentation Review and (4.2) - Determine Audit Readiness?

Work Product:	Documentation demonstrating remediation of deficiencies
FIP Task:	4.1
Purpose:	To demonstrate that deficiencies identified by the IPA or DoD OIG during the assertion examination have been successfully remediated

Work Product:	FIAR Directorate's final determination of audit readiness
FIP Task:	4.2
Purpose:	To make a final determination of the assessable unit's audit readiness state based upon the results of its review of the examination report and additional documentation demonstrating remediation of deficiencies

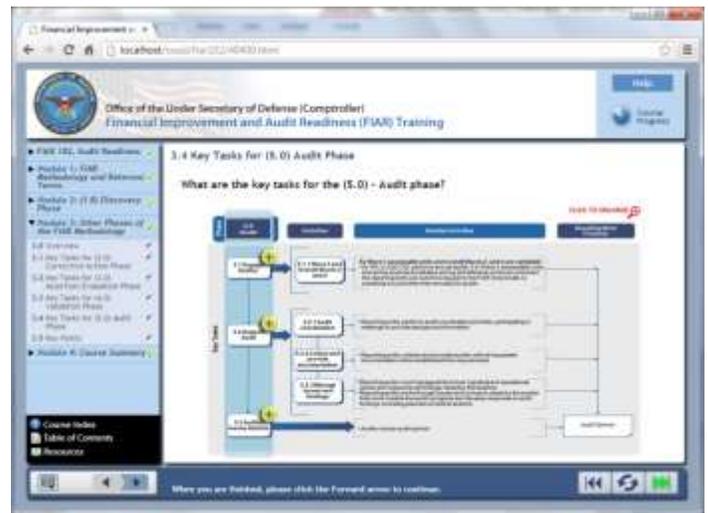
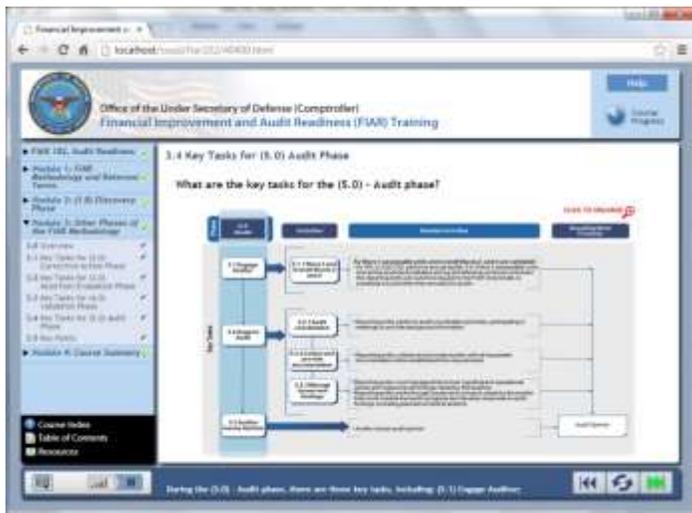
The key work products for tasks (4.1) - Additional Documentation Review and (4.2) - Determine

3.3.2 Work Products for Tasks (4.1) and (4.2)

The key work products for tasks (4.1) – *Additional Documentation Review* and (4.2) – *Determine Audit Readiness* are:

- (4.1) Documentation demonstrating remediation of deficiencies, which demonstrates that deficiencies identified by the IPA or DoD OIG during the assertion examination have been successfully remediated; and
- (4.2) FIAR Directorate's final determination of audit readiness, which makes a final determination of the assessable unit's audit readiness state based upon the results of its review of the examination report and additional documentation demonstrating remediation of deficiencies.

Please click the Forward arrow to continue.



3.4 Key Tasks for (5.0) Audit Phase

During the (5.0) – Audit phase, there are three key tasks, including:

- (5.1) Engage Auditor;
- (5.2) Support Audit; and,
- (5.3) Auditor Issues Opinion.

Please click each primary activity for more information on the steps involved in this key task.

When you are finished, please click the Forward arrow to continue.

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(5.1) Engage Auditor

(5.1) Engage Auditor: depending on which assessable units have been asserted as audit ready, reporting entities have two potential activities. At the successful validation of Wave 1 (Appropriations Received), reporting entities should engage an IPA or other, qualified independent reviewer to perform an audit of this activity. Or, as Wave 3 assessable units are validated as audit ready, as well as validation of overall Waves 2 and 4 audit readiness, the DoD IG or IPA will perform the annual audits.

When you are finished, please click the Forward arrow to continue.

(5.1) Engage Auditor

(5.1) Engage Auditor: depending on which assessable units have been asserted as audit ready, reporting entities have two potential activities. At the successful validation of Wave 1 (Appropriations Received), reporting entities should engage an IPA or other, qualified independent reviewer to perform an audit of this activity. Or, as Wave 3 assessable units are validated as audit ready, as well as validation of overall Waves 2 and 4 audit readiness, the DoD IG or IPA will perform the annual audits.

Please click the “X” in the upper-right corner to close this window and continue.

Financial Improvement ar x
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(5.2) Support Auditor

(5.2) Support Audit: while undergoing an audit, reporting entities will be required to provide access to personnel, electronic downloads of accounting information from systems and supporting documentation for sample items. The specific activities included in this key task include providing audit coordination, collecting and providing supporting documentation and managing issues and findings. Reporting entities should ensure resources have been set aside to perform these functions in advance of engaging the auditors, helping accelerate the audit and avoid potential delays.

When you are finished, please click the Forward arrow to continue.

(5.2) Support Auditor

(5.2) Support Audit: while undergoing an audit, reporting entities will be required to provide access to personnel, electronic downloads of accounting information from systems and supporting documentation for sample items. The specific activities included in this key task include providing audit coordination, collecting and providing supporting documentation and managing issues and findings. Reporting entities should ensure resources have been set aside to perform these functions in advance of engaging the auditors, helping accelerate the audit and avoid potential delays.

Please click the “X” in the upper-right corner to close this window and continue.

The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/flar102/40400.html'. The page content is a presentation slide from the 'Office of the Under Secretary of Defense (Comptroller)'. The slide is titled '(5.3) Auditor Issues Opinion' and features a flowchart on the left and a text block on the right.

Key Tasks Flowchart:

- 5.1 Engage Auditor
- 5.2 Support Audit
- 5.3 Auditor Issues Opinion

Sub-tasks for 5.1 and 5.2:

- 5.1.1 Wave 3 and Overall Waves 2 and 4
- 5.2.1 Audit coordination
- 5.2.2 Collect and provide documentation
- 5.2.3 Manage issues and findings

(5.3) Auditor Issues Opinion: at the completion of each audit, the auditors are required to issue an audit report. Depending on the results of their work, they typically issue unqualified opinions (also referred to as clean opinions), qualified opinions (which means the auditor was not able to render an opinion on a discrete portion of the audit), or a disclaimer of opinion (meaning the auditor was unable to render any opinion on the financial statements). Should reporting entities receive a qualified opinion or disclaimer of opinion, they will need to return to the Corrective Action phase to design and implement corrections to mitigate these auditor identified problems.

(5.3) Auditor Issues Opinion

(5.3) Auditor Issues Opinion: at the completion of each audit, the auditors are required to issue an audit report. Depending on the results of their work, they typically issue unqualified opinions (also referred to as clean opinions), qualified opinions (which means the auditor was not able to render an opinion on a discrete portion of the audit), or a disclaimer of opinion (meaning the auditor was unable to render any opinion on the financial statements). Should reporting entities receive a qualified opinion or disclaimer of opinion, they will need to return to the Corrective Action phase to design and implement corrections to mitigate these auditor identified problems.

Please click the “X” in the upper-right corner to close this window and continue.

Financial Improvement and Audit Readiness (FIAR) Training

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3.4.1 Successful Completion of Tasks (5.1), (5.2), and (5.3)

What is essential for the successful completion of tasks (5.1) - Engage Auditor, (5.2) - Support Audit and (5.3) - Auditor Issues Opinion?

- Once Wave 2, 3, or 4 assessable units are validated as audit ready, an IPA or DoD OIG performs annual audits
- Reporting entity must:
 - Perform audit coordination activities
 - Provide auditor all requested documentation in a timely manner
 - Manage all technical, logistical and operational issues and respond to all auditor findings
 - Resolve auditor-identified issues and concerns to ensure that audit progresses smoothly
- Auditor performs specified elements audit or full scope financial statement audit and issues audit report

Please click the Forward Arrow to continue.

3.4.1 Successful Completion of Tasks (5.1), (5.2), and (5.3)

What is essential for the successful completion of the tasks of the Audit phase, (5.1) – Engage Auditor, (5.2) – Support Audit, and (5.3) – Auditor Issues Opinion? Once Wave 2, 3, or 4 assessable units are validated as audit ready, an IPA or DoD OIG performs annual audits. The reporting entity must perform audit coordination activities; provide the auditor all requested documentation in a timely manner; manage all technical, logistical and operational issues and respond to all auditor findings; and resolve auditor-identified issues and concerns to ensure that audit progresses smoothly. The auditor performs a specified elements audit or a full scope financial statement audit, and issues an audit report.

Please click the Forward arrow to continue.

The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/40402.html'. The page header includes the Department of Defense logo and the text 'Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness (FIAR) Training'. A sidebar on the left lists course modules, with 'Module 3: Other Phases of the FIAR Methodology' expanded to show sub-topics like '3.0 Overview', '3.1 Key Tasks for (2.0) Corrective Action Phase', '3.2 Key Tasks for (3.0) Assertion/Evaluation Phase', '3.3 Key Tasks for (4.0) Validation Phase', '3.4 Key Tasks for (5.0) Audit Phase', and '3.5 Key Points'. The main content area is titled '3.4.2 Difference Between Examinations and Audits' and asks 'What is the difference between examinations and audits?'. It contains a table with two columns: 'Examination' and 'Audit'. The 'Examination' column lists that it occurs during the (3.0) Assertion/Evaluation phase and consists of obtaining sufficient evidence to express an opinion. The 'Audit' column lists that it occurs during the (5.0) Audit phase and includes two types: 'Specified Elements Audit' and 'Financial Statement Audit'. A footer bar shows navigation icons and the text 'During the (3.0) - Assertion/Evaluation phase, IPAs or other qualified, independent reviewers'.

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3.4.2 Difference Between Examinations and Audits

During the (3.0) – *Assertion/Evaluation* phase, IPAs or other qualified, independent reviewers will perform audit readiness examinations. These examinations are to be completed in accordance with Generally Accepted Government Auditing Standards (GAGAS), and result in the auditor forming an opinion on whether the reporting entity’s audit readiness assertion is in conformity with the FIAR Guidance requirements.

During the (5.0) – *Audit* phase, two types of audits may be completed, depending on the nature of the assessable unit. If something less than an entire financial statement is asserted as audit ready, the IPA, or other qualified independent reviewer, will perform a specified elements audit, that is, an audit limited in scope to specified elements, accounts or line items of a financial statement. However, if a reporting entity is asserting an entire financial statement as audit ready, an IPA, or other qualified independent reviewer, will perform a financial statement audit.

The following screen depicts how this strategy for the validation and audit phases varies depending on the particular audit readiness wave the reporting entity is asserting as audit ready.

Please click the Forward arrow to continue.

The screenshot shows a web browser window with the URL `localhost/ousd/fiar102/40403.html`. The page header includes the Department of Defense logo and the text 'Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness (FIAR) Training'. A sidebar on the left contains a course index with sections like 'Module 1: FIAR Methodology and Relevant Terms', 'Module 2: (1.0) Discovery Phase', and 'Module 3: Other Phases of the FIAR Methodology'. The main content area is titled '3.4.3 Differences, by Wave, in the Assertion/Evaluation and Audit Phases' and asks 'What is the difference between examinations and audits?'. Below this is a table with two columns: 'Assertion/Evaluation Phase' and 'Audit Phase'. The table lists activities for four waves (WAVE 1 to WAVE 4) and the responsible entities for each phase.

	Assertion/Evaluation Phase	Audit Phase
WAVE 1		
• Appropriations Received Assessable Unit	Assertion Examination by IPA or DoD OIG	Not applicable until full SBR is audit ready
WAVE 2		
• SBR Assessable Units	Assertion Examination by IPA or DoD OIG	Not applicable until full SBR is audit ready
• Current Year SBR Activity	Assertion Examination by IPA or DoD OIG	Audit by IPA or DoD OIG
• Full SBR	Assertion Examination by IPA or DoD OIG	Audit by IPA or DoD OIG
WAVE 3		
• Mission Critical Asset Assessable Units	Assertion Examination by DoD OIG	Specified Elements Audit by IPA or DoD OIG
WAVE 4		
• All Financial Statements	Assertion Examination by IPA or DoD OIG	Audit by IPA or DoD OIG

3.4.3 Differences, by Wave, in the Assertion/Evaluation and Audit Phases

Who will perform the examinations and the types of audits that will be performed varies by audit readiness waves. During the Assertion/Evaluation phase, an audit readiness examination will be performed for all assessable units in all waves, but who performs the examination will vary based on the wave being asserted as audit ready. For Wave 1 and assessable units in Wave 2, reporting entities are to engage IPAs, or other qualified independent reviewers, to perform the validation. Once all of Wave 2 is asserted audit ready (along with Waves 3 and 4), the DoD OIG will perform the audit readiness examination.

During the Audit phase, both the entity performing the audit, and the type of the audit performed vary by wave. During Wave 1, reporting entities will engage an IPA, or other qualified independent reviewer, to perform a specified elements audit of the assessable unit. During Wave 2, no audit work will be completed until the entire SBR is audit ready—and at that time the DoD OIG must be engaged to perform a financial statement audit of the SBR. For Wave 3, reporting entities must engage the DoD OIG to perform specified elements audits of their individual assessable units as they are asserted as audit ready. For Wave 4, reporting entities will engage the DoD OIG to perform a financial statement audit.

Please click the Forward arrow to continue.

Financial Improvement and Audit Readiness (FIAR) Training

3.5 Module 3 Key Points

The key points that you should take away from Module Three are:

- Designing an audit ready environment includes *mitigating key risks of material misstatement and control deficiencies*.
- An *IPA or DoD OIG Assertion Examination* occurs during the Assertion/Evaluation phase after the FIAR Directorate has validated that the assessable unit is audit ready. Compiling documentation is a key task of the Assertion/Evaluation phase. Documentation completed during the prior phases should be compiled in the Assertion/Evaluation phase.
- Internal controls should *continuously* be evaluated and tested to determine design and operating effectiveness.
- Developing corrective action plans and remediating deficiencies are *essential to achieving and sustaining FIAR*.
- Identifying support staff to *facilitate the financial statement audit* is essential to successfully completing the Audit phase.
 - Support activities may include providing documentation to auditors, explaining transactions, and performing other ad hoc requests.

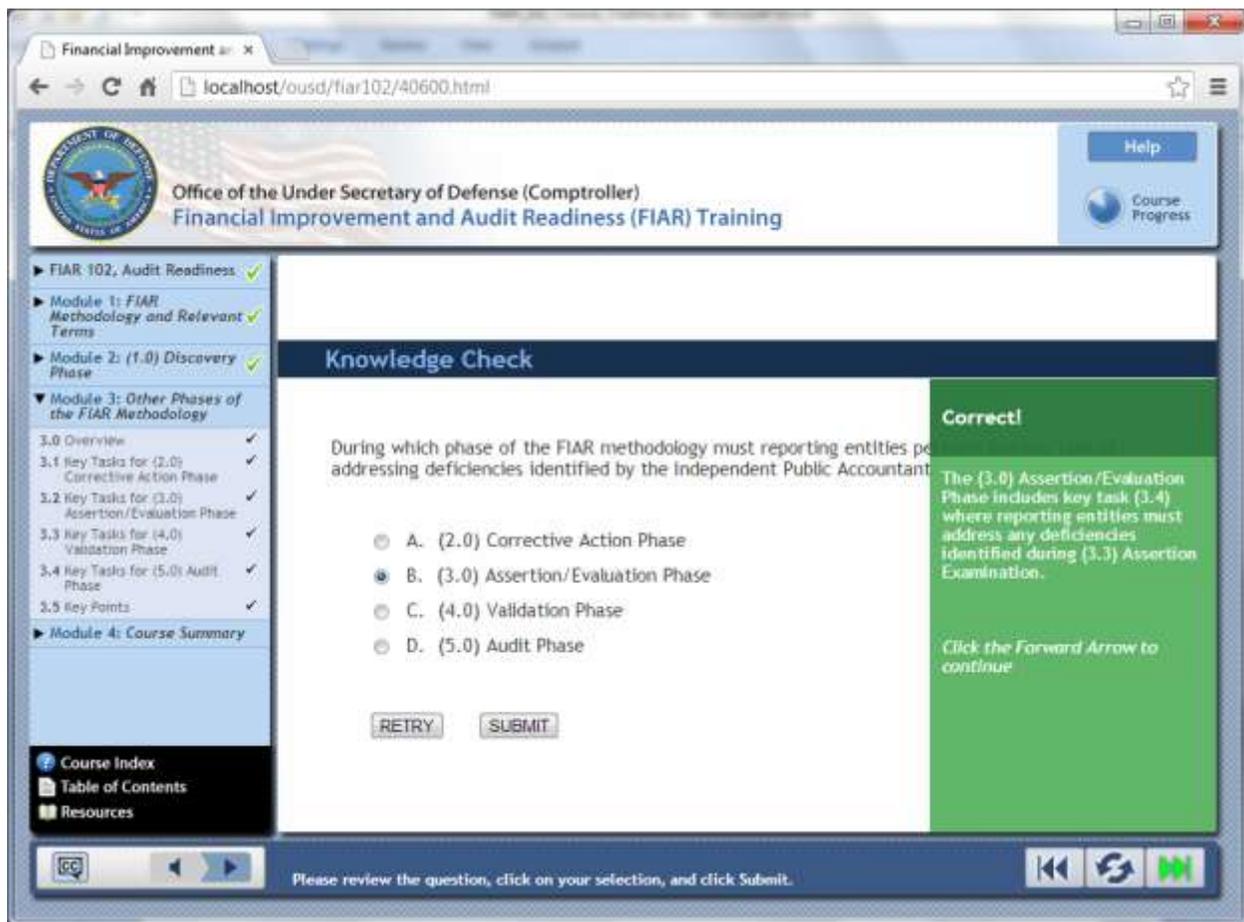
Please click the Forward Arrow to continue.

3.5 Module 3 Key Points

The key points that you should take away from Module Three are:

- Designing an audit ready environment includes mitigating key risks of material misstatement and control deficiencies.
- An IPA or DoD OIG Assertion Examination occurs during the Assertion/Evaluation phase after the FIAR Directorate has validated that the assessable unit is audit ready. Compiling documentation is a key task of the *Assertion/Evaluation* phase. Documentation completed during the prior phases should be compiled in the *Assertion/Evaluation* phase.
- Internal controls should continuously be evaluated and tested to determine design and operating effectiveness.
- Developing corrective action plans and remediating deficiencies are essential to achieving and sustaining FIAR.
- Identifying support staff to facilitate the financial statement audit is essential to successfully completing the *Audit* phase.
 - Support activities may include providing documentation to auditors, explaining transactions, and performing other ad hoc requests.

Please click the Forward arrow to continue.

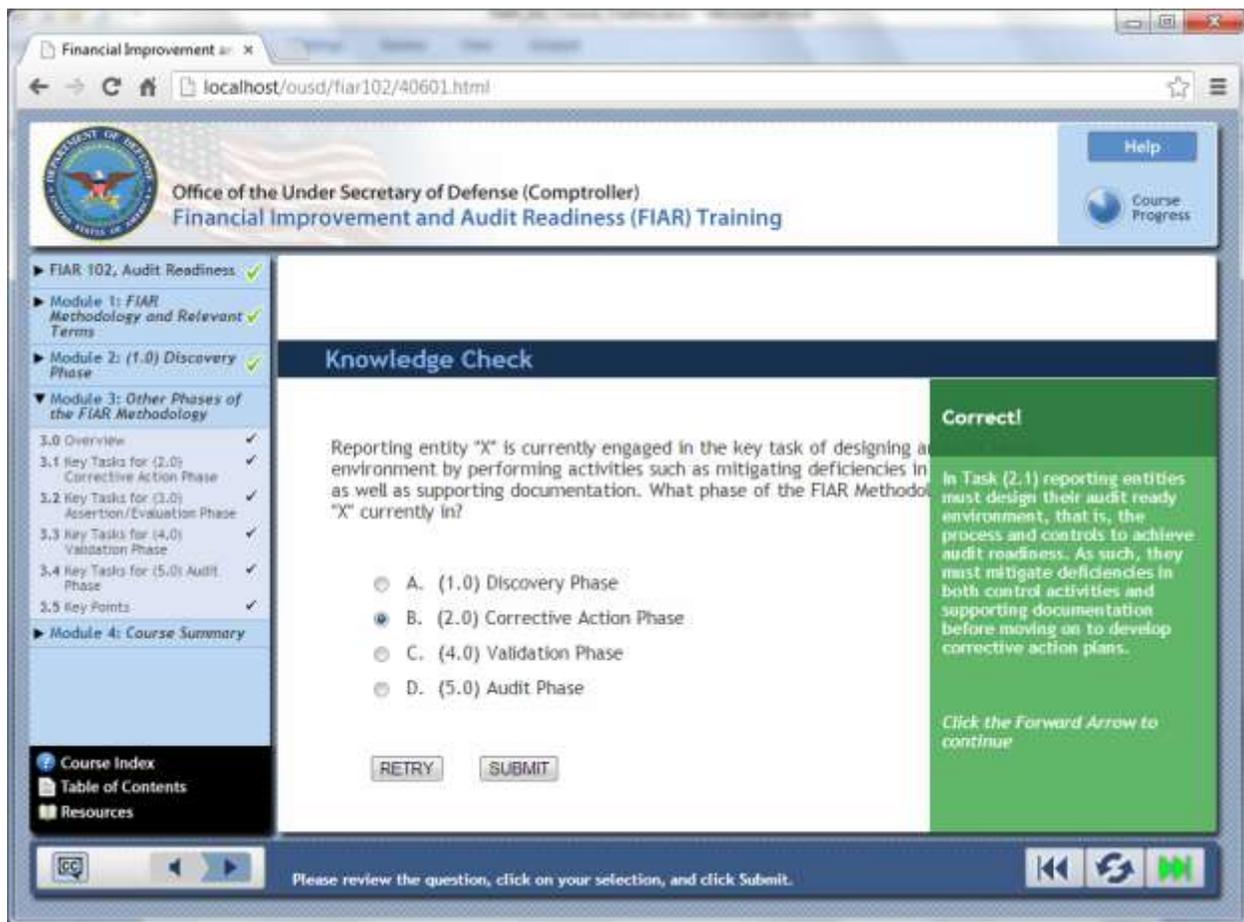


During which phase of the FIAR methodology must reporting entities perform the key task of addressing deficiencies identified by the Independent Public Accountant?

- A. (2.0) Corrective Action Phase
- B. (3.0) Assertion/Evaluation Phase**
- C. (4.0) Validation Phase
- D. (5.0) Audit Phase

Explanation

- a) *Incorrect. The (2.0) Corrective Action Phase has the key tasks of (2.1) Design Audit Ready Environment; (2.2) Develop Corrective Action Plan; (2.3) Resource and (2.4) Execute.*
- b) *Correct! The (3.0) Assertion/Evaluation Phase includes key task (3.4) where reporting entities must address any deficiencies identified during (3.3) Assertion Examination.*
- c) *Incorrect. The (4.0) Validation Phase includes key tasks (4.1) Additional Documentation Review and (4.2) Determine Audit Readiness.*
- d) *Incorrect. The (5.0) Audit Phase key tasks are (5.1) Engage Auditor, (5.2) Support Audit and (5.3) Auditor Issues Opinion.*



Reporting entity “X” is currently engaged in the key task of designing an audit ready environment by performing activities such as mitigating deficiencies in both control activities as well as supporting documentation. What phase of the FIAR Methodology is reporting entity “X” currently in?

- A. (1.0) Discovery Phase
- B. (2.0) Corrective Action Phase**
- C. (4.0) Validation Phase
- D. (5.0) Audit Phase

Explanation

- a) *Incorrect. (1.0) Discovery Phase has four key tasks that are (1.1) Statement to Process Analysis, (1.2) Prioritize, (1.3) Assess and Test Controls, and (1.4) Evaluate Supporting Documentation.*
- b) *Correct! In Task (2.1) reporting entities must design their audit ready environment, that is, the process and controls to achieve audit readiness. As such, they must mitigate deficiencies in both control activities and supporting documentation before moving on to develop corrective action plans.*
- c) *Incorrect. (4.0) Validation Phase includes key tasks (4.1) Additional Documentation Review and (4.2) Determine Audit Readiness.*
- d) *Incorrect. The (5.0) Audit Phase key tasks are (5.1) Engage Auditor, (5.2) Support Audit and (5.3) Auditor Issues Opinion.*

The screenshot shows a web browser window with the address bar displaying 'localhost/ousd/fiar102/50000.html'. The page header includes the Department of Defense logo and the text 'Office of the Under Secretary of Defense (Comptroller) Financial Improvement and Audit Readiness (FIAR) Training'. A 'Help' button and a 'Course Progress' indicator are visible in the top right corner.

The left sidebar contains a navigation menu with the following items:

- ▶ FIAR 102, Audit Readiness ✓
- ▶ Module 1: FIAR Methodology and Relevant Terms ✓
- ▶ Module 2: (1.0) Discovery Phase ✓
- ▶ Module 3: Other Phases of the FIAR Methodology ✓
- ▼ Module 4: Course Summary
 - 4.0 Key Points Summary
 - 4.1 Learning Objectives Summary
 - 4.2 Conclusion

The main content area displays 'MODULE 4: Course Summary' and a flow diagram with three steps: 'FIAR Methodology and Relevant Terms', '1.0 Discovery Phase', and 'Other Phases of the FIAR Methodology'. The bottom of the page features a navigation bar with a 'Please click the Forward Arrow to continue.' message and several control buttons (back, forward, refresh, stop).

Module 4 Intro: Course Summary

This module provides a summary of what you have learned in this course.

Please click the Forward arrow to continue.

4.0.1 Module 1 Key Points

The key points that you should take away from Module One are:

- The FIAR Methodology is a set of standardized steps, mandated by the OUSD(C) that reporting entities must follow to achieve audit readiness.
- The FIAR Methodology is comprised of phases, key tasks, and detailed activities that must be executed in a sequential order to achieve audit readiness.
- The FIAR Methodology has fully incorporated the requirements of OMB Circular A-123, Appendix A. Accordingly, the FIAR Methodology work products can be leveraged to support management's annual Statement of Assurance (SOA) memorandum.
- The reporting entity is responsible for ensuring audit readiness for the end-to-end business process, including processes managed by service providers.
- The reporting entity is responsible for defining assessable units that will follow the FIAR Methodology.

Please click the Forward arrow to continue.

Financial Improvement and Audit Readiness (FIAR) Training

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4.0.2 Module 2 Key Points

The key points that you should take away from Module Two are:

- Completing the (1.1) - Statement to Process Analysis tasks *requires using the financial statements and identifying the processes* impacting each financial statement line item.
- Identifying assessable units requires having an *understanding of operational business processes*.
- *Preparing a narrative and process flow for an end-to-end process requires having an understanding of the entire end-to-end process*, conducting walk-through(s) and reviewing existing documents associated with the process.
- Completing the (1.0) - *Discovery phase requires identifying and documenting processes* from inception to reporting and the related key risks of material misstatement, financial reporting objectives, and controls, as well as performing supporting documentation testing.

Please click the Forward Arrow to continue.

4.0.2 Module 2 Key Points

The key points that you should take away from Module Two are:

- Completing the (1.1) – *Statement to Process Analysis* tasks requires using the financial statements and identifying the processes associated with each financial statement line item.
- Identifying assessable units requires an understanding of operations.
- Preparing a narrative and process flow for an end-to-end process requires having an understanding of the entire process, conducting walk-through(s) and reviewing the documents associated with the process.
- Completing the (1.0) – *Discovery* phase requires identifying and documenting processes from inception to reporting and the related key risks of material misstatement, financial reporting objectives, and controls, as well as performing supporting documentation testing.

Please click the Forward arrow to continue.

4.0.3 Module 3 Key Points

The key points that you should take away from Module Three are:

- Designing an audit ready environment includes mitigating key risks of material misstatement and control deficiencies.
- An IPA or DoD OIG Assertion Examination occurs during the Assertion/Evaluation phase after the FIAR Directorate has validated that the assessable unit is audit ready. Compiling documentation is a key task of the *Assertion/Evaluation* phase. Documentation completed during the prior phases should be compiled in the *Assertion/Evaluation* phase.
- Internal controls should continuously be evaluated and tested to determine design and operating effectiveness.
- Developing corrective action plans and remediating deficiencies are essential to achieving and sustaining FIAR.
- Identifying support staff to facilitate the financial statement audit is essential to successfully completing the *Audit* phase.
 - Support activities may include providing documentation to auditors, explaining transactions, and performing other ad hoc requests.

Please click the Forward arrow to continue.

Financial Improvement and Audit Readiness (FIAR) Training

4.1 Course Learning Objectives Summary

As a result of your completing this course, you now have the ability to:

- Define the purpose and objectives of the FIAR Methodology
- Identify when audit readiness work products are prepared during the Methodology, such as:
 - Statement to Process Analysis, Quantitative Drill Downs and Systems Inventory Lists
 - Process Narratives and Flows
 - Controls Assessments
 - Test Plans and Corrective Action Plans

You are now ready to take the course final exam - required for CPE credit.

Please click the Forward Arrow to continue.

4.1 Course Learning Objectives Summary

As a result of your completing this course, you now have the ability to:

- define the purpose and objectives of the FIAR Methodology; and
- identify when audit readiness work products are prepared during the Methodology, such as the Statement to Process Analysis, Quantitative Drill Downs and Systems Inventory Lists, Process Narratives and Flows, Controls Assessments, and Test Plans and Corrective Action Plans.

You are now ready to take the course final exam – required for CPE credit.

Please click the Forward arrow to continue.

DEPARTMENT OF DEFENSE
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Office of the Under Secretary of Defense (Comptroller)
Financial Improvement and Audit Readiness (FIAR) Training

Help

Course Progress

- ▶ FIAR 102, Audit Readiness ✓
- ▶ Module 1: *FIAR Methodology and Relevant Terms* ✓
- ▶ Module 2: *(1.0) Discovery Phase* ✓
- ▶ Module 3: *Other Phases of the FIAR Methodology* ✓
- ▼ Module 4: *Course Summary* ✓
 - 4.0 Key Points Summary ✓
 - 4.1 Learning Objectives Summary ✓
 - 4.2 Conclusion ✓

CONGRATULATIONS!
You have completed DoD FIAR 102

Audit Readiness

The following Organization contributed to the content of this course: OUSD(C) FIAR

Publication Date: June, 2013

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Please close this window to continue.

4.2 Conclusion

Congratulations on completing FIAR 102 - Audit Readiness! You must complete the final exam for this class to obtain CPE credit.

Please Note - URLs included in the Resources Section of this module are subject to continuous updating. If you find an unresponsive link, please go to <http://comptroller.defense.gov/fiar>, and see Tools and Templates.

Please close this window to continue.