

## 4. FIAR METHODOLOGY

### 4.A METHODOLOGY – REPORTING ENTITY

The Methodology consists of a mandatory set of standardized phases and tasks that reporting entities must follow to achieve audit readiness. The Methodology, shown in Figure 4-1, is discussed in the pages that follow.

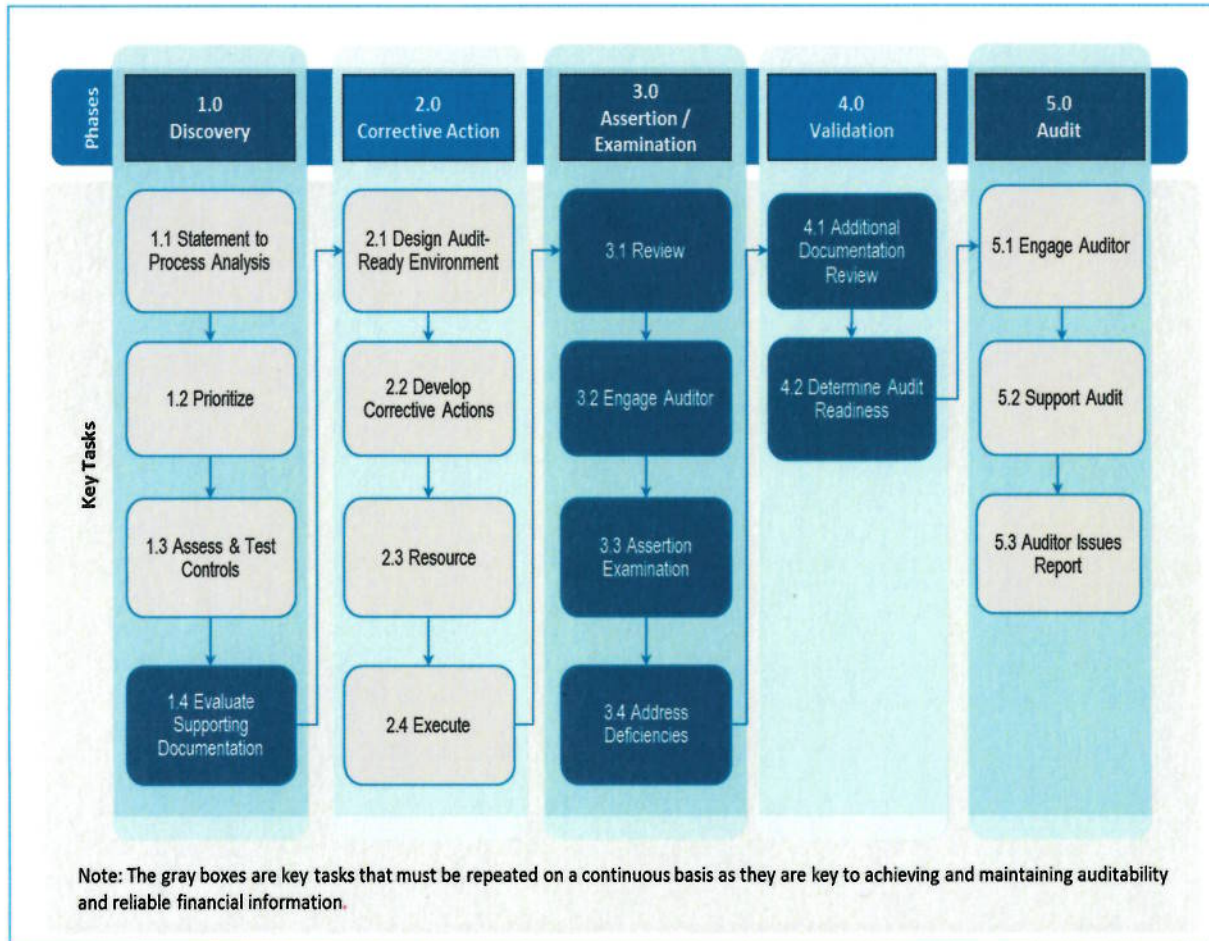


Figure 4-1. Phases and Key Tasks to Achieve Auditability and Reliable Financial Information

#### 4.A.1 PHASES AND KEY TASKS

The Financial Improvement and Audit Readiness (FIAR) Methodology consists of a series of phases, key tasks and underlying detailed activities that reporting entities must follow to improve financial information and achieve audit readiness. Figure 4-1 graphically depicts the phases and the key tasks within each phase.

#### Phases and Key Tasks

The phases and key tasks, which can be applied uniformly regardless of the size, materiality, or scope of an assessable unit, are as follows:

1. Discovery:
  - a. Reporting entity documents business processes and its financial environment
  - b. 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

- c. Reporting entity identifies risks and financial reporting objectives and control activities, and tests the design and operational effectiveness of control activities
  - d. Reporting entity evaluates the sufficiency and accuracy of documentation to support financial transactions, account balances and financial statement line items
  - e. Reporting entity identifies and classifies any weaknesses and deficiencies in control activities and/or supporting documentation
  - f. 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 dealbreakers have been addressed, and provides feedback and recommendations to the reporting entity on an ongoing basis
2. Corrective Action:
- a. Reporting entity defines and designs audit readiness environment, to include requirements for remediating deficiencies in internal controls and supporting documentation
  - b. Reporting entity develops concrete corrective action plans (CAPs) to resolve each deficiency identified during the Discovery phase
  - c. Reporting entity develops budget estimates of required resources (i.e., funding and staffing) to execute CAPs
  - d. Reporting entity executes CAPs, updates its Financial Improvement Plans (FIPs), and confirms that all audit readiness dealbreakers have been addressed
3. Assertion / Examination:
- a. FIAR Directorate evaluates reporting entity's assertion documentation to determine audit readiness state and provides feedback to the reporting entity on its status of audit readiness
  - b. FIAR Directorate engages auditor to perform an examination of the reporting entity's audit readiness assertion
  - c. Auditor identifies deficiencies, if any, for reporting entities undergoing IPA examination
  - d. Reporting entity evaluates the nature and extent of deficiencies noted and implements corrective actions to remediate deficiencies
  - e. Reporting entity performs testing procedures to verify that corrective actions successfully remediated auditor identified deficiencies
4. Validation:
- a. Reporting entities that underwent IPA examination submit 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)
  - b. FIAR Directorate reviews examination report and additional documentation supporting successful remediation of deficiencies, and determines reporting entity's audit readiness state. Reporting entities that have achieved a state of audit readiness must fulfill *Audit Readiness Sustainment Requirements* discussed in section 6.C.2.
5. Audit:
- a. Reporting entity engages an auditor
  - b. Reporting entity supports **SBA** audit or full scope financial statement audits
  - c. Auditor issues audit opinion

**Reporting entities are responsible for executing the key tasks and activities in the *Discovery* and *Corrective Action* phases, including developing all required assertion work products to support their audit readiness assertion for their assessable units or financial statements. The OUSD(C)**



then engages an independent auditor to perform an examination on management's audit readiness assertion in the *Assertion/Examination Phase*. The reporting entity is responsible for implementing CAPs to remediate any auditor identified deficiencies, and must perform procedures to verify that the corrective actions successfully remediated the deficiencies. OUSD(C) reviews the independent auditor examination report and additional documentation supporting successful remediation of deficiencies to determine the reporting entity's audit readiness state. Once OUSD(C) validates that the reporting entity is audit ready, the **DoD OIG** engages an independent auditor (**funded by the reporting entity**) to perform the audit of the **reporting entity's** assessable unit or financial statement(s) in the *Audit Phase*.

Once the reporting entity asserts audit readiness for the SBA, the reporting entity will initially be subjected to a "Specified Elements Audit" in accordance with AU-C Section 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*. In the first year under audit, the reporting entity will undergo an audit of schedules containing only current year appropriations and all related activity (i.e., obligations, outlays, etc.) against those appropriated funds. To undergo the first year audit, the reporting entity must prepare a schedule of current year budgetary resources to include all information related to appropriations beginning with the current year. Reporting entities should follow the guidance in OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, for preparation of the SF 133 (Report on Budget Execution and Budgetary Resources), and follow the guidance in OMB Circular A-136, *Financial Reporting Requirements*, for the related note disclosures.

In subsequent years until an unmodified opinion is received, the reporting entity will commence audits of schedules of both current year and prior year audited appropriations and all related activity against those appropriated funds. Through each successive audit, the ending audited balances carry forward to the subsequent year's beginning balance, thereby reducing the percentage of unaudited balances brought forward each year. The approach for auditing schedules of appropriation activity provides critical insight into whether a reporting entity's current business and financial practices, processes, controls, and systems support auditability. Reporting entities will commence a full scope financial statement audit of the entire SBR once they receive an unmodified opinion on their schedule(s) of budgetary activity and have successfully asserted SBR balances brought forward as audit ready.

**Reporting entities are also required to annually prepare and submit a SOA over internal controls over financial reporting and internal control over financial systems. This is not a separate phase, but rather an annual requirement that must be performed regardless of the audit readiness status of the reporting entity. Requirements related to the submission of the annual statement of assurance, including the summary CAP, are described in Section 3.C. Please refer to the FIAR Guidance website to obtain the latest [Statement of Assurance Memorandum Template](#) and the [Corrective Action Plan Template](#).**

The terms "audit," "examination," and "specified elements audit," used throughout this document are defined as:

- Financial statement audit (Audit) – The primary purpose of a financial statement audit is to provide reasonable assurance through an opinion (or disclaimer of an opinion) about whether a reporting entity's financial statements are presented fairly in all material respects in conformity with United States (U.S.) generally accepted accounting principles (GAAP). These audits are performed in accordance with Generally Accepted Government Auditing Standards (GAGAS).
- Examination – Consists of obtaining sufficient, appropriate evidence to express an opinion, in accordance with GAGAS, on whether the subject matter is based on (or in conformity with) criteria<sup>19</sup> that are suitable (i.e., objective, measurable, complete and relevant) and available to users, in all material respects or the assertion is presented (or fairly stated), in all material respects, based on the criteria. See Section 2.D.1 for a discussion of management assertion and

<sup>19</sup> "Criteria" are the standards or benchmarks used to measure or present the subject matter and against which the practitioner evaluates the subject matter. Management may establish criteria for an examination; however, practitioners will evaluate management's criteria to ensure that it is suitable, that is, relevant, measurable, complete and objective. (Source: <http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-00101.pdf>)



a link to a management assertion template to be used when engaging an auditor for an *Assertion/Examination Phase* audit readiness examination.

- Specified elements audit<sup>20</sup> – Consists of an independent auditor conducting an audit in accordance with GAGAS and AU-C Section 805 to obtain sufficient, appropriate evidence to express an opinion in connection with specific elements, accounts or items of a financial statement.

#### 4.A.2 CONSIDERATION OF SERVICE PROVIDERS

Embedded within the Methodology's phases are the reporting entity's considerations of its service providers and how their activities affect its financial processes and related audit readiness.

**Reporting entities' management is responsible for the internal control over their financial information and, therefore, must ensure that they understand what financially significant activities are outsourced to service providers and the effectiveness of the service providers' related internal controls. In turn, service providers are responsible for providing a description of their controls that may affect their customer reporting entities' control environment, risk assessment, control activities, and information and communication systems.** The description of controls should be detailed enough to provide the reporting entity auditors with sufficient information to assess the risks of material misstatement. For a detailed discussion of service providers' role in the Methodology, see Section 4.B.

#### 4.A.3 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. **As the Department moves closer to September 30, 2017, FIAR has begun to shift its focus to full financial statements audits. Accordingly, reporting entities must establish assessable units for all material financial statement line items, including SBR balances brought forward, as well as financial reporting.<sup>21</sup> Reporting entities should leverage work performed in previous phases to determine the extent of further testing required to assert audit readiness for all financial statement line items.** Established assessable units should not be duplicative or overlap. To ensure completeness of coverage, reporting entities should prepare quantitative drill downs depicting the dollar volume of activity flowing through each line item consistent with the tasks in the *Discovery Phase* key activity 1.1.2. (See also Section 2.C.4.3.) Wave-specific considerations when identifying assessable units are included in the following paragraphs.

##### Waves 1 & 2

The OUSD(C) pre-defined one assessable unit for the SBR, Appropriations Received, which represented Wave 1. Due to its limited scope, the OUSD(C) pre-defined this assessable unit for all reporting entities and directed them to prioritize this assessable unit to allow the Department to demonstrate immediate progress. At this time, Wave 1 should be substantially complete.

Beyond Wave 1, reporting entities had flexibility to determine their appropriate assessable units for the remainder of the SBR (Wave 2). Assessable units for the SBR may be subaccounts that make up the obligations line item, classes of financial transactions or processing systems. For example, the "Obligations Incurred" line item on the SBR is comprised of many types of financial transactions that are processed through many systems. Assessable units within the "Obligations Incurred" line item may be comprised of classes of financial transactions, such as contractor payments, military pay, and civilian pay. A Wave 2 assessable unit may be a class of transactions or it may also be all financial transactions that are processed through a particular system. Determining assessable units is a key task of preparing for auditability because the assessable units provide the focus for financial improvement efforts.

<sup>20</sup> The SBR audit will initially be limited to a "Specified Elements Audit" since the scope will be limited to audits of "schedules" containing only current year appropriations and all related activity against those appropriations. Audits of schedules containing only current year activity will provide the opportunity to assess progress and identify any issues in a way that a disclaimer on full financial statements would not.

<sup>21</sup> A financial statement line item may be comprised of more than one assessable unit.



As the Wave 2 audit readiness focus has shifted to auditing the Schedule of Budgetary Activity, FIAR has developed a concern that SBR balances brought forward may present a future impediment to auditing the full SBR. Accordingly, all reporting entities must consider SBR Balances Brought Forward as a pre-defined assessable unit when executing assertion tasks.

#### ***Waves 3 & 4***

For Waves 3 & 4, assessable units include the other material financial statement line items on the Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position (e.g., Environmental and Disposal Liabilities, Military Retirement and Other Federal Employment Benefits, Other Liabilities, Investments, Cash and Other Monetary Assets, Other Assets, etc.) as well as Internal Use Software, a component of the G-PP&E line item on the Balance Sheet. Wave 4 assessable units may include line items, accounts or balances that were addressed in an earlier wave. Reporting entities can leverage readiness efforts performed in prior waves, but must determine whether sufficient testing was performed for both budgetary and proprietary accounts for those assessable units. It is important to note that additional testing may be required in Wave 4 to ensure complete coverage of all accounts (see Section 2.C.4 for more information on Wave 4).

### **4.A.4 EXAMINATION SCOPE**

#### ***Schedule of Budgetary Activity (SBA)***

The scope of the SBA during the first year examination will include the processes, manual and automated controls, and documentation related to funding approved for the current fiscal year only (e.g., current year funding from the related multi-year appropriation) and the related expenditure activity (e.g., obligations, outlays, etc.). Balances brought forward and prior year activities (i.e., all activities prior to October 1, 2014) are excluded from the scope of the first year SBA examination. In subsequent years, the SBA examination will include the funding for the current fiscal year as well as the expenditure activities during that year related to the funding approved on or after the start date of the first SBA fiscal year. Through each successive SBA examination, the ending audited balances carry forward to the subsequent year's "beginning balance", thereby reducing the percentage of unaudited balances brought forward each year. This approach allows the reporting entities to focus their limited resources on mission critical tasks while continuing to demonstrate progress towards meeting the congressional mandate of achieving full financial statement auditability by Fiscal Year 2017. Please see the FIAR Guidance website for [SBA Preparation Instructions](#).

### *Statement of Budgetary Resources (SBR) Beginning Balances Examination*

The scope of the SBR Beginning Balances examination will focus on the three “beginning balance” lines on the SBR, as follows and evaluate their state of audit readiness:

- Line 1000, “Unobligated balance brought forward, Oct. 1”
- Line 3000, “Unpaid obligations, brought forward, Oct. 1”
- Line 3060, “Uncollected pymts, Fed sources, brought forward, Oct. 1”

The examination will also evaluate the audit readiness of the complete Fund Balance with Treasury reconciliation, which should include all appropriations and all fund types for all years of appropriations included in the beginning balance SBR line items.

Testing performed during the examination will include obtaining detailed populations of items that make up each of the SBR beginning balance lines. For example, with regard to SBR line 3000, “Unpaid obligations, brought forward, Oct. 1,” the detailed population would be a listing of all unpaid obligation amounts — at the contract line item level — that reconciles to the SBR line item. A sample of detail items will be selected and KSD testing will be performed to determine whether the reporting entity can support its transactions with appropriate supporting documentation.

### *Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position Examination*

The scope of the Balance Sheet, Statement of Net Cost and Statement of Changes in Net Position examination will focus on the following critical line items:

- General Property, Plant and Equipment, including Real Property, General Equipment and Internal-Use Software
- Inventory and Related Property, including Inventory and Operating Materiel & Supplies
- Environmental Liabilities
- Other line items material to the reporting entity

The examination will evaluate the processes, controls, and key supporting documentation supporting these line items. Testing performed during the examination will include evaluating the design and operating effectiveness of manual and automated internal controls over business processes, and accounting events affecting all in-scope line items. Additionally, the examination will include obtaining reconciled populations and testing a sample of transactions/balances against appropriate supporting documentation.

#### **4.A.5 DETAILED ACTIVITIES**

Key tasks are essential to accomplishing each of the five phases of the Methodology. The Methodology provides guidance to the reporting entities on the detailed activities that should be performed within key tasks that result in outcomes and work products that are essential to achieve audit readiness.

As the reporting entities prepare and execute their FIPs to accomplish the OUSD(C) priorities for budgetary and mission critical asset information, these detailed activities should be reflected in their FIPs as key tasks within the appropriate phase. See the Tools, Templates & Work Products section of the FIAR Guidance website for examples of required work products (described in **Figures 4-2 – 4-15 below**) necessary to achieving auditability and reliable financial information for the Department.



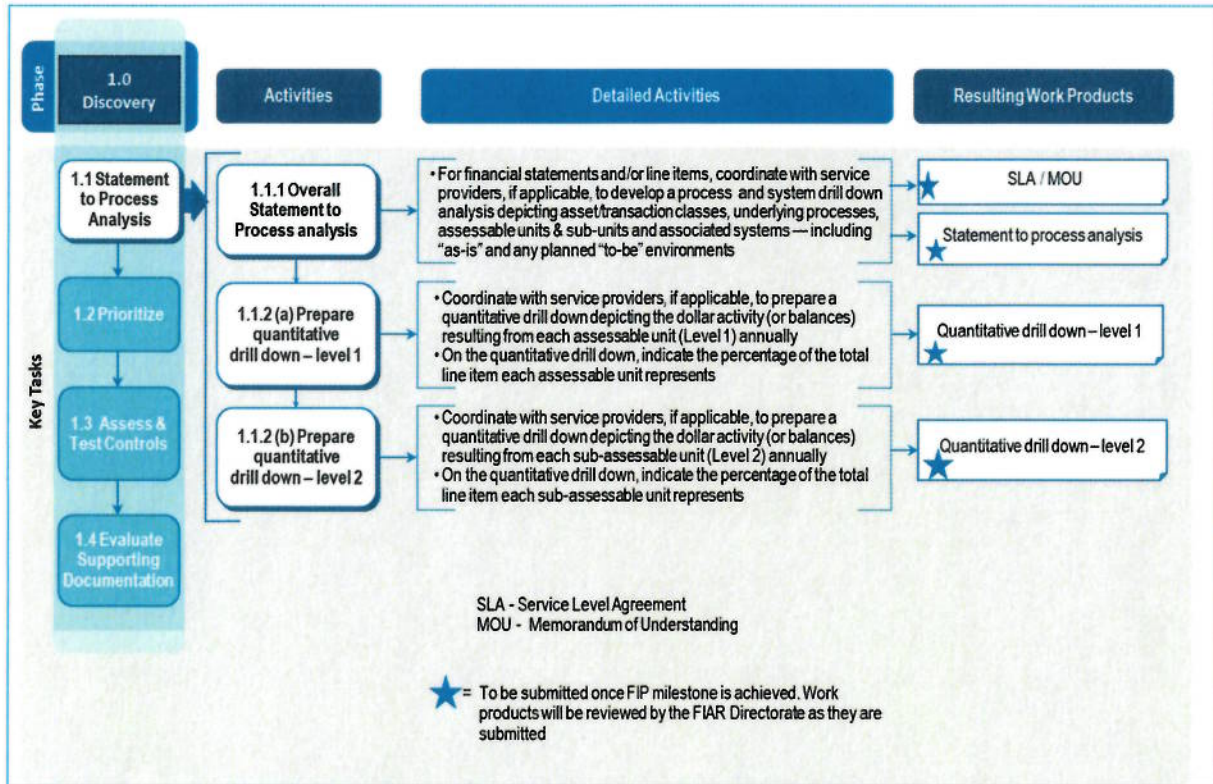


Figure 4-2. Discovery Phase – Statement to Process Analysis

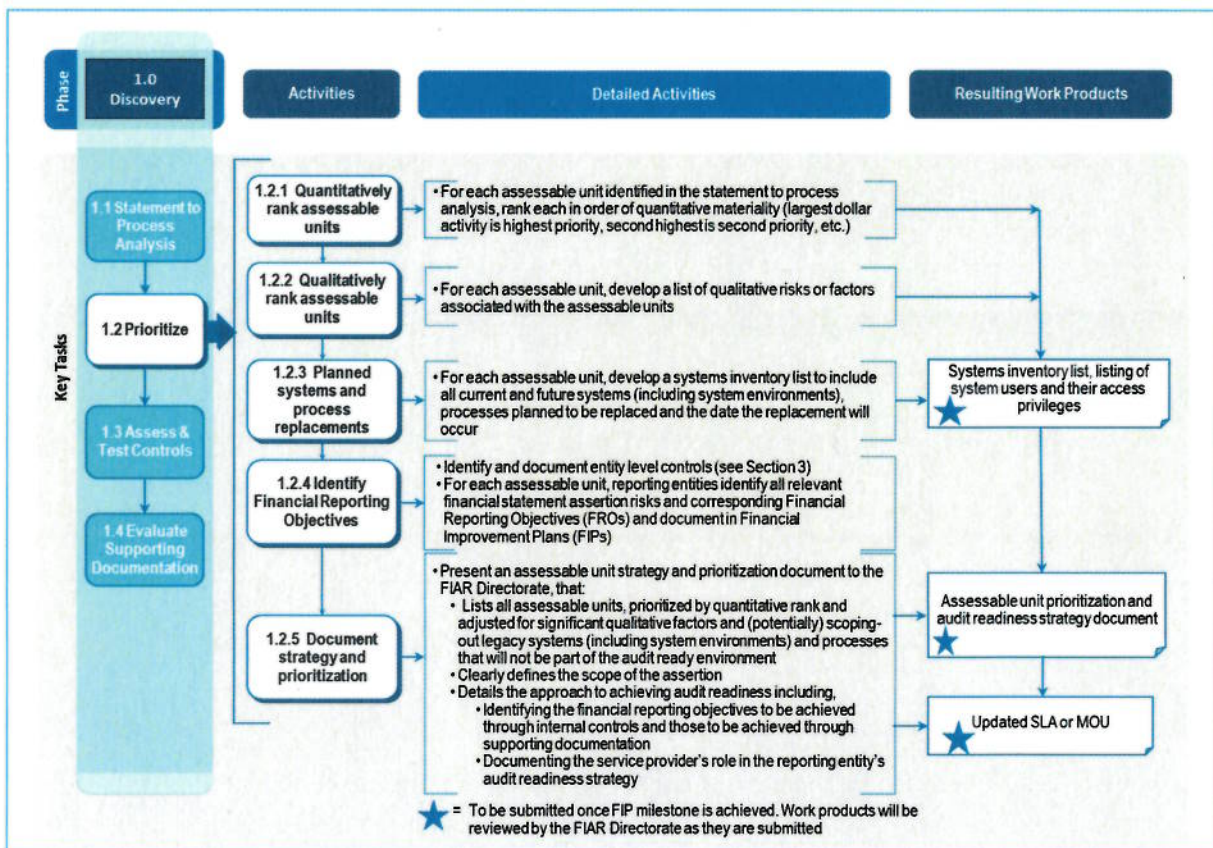


Figure 4-3. Discovery Phase – Prioritize



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 No. 16 reports and self-review efforts)
- 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.

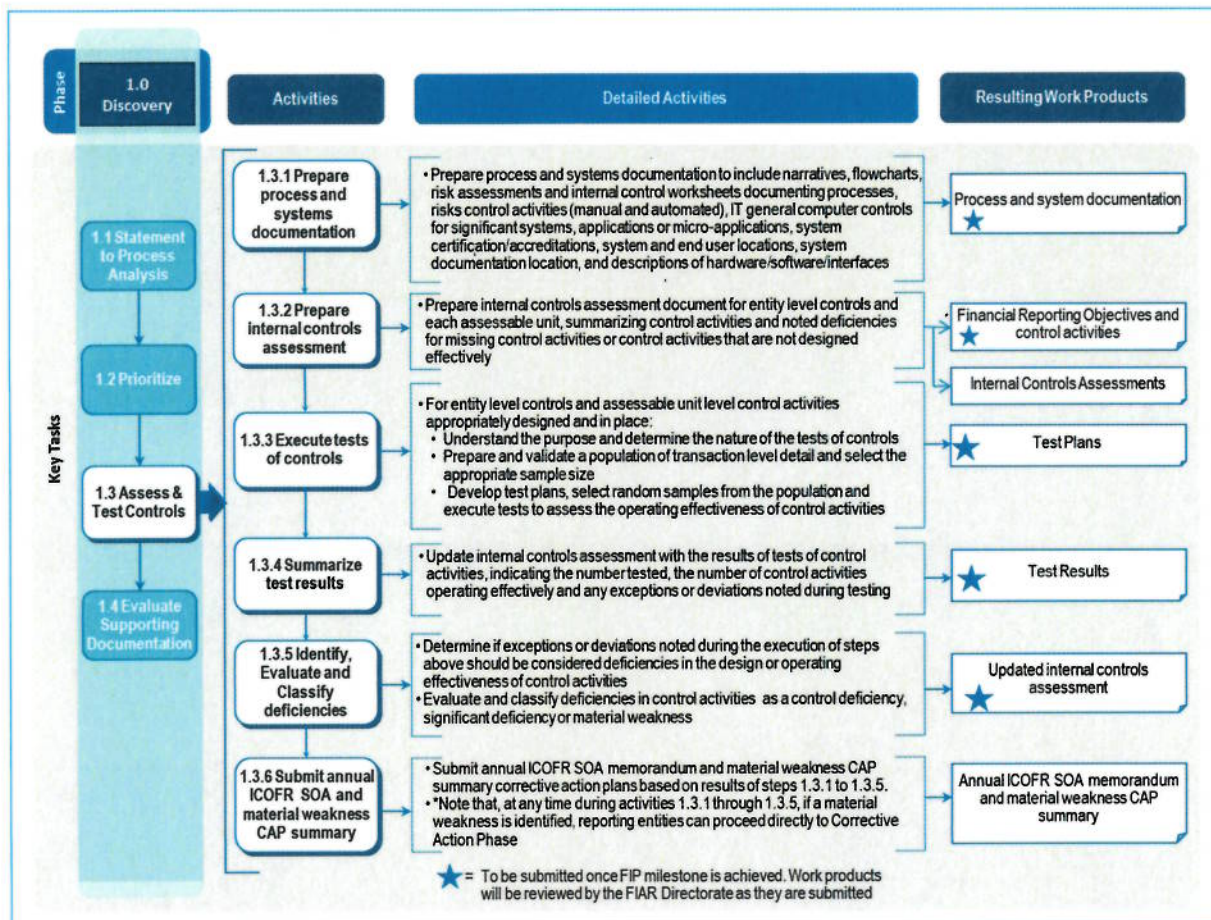


Figure 4-4. Discovery Phase – Test Controls and Develop ICOFR Statement of Assurance



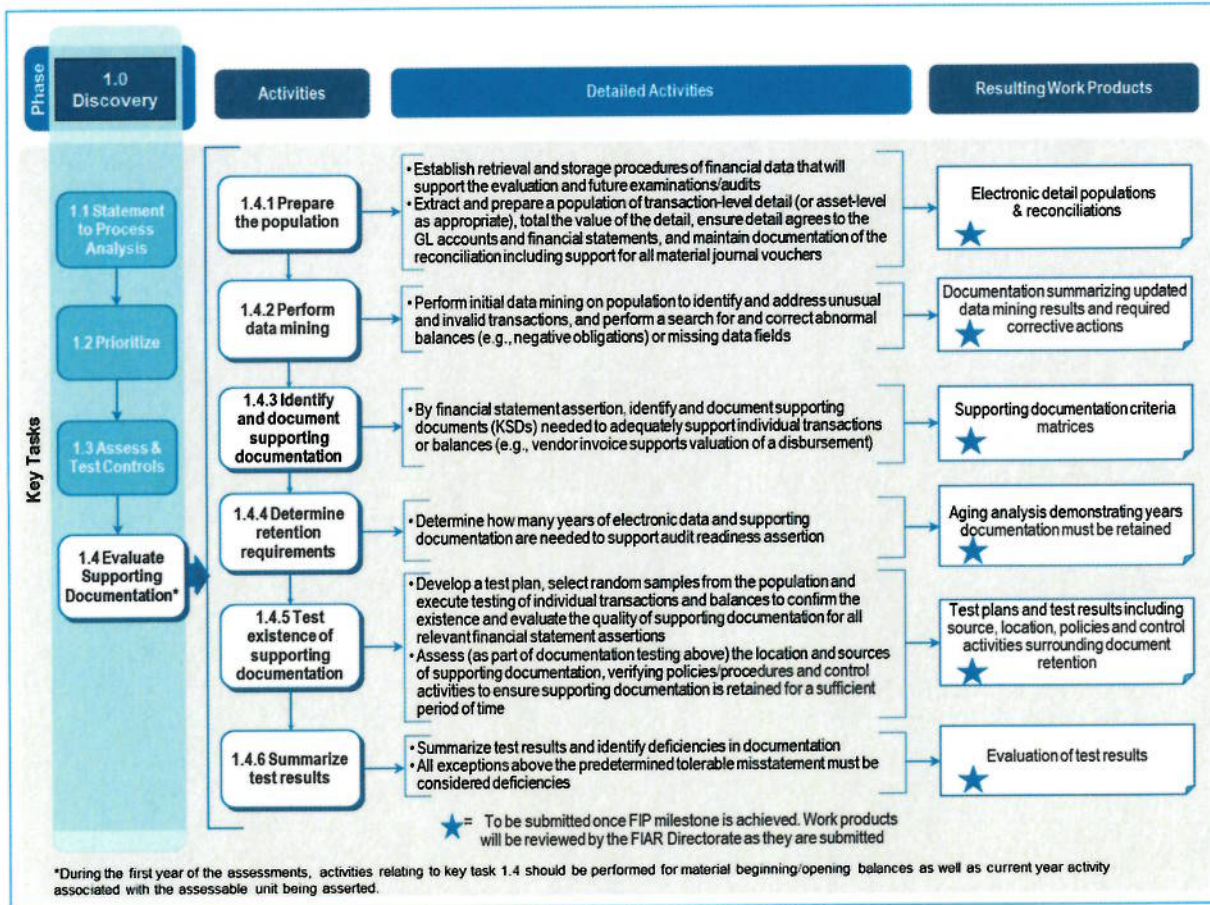


Figure 4-5. Discovery Phase – Evaluate Supporting Documentation

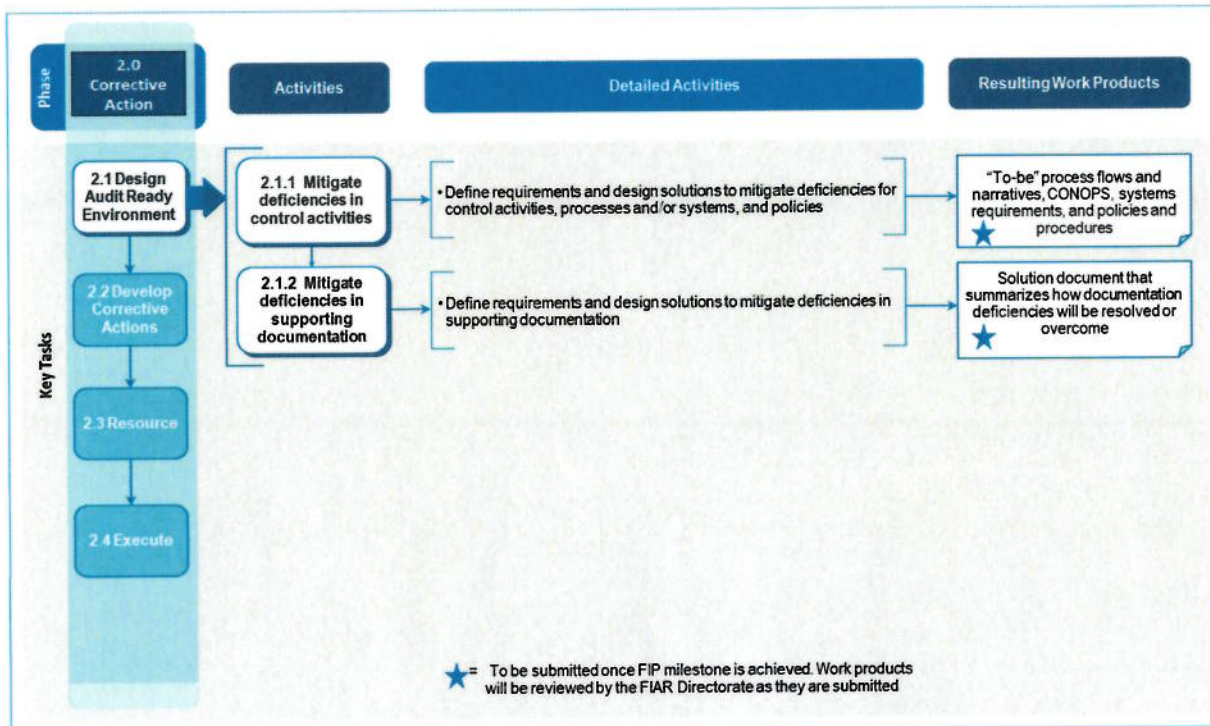


Figure 4-6. Corrective Action Phase – Design Audit Ready Environment



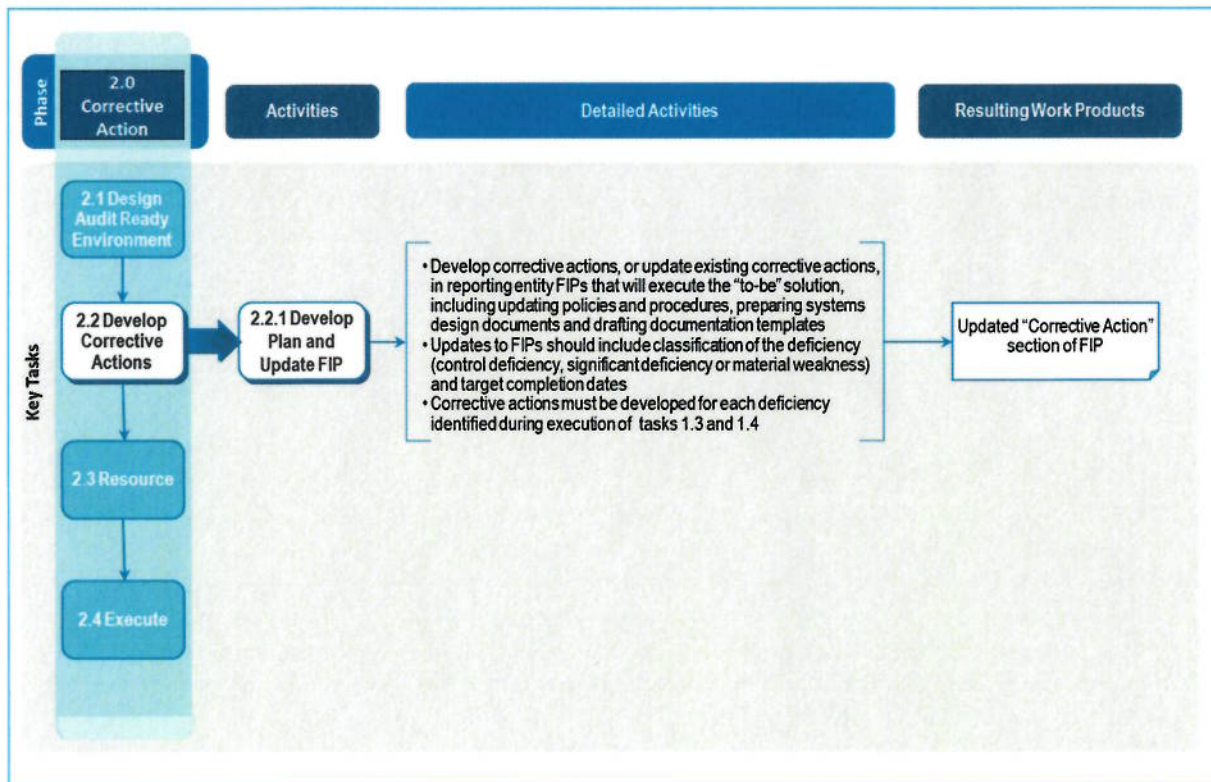


Figure 4-7. Corrective Action Phase – Develop Corrective Actions

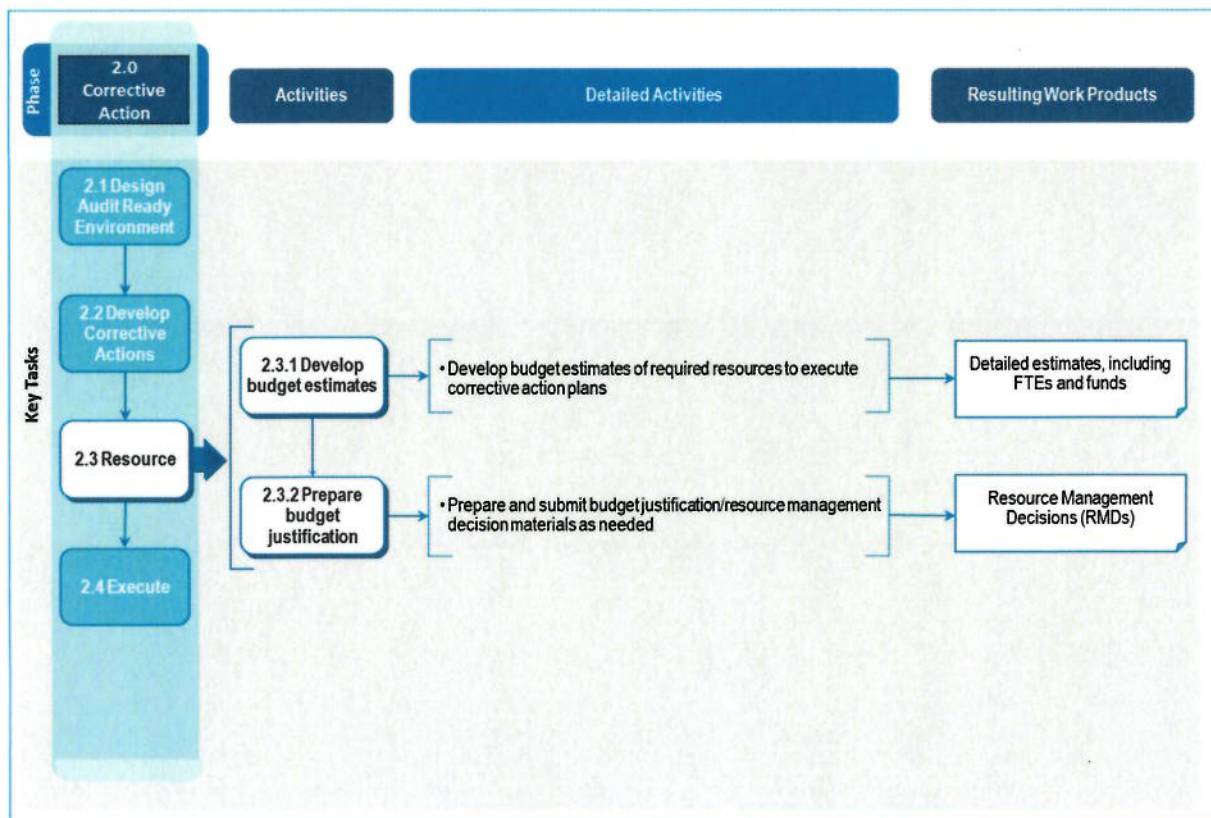


Figure 4-8. Corrective Action Phase – Resource



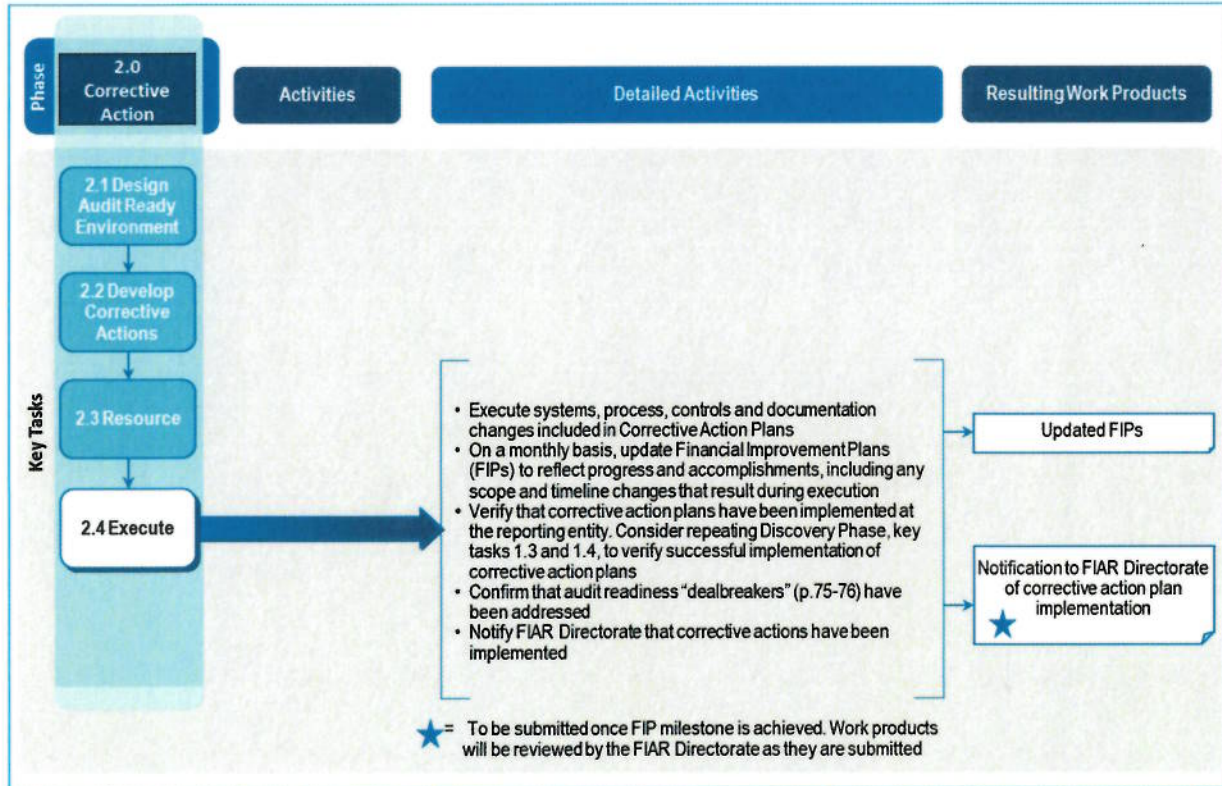


Figure 4-9. Corrective Action Phase – Execute

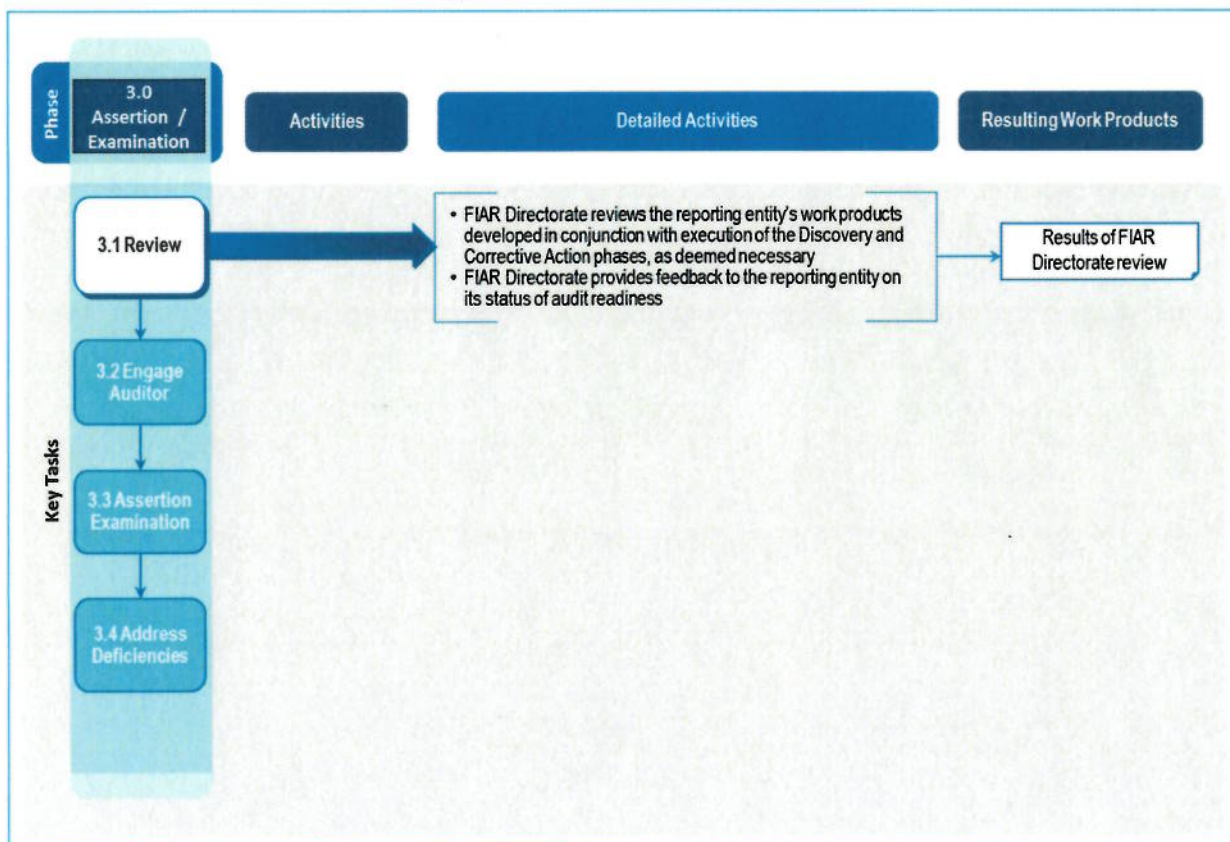


Figure 4-10. Assertion / Examination Phase – Review



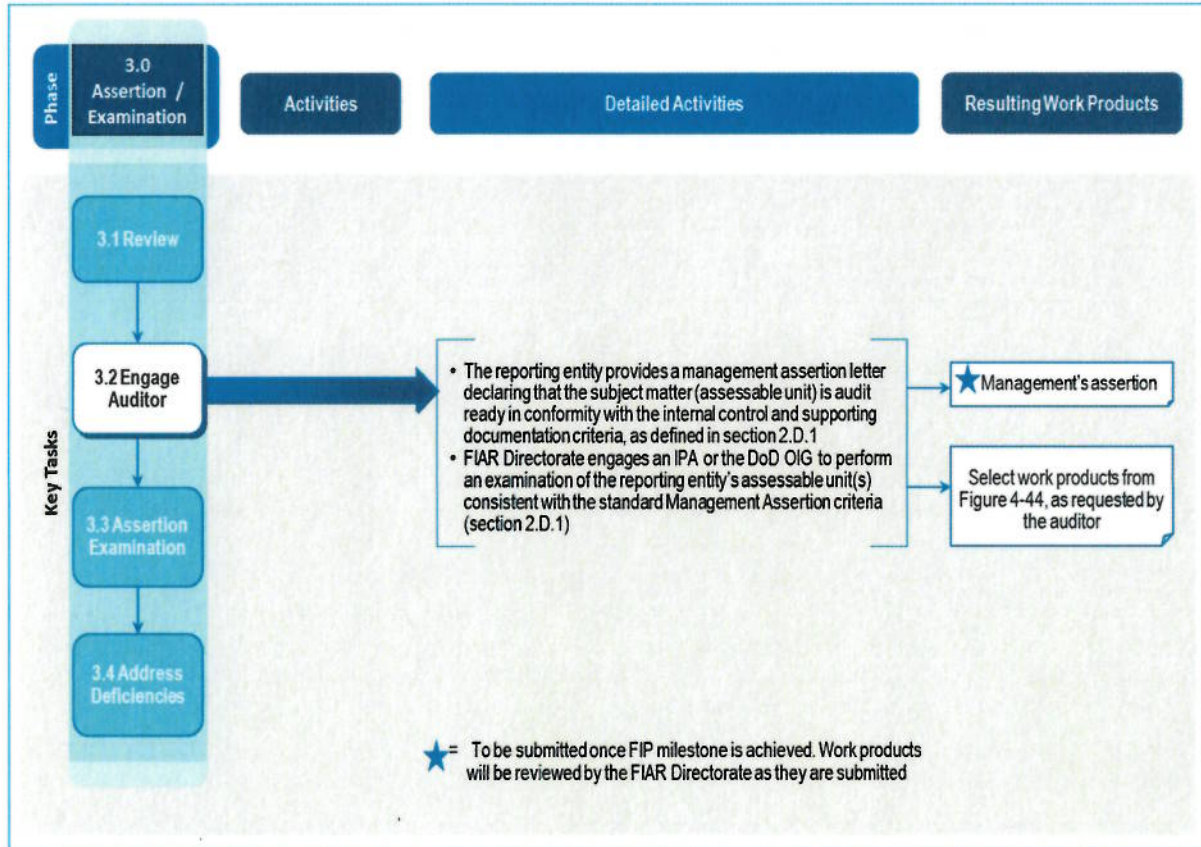


Figure 4-11. Assertion / Examination Phase – Engage Auditor

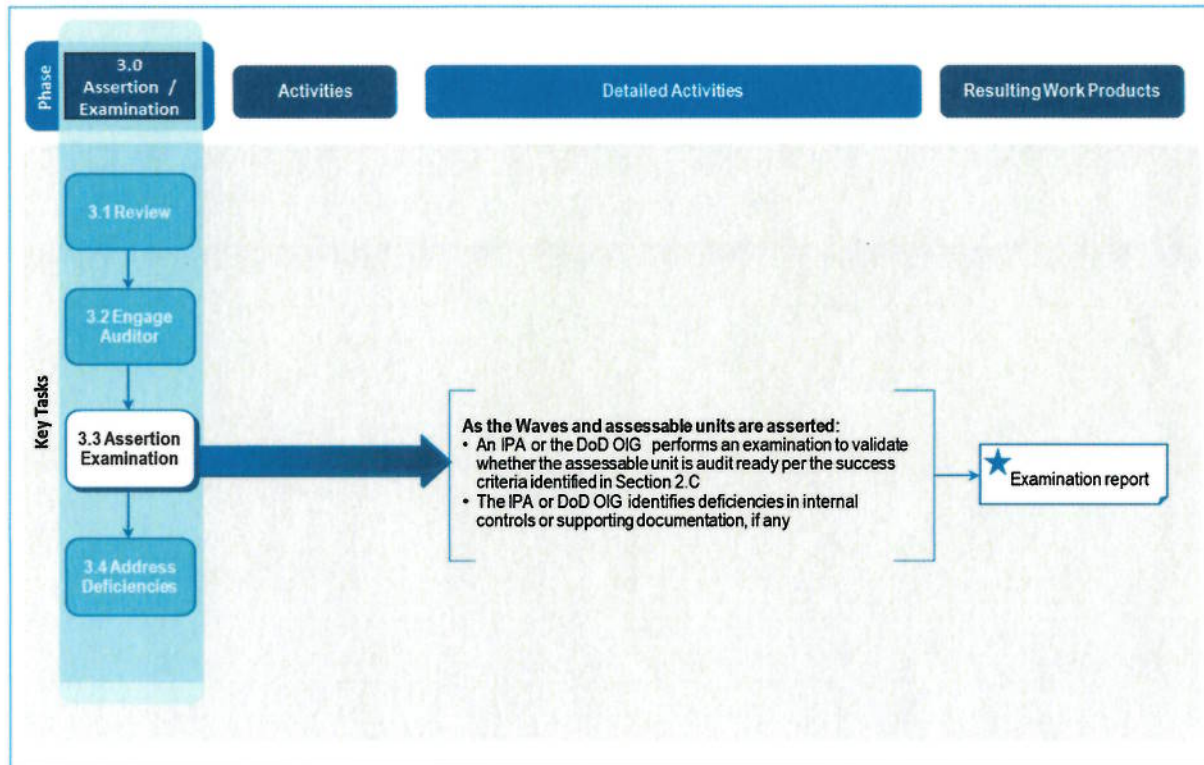


Figure 4-12. Assertion / Examination Phase – Assertion Examination



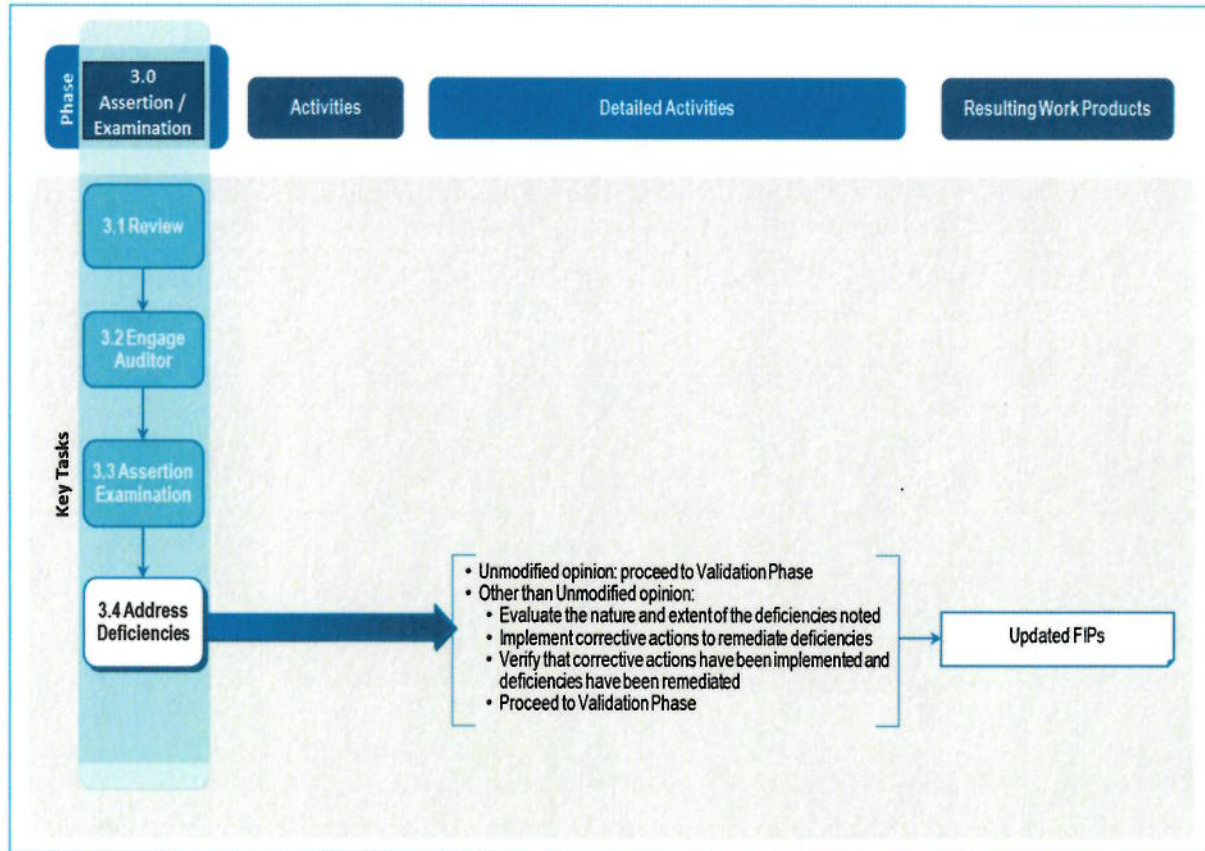


Figure 4-13. Assertion / Examination Phase – Address Deficiencies

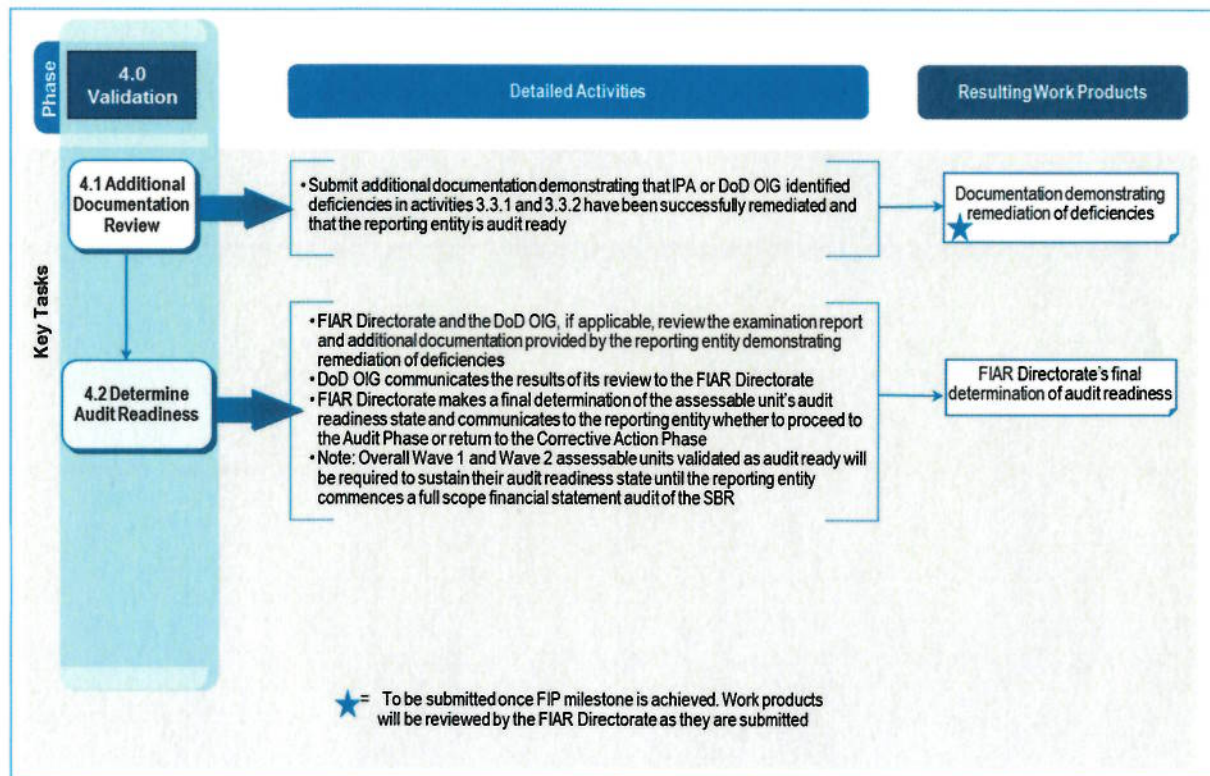


Figure 4-14. Validation Phase



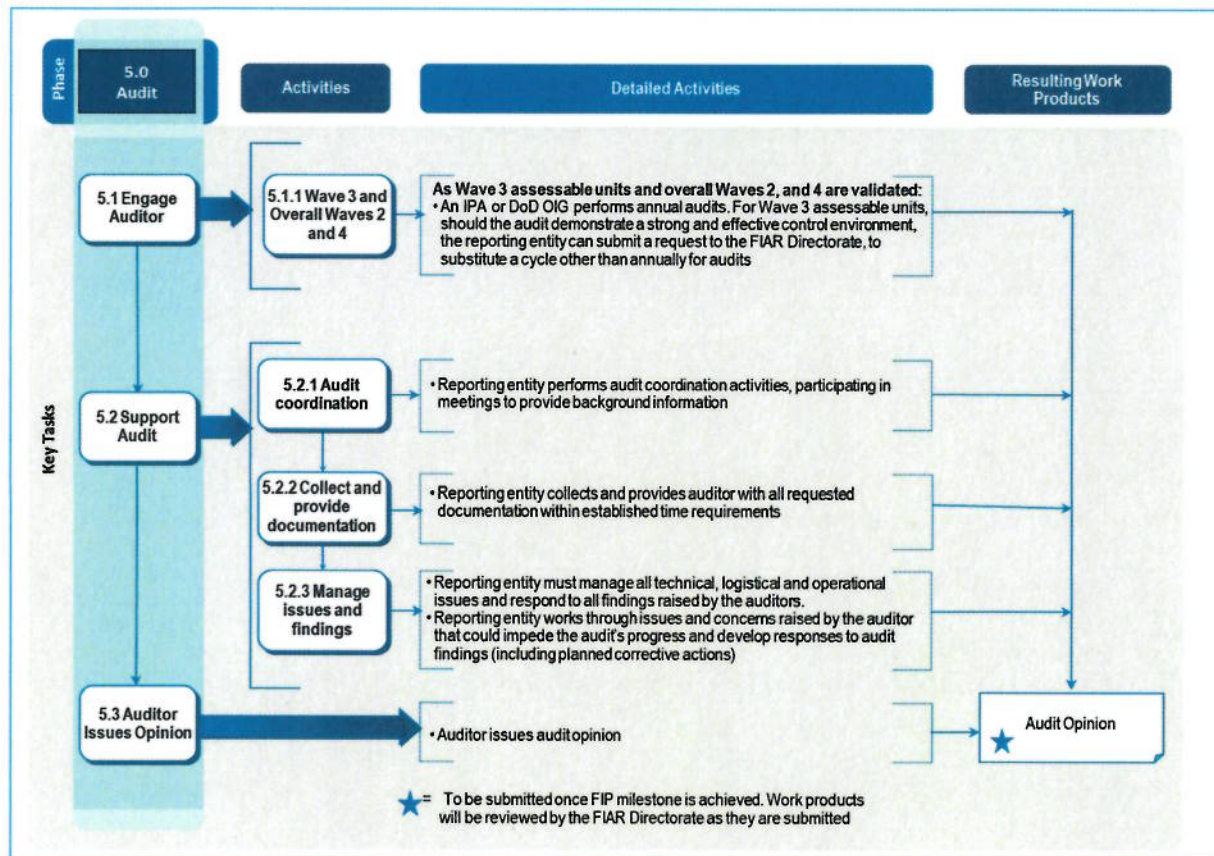


Figure 4-15. Audit Phase

#### 4.A.6 CAPABILITIES

Generally Accepted Government Auditing Standards (GAGAS) require auditors to collect evidence supporting the fair presentation of financial statement amounts by focusing on two primary areas: internal controls and supporting documentation. Therefore, to achieve audit readiness reporting entities must:

- Limit the risk of material misstatements by identifying and implementing a combination of control activities and supporting documentation to demonstrate that the FROs, relevant to the subject matter, assertion or line item, have been achieved; and
- Be able to support account transactions and balances with sufficient, relevant and accurate audit evidence, defined as KSDs in line item tables, supplemented by the reporting entity's own documentation requirements.

To maximize the efficiency and effectiveness of audit readiness efforts, the Department has identified relevant financial reporting risks, FROs and KSDs that substantiate financial transactions and balances for waves 3 and 4; these requirements are addressed in Section 5.

#### Financial Reporting Objectives

FROs are the outcomes needed to achieve proper financial reporting and serve as a point of reference to evaluate the effectiveness of control activities, and the accuracy and sufficiency of documentation supporting transactions and account balances. Reporting entities and service providers must include and address all FROs in their FIPs by focusing on:



## INTERNAL CONTROLS

Effective internal controls mitigate risks and provide assurance that financial information is properly and accurately recorded and reported. They are critical to successful financial statement audits. Effective internal controls ensure that:

- Key risks are mitigated; and
- Financial statement assertions are achieved.

During the *Discovery Phase*, identifying and assessing the design and operational effectiveness of internal controls is necessary to understand and evaluate the effectiveness of operational business processes. Internal controls must be documented and the documentation must be readily available to evidence execution of the control activity. The documentation should be properly managed and maintained. The *Discovery Phase* includes assessments to identify inherent risks<sup>22</sup> and testing control activities to identify weaknesses. CAPs are developed and implemented to remediate noted weaknesses, and additional procedures are performed (i.e., repetition of key tasks 1.3 and 1.4) to verify successful implementation of corrective actions.

**Reporting entities must indicate whether they have assessed control activities that meet FROs, and whether the control activities are effective.** If they are not effective, then specific corrective action and validation tasks must be included in the reporting entity's FIP and linked to the appropriate FRO. By embedding the FROs in the FIPs and linking corrective actions to them, the Department is better assured that financial reporting deficiencies will be identified and resolved. Additionally, progress toward achieving reliable financial information and auditability can be better monitored, managed, and measured.

See **Section 3** for a full discussion of internal controls.

## SUPPORTING DOCUMENTATION

**Reporting entities must identify and retain sufficient and accurate documentation to support individual financial transactions and accounting events prior to asserting audit readiness for each of waves 3 and 4 (i.e., Mission Critical Asset Existence and Completeness (E&C) and Full Financial Statement Audit) of the FIAR Strategy. Assessing the sufficiency and accuracy of supporting documentation is an essential FIP task and is a critical audit requirement for audit readiness assertions. In fact, the Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual (GAO/PCIE FAM) states that organizations must retain documentation to support:**

1. **Balances reported in the financial statements;**
2. **Systems of internal control;**
3. **Substantial compliance of the financial management systems with FFMIA requirements;**
4. **Substantial compliance of internal controls with FMFIA requirements;**
5. **Compliance with laws and regulations; and**
6. **Required supplementary information (RSI) including any stewardship information (RSSI).**

The GAO/PCIE FAM also states that auditors performing financial statement audits must obtain sufficient audit evidence to form an opinion on an organization's financial statements.<sup>23</sup>

Auditors must adhere to professional standards, which have been codified as the Clarified Auditing Standards (AU-C). AU-C Section 500, *Audit Evidence*, discusses the auditor's responsibility to obtain sufficient, appropriate audit evidence from management and other sources. The line item tables in

<sup>22</sup> The GAO/PCIE *Financial Audit Manual*, Section 260: Identify Risk Factors, Paragraph .02, defines inherent risk as "the susceptibility of a relevant assertion to a misstatement that could be material, either individually or when aggregated with other misstatements, assuming that there are no related controls."

<sup>23</sup> Government Auditing Standards (Yellow Book) are the requirements for those performing Federal financial statement audits. The GAO/PCIE FAM is subordinate to the Yellow Book requirements in the event conflicts arise.



**Section 5** provide the KSD requirements for the financial statement line items in waves 3 and 4 of the FIAR Strategy.

**Audit Readiness “Dealbreakers”**

Drawing on lessons learned from past audit readiness efforts, the FIAR Directorate has compiled a list of dealbreakers that have prevented reporting entities from demonstrating audit readiness or succeeding in audits. **More recently, the FIAR Directorate has defined several critical capabilities that reporting entities must demonstrate prior to asserting full audit readiness.** **Figure 4-16** lists the **critical capabilities** and most common dealbreakers and links each back to the detailed activities within the phases of the FIAR Methodology. During the Assertion/Examination phase, the FIAR Directorate will provide feedback to the reporting entity as to whether they have **achieved the critical capabilities** and successfully addressed the dealbreakers and recommend additional procedures to make improvements prior to an examination.

<b>Audit Readiness Dealbreakers (includes sensitive* and non-sensitive activity)</b>	
<b>Critical Capabilities</b>	<b>FIAR Guidance Reference</b>
<p>1. Universe of Transactions (UT) for Schedule of Budgetary Activity, Statement of Budgetary Resources and Balance Sheet:</p> <ul style="list-style-type: none"> <li>A) Ability to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting systems; and</li> <li>B) Ability to reconcile population of transaction details to feeder/source/originating systems.</li> </ul>	<p><b>Figure 4-5, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.1 Prepare the population</b></p>
<p>2. Fund Balance with Treasury (FBWT), including Process and Tools to Identify, Age, and Resolve:</p> <ul style="list-style-type: none"> <li>A) Differences between the General Ledgers (Proprietary and Budgetary) and Treasury’s GWA Account Statement (at voucher level);</li> <li>B) Transactions posted to budget clearing accounts within 60 days (“suspense” accounts);</li> <li>C) Transactions reported on Treasury’s Statements of Differences within 30 days (e.g., deposits, EFT, and check issue); and</li> <li>D) Perform aging analysis and apply reconciliations backwards to any years possible.</li> </ul>	<p><b>Figure 4-5, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.1 Prepare the population, Activity 1.4.2 Perform data mining</b></p>
<p>3. Journal Vouchers (JVs)</p> <ul style="list-style-type: none"> <li>A) Eliminate or support material JVs and other adjustments made to financial transactions, trial balances, and financial statements related to intra-departmental elimination entries; and</li> <li>B) Eliminate or support material JVs and other adjustments made to financial transactions, trial balances, and financial statements for all other entries.</li> </ul>	<p><b>Figure 4-5, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.1 Prepare the population</b></p>
<p>4. Existence and Completeness (E&amp;C) and Rights of Real Property (including Construction in Progress), General Equipment (including Work in Process), Internal Use Software and Inventory and Related Property:</p> <ul style="list-style-type: none"> <li>A) Establish an auditable E&amp;C baseline; and</li> <li>B) Establish an auditable process for go-forward activity.</li> </ul>	<p><b>Figure 4-4, Discovery Phase, Task 1.3 Assess and Test Controls, Activity 1.3.1 Prepare process and systems documentation</b></p> <p><b>Figure 4-5, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.5 Test existence of supporting documentation</b></p> <p><b>Section 3.E Test Existence of Supporting Documentation</b></p>



<b>Audit Readiness Dealbreakers (includes sensitive* and non-sensitive activity)</b>	
<b>Critical Capabilities</b>	<b>FIAR Guidance Reference</b>
<p>5. Valuation of Real Property (including Construction in Progress), General Equipment (including Work in Process), Internal Use Software and Inventory and Related Property:                      A) Establish an auditable Valuation baseline; and                      B) Establish an auditable process for go-forward activity.</p>	<p><b>Figure 4-4</b>, Discovery Phase, Task 1.3 Assess and Test Controls, Activity 1.3.1 Prepare process and systems documentation  <b>Figure 4-5</b>, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.5 Test existence of supporting documentation                      Section 3.E Test Existence of Supporting Documentation</p>
<p>6. Environmental &amp; Disposal Liabilities:                      A) Establish an auditable process for estimating (identifying and valuing) and recording environmental &amp; disposal liabilities (DERP and non-DERP).</p>	<p><b>Figure 4-4</b>, Discovery Phase, Task 1.3 Assess and Test Controls, Activity 1.3.1 Prepare process and systems documentation  <b>Figure 4-5</b>, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.5 Test existence of supporting documentation                      Section 3.E Test Existence of Supporting Documentation</p>
<p>7. Implement Critical Information Technology General and Application Controls for Material, Financially Relevant Systems.</p>	<p>Section 4.C Preparing for an Audit Sub-section 4.C.1 Assertion Documentation</p>

<b>Audit Readiness Dealbreakers (includes sensitive* and non-sensitive activity)</b>	
<b>Additional Capabilities</b>	<b>FIAR Guidance Reference</b>
<p>1. Testing of transaction samples back to source documents that:                      A) Cover all material transaction types, sub-processes and locations; and                      B) Are extensive enough to draw conclusions consistent with the effectiveness of controls. Specifically, if controls are ineffective, sufficient substantive testing (i.e., test of details performed through statistical or valid non-statistical sampling, or substantive analytical procedures) must be performed that would reduce the risk of material misstatements to an acceptable level, resulting in evidence that the balances are fairly stated.</p>	<p><b>Figure 4-5</b>, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.5 Test existence of supporting documentation                      Section 3.E, Test Existence of Supporting Documentation                      Section 4.C Preparing for an Audit Sub-section 4.C.1 Assertion Documentation</p>
<p>2. All financial statement assertions and relevant risks are addressed either through control or substantive testing.</p>	<p><b>Figure 4-3</b>, Discovery Phase, Task 1.2 Prioritize, Activity 1.2.4 Identify Financial Reporting Objectives  <b>Figure 4-4</b>, Discovery Phase, Task 1.3 Assess &amp; Test Controls, Activity 1.3.3 Execute tests of controls  <b>Figure 4-5</b>, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.5 Test existence of supporting documentation</p>
<p>3. Open Obligations                      A) Support open obligations with appropriate supporting documentation as of audit start date.</p>	<p><b>Figure 4-5</b>, Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.5 Test existence of supporting documentation                      Section 3.E Test Existence of Supporting Documentation</p>



<b>Audit Readiness Dealbreakers (includes sensitive* and non-sensitive activity)</b>	
<b>Additional Capabilities</b>	<b>FIAR Guidance Reference</b>
4. Reconciliations, transaction populations, and supporting documentation can be provided in a timely manner.	Section 4.C Preparing for an Audit Sub-section 4.C.1 Assertion Documentation
5. Control activities for high transaction volume areas (e.g., supply, contracts, FBWT, Inventory, OM&S, GE, etc.) are designed and/or operating effectively.	Section 4.C Preparing for an Audit Sub-section 4.C.1 Assertion Documentation
6. Supporting documentation testing (i.e., substantive testing) can overcome ineffective or missing ITGC and application controls when transaction evidence is electronic and only maintained within a system or the key supporting evidence is system generated reports.	Section 4.C Preparing for an Audit Sub-section 4.C.1 Assertion Documentation
7. Service provider processes, risks, and controls are integrated within the scope of testing if those processes are material to the assessable unit.	Section 4.B FIAR Methodology – Service Provider Sub-section 4.B.4 Methodology - Service Provider
8. Management has established retrieval and storage procedures for financial data that will support management evaluation and future examinations/audits.	<b>Figure 4-5</b> , Discovery Phase, Task 1.4 Evaluate Supporting Documentation, Activity 1.4.1 Prepare the Population
9. Material Balances Brought Forward/Opening Balances are evaluated through appropriate testing.	<b>Figure 4-5</b> , Discovery Phase, Task 1.4 Evaluate Supporting Documentation
<b>* Note: Sensitive activity is discussed in more detail in Section 6.A.</b>	

Figure 4-16. Most Common Audit Readiness Dealbreakers

#### 4.A.7 STANDARD FIP FRAMEWORK

Recognizing the benefits from a standard FIP framework and content, the FIAR Directorate, working collaboratively with reporting entities, developed a standard framework and template for the FIPs. See FIAR Guidance website for the [standard FIP template](#) and [FIP Preparation and Submission Instructions](#) document.