

C.3 WAVE 3 – MISSION CRITICAL ASSET E&C AUDIT

Mission Critical Asset Existence and Completeness (E&C) Audits focus on the E&C financial statement assertions, but also include 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 (APSR) or equivalent exist (Existence), all of the reporting entities' assets are recorded in their APSR or equivalent (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).** The asset categories include **General Equipment (GE), Real Property (RP), Inventory, and Operating Materiel and Supplies (OM&S).** This wave will allow the Department and its reporting entities to demonstrate the existence and completeness of its assets prior to focusing on the reported value of the assets.

C.3.1 Readiness Scope

Successful execution of the Department's military missions depends on a properly equipped and supplied force. Achieving accurate and reliable accountable systems of record through E&C audits is the objective of Wave 3 and is a critical step for achieving successful financial statement audits.

Mission critical assets consist of accountable property. In other words, mission critical assets are not simply assets that exceed the capitalization threshold (Refer to DoD FMR Volume 4, Chapter 6, Section 060103.A.1.d for capitalization threshold) but are all assets greater than the property accountability threshold (Refer to DoDI 4165.14 para 5.1 for RP accountability threshold, DoDI 5000.64, para 6.2.1 for GE accountability threshold, and DoDD 4140.1 for Inventory and OM&S accountability thresholds). Mission critical assets are defined broadly as: General Equipment, Real Property (Land, Buildings, Structures and Facilities, and Construction in Progress), Inventory, and OM&S.

As of September 30, 2010, these four asset categories comprise over 99 percent of the Department's total reported acquisition costs or amounts for General Property, Plant and Equipment (G-PP&E) and Inventory/OM&S. The OUSD(C) will periodically re-evaluate this coverage and will separately communicate with reporting entities if changes in scope are required.

The Department will demonstrate progress towards audit readiness when independent auditors render unqualified opinions on the existence and completeness of mission critical assets. To ensure success, it is important for both the reporting entity and auditor to understand the audit scope. These audits are to determine whether (1) all the assets the reporting entity lists in its APSR or equivalent exist; and (2) the reporting entity reports all of its assets. However, to ensure compliance with auditing standards, auditors are also required to consider the impact of additional, interrelated areas, as Figure 4 demonstrates.

Auditors performing government financial statement audits in the United States must adhere to professional standards promulgated by Government Accountability Office (GAO) and the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board. The GAO has codified its standards for financial statement and performance audits in the Government Auditing Standards (Yellow Book). The AICPA has codified its professional standards in the *Codification of Statements on Auditing Standards (clarified and referred to as AU-Cs)*, which are incorporated by reference into the Government Auditing Standards. These professional standards require that the auditor be satisfied that elements, accounts, or items that are interrelated with those on which he or she has been engaged to express an opinion have been considered in expressing that opinion.

The GAO/PCIE FAM Section 235, *Identify Significant Line Items, Accounts, Assertions, and RSSI*, paragraph 02, defines the Existence or Occurrence assertion as “[r]ecorded transactions and events occurred during the given period, are properly classified, and **pertain to the [reporting] entity**. [A reporting] entity’s assets, liabilities, and net position exist at a given date.” (Emphasis added) The bolded text (which is the essence of the definition of the Rights assertion) demonstrates the interrelationship of the Rights and Existence assertions.

Presentation and Disclosure is the other assertion that is interrelated with E&C audits. Specifically, the summarization and classification elements of Presentation and Disclosure are directly related to E&C audits, because these are the assertions that ensure accurate quantities of assets are presented and correctly classified (e.g., assets reported as GE versus OM&S) on summary schedules covered by E&C audits.

Because of the interrelationship among the E&C and Rights assertions, along with elements of the Presentation and Disclosure assertion, it is necessary to include these assertions in the scope of E&C audit readiness preparation and resulting E&C audits, as shown in **Figure 3**.

Mission Critical Financial Management Data

The Department will have auditors test financial management data maintained in the reporting entity’s APSR. This testing is in addition to the auditors determining whether assets recorded in the APSR physically exist and whether the population of assets in the APSR is complete, i.e., includes all assets to which the reporting entity has rights that meet the property accountability threshold.

For a full listing of the financial management data that must be included in the scope of an E&C audit, see Section C.3.2, Subsection Financial Management Data. Ensuring that this information is accurate and reliable is important not only for managing mission critical assets, but also for proper financial reporting and future financial statement audits. For example, “Placed-in-Service Date” is important to ensure the completeness of asset records at the end of a reporting period.

Note Regarding Internal Controls

When determining the scope of audit readiness efforts for Wave 3, reporting entities must consider whether using a substantive, supporting documentation approach (given the nature/size of the population) is more efficient than developing extensive process and internal control documentation. There will be instances when a reporting entity and OUSD(C) conclude it is more efficient and effective to use a substantive approach to support an E&C audit-readiness assertion for specific assessable units (combined with a periodic physical inventory count control activity). For example, a reporting entity has a space satellites assessable unit with eight asset items and can substantively demonstrate the existence/completeness/ rights to all eight assets even though the reporting entity has not completed the process and internal control documentation (or without controls fully functioning). In this example, audit readiness may be asserted without completing extensive process and internal control documentation, in addition to the periodic physical inventory count.

However, it may not be practical for the auditor to rely on substantive testing, and instead the auditor needs to evaluate, test and place reliance on a reporting entity’s relevant internal control activities. For example, if a reporting entity has large quantities of OM&S that are geographically dispersed with a high

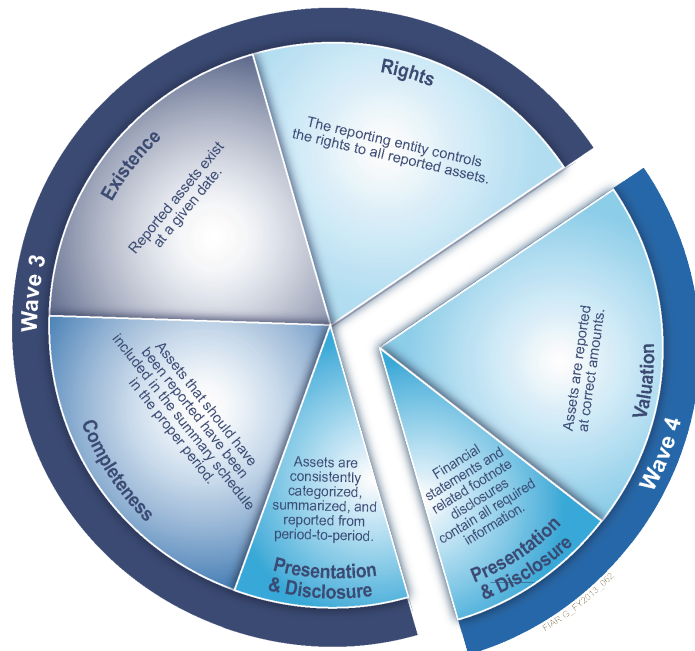


Figure 3. Audit scope of Wave 3, Existence and Completeness of Mission Critical Assets

volume of acquisition and/or disposal activity, it may not be practical for an auditor to substantively test sufficient OM&S to render an opinion (since the OM&S balance is constantly changing). However, if the auditors determine they can rely on the design and operating effectiveness of the reporting entity's control activities over the OM&S balance, the auditor can significantly reduce testing and rely on the control activities. The result is a significant reduction in the quantity of testing and duration of the E&C audit, lower direct cost, and reduced effort for both the reporting entity and its auditor.

Therefore, flexibility is needed with respect to process and controls documentation for E&C audits. When practical, a primarily substantive evidence approach can be used, but depending on the nature and quantity of assets and the potential need to remediate processes and control activities **related to acquisition, maintenance and disposals of assets**, reporting entities may need to plan for complete process and internal control evaluations and documentation. The distinction will largely depend on the complexity of the business area and the quantity of assets and financial events. The following table identifies the major processes that are likely to affect the E&C of assets and potential segments of those processes that the reporting entity should consider.

Major Processes	Segments
Acquisitions (purchases, in- house construction, takings, transfers-in)	Key processes and internal controls that ensure the existence, completeness, and rights of assets should be included in an E&C assertion. These include: (a) controls to ensure all asset acquisitions (capital and accountable) are appropriately flagged or fed into asset/accountability/inventory systems; (b) controls to ensure assets are recorded when control of the asset passes to the reporting entity or when placed into service (for constructed assets); and (c) controls to ensure only assets to which the reporting entity has financial reporting responsibility (the reporting entity has the ability to control the benefits of the asset) are recorded.
Disposals (sales, destructions, donations, excesses, transfers- out)	Key processes and internal controls that ensure all disposals are correctly recorded in the APSR and disposals are only recorded when the reporting entity has transferred or otherwise ended its ability to control the asset.
Periodic physical inventory counts	Entire process is "in-scope" and the principal control to ensure E&C.
APSR maintenance (IT general and application level controls surrounding the APSR)	Entire process is "in-scope" and relevant to ensure information in the system of record is not incorrectly adjusted (especially subsequent to physical inventory counts) and that unauthorized personnel cannot make adjustments. For situations where supporting documentation is generated and/or retained electronically (e.g., transaction history within a system), then it is likely the system must also be scoped into audit readiness efforts.

C.3.2 Risks, Financial Reporting Objectives, Key Supporting Documents and Assessable Unit Risks and Outcomes

Risks

The following table presents the key ROMMs related to the Wave 3, Mission Critical Assets E&C Audit. A reference to the source of each risk is included in parentheses. **Reporting entities must mitigate these risks by designing and implementing control activities.** Refer to the FROs in the table following this risk table for further details.

Wave 3 – Mission Critical Asset E&C Audit Key Risks of Material Misstatements	
Financial Statement Assertion	Key Risks of Material Misstatements
Existence	- Recorded transactions do not represent economic events that actually occurred. (FAM 395B: 1) - Recorded assets are not properly classified. (FAM 395B: 1c and 5) - Recorded assets do not exist at a given date (FAM 395B: 4) - Recorded assets may not be properly supported with adequate supporting documentation (FAM 395B: 4) - Transactions are recorded in the current period, but the related economic events occurred in a different period (FAM 395B: 2) - Transactions are summarized improperly, resulting in an overstated total (FAM 395B: 3)
Completeness	- Assets of the reporting entity exist but are omitted from the APSR and/or summary schedules (financial statement equivalent) (FAM 395B: 8) - Economic events occurred in the current period, but the related transactions are recorded in a different period (FAM 395B: 6) - Transactions are summarized improperly, resulting in an understated total (FAM 395B: 7)
Presentation and Disclosure	- Accumulated accounts or assets are not properly classified and described in the summary schedules (FAM 395B: 15) - The current period summary schedules (various classes of assets) are based on accounting principles different from those used in prior periods presented (FAM 395B: 16) - The reporting entity is exposed to loss of assets and various potential misstatements, including certain of those above, as a result of inadequate segregation of duties (FAM 395B: 18)
Rights and Obligations	- Recorded assets are owned* by others because of sale, consignment, or other contractual arrangements (FAM 395B: 12) - The reporting entity does not have certain rights to recorded assets because of liens, pledges, or other restrictions (FAM 395B: 13) * Note: OUSD(C) A&FP is currently updating the DoD FMR to clarify rights and reporting responsibilities for mission critical assets.

Financial Reporting Objectives

Reporting entities must identify and implement a combination of control activities and supporting documentation to demonstrate that the FROs, relevant to the subject matter, assertion, or processes, (e.g., contract pay) have been achieved. Each FRO has been linked to its relevant financial statement assertions (as indicated with an “X” in the relevant columns), including if the FRO relates to compliance with laws and regulations. At the end of each FRO is a source reference. This is not a complete listing of control objectives, but rather those FROs needed to address key risk areas most likely to be present based on the Department’s experience. **Reporting entities must apply judgment to determine if additional FROs should be included given their specific business processes and financial statements.** Reporting entities may also refer to the GAO/PCIE FAM Section 395B for a list of general control objectives based on financial statement assertions.

Wave 3 – Mission Critical Asset E&C Audit Financial Reporting Objectives						
Financial Statement Line Items	Financial Reporting Objectives	Financial Statement Assertions				
		Existence	Completeness	Valuation	Presentation & Disclosure & Rights & Obligations	Compliance
Inventory and Related Property	1. Accounts and all the transactions (or assets) they accumulate are properly classified and Accounting principles are consistently applied from period to period (FAM 395B: 15, 16).		x		x	
	2. Ensure recorded transactions represent economic events that actually occurred and are properly classified (FAM 395B: 1c, 2).	x				
	3. Ensure recorded assets exist at a given date (FAM 395B: 4a).	x				
	4. Ensure recorded assets at a given date, are supported by appropriate detailed records that are accurately summarized and reconciled to the account balance (FAM 395B: 4b).	x				
General Property, Plant and Equipment	5. Ensure recorded assets are owned by the reporting entity. The reporting entity has rights to the recorded asset at a given date (FAM 395B: 12, 13).				x	
	6. Ensure all existing assets, as of the reporting date, including property in the custody of third parties, are included in the general ledger (FAM 395B: 8).		x			
	7. Asset transactions recorded in the current period represent economic events that occurred during the current period (FAM 395B: 2)	x				
	8. The summarization of recorded assets is not overstated (FAM 395B: 3)	x				
	9. All asset related events that occurred in the current period are recorded as transactions in the current period (FAM 395B: 6)		x			
	10. The summarization of recorded assets is not understated (FAM 395B: 7)		x			

Key Supporting Documents

Two types of documentation are needed to prepare for E&C audits. The first type of documentation, direct supporting documentation, includes internal control documentation and substantive, supporting documentation used by a reporting entity to directly demonstrate financial statement assertions (e.g., a land deed directly supports the Rights assertion). The second type of documentation, financial management data, represents supported data fields in the APSRs that substantiate financial reporting assertions and management/budget information (e.g., a tract map supports location information, which indirectly supports the Existence assertion). **Both types of documentation are required to demonstrate to management and decision makers the accuracy and reliability of E&C information.** Because supporting management with better information is the goal of the E&C audits, both categories of information are included in the scope of E&C audit readiness and therefore will be validated by auditors.

The following table presents a detailed listing by relevant financial statement assertion of minimum internal control and direct supporting documentation that a reporting entity must make readily available for auditors. For some financial statement assertions different levels or tiers of documentation exist, which reporting entities may use to demonstrate financial statement assertions. In accordance with auditing standards, the most robust documentation, presented as Tier 1, should be used whenever possible. When Tier 1 documentation is unavailable, reporting entities should move down to Tier 2. **Please note that this list is not all-inclusive.** Additional documentation, including reporting entity-specific documentation, may exist that is equivalent to or supplements the items detailed in the table.

Wave 3 – Mission Critical Asset E&C Audit Key Supporting Documents							
Financial Statement Line Items	Documentation Type	Key Supporting Documents	Financial Statement Assertions				
			Existence	Completeness	Valuation	Presentation & Disclosure	Rights & Obligations
All Financial Statement Line Items	Internal Control Documentation	1. Statement-to-process analyses demonstrating the dollar amount and quantity of activity flowing through various processes and/or locations	x	x		x	x
		2. Applicable policies and procedures	x	x		x	x
		3. Process narratives and flowcharts	x	x		x	x
		4. Control worksheets, identifying risks, FROs and corresponding control activities	x	x		x	x
		5. Test plans documenting planned procedures used to test the operating effectiveness of control activities	x	x		x	x
		6. Control assessments with test results	x	x		x	x
		7. Evaluation of test results	x	x		x	x
		8. Documentation demonstrating the operation of internal control activities for the period under audit. Examples include: - Approval signature documentation (electronic or manual) demonstrating accuracy reviews of appropriation transactions recorded in the general ledger (compared to supporting documentation such as Appropriation Act/Public Law) - Reconciliations of non-expenditure transfers recorded in the general ledger to OMB-approved Non-Expenditure Transfer Authorizations (SF-1151s)	x	x		x	x
		9. System inventory list, listing of system users and their access privileges				x	x
	Tier I Asset Documentation	10. Physical inventory count documentation (inventory instructions, completed inventory count sheets (indicating items selected from the “book” and physically inspected on the “floor”), preparer/reviewer signatures and supporting documentation evidencing resolution of differences). Physical inventory counts must include sufficient statistical coverage of the population and comply with applicable requirements (e.g., DoDI 5000.64, Enclosure 3, Section 11)	x				
		11. Physical inventory count documentation (inventory instructions, completed inventory count sheets (indicating items selected from the “floor” and traced back to the “book”), preparer/reviewer signatures and supporting documentation evidencing resolution of differences). Physical inventory counts must include sufficient statistical coverage of the population and comply with applicable OUSD (AT&L) requirements		x			
		12. Detailed listing of all assets from APSRs				x	
		13. Summary schedule reporting the amounts/quantities by class of assets				x	
		14. Reconciliation of the summary schedule of assets to the general ledger				x	
		15. Policies and procedures relevant to the assets, demonstrating the consistency of accounting treatment across all years presented				x	
		16. Written definitions of asset classes and assessable units				x	

Wave 3 – Mission Critical Asset E&C Audit Key Supporting Documents							
Financial Statement Line Items	Documentation Type	Key Supporting Documents	Financial Statement Assertions				
			Existence	Completeness	Valuation	Presentation & Disclosure	Rights & Obligations
	Tier II Asset Documentation	17. Documentation demonstrating efforts made to obtain supporting documentation in cases where Tier 1 documentation is not used. Examples include data call requests, email traffic, meeting documentation, site visit inspection notes, etc.				x	
		18. Contract documentation, including (for base assets and asset modifications): • Statement of Work • Contract clauses that define who owns assets and when the reporting entity takes possession • Purchase Orders • Receiving report or other acceptance document (e.g., DD250 (Materiel Inspection and Receiving Report) or DD1354 (Transfer and Acceptance of DoD Real Property)) • Deeds/titles (for Land only) • Lease, Occupancy Agreement, Reversion Legal Document, Judgment Legal Document (for condemnation), Letter of Withdrawal (for withdrawal from Public Domain)					x
		19. Asset logs (e.g., maintenance logs or usage logs) that are reconciled to the APSR, demonstrating the completeness of the APSR population	x				
		20. Mission-management/logistics data (if different from the APSRs) used by leadership to track, deploy or distribute assets, reconciled to the APSR demonstrating the completeness of the APSR population		x			
		21. Tract maps, land plats, space management systems, utilities maps, or facility diagrams that are reconciled to the APSR, demonstrating the completeness of the APSR population					x
		22. Other estimation techniques that can be used to estimate the size of the population with tolerable precision and then compared to the APSR population to demonstrate completeness					x
		23. Physical indicators of ownership rights, including: • Assets located on reporting entity facility • Assets tagged with identification numbers (e.g., barcodes or tail numbers) that indicate reporting entity ownership • Assets are marked with the reporting entity's name (or other coding or naming conventions) that demonstrate the reporting entity's control over the asset • Other evidence of exclusive rights to use assets					x

When performing KSD testing, reporting entities may need to apply judgment when determining what documentation is sufficient to support all FROs, especially in instances where original source documentation is unavailable (e.g., using Tier 3 documentation). In instances when reporting entities determine Tier 1 documentation does not exist, reporting entities must consult with the FIAR Directorate prior to commencing KSD testing, to ensure both parties reach the same conclusion on the sufficiency of Tier 2 and Tier 3 documentation satisfying relevant FROs.

Assessable Unit Risks and Outcomes

For the assessable units for Wave 3, FIAR has defined baseline financial reporting risks and related outcomes demonstrating audit readiness. Specifically, FIAR has identified the key risks for Mission Critical Assets Existence and Completeness that may cause a financial statement balance to be materially misstated. Once the risks are mitigated, Mission Critical Assets Existence and Completeness outcomes can be achieved. FIAR has also identified suggested test procedures that reporting entities may perform to meet the requirements of the FIAR Methodology and achieve audit readiness for each assessable unit. Please see Section C.4.2 for risks, outcomes and suggested test procedures for the Wave 3 assessable units.

Financial Management Data

During physical inventory counts, reporting entities must support and verify key data fields in the APSR to ensure that all information required for financial statement and management reporting is recorded and accurate. As part of the physical inventory counts, data should be recorded and testing performed for all selected items to confirm that the information in these data fields is accurate. The specific data fields that will be reviewed during an existence and completeness specified elements audit are summarized in the following table (refer to the FIAR Guidance website for the [Existence & Completeness Financial Management Data Fields definitions and supporting documentation](#)). The table separates data fields according to those that relate to financial statements, referred to as Financial Statement Data, and those that are primarily used as important management information, referred to as Management and Budget Data.

Both categories of data are mandatory and must be validated in the APSR, because their reliability and accuracy are important for decision making. Prior to an assertion of audit readiness, management must ensure that the data is accurate in the APSR. The scope of an E&C audit will include a review of the data fields in the Financial Statement Data category (No. 1 through No. 16), in the following table. Auditors will then apply separate agreed-upon procedures on the Management and Budget data fields to validate the accuracy of the management information. Note that some data fields may not apply to all asset types within the categories.

No.	General Title & Purpose	GE	RP	Inventory/OM&S
Financial Statement Data				
1	Individual Item Identifier – Used by the auditor to link the APSR asset record to the physical asset	Vehicle Identification Number, Serial Number, Bureau Number, Unique Item Identifier	Real Property Site Unique Identifier, Real Property Unique Identifier (RPUID), Facility Number	Unique Item Identifier (for serially managed assets only)
2	Category/Asset Type – Used by the auditor to link the APSR asset record to the physical asset	National Stock Number (NSN), or if no NSN is available: Noun Name, Part Number, Manufacturer and Item Description	Real Property Asset Type Code; Real Property Asset Predominant Current Use CATCODE Code	NSN, Local Stock Number (LSN) when NSN is not available,
3	Location – Used by the auditor to link the APSR asset record to the location of the physical asset	Location information contained in data fields 7 and 8	Address Street Direction Code, Address Street Name, Address Street Number, Address Street Type Code, Country Code, County Code, City Code, Location Directions, State or Country Primary Subdivision Code, Postal Code	DoDAAC
4	Unit of Measure/Unit of Issue – Used by the auditor to count the quantity of items during physical inspection	N/A	Real Property Total Unit of Measure Code	Unit of Issue
5	Quantity – Used by the auditor to confirm the quantity of physical items during physical inspection	N/A	Real Property Total Unit of Measure Quantity	Quantity in APSR, Physical Quantity

No.	General Title & Purpose	GE	RP	Inventory/OM&S
6	Item Description – Used by the auditor to link the APSR asset record to the physical asset	Item Description	RPA Description Text	Item Description if NSN is not on item
7	Controlling/Financial Reporting Organization – Used by the auditor to confirm the reporting entity has rights to the asset	Accountable Organization	Real Property Asset Command Claimant Code; Real Property Asset Financial Reporting Org Code	Owning Organization
8	Custodial/User Organization – Used by the auditor to confirm the reporting entity has rights to versus use of the asset	Custodial Organization	Asset Allocation User Organization Code	Accountable Organization, Custodial Organization
9	Interest Code – Used by the auditor to confirm the reporting entity has rights to the asset	N/A	Real Property Asset Interest Type Code	N/A
10	Operational Status – Used by the auditor to confirm whether the asset is useable and correctly classified in the APSR	Status	Real Property Asset Operational Status Code	Current Condition Code
11	Placed-In-Service, Title Transfer, or Acquisition Date – Used by auditors to confirm the reporting entity's rights to the asset at a specific date	GE Placed in Service and Acquisition Date	Real Property Asset Placed In Service Date	Title Transfer Date, Receipt Date for FOB Destination
12	Real Property Asset Historic Status Code – Used by auditors to confirm the asset is correctly classified as a heritage asset	N/A	Real Property Asset Historic Status Code	N/A
13	Real Property Asset Historical Status Date – Used by auditors to confirm the asset was correctly classified as a heritage asset at a specific date	N/A	Real Property Asset Historical Status Date	N/A
14	APSR – Used by the auditor to confirm the asset record is included in the reporting entity's APSR	APSR	APSR	APSR
15	Asset Review Date – Used by the auditor to confirm the most recent date the asset was physically inspected by management as part of its physical inventory control	Inventory Date	Asset Review Date	Inventory Date
16	Asset Review Type – Used by the auditor to confirm the type of review management performed over the asset as part of its physical inventory control	N/A	Asset Review Type Code	N/A
Management and Budget Data				
17	Condition – Used by auditors to verify the asset's current condition	Current Condition Code	Facility Physical Quality Rate	
18	Acquisition Cost – Used by auditors to confirm the recorded asset acquisition cost is adequately supported	Original Acquisition Cost		
19	Usage – Used by the auditor to confirm the operational status of the asset	Usage Data		

No.	General Title & Purpose	GE	RP	Inventory/OM&S
20	Secondary Unique Identifier – Used by the auditor to link the APSR asset record to the physical asset	UII or DoD recognized IUID		Controlled Inventory Item Code (CIIC), if applicable
21	Replacement Value – Used by auditors to confirm the recorded replacement value is supported		Facility Plant Replacement Value Amount	
22	Utilization Rate – Used by the auditor to verify the accuracy of utilization data used in capital planning		Real Property Asset Utilization Rate	
23	Allocation Quantity – Used by the auditor to confirm the quantity of physical items during physical inspection		Asset Allocation Size Quantity	
24	Allocation Unit of Measure– Used by the auditor to count the quantity of items during physical inspection		Asset Allocation Size Unit of Measure Code	
25	Grantee – Used by the auditor to confirm the reporting entity has rights to the asset		Grantee Organization Code	
26	Grantor – Used by the auditor to confirm the reporting entity has rights to the asset		Grantor Organization Code	
27	Grant Start Date – Used by auditors to confirm the reporting entity's rights to the asset at a specific date		Grant Start Date	
28	Grant End Date – Used by auditors to confirm the reporting entity's rights to the asset at a specific date		Grant End Date	

C.3.3 Example Work Products

Refer to the FIAR Guidance website for Wave 3 specific work products and related guidance.

C.3.4 Wave-Specific Audit Execution

Wave 3 focuses primarily on the E&C financial statement assertions for select asset accounts (GE, RP, Inventory, and OM&S). Reporting entities should break these general asset categories into subsidiary assessable units that they deem appropriate and logical given their asset composition.

Reporting entities must prepare and submit assertion documentation (i.e., risk assessments, control assessments, process narratives, test plans, etc.) to the FIAR Directorate as they complete the key tasks and activities in the Discovery and Corrective Action

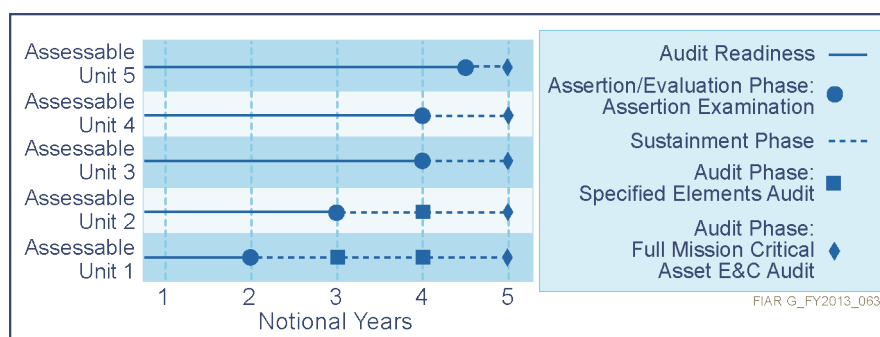


Figure 4. E&C Audit Strategy

Phases. The FIAR Directorate will review the assertion documentation and provide feedback to the

reporting entities on an ongoing basis. Once a reporting entity asserts that it is ready to undergo an examination of its Wave 3 assessable unit(s) by the DoD OIG, the FIAR Directorate will validate that all key audit readiness dealbreakers (i.e., reconciled population, sufficient testing of control activities, etc.) have been sufficiently addressed.

The DoD OIG will then perform an audit readiness examination during the Assertion/Evaluation Phase to form an opinion on the reporting entity's audit readiness assertion, as shown in **Figure 4**. If the examination results in an unqualified opinion on the reporting entity's audit readiness assertion, the DoD OIG will perform annual specific elements audits on the assessable unit. As the reporting entity asserts additional assessable units as audit ready, and the DoD OIG's examinations result in unqualified opinions on these additional assessable units, the DoD OIG will expand the scope of its annual specified elements audits to include these additional units. The level of effort associated with E&C audits is expected to decrease in subsequent years as the control activities associated with the receipt of goods and services included in the Procure-to-Pay and Acquire-to-Retire processes provide evidence of E&C sustainability. Should these audits demonstrate a strong and effective control environment; the reporting entity can submit a request to the FIAR Directorate to substitute a cycle other than annually for audits.