

**Army Regulation 11-7**

**Army Programs**

# **Internal Review and Audit Compliance Program**

**Headquarters  
Department of the Army  
Washington, DC  
15 June 2001**

**UNCLASSIFIED**

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# ***SUMMARY of CHANGE***

AR 11-7

Internal Review and Audit Compliance Program

Specifically, this revision--

- o Incorporates changes to the Army's Internal Review Program resulting from reengineering.
- o Revises policies to facilitate the delivery of internal audit services.
- o Formalizes an Internal Review Steering Group at Army level (para 1-4).
- o Adds internal audit services to those traditionally provided to commanders and their staffs (para 1-6, chaps 4-6).
- o Adds provisions for web-based reporting of semiannual reports (para 6-3).

Effective 15 July 2001

## Army Programs

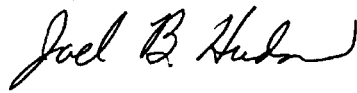
### Internal Review and Audit Compliance Program

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**By Order of the Secretary of the Army:**

ERIC K. SHINSEKI  
*General, United States Army*  
*Chief of Staff*

Official:



JOEL B. HUDSON  
*Administrative Assistant to the*  
*Secretary of the Army*

(USAR). The ARNGUS is a reserve component of the Army that maintains a dual state administered status, as the Army National Guard (ARNG). This regulation also applies to the ARNG, except as indicated herein.

**Proponent and exception authority.**

The proponent for this regulation is the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA (FM)). The ASA (FM) has the authority to approve exceptions to this regulation consistent with controlling law and regulation. The ASA may delegate this approval authority, in writing, to a division chief within the proponent agency in the grade of Colonel or the civilian equivalent.

**Army management control process.**

This regulation contains management control provisions in accordance with AR 11-2 but does not identify key management controls that must be evaluated.

**Supplementation.** Supplementation of this regulation and establishment of command and local forms are prohibited without prior approval from Assistant Secretary of the Army (Financial Management and Comptroller), ATTN: SAFM-

FOI, 109 Army Pentagon, Washington, DC 20310-0109 or InternalReview@hqda.army.mil.

**Suggested Improvements.** Users are invited to send comments and suggested improvements on DA Form 2028 (Recommended Changes to Publications and Blank Forms) directly to Assistant Secretary of the Army (Financial Management and Comptroller), ATTN: SAFM-FOI, 109 Army Pentagon, Washington, DC 20310-0109 or InternalReview@hqda.army.mil.

**Distribution.** This publication is available in electronic media only and is intended for command levels C, D, and E for the Active Army, the Army National Guard of the United States (ARNGUS), and the U.S. Army Reserve (USAR).

**History.** This printing publishes a revision of this publication. Because the publication has been extensively revised, the changed portions have not been highlighted.

**Summary.** This regulation contains policies for establishing and operating an internal review activity within an Army organization.

**Applicability.** This regulation applies to the Active Army (AA), the Army National Guard of the United States (ARNGUS), and the U.S. Army Reserve

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\*This regulation supersedes AR 11-7, 16 July 1989.

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## **Glossary**

## **Chapter 1 Introduction**

### **1-1. Purpose**

This regulation prescribes the policies, role, and responsibilities of the Internal Review (IR) Program within the Department of the Army (DA).

### **1-2. References**

Required and related publications and prescribed and referenced forms are listed in appendix A.

### **1-3. Explanation of abbreviations and terms**

Abbreviations and special terms used in this regulation are explained in the glossary.

### **1-4. Responsibilities**

*a.* The Assistant Secretary of the Army (Financial Management & Comptroller) (ASA (FM&C)) has Headquarters Department of the Army (HQDA) Staff responsibility for the IR Program. The Deputy Assistant Secretary of the Army (Financial Operations), (DASA-FO), will provide oversight and direction for the IR Program.

*b.* The Director, Management Services and Internal Review is responsible to the DASA-FO for management of the IR Program and will—

(1) Interpret and implement Comptroller General of the United States and DOD standards and policies as they relate to IR.

(2) Promulgate DA audit policies established by The Auditor General.

(3) Develop IR policy.

(4) Participate with The Auditor General in implementing policies and procedures for processing external audit reports and follow-up on findings and recommendations.

(5) Ensure effective execution of IR Programs at major Army commands (MACOMs), Army Staff agencies, and other organizations where IR offices are established.

(6) Provide guidance and assistance to organizations reporting to HQDA.

(7) Participate with The Auditor General in his role as the deputy functional chief representative in overseeing IR auditor training.

(8) Advise commanders and activity heads on maintaining adequately staffed IR offices with an appropriate grade structure.

(9) Establish an Internal Review Steering Group (IRSG) to recommend IR policy and program changes and to develop strategic plans. Membership in the IRSG will include IR Directors/Chiefs as follows:

*(a)* U.S. Army Materiel Command.

*(b)* U.S. Army Training & Doctrine Command.

*(c)* U.S. Army Forces Command.

*(d)* U.S. Army Corps of Engineers.

*(e)* U.S. Army Europe & Seventh Army.

*(f)* U.S. Army Medical Command.

*(g)* U.S. Army Pacific.

*(h)* U.S. Army Community and Family Support Center.

*(i)* National Guard Bureau.

*(j)* U.S. Army Reserve Command.

*(k)* Additionally, the Director, Management Services and Internal Review will select up to five 'at-large' members who will serve on an annual basis. At-large members may be re-appointed for consecutive terms.

*c.* The Auditor General of the Army will—

(1) Establish audit policies and standards for all auditors in the Army.

(2) Establish professional training matrixes for all Army auditors, both the U.S. Army Audit Agency (USAAA) and IR, as specified in a memorandum of agreement with the ASA (FM&C).

(3) Provide Army IR offices with audit guides prepared by the USAAA. As available and requested, provide audit guides from other federal audit organizations.

(4) Perform periodic external quality assurance (QA) reviews of the IR Program, as necessary.

(5) Establish policies and procedures for processing USAAA reports, external reports, and performing follow-up on audit findings and recommendations.

(6) Ensure the effective execution of the Army Follow-up Program by monitoring implementation of corrective actions taken by responsible commands or HQDA elements.

(7) Perform selective on-site visits of HQDA activities and commands to evaluate the effectiveness of follow-up systems.

- (8) Serve as the DA point of contact for receipt, assignment, coordination, and control of audit announcements, drafts and final reports, follow-ups and security reviews between GAO, DODIG, and the Army.
- d. Commanders at all levels, heads of HQDA activities, and USPFOs will—*
- (1) Develop and execute an annual IR plan. This plan should be sufficiently flexible to permit internal audit resources to focus on command's most pressing needs in a timely manner.
  - (2) Establish and maintain an effective audit follow-up program and provide liaison services to both internal and external audit organizations such as the General Accounting Office (GAO); The Inspector General, Department of Defense (DODIG); or the USAAA as prescribed in AR 36-2.
  - (3) Provide, to the extent that resources permit, IR services to support tenant activities whose organizational structure does not provide for internal audit capability.
  - (4) Establish a formal QA Program in accordance with Government Auditing Standards (GAS) and this regulation to evaluate the quality and level of service provided by the IR organization and by subordinate IR elements. The QA Program will include formal annual self-evaluations and an external review not less than once every three years. QA reviews will evaluate organization and staffing, program management, audit planning, audit process, audit compliance and liaison, and consulting and other advisory services. Each QA review will also address the overall effectiveness of IR elements to include customer satisfaction and value added to the local command. The DA QA Guide will be used to perform internal and external QA reviews.
  - (5) Ensure subordinate IR offices receive external QA reviews at least once every 3 years. The DA Staff/MACOM headquarters IR office, USAAA, DODIG, or other external professional audit organization may accomplish the external review.
  - (6) Ensure the IR office's organizational alignment is located outside the normal staff, reporting directly to the commander (installation/garrison/separate activity), principal deputy commander, or chief of staff.
  - (7) Ensure that state-level National Guard IR auditors are organizationally aligned under and report to the U.S. Property and Fiscal Officer (USPFO), the independent Federal official in each state, in accordance with National Guard Regulation 130-6.
  - (8) Ensure IR auditors are granted full and unrestricted access (consistent with their security level) to all files, electronic and otherwise, needed in connection with an audit, inquiry, or other IR service.
  - (9) Ensure auditors at the direct operating level are working in accordance with the established Army Civilian Personnel Occupation Standard (CPOS).
  - (10) Ensure that assigned IR personnel complete professional auditor training prescribed by The Auditor General, or equivalent training taken to comply with continuing professional education (CPE) requirements prescribed by GAS. Where appropriate, have an additional skill identifier (ASI) awarded to military auditors.
  - (11) Ensure that Army Special Access Programs (SAP) are included in the audit cognizance of the command's IR Program. At least one IR auditor should be cleared for access to the command's SAP. The IR auditor will ensure that SAP managers are aware of the audit services IR elements can provide. Additionally, the command's IR office will serve as the audit focal point for external SAP audits, with one allowable exception: MACOMs with designated SAP central offices can designate themselves as the focal point for all SAP audits. When multiple commands share responsibility for a particular SAP, each command will coordinate audit cognizance through the Army's Deputy Chief of Staff-Operations (DACS-DMP) to ASA (FM&C).
- e. The IR officer will—*
- (1) Serve as the commander's principal advisor on all audit matters.
  - (2) Direct, manage, and execute the full range of internal auditing services prescribed in this regulation consistent with the needs of their customers.
  - (3) Prepare a flexible IR plan (schedule) that meets the needs of the command and other serviced organizations.
  - (4) Ensure IR services are delivered in accordance with—
    - (a) Government Auditing Standards.
    - (b) DOD Internal Audit Standards and policies.
    - (c) Comptroller General Standards for Internal Control in the Federal Government.
    - (d) Army policies outlined in this regulation.
  - (5) Provide technical advice, assistance, and consultation on management controls to assessable unit managers within their organizations as necessary.
  - (6) During the normal course of audits, evaluate the effectiveness of management controls and the adequacy of management control evaluations and actions taken to correct material weaknesses.
  - (7) Ensure proper career development, including professional training programs, of all assigned IR personnel.
  - (8) Ensure that weaknesses identified through internal and external audits are considered during preparation of the commander's annual assurance statement in accordance with AR 11-2.
  - (9) If aligned at the headquarters of a reporting organization, review the organization's annual management control assurance statement and provide the commander an assessment of its thoroughness and validity.

(10) Establish and maintain an audit recommendation tracking system and an effective follow-up system on both internal and external audit reports in accordance with AR 36-2.

(11) Serve as the commander's principal official for liaison with external audit organizations (GAO, DODIG, USAAA), including—

(a) Assisting command, in coordination with HQDA elements, with assessing audit objectives, sites, milestones, and other information on audits about to start.

(b) Arranging entrance conferences, discussions, and exit conferences with both internal and external audit organizations and the appropriate organization officials.

(c) Providing administrative support to external audit organizations, when possible.

(d) Ensuring accurate, adequate, responsive, and coordinated comments are provided to 'draft' audit findings and recommendations.

(e) Incorporating official command responses in findings and recommendations from the USAAA. Command responses must be coordinated with higher headquarters and DA Staff elements to ensure that they represent the official Army position.

(12) Ensuring military IR auditors are awarded appropriate skill identifier/additional skill identifier (SI/ASI) in accordance with criteria established by the U.S. Total Army Personnel Command (PERSCOM).

(13) Submitting management and productivity reports to HQDA semiannually or as required.

### **1-5. Staff relationships**

a. IR should be an integral part of the command/installation management team along with The Inspector General, resource manager, and other staff elements and will work closely with these elements to achieve a complementary effort. The IR officer will be aligned as both a personal and special staff officer. As a member of the commander's personal staff, the IR officer will have direct access to the commander whenever required. At other times, the IR officer will function as a member of the special staff.

b. The IR officer's official rating will consider results from an external quality assurance visit when conducted/ reported during the rating period.

### **1-6. Internal review concept**

a. It is incumbent upon Army commanders at all levels to establish a competent system of internal control. The internal control system will promote effectiveness and efficiency of operations, assure reliability of financial reporting, and ensure compliance with applicable laws and regulations. Additionally, each commander must set a positive and supportive attitude toward internal control and conscientious management. An integral part of the commander's control system is his/her internal review program. It can be used to monitor risks to the organization and to assess the status and effectiveness of all other internal or management controls. IR offices are prescribed for most commands and activities in the Army.

b. The IR office will provide the commander and his or her staff with a full range of internal auditing services. These include—

(1) Formal audits in accordance with paragraph 4-1.

(2) Quick response or troubleshooting audits in accordance with paragraph 4-2.

(3) Consulting and advisory services in accordance with paragraph 5-1.

c. The IR office will serve as the command point of contact with both internal and external audit organizations. IR offices will be responsible for facilitating the command reply process by assisting the command in developing comments to findings and recommendations. IR offices will also conduct audit follow-up and report on management actions to correct problems identified in internal and external audit reports. This will permit the command to realize the benefits from audit and will provide the commander with reasonable assurance that reported problems have been corrected and associated risks minimized or eliminated.

## **Chapter 2 The Internal Review Program**

### **2-1. Program objective**

a. Commanders at all levels are responsible for accomplishing their mission and for effective stewardship of Federal resources provided for mission accomplishment. The objective of the Army's IR Program is to provide commanders and their staffs with a full range of professional internal auditing services that are timely and that support local decision-making and effective stewardship.

b. IR can serve the commander and his or her staff by testing other systems of control, recommending new or



modified control, or using control self assessment techniques to assist the organization in minimizing exposure to fraud, waste, or mismanagement.

## **2-2. Staffing**

*a.* IR resourcing should be commensurate with assigned responsibilities. The inventory of auditable entities and the inventory of assessable units established to help manage local risks and administer the management control process (MCP) comprise the potential workload of an IR organization and should be used to help identify manpower requirements.

*b.* The IR Staff will be comprised of qualified auditors in the GS-511 series. Grades will be established and maintained in accordance with the Army Civilian Personnel Occupation Standard (CPOS). Temporary augmentation by military and/or civilian functional experts, under the supervision of the IR officer, is authorized to meet special technical requirements of individual audits. In exercising discretion to augment IR staffs under this paragraph, commanders will ensure compliance with this regulation. Exceptions to the hiring of fully qualified GS-511 auditors (that is, a systems analyst or industrial engineer) must receive prior written approval from the Assistant Secretary of the Army (Financial Management and Comptroller).

*c.* The National Guard will staff USPFO IR offices with competitive technicians (Title 32) or civilian employees (Title 5) to ensure an independent attitude and appearance is maintained and to fully comply with GAS.

*d.* National Guard and USAR M-day auditors, if not fully qualified in the GS-511 series, will possess or be working towards the award of the additional skill identifier (ASI) established by U.S. Army Personnel Command (PERSCOM) for military auditors.

*e.* Contractor augmentation is also permissible for performance of A-76 study validations and obtaining specialized technical expertise not available within the on-board audit staff. In these instances, the IR office will perform necessary contract oversight.

## **2-3. Training**

*a.* Proper training of IR personnel is essential to maintain the skills and knowledge required in the auditing profession. Commanders and IR officers will ensure that each auditor maintains proficiency through continuing education and training at levels prescribed by GAS and The Auditor General.

*b.* The Auditor General of the Army, in concert with ASA (FM&C), will prescribe professional training for IR auditors. A principal source of training for IR personnel will be from training programs sponsored or sanctioned by The Auditor General and HQDA. These programs are intended to provide uniform auditor training and expand individual qualifications to enable maximum utilization of personnel resources.

*c.* Auditors engaging in approved self-development training (graduate courses, special courses, certification study, etc.) that meets legal regulations and requirements will be reimbursed as long as training funds are available. Commanders and IR officers are encouraged to budget and reimburse IR staff members the legal maximum amount for tuition costs and books for successfully completed courses that are considered sufficiently related to present or anticipated job duties and would be of benefit to the command or the Army.

*d.* To ensure the continued high professional expertise of Army IR auditors, Army commanders will encourage their auditors to seek professional certifications. Job-related review courses, such as Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), Certified Fraud Examiner (CFE), Certified Defense Financial Manager (CDFM), Certified Government Financial Manager (CGFM), and other related certification courses, shall be reimbursed the legal maximum amount for tuition costs when possible. In addition, IR officers are encouraged to grant employees an excused absence on examination days. Applicable DOD personnel regulations permit this type of excused absence on the basis that such an absence will further an agency function.

*e.* Professional proficiency is a personal obligation and each IR auditor is responsible for maintaining current skills and techniques. Failure to meet continuing professional education requirements robs commanders and their staffs of the ability to apply cutting edge capabilities to local problems.

*f.* Personnel employed by the IR office who are not qualified auditors (in this instance, GS-511), will be required to attend auditor training courses to achieve a working knowledge of audit standards, policies, and techniques.

## **2-4. Audit scope**

*a.* The scope of work performed by the IR office can encompass all aspects of management and management control and all programs, functions, transactions, records, systems, and documents. Properly cleared auditors will be entitled to full and unrestricted access to all personnel, facilities, records, reports, databases (read only), documents, or other information or material needed to accomplish an announced audit objective. Only the commander may deny IR auditors access to an area under his or her control.

*b.* IR services will normally include performance audits, financial audits, quick response audits, audit compliance, and other consulting or advisory services. In determining the type of service to be provided, the IR officer will evaluate, among other considerations, how the information will be used and the time available for the work.

## **2–5. Policy relationships**

There are several organizations external and internal to the Army whose operations affect IR operations and with whom liaison is maintained. The most commonly encountered organizations are—

*a. GAO.* The GAO is an element of the legislative branch of the U.S. Government and performs audits and surveys of governmental organizations or functions as directed by the Congress.

*b. DODIG.* The DODIG may initiate, conduct, and supervise such audits in the DOD as The Inspector General considers appropriate or that have been requested by the Secretary of Defense.

*c. USAAA.* The USAAA is the DA's central internal audit organization operating under The Auditor General of the Army. USAAA furnishes expert audit services to HQDA activities and Army commands on the effectiveness of Army programs. USAAA will assess the status of corrective actions to audit findings.

*d. DAIG.* The Office of The Inspector General and the U.S. Army Inspector General Agency provide the Secretary of the Army and the Chief of Staff, Army with periodic reports on the discipline, efficiency, economy, morale, training, and readiness throughout the Army. The Office of The Inspector General and the U.S. Army Inspector General Agency provides DA with a continuing assessment of the command, operational, logistical, and administrative effectiveness of the Army.

*e. CID.* The Criminal Investigation Division provides crime investigation support to Army commands and often works closely with USAAA and local IR offices.

## **2–6. Guidance**

*a.* Commanders may use IR resources in any role consistent with the concepts and policies contained in this regulation. In exercising this broad discretion, commanders will consider the following:

(1) Cyclic audits of appropriated fund functions or activities will not generally be scheduled by IR offices in their annual plans unless command has a documented need warranting such a resource allocation.

(2) IR personnel will not normally be used to make regularly scheduled audits of nonappropriated fund instrumentalities (NAFI) having a cash basis, single entry system of accounts. Normally, disinterested officers will audit such funds. When utilized, disinterested officers will follow the principles for auditing prescribed herein and in the IR Guide located on the Internal Review Web site.

(3) Normally, IR personnel should not be used to perform periodic or cyclic audits of private organizations, in this instance, Type 1-Federally Sanctioned (Army Emergency Relief); Type 2-Organization (PTA); or Type 3-Independent (Thrift Shops).

(4) IR offices will not perform annual unit fund audits.

(5) IR personnel may be called upon to perform audits of NAFIs, unit funds, and other Federally sanctioned funds when the commander believes there to be indications of fraud or misappropriation of funds or other assets, or when warranted by the volume and complexity of transactions.

(6) IR officers are responsible for monitoring disinterested officer audits of NAFIs and similar funds classified as Government instrumentalities. This requirement includes providing guidance regarding the conduct of the audit, reviewing and retaining the work papers, and ensuring audit results are valid and credible.

(7) IR auditors should not serve in operational roles outside of the IR organization. An IR auditor may serve in an advisory role for command programs—that is, providing advice on the establishment of automated systems, process action teams, source selection evaluation boards (SSEB), or implementation of the command's management control process (MCP)—as long as a requisite degree of independence can be maintained.

(8) IR auditors may serve as the contracting officer's technical representative (COTR) for audit or consulting work outsourced to private vendors. This includes OMB Circular A-76 validations.

*b.* The commander, in consultation with the IR officer, will determine whether the performance of a particular service is consistent with the requirement to preserve and protect auditor independence, in accordance with GAS.

## **Chapter 3 Internal Review Planning**

### **3–1. Annual planning**

*a.* All IR offices will prepare an annual IR plan (schedule) containing a projected workload for the audit staff. Due to the dynamic nature of the Army operating environment, IR plans must be flexible enough to allow for high priority unprogrammed work and to adequately perform audit liaison and follow-up missions.

*b.* Planning emphasis will be on mission functions where the greatest benefit to command can be reasonably anticipated.

*c.* Planning philosophy will encompass the following:

(1) Meeting the priority needs of the commander and his or her staff.

(2) Making effective and efficient use of audit resources.

- (3) Maximizing coverage of high risk, high pay back areas.
- (4) Providing internal audit coverage to all functional areas.
- (5) Providing for audit follow-up, compliance, and liaison requirements.

*d.* NAFIs and related activities should compete for audit coverage with appropriated fund activities on an equal basis or as directed by the local commander. In addition, NAFIs may be audited on a functional basis as a result of guides prepared jointly by USAAA and ASA (FM&C) for the audit of installation morale, welfare, and recreation fund (IMWRF) activities. These audits are programmed as a result of the Joint Installation Morale, Welfare, and Recreation Fund Oversight Committee, which is comprised of both Community and Family Support Center and audit personnel. Information on functional audits selected for review during a specific year will be provided MACOMs for inclusion in the IR plan. (Note: This paragraph is not applicable to Chaplain NAFIs.)

*e.* Guidance for the development and maintenance of an IR Plan is contained in the DA Internal Review Guide. Copies of annual updates to IR plans will be submitted to the next higher headquarters. MACOM and HQDA Staff agencies will forward an information copy of their annual updates to HQDA ASA (FM&C), ATTN: SAFM-FOI, 109 Army Pentagon, Washington, DC 20310-0109 by 20 October. Copies should be e-mailed whenever possible to InternalReview@hqda.army.mil.

### **3-2. Auditable entity files**

*a.* IR offices should ensure organizational risks are reviewed periodically and that oversight is tracked. To accomplish this, offices will use an auditable entity file (AEF). The AEF should include all major programs, activities, functions, or systems subject to audit.

*b.* The organization's list of assessable units, prepared in accordance with AR 11-2, Management Controls, can serve as the AEF but may require modifications to include the broader base of audit responsibility (in this instance, tenant activities).

## **Chapter 4 Audit Services**

### **4-1. Formal audits**

*a.* Formal audits (FAs) should be performed when the commander or other customer requires a broad, comprehensive evaluation of the entity's effectiveness, efficiency, financial position, or the results being achieved by a command program or function. FAs should also be accomplished when—

- (1) There is a high potential for adverse actions.
- (2) There is suspicion of illegal and/or unethical activity.
- (3) The entity to be audited presents an unusually high potential risk to the command.
- (4) Time is not a major consideration.
- (5) The results of the audit will be used outside of the command.

*b.* The needs of the commander and the audit resources available to the IR officer should dictate the number of FAs performed. Small IR offices, in particular, should consider using techniques such as participatory and piecemeal auditing. The use of functional experts and temporary augmentation of the IR staff will also be considered as a means to increase productivity.

*c.* FAs may be conducted using either an audit-by-objectives (fig 4-1) or risk based approach (fig 4-2).

*d.* The FA final report, containing management comments, will be forwarded to the local commander for review and disposition to appropriate staff directors.

*e.* National Guard IR officers will forward FA reports through the USPFO to the TAG for disposition into command channels.

### **4-2. Quick response audits**

*a.* Quick response audits (QRAs) were formerly known as troubleshooting engagements. They are normally performance audits of a very limited scope (only one or possibly two objectives) that are often unprogrammed. They should be geared toward identifying causes and recommendations of known or suspected problems or opportunities for improvement.

*b.* QRAs are usually time sensitive and are normally completed in a matter of days or weeks.

*c.* GAS will be met to the extent practical when performing QRAs. Standards not met will be disclosed in the report and will include the standards not followed, the reasons for not following the standards, and any material effects that not following the standards have on the results of the QRA.

*d.* Management may request a limited distribution of the audit report and deviation from normal staffing policies. Restricted distribution is permissible when authorized by the local commander. The IR officer, however, will retain the right to notify the commander when problems surface that may significantly impact the command or involve gross mismanagement or illegal activity. Requesters will be advised of this responsibility prior to initiating the QRA.

*e.* Additional guidance on performing QRAs in accordance with GAS can be found in the Internal Review Guide.

## Audit-by-Objectives Methodology

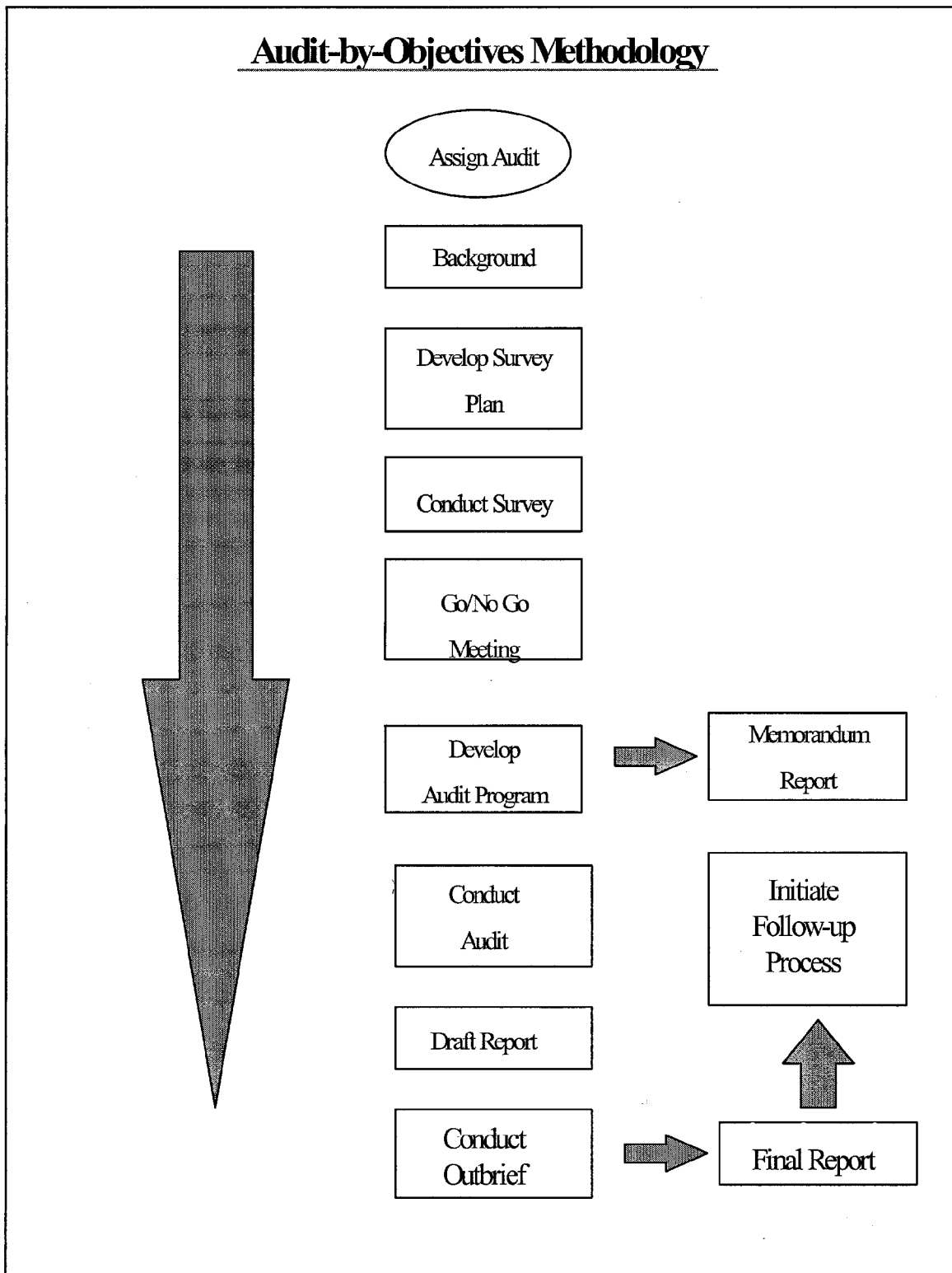


Figure 4-1. Audit-by-Objectives Methodology Process

# Modern or Risk Based Methodology

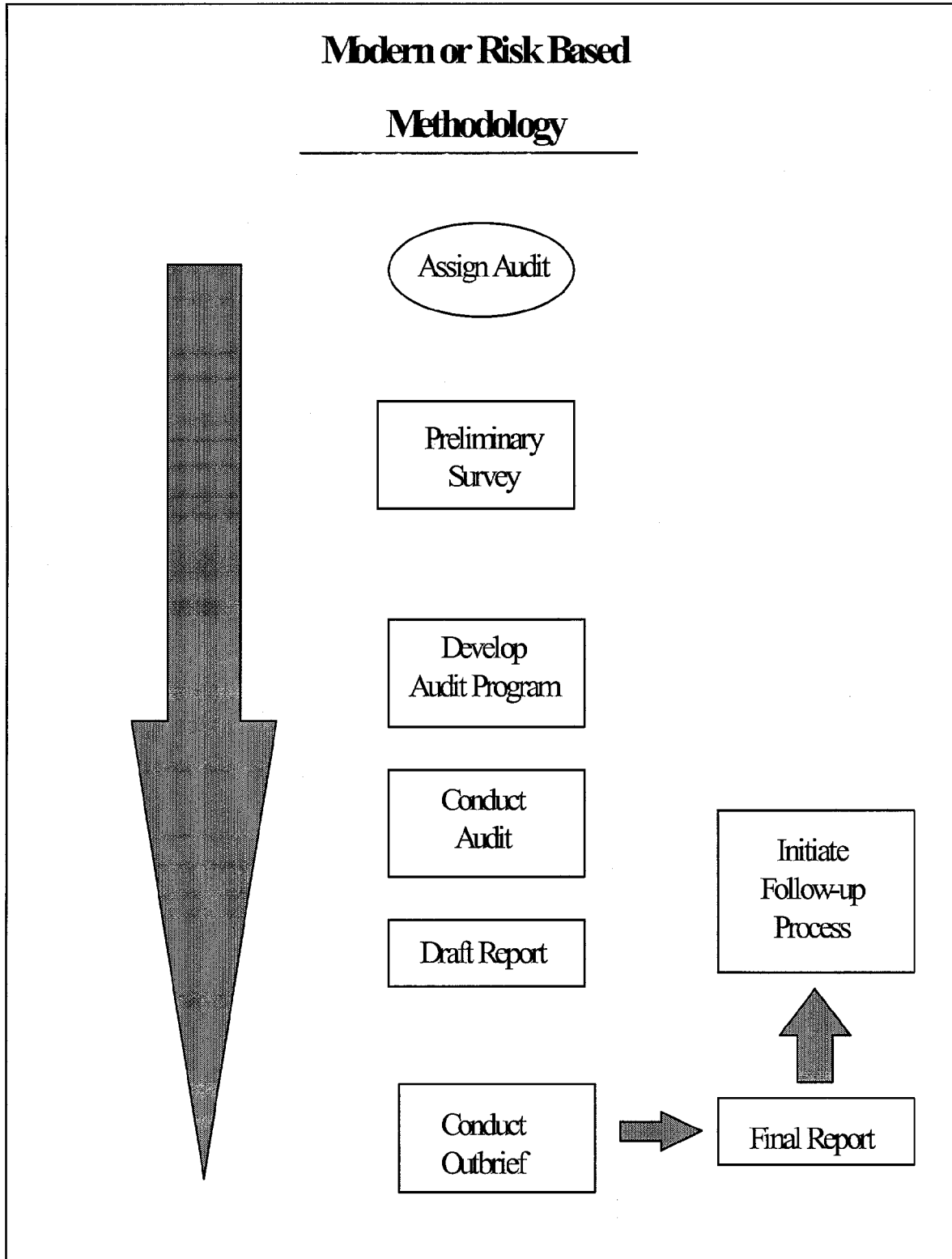


Figure 4-2. Modern or Risk Based Methodology Process

## **Chapter 5 Consulting and Advisory Services**

### **5-1. Concept**

*a.* Consulting and advisory services (C&AS) include all engagements performed by IR staffs that are not performance or financial audits. These services are provided to meet the commander's or other customer's needs and include a variety of consulting and other services that employ the auditor's technical skills, education, observations, and experiences. C&AS will meet GAS and standards established by the ASA(FM&C) for non-audit work. C&AS may include/be defined as follows:

(1) Management consulting (for example, commenting on budget actions, plans of action, and command decision packages when the IR staff's technical skills, education, observations, experiences, and knowledge about the command's organization, circumstances and technical matters make their opinions and independent perspective of value to the commander).

(2) Advisory services (for example, evaluating management proposals, performing cost analyses, assisting the commander and staff with the MCP, performing control self assessments, etc.).

(3) Staff and other support services (for example, serving on or facilitating Total Quality Management (TQM) Process Action Teams (PATs) or information gathering).

(4) Transaction services (for example, pre-award surveys, procurement support, analysis of leases, etc.).

*b.* IR officers should ensure that the staff collectively possesses the professional capability to competently perform the service requested before accepting the engagement.

### **5-2. Methodology**

Guidance for conducting consulting and advisory services is contained in the DA Internal Review Guide.

## **Chapter 6 Audit Compliance Services**

### **6-1. Liaison**

*a.* The IR office serves as the focal point for monitoring all actions related to audits, surveys, and reviews performed by the USAAA and external audit agencies such as GAO; DODIG; and commercial audit firms. IR offices are normally apprised of the audit objectives, operating plans, time schedules, and support requirements at the beginning of the audit. This information will be passed promptly to the commander and to those senior managers whose operations may be audited. Guidance for performing liaison services is contained in the DA Internal Review Guide.

*b.* Liaison services consist of the following—

(1) Coordinating dates, times, and locations for the entrance and exit conferences.

(2) Determining the points of contact within the various activities and functional areas.

(3) Ensuring that administrative support, if required, is provided to the external audit representatives.

(4) Providing advice to the command group and operating managers on the release of information.

(5) Maintaining pertinent records (that is, dates and attendees at conferences or in-progress reviews, and agreements reached). These recordkeeping responsibilities may be delegated to staff functional points of contact.

(6) Keeping the installation or activity commander fully informed on the status of ongoing audits.

(7) Processing draft findings and recommendations, draft reports, and final reports.

(8) Mediating the resolution of disagreements between command/management and the auditors relative to audit results, as needed.

(9) Ensuring that command replies to draft findings and recommendations and draft reports are reviewed for accuracy, adequacy, and responsiveness, have been properly coordinated with responsible command elements, and meet assigned suspense dates, as prescribed in DA audit policies.

### **6-2. Follow-up on findings and recommendations**

*a.* Audit follow-up is the collective effort made to—

(1) Ensure that prompt and effective corrective action is taken to implement recommendations in IR, USAAA, DODIG, GAO, and commercial audit reports.

(2) Ensure that controls are adequate to prevent recurrence of deficiencies.

*b.* Follow-ups can be either formal or informal.

(1) Formal follow-up will normally be conducted on findings and recommendations based on AR 36-2. A formal

follow-up will involve audit work to determine the status of corrective actions and whether such actions have been effective in eliminating or reducing reported conditions/risks. It may also involve a validation of projected monetary benefits.

(2) Informal follow-up can be accomplished on less significant findings and recommendations. Informal procedures normally involve communication with and written support documentation obtained from the manager responsible for effecting corrective actions and minimal actual audit work. For example, it could be accomplished by obtaining a copy of a change to a regulation or an interim policy memorandum and reviewing it. Informal follow-up will not normally include consequential monetary benefits. The use of informal follow-up techniques can often save substantial audit time and reduce travel costs.

c. MACOMs and Army Staff agencies, during scheduled QA reviews or other management-type reviews or evaluations of IR operations, will—

(1) Evaluate the effectiveness of follow-ups performed by subordinate installations and activities.

(2) Ensure that QA visit checklists include steps to determine the compliance of subordinate IR offices with audit follow-up procedures and responsibilities.

(3) Establish controls to ensure that all subordinate internal review activities are utilizing an audit recommendation tracking system.

d. IR offices will provide the commander and his or her staff with periodic reports on the status of corrective actions, highlighting those actions not taken or delayed and, when feasible, describing the effects of failure to take or delayed corrective actions. Additional command emphasis can then be applied to ensure that the required corrective actions are taken and the benefits of those actions are realized.

### **6-3. Semiannual reporting requirements**

a. *Follow-up status report.*

(1) All IR offices are required to update the status of corrective actions to USAAA audit reports not less than semiannually. Input is to be accomplished through the Internet by contacting [www.usaaaweb.aaa.army.mil](http://www.usaaaweb.aaa.army.mil).

(2) USAAA is responsible for the follow-up program within the Army and will also provide follow-up status reports to external agencies.

b. *Semiannual report.* Semiannually, all IR officers are also required to submit data concerning their operations through their next higher headquarters to the Department of the Army. This report provides IR program metrics, identifies trends, and is used to make program adjustments when necessary. This report may also be submitted and reviewed by MACOMs through the Internet. Input to this report will be accomplished through the Internet by contacting [www.asafm.army.mil](http://www.asafm.army.mil), clicking on sidebar links, clicking on internal review, then clicking on semiannual reports.

## **Chapter 7 Awards Program**

### **7-1. Concept**

a. The Assistant Secretary of the Army (Financial Management and Comptroller) has established an Internal Review Award of Excellence Program. The awards program serves to recognize those internal review offices that are providing outstanding internal auditing services to their commands. Awards will be presented each year in accordance with the criteria prescribed in the annual Letter of Instruction. Winners will be selected by a panel chaired by the DASA (FO).

b. The Assistant Secretary has also created an award for the best article submitted annually to the IR community's quarterly newsletter-The IR Journal. This award seeks to acknowledge all contributors to the publication with an Editor's Award (certificate) and to award a distinctive plaque to the IR auditor who submitted the most outstanding article. All articles submitted within the year will be eligible for The IR Journal award. The publication's editor will convene a panel of three judges to select the winner. Articles will be judged based on the following criteria:

(1) Topic of greatest interest to the IR community.

(2) Informative.

(3) Entertaining.

(4) Quality of writing.

### **7-2. Funding**

Funding for award materials (plaques, certificates, and frames) will be from funds appropriated and available to the DASA (FO).

## **Appendix A References**

### **Section I Required Publications**

#### **AR 11-2**

Management Control. (Cited in paras 1-4e(8) and 3-2b.)

#### **AR 36-2**

Audit Reports and Follow-up. (Cited in paras 1-4d(2) and e(10) and 6-2b(1).)

### **Section II Related Publications**

A related publication is merely a source of additional information. The user does not have to read it to understand this regulation.

#### **AR 36-5**

Auditing Service in the Department of the Army

#### **Comptroller General of the United States Government Auditing Standards (GAS)**

([www.gao.gov](http://www.gao.gov))

#### **Department of the Army Internal Review Guide**

([www.asafm.army.mil/fo/fod/ir/ir.asp](http://www.asafm.army.mil/fo/fod/ir/ir.asp))

#### **DOD Directive 7600.2**

Audit Policies (<http://web7.whs.osd.mil/corres.htm>)

#### **DOD Instruction 7600.6**

Audit of Nonappropriated Fund Instrumentalities and Related Activities (<http://web7.whs.osd.mil/corres.htm>)

#### **DOD 7600.7-M**

Internal Audit Manual ([www.dodig.osd.mil](http://www.dodig.osd.mil))

#### **DOD Directive 7650.3**

Followup on General Accounting Office, DOD Inspector General, and Internal Audit Reports (<http://web7.whs.osd.mil/corres.htm>)

#### **FM 100-22**

Installation Management ([www.adtdl.army.mil/atdls.htm](http://www.adtdl.army.mil/atdls.htm))

#### **FM 101-5**

Staff Organization and Operations ([www.adtdl.army.mil/atdls.htm](http://www.adtdl.army.mil/atdls.htm))

#### **American Institute of Certified Public Accountants (AICPA) Standards**

([www.aicpa.org](http://www.aicpa.org))

#### **Institute of Internal Auditors Internal Audit Standards**

([www.theiia.org](http://www.theiia.org))

### **Section III Prescribed Forms**

This section contains no entries.

### **Section IV Referenced Forms**

This section contains no entries.



## **Glossary**

### **Section I Abbreviations**

#### **AG**

Adjutant General

#### **ASA (FM&C)**

Assistant Secretary of the Army (Financial Management & Comptroller)

#### **ASI**

additional skill identifier

#### **ARNGUS**

Army National Guard of the United States

#### **COTR**

contracting officer's technical representative

#### **CPOS**

civilian personnel occupation standard

#### **DASA (FO)**

Deputy Assistant Secretary of the Army (Financial Operations)

#### **DODI**

Department of Defense instruction

#### **GAO**

General Accounting Office

#### **HQDA**

Headquarters, Department of the Army

#### **IR**

internal review

#### **MACOMs**

major Army commands

#### **NAFI**

nonappropriated fund instrumentalities

#### **OASA (FM&C)**

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

#### **OMB**

Office of Management and Budget

#### **OTIG**

Office of The Inspector General

#### **QA**

quality assurance

#### **SSEB**

source selection evaluation board

#### **USAAA**

United States Army Audit Agency

**USAR**

United States Army Reserve

**USC**

United States Code

**USPFO**

United States Property and Fiscal Officer

**Section II****Terms**

This section contains no entries.

**Section III****Special Abbreviations and Terms**

This publication uses the following abbreviations, brevity codes, or acronyms not contained in AR 310-50. These include use for electronic publishing media and computer terminology.

**AAATRACK**

An Automated Audit Recommendation Tracking System

**AEF**

audible entry file

**AICPA**

American Institute of Certified Public Accountants

**CDFM**

certified defense financial manager

**CFE**

certified fraud examiner

**CGFM**

certified government financial manager

**CIA**

certified internal auditor

**CISA**

certified information systems auditor

**C&AS**

consulting & advisory services

**CPA**

certified public accountant

**CPE**

continuing professional education

**DODIG**

The Inspector General, Department of Defense

**FA**

formal audit

**FRA**

findings and recommendations

**FSA**

full scope audits

**GAS**

Government Auditing Standards

**IMWRF**

installation morale, welfare, and recreation fund

**MCP**

management control process

**PAT**

Process Action Team

**QRA**

quick response audit

**SAP**

Special Access Programs

**SI**

skill identifier

**UNCLASSIFIED**

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