

Financial Improvement and Audit Readiness Methodology
Assertion Work Product Example
Assessable Unit Prioritization and Audit Readiness Strategy Document

Detailed Activity 1.2.5 – Document Strategy and Prioritization (Reporting Entities)

Detailed Activity 1.4.5 – Document Strategy and Prioritization (Service Providers)

NOTE: The Tool/Template/Work Product below includes instructions for preparing an assessable unit prioritization and audit strategy document, as well as an example.

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Financial Improvement and Audit Readiness Methodology

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Assessable Unit Prioritization and Audit Readiness Strategy Document Instructions

Detailed Activity 1.2.5 – Document Strategy and Prioritization (Reporting Entities)

Detailed Activity 1.4.5 – Document Strategy and Prioritization (Service Providers)

NOTE: This document contains detailed instructions for preparing an assessable unit (AU) prioritization and audit readiness strategy document. The document should outline the entity's approach for attaining audit readiness and include a summary of the work product, the objective of the work product, in-scope financial reporting objectives (FROs), an approach to achieving FROs, an AU definition, sub-AU scope descriptions, control deficiencies, information technology (IT) application considerations, service provider considerations, a risk rating prioritization by sub-AU, and known impediments or dealbreakers.

The work product template has been divided into the following ten sections:

1. **Summary:** This section references the FIAR Methodology requirement to prepare an AU Prioritization and Audit Readiness Strategy Document as a required work product. It also notes applicable materiality guidelines for the Department of Defense (DoD).
2. **Objective:** This section briefly states the objective of the document which is to facilitate the execution of the reporting entity's audit readiness strategy. The section also specifically identifies the AU being asserted as audit ready.
3. **In-Scope FROs:** This section lists applicable FROs identified by the reporting entity for the particular AU being asserted as audit ready.
4. **Approach to Achieve Identified FROs:** This section outlines the measures a reporting entity will take to achieve identified FROs. These measures typically consist of tests of controls, to include supporting documentation testing and reviews of Statements on Standards for Attestation Engagements (SSAE) No. 16 Reports.
5. **AU Definition:** This section defines the AU being asserted as audit ready. It also identifies the financial statement line items impacted by the AU and provides an analysis of the balance of each line item that is attributable to the AU being asserted as audit ready.
6. **Control Deficiencies:** This section summarizes relevant control deficiencies, impacted sub-AUs, risks related to the deficiencies and actions taken to date to remediate each deficiency.
7. **IT Application Considerations:** This section lists the IT accounting applications that have been determined to be in-scope in asserting that the AU is audit ready.

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8. **Service Provider Considerations:** This section provides a summary of service provider involvement for the AU being asserted as audit ready. The section also identifies service providers utilized, services performed and whether the reporting entity intends to utilize SSAE No. 16 Reports and/or self-review efforts as part of its assertion that the AU is audit ready.
9. **Risk Rating Prioritization by Sub-AU:** In this section, a risk rating of low, medium or high is assigned to each sub-AU that comprises the AU being asserted as audit ready. The ratings are based on a combination of elements including both quantitative and qualitative risk factors. The ratings can then be used to assist the reporting entity in prioritizing its audit readiness efforts for the AU.
10. **Known Impediments and Potential Deal Breaker Strategy:** This section summarizes known impediments that the reporting entity must address to achieve audit readiness for the AU being asserted as audit ready. It also lists potential audit readiness deal breakers that have been identified. The potential deal breakers are accompanied by the financial statement assertions that could be impacted and planned countermeasures.

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NOTE: The template that follows is a notional example of the AU prioritization and audit readiness strategy document work product. The example presented utilizes fictitious data and scenarios and is merely intended to serve as a demonstration of concept. The data contained within the example is not intended to portray or depict an actual condition or occurrence. Reporting entities can tailor the structure and format of this template to best meet the needs of their organization.

DoD Reporting Entity

Civilian Pay Assessable Unit Prioritization and Audit Readiness Strategy Document

I. Summary

This document has been prepared to fulfill the requirements prescribed by Activity 1.2.5 of the Reporting Entity FIAR Methodology and Activity 1.4.5 of the Service Provider FIAR Methodology, which specifically require reporting entities to prepare an Assessable Unit Prioritization and Audit Readiness Strategy Document.

The DoD has concluded that all amounts greater than one percent are considered material; therefore, the DoD must ensure that at least 99 percent of the amounts reported are audit ready prior to asserting DoD-wide audit readiness.

II. Objective

This document outlines the audit readiness strategy that DoD Reporting Entity plans to implement for our Civilian Pay AU and in turn enable the DoD to meet its Department-wide SBR financial reporting objectives (FROs). This document also summarizes the financial systems that impact the Civilian Pay AU and serves to facilitate the initiative of asserting that the AU is audit ready.

The scope of the AU assertion and the details of the approach to achieve audit readiness, including identifying the FROs to be achieved through internal controls testing and key supporting documentation (KSD) testing are contained within this document. AUs are identified, and prioritized by risk ratings which take into account both quantitative and qualitative factors. Information technology (IT) considerations and processes that will be part of the audit ready environment are outlined. Additionally, this document describes the roles of service providers in the reporting entity's audit readiness strategy.

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III. In-Scope FROs

The FIAR Guidance has identified generic FROs that are applicable to the Civilian Pay AU. The Civilian Pay FROs in *Appendix C – FIAR Strategy Details* have been primarily derived from the control objectives in Section 395B of the *Financial Audit Manual (FAM)* and are listed in the left-hand column of the table below. DoD Reporting Entity has reviewed the control objectives in Section 395B and has identified and adapted those control objectives which will serve as in-scope FROs for our entity’s Civilian Pay AU. The adapted in-scope FROs for DoD Reporting Entity are listed in the right-hand column of the table below. The approach that DoD Reporting Entity will follow to achieve the FROs listed in both columns is outlined in the next section of this document.

FIAR Guidance Civilian Pay FROs	DoD Reporting Entity In-Scope Civilian Pay FROs
Source: FIAR Guidance, Appendix B, Section B.1.1, Wave 2 – SBR Audit FROs	Source: Adapted from FAM Section 395B
<ol style="list-style-type: none"> 1. Recorded recoveries represent cancellations or downward adjustments of prior obligations, remain unavailable, are recorded in the proper accounts and pertain to the reporting entity. 2. All recoveries of prior years that are available for obligation were included in the SBR. 3. Obligations represent valid orders that will require future payment. 4. Obligations are not subsequently cancelled nor have the goods or services been received. 5. All new and valid obligations incurred during the period are recorded in the proper accounts. 6. Obligations are recorded in the proper period. 7. Obligations are recorded at the best available estimate of actual cost. 8. Obligations are recorded in the proper appropriation or fund accounts (also by program and by object, if applicable), including the proper appropriation year if the account is multiyear. 9. Expended authority transactions recorded have occurred, as evidenced by appropriate supporting documentation. 10. All expended authority transactions and adjustments are recorded. 11. Expended authority transactions and adjustments are recorded at the correct amount. 12. Expended authority transactions and adjustments are recorded in the proper period. 13. Expended authority transactions and adjustments are recorded in the proper appropriation or fund accounts (also by program and by object, if applicable), including the proper appropriation year if account is multiyear. 	<ol style="list-style-type: none"> 1. Recorded personnel actions, time and attendance transactions, Civilian Pay obligations and disbursements are authorized by federal laws, regulations, and management policy. 2. Appropriate individuals approve recorded personnel actions, time and attendance transactions, Civilian Pay obligations and disbursements. 3. Recorded personnel actions, time and attendance transactions, Civilian Pay obligations and disbursements represent events that actually occurred are properly classified and pertain to DoD Reporting Entity. 4. Personnel actions, time and attendance transactions, Civilian Pay obligations and disbursements recorded in the current period represent economic events that occurred during the current period. 5. The summarization of recorded Civilian Pay obligations and disbursements is not overstated or understated. 6. Recorded Civilian Pay related liabilities (e.g., accrued payroll, accrued leave) exist at a given date. 7. Recorded Civilian Pay related liabilities of DoD Reporting Entity are supported by appropriate detailed records that are accurately summarized and reconciled to the account balance. 8. Access to personnel action records and personnel and payroll processing operations is appropriately restricted. 9. All valid personnel actions, time and attendance transactions, Civilian Pay obligations and disbursements are recorded and classified properly. 10. All personnel actions, time and attendance transactions, Civilian Pay obligations and disbursements that occurred in the current period are recorded as transactions in the current period.

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FIAR Guidance Civilian Pay FROs	DoD Reporting Entity In-Scope Civilian Pay FROs
Source: FIAR Guidance, Appendix B, Section B.3.2, Wave 4 – Full Financial Statement Audit FROs	Source: Adapted from FAM Section 395B
<ol style="list-style-type: none"> 1. Recorded Other Liabilities exist at a given date, are supported by appropriate detailed records that are accurately summarized and reconciled to the account balance, are properly classified, and pertain to the reporting entity. 2. Other Liabilities are valued on an appropriate basis, and are properly classified and described in the financial statements. 3. Recorded Gross Costs represent economic events that actually occurred, are properly classified, and pertain to the reporting entity. <p>Gross Costs are recorded at correct amounts and are measured properly.</p>	<ol style="list-style-type: none"> 1. All Civilian Pay related liabilities that exist as of the reporting date that belong in the financial statements are included in the financial statements. 2. Civilian Pay obligations and disbursements are recorded at correct amounts. 3. Civilian Pay related liabilities included in the financial statements are valued on an appropriate valuation basis. 4. Civilian Pay expenses included in the financial statements are measured properly. 5. Civilian Pay related liabilities are obligations of DoD Reporting Entity at a given date. 6. Accounting principles used to account for the Civilian Pay transactions of DoD Reporting Entity are applied consistently from period to period.

IV. Approach to Achieve Identified FROs

Successful audit readiness assertions are supported by effectively mitigating reporting risk and achieving applicable FIAR FROs through key internal controls and key supporting documentation. The following activities will be performed during the discovery and corrective action phases to assess and test internal controls and supporting documentation and achieve applicable FROs.

1. DoD Reporting Entity will perform detailed walkthroughs of processes applicable to the Civilian Pay AU to assess the design effectiveness of the key internal controls and key supporting documents. Our entity will ensure that process documentation, narratives and standard operating procedures (SOPs) are up-to-date. DoD Reporting Entity will also confirm the financial impact of systems and micro-applications.
2. For DoD Reporting Entity-owned key internal controls that are appropriately designed, test plans will be developed in accordance with FIAR Guidance Section 3.D.4, Subsection “Execute Tests of Controls.” The test plans will include the nature, timing, and extent of testing to be performed.
3. Internal control test plans will be executed with appropriate sample sizes for selection in accordance with FIAR Guidance Section 3.D.4, Subsection “Execute Tests of Controls,” Figure 3-7. Sampling techniques may include random and haphazard methods, though priority will be given to random sampling.

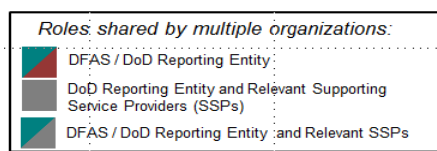
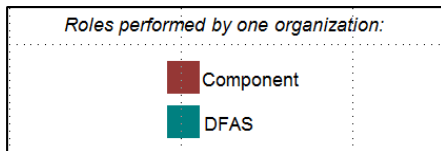
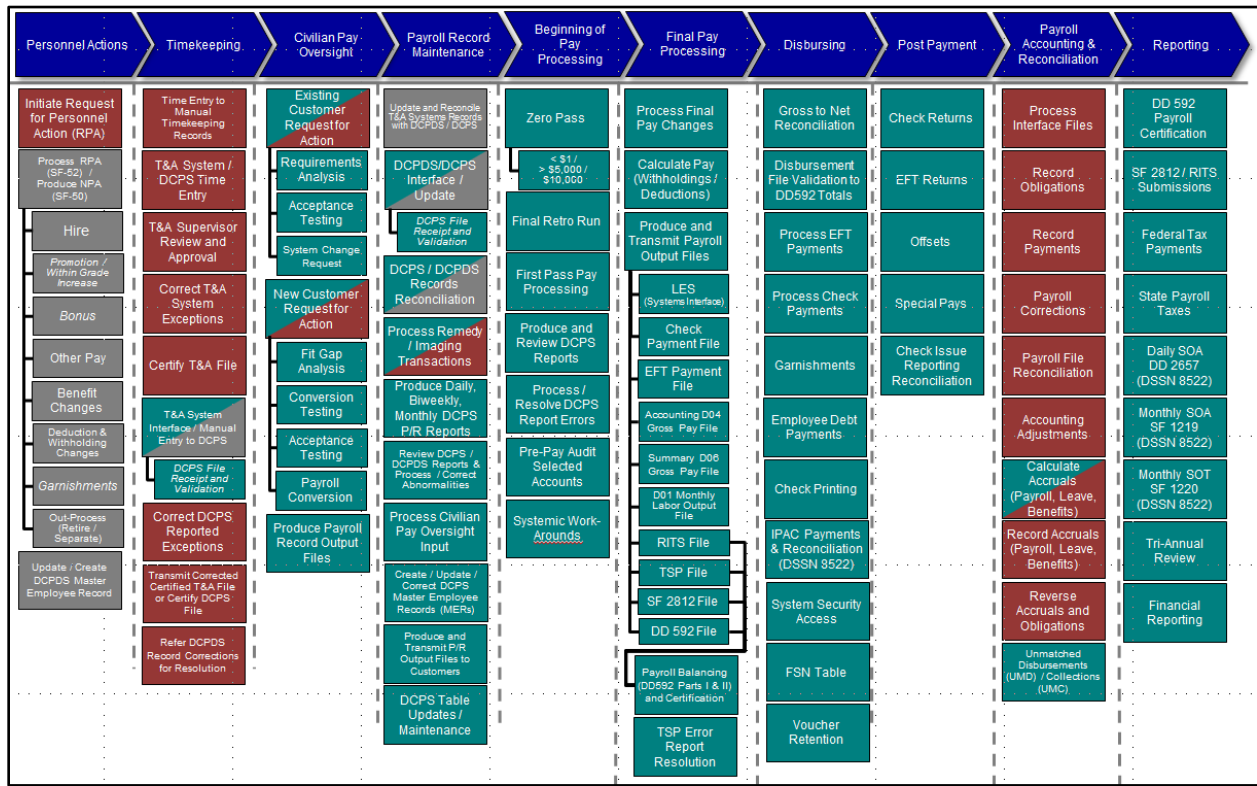
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4. For Statements on Standards for Attestation Engagements (SSAE) No. 16 Reports that have been previously released, the complementary end user controls will be mapped to the current key controls identified in the applicable sub-process to validate that DoD Reporting Entity has implemented and tested the internal controls necessary to support service provider processes.
5. In some instances, our entity may test our own internal controls and KSDs to support the achievement of FROs. The testing results will be reviewed by management and incorporated into our assertion work products.
6. For DoD Reporting Entity-owned key supporting documents that exist and are readily available, test plans will be developed in accordance with FIAR Guidance Section 3.E, “Testing for Supporting Documentation.”
7. Test plans for KSDs will be executed by selecting appropriate sample sizes (random sample on the entire population or on a stratified population) in accordance with FIAR Guidance Section 3.E, “Testing for Supporting Documentation,” Figure 3-12. Test results will be documented with the appropriate level of detail.
8. Results of the internal control and key supporting documentation testing will be reviewed by senior leadership. Where appropriate, corrective actions will be developed, implemented, and subsequently retested.

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V. AU Definition

The Civilian Pay AU encompasses the business functions and activities necessary to hire, pay, maintain, and out-process DoD Reporting Entity employees. Also included in the AU is the recording of payroll disbursements and accruals in our accounting systems and recording time and attendance of employees. Below is a graphical depiction of the end-to-end Civilian Pay process/AU at DoD Reporting Entity.



The following tables identify the line items impacted by the Civilian Pay AU as well as the quantitative impact to each line item.

Financial Statement		9/30/2012 Balance	\$ Attributable to Civilian Pay AU	% Attributable to Civilian Pay AU
Balance Sheet	Fund Balance with Treasury	\$512,121,202.60	\$8,132,876.72	1.6%
Balance Sheet	Accounts Payable – Non-Intragovernmental	\$10,762,234.85	\$3,605,232.10	33.5%
Balance Sheet	Other Liabilities – Intragovernmental	\$19,492,343.78	\$4,363,291.87	22.4%
Balance Sheet	Other Liabilities – Non-Intragovernmental	\$36,308,401.01	\$10,450,388.19	28.8%
SBR	Appropriation	\$792,178,345.61	\$200,792,404.50	25.3%
SBR	Obligations Incurred	\$788,204,111.09	\$199,950,231.09	25.4%
SBR	Unpaid Obligations, Brought Forward, October 1	\$8,603,549.90	\$1,002,805.07	11.7%
SBR	Outlays	\$780,307,224.87	\$200,008,980.20	25.6%
SBR	Unpaid Obligations, end of year	\$7,896,886.37	\$944,055.96	12.0%

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VI. Control Deficiencies

The following table summarizes known control deficiencies for DoD Reporting Entity that impact the Civilian Pay AU. It also identifies the risk associated with the deficiency, impacted sub-AUs and corrective actions taken to date.

Identified Control Deficiency	Risk	Impacted Sub-AU	Corrective Actions Taken To Date
Lack of segregation of duties in creating and approving personnel actions.	Occurrence of unauthorized personnel actions.	Personnel Actions	Initiated the development of entity-wide personnel action processing procedures including adequate segregation of duties.
Reconciliations between gross pay files, payroll disbursement reports and the general ledger (G/L) are not performed on a consistent basis.	Variances between gross pay files, payroll disbursements and the G/L are not detected in a timely manner.	Payroll Disbursing, G/L Recording	A financial management supervisor was recently assigned the responsibility to perform this quality assurance role on a prospective basis.

VII. IT Application Considerations

The IT accounting applications in the following table have been determined to be in-scope in asserting that the Civilian Pay AU is audit ready. DoD Reporting Entity has established general controls consisting of policies, procedures and practices to provide reasonable assurance that specific objectives will be achieved. Our entity has also implemented specific controls for these applications which will be documented in our internal control assessment. The table that follows identifies the sub-AUs impacted by each application as well as our entity's approach for assessing the audit readiness of the application.

Application	Impacted Sub-AU	Assessment Approach
Defense Civilian Personnel Data System (DCPDS)	Personnel Actions	SSAE No. 16 Report and FISCAM Review
Defense Agencies Initiative (DAI)	Time & Attendance, G/L Recording	SSAE No. 16 Report and FISCAM Review
Defense Civilian Pay System (DCPS)	Payroll Processing	SSAE No. 16 Report
Automated Disbursing System (ADS)	Payroll Disbursing	SSAE No. 16 Report
Defense Departmental Reporting System (DDRS)	G/L Recording	SSAE No. 16 Report

The USA Staffing application has been determined to be out-of-scope.

Application	Impacted Sub-AU	Out-of-Scope Rationale
USA Staffing	Personnel Actions	Although the application is used to review employment applications, select candidates for interviews and coordinate hiring decisions internally, it does not interface with DCPDS and does not have a financial statement impact.

Based upon prior testing and known control deficiencies, DoD Reporting Entity has made the following preliminary assessments as to the audit readiness of each in-scope application.

Application	Audit Ready (Y/N)	Condition(s) Preventing Audit Readiness
DCPDS	Y	None noted.
DAI	Y	Inconsistent reviews to ensure system access privileges are appropriate and current. Policies and procedures governing system

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Application	Audit Ready (Y/N)	Condition(s) Preventing Audit Readiness
		access privileges remain in development.
DCPS	Y	None noted.
ADS	Y	None noted.
DDRS	N	Previous system review initiatives noted a backlog of system change requests that had yet to be processed.

DoD Reporting Entity utilizes Microsoft Excel spreadsheets, Access databases and other software tools that impact key controls or calculations that are relevant to financial reporting. In addition to the presence of general controls that include policies and procedures established by management, our entity has also implemented application-specific controls for these accounting micro-applications. The following accounting micro-application has been determined to be in-scope.

Source of Data Input for Micro-Application	Micro-Application	Destination of Output	Impacted Sub-AU	Micro-Application Controls
1. Gross pay files 2. G/L	Microsoft Excel spreadsheet utilized to reconcile gross pay files to the G/L.	SharePoint	Payroll Processing, Payroll Disbursing, G/L Recording	Sign-off requirements to ensure that a reviewer is reviewing a completed reconciliation.

The following accounting micro-application has been determined to be out-of-scope:

Micro-Application	Impacted Sub-AU	Out-of-Scope Rationale
Microsoft Excel spreadsheet utilized to track budgeted paid time off (PTO) by employee for future periods.	G/L Recording	This micro-application does not interface with DAI and does not track accrued leave. It is merely a planning tool for management and does not have a financial statement impact nor does it serve as a control.

Based upon prior testing and known control deficiencies, DoD Reporting Entity has made the following preliminary assessment as to the audit readiness for the gross pay file to G/L reconciling accounting micro-application.

Micro-Application	Audit Ready (Y/N)	Condition(s) Preventing Audit Readiness
Spreadsheet reconciling between gross pay files and the G/L.	N	1. File location is not properly restricted to authorized preparers and reviewers of reconciliations. 2. Cell locking is not in place.

VIII. Service Provider Considerations

The following table provides a summary of service provider involvement that impacts the Civilian Pay AU. The table identifies service providers utilized by DoD Reporting Entity, services performed and whether our entity intends to utilize a SSAE No. 16 Report or a self-review effort as part of our assertion that the AU is audit ready.

Sub-AU	Service Provider	Services Performed	SSAE No. 16 Report or Self-Review
Payroll Processing, Payroll Disbursing, G/L Recording	Defense Finance and Accounting Services (DFAS)	Payroll processing, disbursing and G/L recording.	SSAE No. 16 Report
Personnel Actions	Defense Logistics Agency (DLA)	Reconciliation of personnel data between the Defense Civilian Personnel Data System (DCPDS)	Self-Review

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Sub-AU	Service Provider	Services Performed	SSAE No. 16 Report or Self-Review
		and DCPS.	

The following table provides a summary of conditions arising from service provider efforts that DoD Reporting Entity anticipates will require remediation. Our entity has also projected an expected level of effort required for remediation.

Sub-AU	Service Provider	Anticipated Condition(s) Requiring Remediation	Expected Level of Effort Required for Remediation
G/L Recording	DFAS	Lack of segregation of duties between roles of preparing and approving/posting payroll accrual journal entries.	Addition of incremental responsibility for a DFAS Financial Management Supervisor to include review of payroll accrual journal entries prior to posting.
Personnel Actions	DLA	Lack of policies and procedures in place to require consistent performance of the reconciliation of personnel system data to payroll system data including the resolution of variances on a timely basis.	Development of formal policies and procedures governing the performance of reconciliations between personnel system data and payroll system data.

SSAE No. 16 Reports

DoD Reporting Entity has determined it will utilize a SSAE No. 16 Report as part of our assertion that the Civilian Pay AU is audit ready. In the table below, resources at DoD Reporting Entity responsible for the review of the report and determination of requisite corrective actions have been identified. An expected date on which the entity expects to complete its review of the SSAE No. 16 Report has been provided as well as a service provider point of contact (POC) with whom which any necessary corrective actions will be coordinated.

Sub-AU	SSAE No. 16 Report Reviewer	Expected Date of Review Completion	Service Provider POC
Payroll Processing, Payroll Disbursing	DoD Reporting Entity Senior Accountant	12/31/2013	DFAS Columbus Financial Management Client Liaison

Self-Reviews

DoD Reporting Entity has determined it will also utilize a self-review as part the assertion that the Civilian Pay AU is audit ready. In the table below, resources responsible for the review have been identified. An expected date of completion has been provided as well as a service provider POC with whom which the review will be coordinated.

Sub-AU	Reporting Entity Resources Responsible for Self-Review	Expected Date of Self-Review Completion	Service Provider POC
G/L Recording (Accrual Calculation and Recording)	DoD Reporting Entity Financial Management Team	12/31/2013	DFAS Columbus Financial Management Client Liaison

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IX. Risk Rating Prioritization by Sub-AU

A risk rating has been assigned to each Civilian Pay sub-AU. This table will be utilized by DoD Reporting Entity in prioritizing the focus of our audit readiness efforts. The ratings have been assigned based on a combination of elements including both quantitative and qualitative risk factors.

Sub-AU	Risk Rating	Risk Rating Rationale
Personnel Actions	High	Identification of prior material weakness relating to the segregation of duties for the creation and approval of personnel actions. Reliance upon legacy system.
Time & Attendance	Medium	DoD Reporting Entity T&A Customer Service Representative (CSR) only recently began to retain supporting documentation for manual timecard adjustments made directly in DCPS.
Payroll Processing	Low	Results of previous SSAE No. 16 Reports for this sub-AU have been favorable with minimal exceptions. DoD Reporting Entity will perform a review of the most recent SSAE No. 16 Report for this sub-AU.
Payroll Disbursing	Low	Results of previous SSAE No. 16 Reports for this sub-AU have been favorable with minimal exceptions. DoD Reporting Entity will perform a review of the most recent SSAE No. 16 Report for this sub-AU.
G/L Recording	High	There is a known lack of segregation of duties between roles of preparing and approving/posting payroll accrual journal entries by service provider. Additionally, there are no reconciliations being performed between gross pay file data in DCPS and the G/L.

X. Known Impediments and Potential Dealbreaker Strategy

The following known impediments and challenges may impact the assertion of audit readiness for the Civilian Pay AU of DoD Reporting Entity.

1. Periodic reconciliations between DCPDS and DCPS are performed by DLA. Level of effort provided by DLA may be limited by competing priorities and constraints within the existing Service Level Agreement (SLA) that DoD Reporting Entity maintains with DLA.
2. Recent turnover in the financial management office at DoD Reporting Entity has led to resource constraints and delayed turnaround times in responding to audit readiness documentation requests.
3. A recent server migration has led to unexpected system outages for users of the DAI T&A module. The specific cause of these outages is actively being investigated by the DoD Reporting Entity Systems Team.
4. After six months, data in active DCPS databases is archived in a separate database referred to as Operational Data Store (ODS). Once the data is archived in ODS, it is

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deleted from DCPS. Currently, there is not a process in place to verify the completeness of the data contained in the ODS archive as it relates to data previously contained in DCPS.

The following table summarizes potential audit readiness dealbreakers that have been identified by DoD Reporting Entity for our Civilian Pay AU. The table also includes the SBR assertions that could be impacted by a dealbreaker and the planned countermeasures DoD Reporting Entity plans to implement to address the dealbreaker.

Sub-AU	Potential Dealbreaker (Impact of Financial Statement Assertion)	Planned Countermeasure
Personnel Actions, Payroll Processing	Reconciliations of personnel system data to payroll system data including the resolution of variances cannot be provided in a timely manner (Accuracy, Valuation).	Tiger team effort to re-perform reconciliations and resolve variances for prior periods that have yet to be completed or documented.
G/L Recording	Material beginning balances are not evaluated through appropriate testing (Valuation).	Leverage results of on-going mock audit to gain comfort over beginning balances and make adjusting entries as necessary for unsupported balances.