The Auditors Are Coming!
A Practical Guide for Engineering Projects

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Don’t Panic—Audits are a normal management function, and many are initiated on pre-existing schedules.

- Audits assess adequacy of management and control systems, and compliance with the systems.

- Fewer audits are initiated in response to problems or allegations of wrongdoing.
Audit Basics

- Two categories of audits: internal audits and external, or independent, audits
- Internal audits are performed by auditors employed by the audited organization for someone in the organization
- External audits are performed by auditors employed by an external organization
  - Some are initiated by the audited organization, others are initiated by an external organization
The Audit Process

- Varies by the type of audit and the practices of individual auditors
- Standards exist and are practiced widely, but auditors must adapt their practices to widely varying activities and environments
- The typical audit process:
  - Audit initiation
  - Auditors plan the audit
  - Audit Announcement to audit subject(s)
The Audit Process, *cont’d*

- Audit Kick-off Meeting
- Audit field work/data gathering begins
- Audit data analysis, follow-up, and data verification
- Preliminary Audit Findings, Conclusions, and Recommendations
- Audit Close-out Meeting
- Write & issue the Audit Report
The Audit Process, cont'd

Legend: Visibility & Interaction
Little/No Visibility & Interaction
Project Design and Audit Requirements

• Every large Project needs a *Project Audit Liaison* (e.g., the Project’s financial manager)
  – Organizations with many Projects and/or a number of smaller Projects often have dedicated Audit Liaison staff in the CFO or Controller Office

• Project Audit Preparations
  – Well maintained Project records greatly facilitate the audit process !!!
  – Liaison familiarizes him/herself with parent organization audit policies
Project Design and Audit Rqmts, cont’d

- Liaison knows Project’s parent unit Audit Office staff and/or Audit Relations Manager
- Liaison is familiar with the recent audit history of the Project(s), sub-unit and/or parent unit
- Liaison understands the sources of audits
  - Audits can be requested or required by a parent unit, customer, contractual requirement, statute, or regulation
  - Regularly-scheduled audits
  - Event-driven audits
Dos and Don'ts During An Audit

- Manage the audit process
- *Always remember:* the auditor(s) hold the pen that writes the audit report
- Treat auditors in a businesslike manner
  - Internal auditors
  - External auditors
- Resolve audit-related issues in a businesslike manner
Dos and Don'ts During An Audit, *cont’d*

- Be cooperative; don’t be obstructive
- Show auditors the strengths of your business systems and personnel
- If prudent, show auditors where you believe relevant changes would be productive
- Ask the Project’s parent organization for help, if needed, to properly respond to the audit
Audit Information Resources

- Your organization’s internal audit office, CFO, hired CPA firm, or legal office
- AICPA http://www.aicpa.org
- FASB http://www.fasb.org
- GASB http://www.gasb.gov
- FAC http://www.harvester.census.gov/fac/