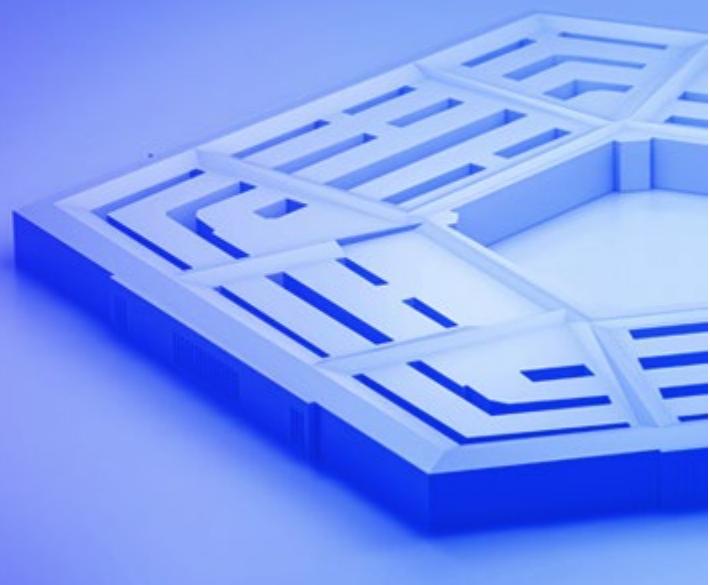


Achieving a clean audit opinion: Strategies and next steps

Navigating challenges and maximizing audit outcomes in the DoD with KPMG



KPMG LLP helped guide Department of Defense (DoD) entities to a sustainable clean audit opinion. Building on this achievement, KPMG delivered exceptional results with the Defense Logistics Agency (DLA) National Defense Stockpile Transaction Fund (NDSTF), securing the agency's first clean audit opinion in FY24. Leveraging our multidisciplinary capabilities, extensive experience, and advanced technologies, we have demonstrated our commitment to helping the DoD meet its audit goals by FY28.

Obtaining and sustaining a clean audit opinion is a significant milestone for any organization. It requires the agency to continuously improve its internal controls to ensure accountability and transparency, maximize the efficient use of resources, enhance operational effectiveness and efficiencies, facilitate informed decision-making, and build trust with the public, a core objective of the DoD.

Defense Secretary Pete Hegseth recently stated that rebuilding the military and defense industrial base necessitates an audit of the Pentagon "We are going to focus heavily to ensure that—at a bare minimum, by the end of four years—the Pentagon passes a clean audit; the American taxpayers deserve that." The DoD is one of the largest organizations in the world with \$3.8 trillion in assets and \$4 trillion in liabilities. Although significant progress has been made, many audit challenges still lie ahead.

KPMG's experience in supporting our client's business transformations has helped us identify several common audit challenges:

- **Property accountability issues:** Ensuring proper tracking, management, valuation and financial reporting of assets in accordance with U.S. GAAP, such as inventory and related property (SFFAS 3) and general equipment (SFFAS 6). For example, the DoD Accountable Property Systems of Record (APSR) are often developed and implemented with a mission-focused approach, rather than the requirements needed to successfully achieve a clean audit opinion.
- **Lack of Effective system General IT Controls (GITCs):** Ensuring the completeness and accuracy of system-generated information and compliance with Federal Financial Management System Requirement (FFMSR). For example, overcoming the limitations of outdated and isolated information technology systems such as legacy and siloed IT systems.
- **Recent systems migration:** Managing the transition to new systems and ensuring data remains complete, valid, auditable and in compliance with FFMSR.
- **Lack of workforce's understanding of audit:** Ensuring that all service members, civilians, and contractors have a clear understanding of audit processes and their roles in maintaining audit readiness.

To overcome these challenges and obtain a clean audit opinion, DoD departments and agencies should focus on the following multidisciplinary capabilities:

- **Strategy, training, and communication:** It is crucial to set the tone at the top by ensuring that leadership prioritizes obtaining a clean audit opinion. An effective communication plan should also be established, keeping all stakeholders actively prepared and well-informed. An audit roadmap strategy aligned with organizational goals and key performance indicators clearly identifies and communicates the priorities.
- **Multidisciplinary team with technical competencies:** Assemble a team with diverse technical competencies to address the complex requirements of the audit process including expertise in auditing, accounting, data analytics, and Information technology.

• **Deployment of technology to accelerate remediation:** Utilize technology to expedite remediation efforts. This includes establishing data metrics and analytics to improve visibility, reliability, decision-making, and accountability of big data. Automation technologies, such as robotic process automation (RPA), can be leveraged to address the challenge of managing a large volume of transactions. Deploying modern solutions and tools can help monitor data integrity and accuracy.

• **Validate and align data for proper financial reporting:** Rigorously analyze and validate data to help ensure accurate financial reporting and make financial reporting adjustments until errors can be corrected. Deploy dedicated teams and “audit coaches” to enhance data reliability and facilitate internal control transformation. Define, document, improve, and monitor internal controls both in the field and through enterprise-level monitoring, including controls to mitigate IT deficiencies.

After the clean opinion—What's next?

Once a clean audit opinion is achieved, DoD departments and agencies should focus on continuous improvement and building upon their success while continuing to sustain the audit opinion. This includes:

- Transforming manual processes to automated ones, utilizing automation tools.
- Enhancing and integrating financial systems for improved transactional reporting.
- Providing workforce training to improve institutional knowledge and maintain the momentum of a clean audit opinion.

- Developing strategies to effectively address risk through improved risk assessment and monitoring.
- Continue to enhance data accuracy through lessons learned and improved accountability.

Teaming with KPMG throughout the audit transformation journey can help enable your organization to navigate common audit challenges, achieve and maintain balances that result in a clean audit opinion, and implement internal controls and auditable processes that result in gained confidence in financial transparency, accountability, and operational effectiveness. We strive to help your organization enhance its audit processes and successfully achieve its audit transformation goals.

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