

**10 AUGUST 1993**



**Financial Management**

**INTERNAL AUDITING**

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1. The Air Force depends on measuring its performance and examining its procedures to sustain successful operations. This directive establishes policies to use audits in order to improve programs; make financial reporting more accurate; and promote economy, efficiency, and effectiveness throughout the Air Force.
2. The Air Force Audit Agency (AFAA) does internal auditing as a staff and advisory service. The AFAA will be organizationally placed to maintain the independence required by both public law and the standards of the US Comptroller General. Auditors will not perform line, staff, or other collateral duties that would impair this independence.
3. All Air Force organizations, functions, activities, and levels of operations may be audited.
4. Air Force management will use reports of audit as recommendations to help correct deficiencies and prevent their recurrence.
5. Audits will not interfere with combat operations. Audits within combat theaters will emphasize the adequacy and effectiveness of support to combat forces, and the controls used to prevent unauthorized diversion of equipment, supplies, or other resources.
6. The Air Force may contract for audits of nonappropriated fund activities. Other audits may not be contracted out unless the AFAA determines it does not have the expertise to complete them or it needs temporary help to meet legal or regulatory requirements.
7. This directive establishes the following responsibilities and authorities:
  - 7.1. The AFAA will, without limitation, select activities for audit, determine the scope of audit work, and report results.
  - 7.2. Auditors will recommend corrective actions. They will not develop systems, methods, or procedures, nor will they change or order changes in the audited activity's operations.

7.3. Air Force management will ensure that properly cleared AFAA auditors have full and unrestricted access to all personnel, records, or facilities needed to meet an announced audit objective. After proper clearances are confirmed, auditors usually have access without reference to higher authority. Only the Secretary of the Air Force may deny AFAA auditors access to Air Force records.

7.4. The Auditor General of the Air Force is the sole disclosure or denial authority for all AFAA reports of audit and supporting audit records under the Freedom of Information Act.

**8.** This directive implements Department of Defense (DoD) Directive 7600.2, *Audit Policies*, February 2, 1991; DoD Instruction 7600.6, *Audit of Nonappropriated Fund Instrumentalities and Related Activities*, April 16, 1987; DoD 7600.7-M, *Internal Audit Manual*, June 1990; United States General Accounting Office Pamphlet, *Government Auditing Standards*, 1988 Revision; Office of Management and Budget Circular A-73, *Audit of Federal Operations and Programs*, June 20, 1983; and Public Law 97-252, *Inspector General Act of 1978*, September 8, 1982, as amended.

**9.** This directive supersedes AFR 175-4, *Internal Auditing*. Implementing instructions are in AFI 65-301, *Audit Reporting Procedures* (formerly AFRs 175-3 and 175-6).

**10.** See [Attachment 1](#) for measures of compliance with policy.

JACKIE R. CRAWFORD  
The Auditor General

## Attachment 1

### MEASURING COMPLIANCE WITH POLICY

**A1.1.** The AFAA Directorate of Operations will measure compliance with auditing policy using five factors:

1. Return on investment.
2. Percent of direct time on audits.
3. Audit topics recommended by management.
4. Reports with recommendations.
5. Percent of recommendations with which management concurred.

These five measurements are major indicators of the efficiency, economy, and effectiveness of the AFAA, and the DoD Inspector General requires four of them as part of its oversight of the service audit organizations.

**A1.2. Return on Investment.** This measure ([Figure A1.1.](#)) shows an audit's cost effectiveness by indicating the percent of return on each dollar spent for the audit. It takes monetary benefits claimed by AFAA in reports and those agreed to by management, and then compares those amounts to the audit's operating costs. Increases and decreases in the Air Force budget will affect the overall trend, but an upward trend is desirable.

$$\text{Return on Investment} = \frac{\text{Claimed Potential Monetary Benefits} + \text{Potential Monetary Benefits Agreed to by Management}}{\text{Operating Costs}}$$

**A1.3. Percent of Time in Direct Support of Audits.** This measure ([Figure A1.2.](#)) presents audit efficiency by showing the percentage of total available staff hours spent producing audits. Training time is subtracted from total time available. The trend should show an increasing percentage approaching 65 percent.

$$\text{Percent of Direct Time} = \frac{\text{Direct Time}}{\text{Total Time Available}}$$

**A1.4. Audit Topics Recommended by Management.** This measure ([Figure A1.3.](#)) presents the number of Air Force-level audit subjects management suggests during the AFAA annual call. It represents management's involvement in audit planning. An increasing trend is desired.

**A1.5. Reports With Recommendations.** This measure ([Figure A1.4.](#)) indicates how effectively auditors select areas for review, so it should be no lower than 85 percent and show an upward trend.

$$\text{Reports With Recommendations} = \frac{\text{Direct Time Charged During the Fiscal Period on Reports With Recommendations}}{\text{Direct Time Charged to All Reports}}$$

**A1.6. Percent of Recommendations With Which Management Concurred.** This measure ([Figure A1.5.](#)) helps determine how effectively audit identifies a need for change. This measure should be above 75 percent and show an upward trend.

**Percent of Recommendations With Which Management  
Concurred = Recommendations Concurred With or  
Sustained in Resolution ? The Total Number of  
Recommendations Made**

Figure A1.1. Sample Metric of AFAA Return on Investment.

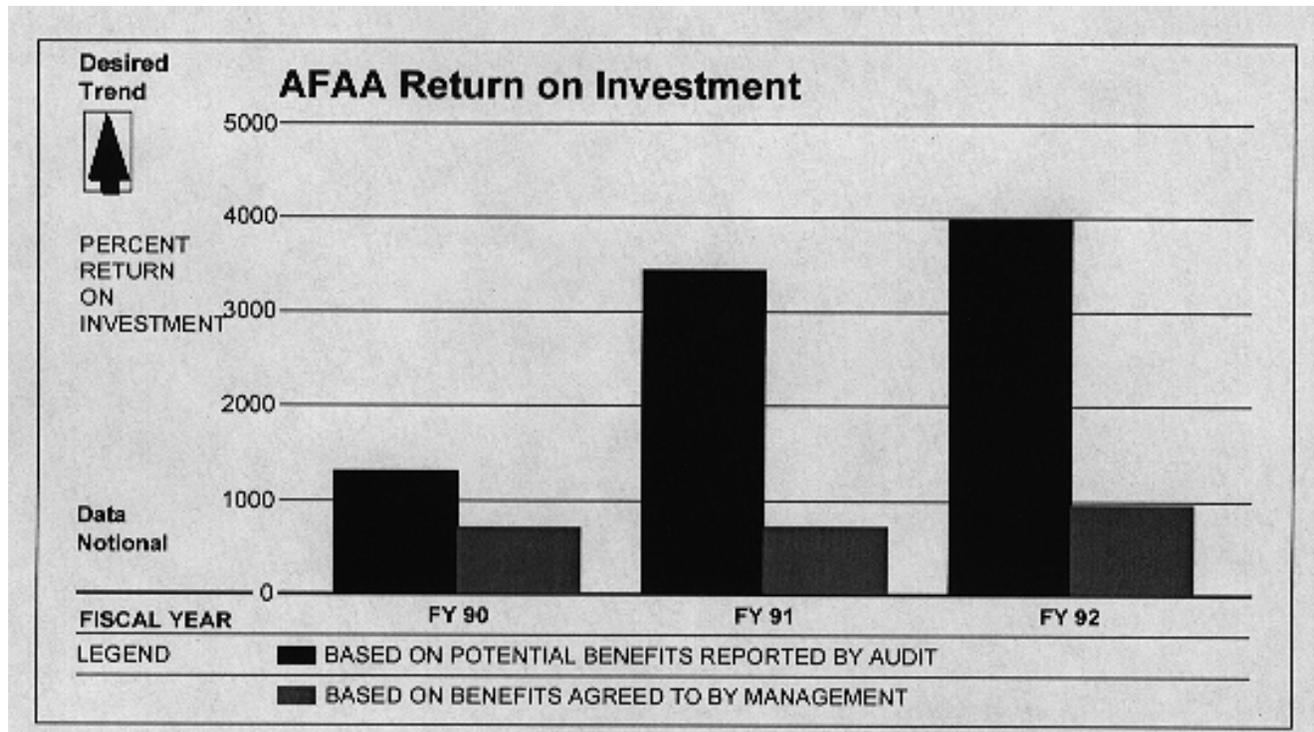


Figure A1.2. Sample Metric of AFAA Percent Direct Time.

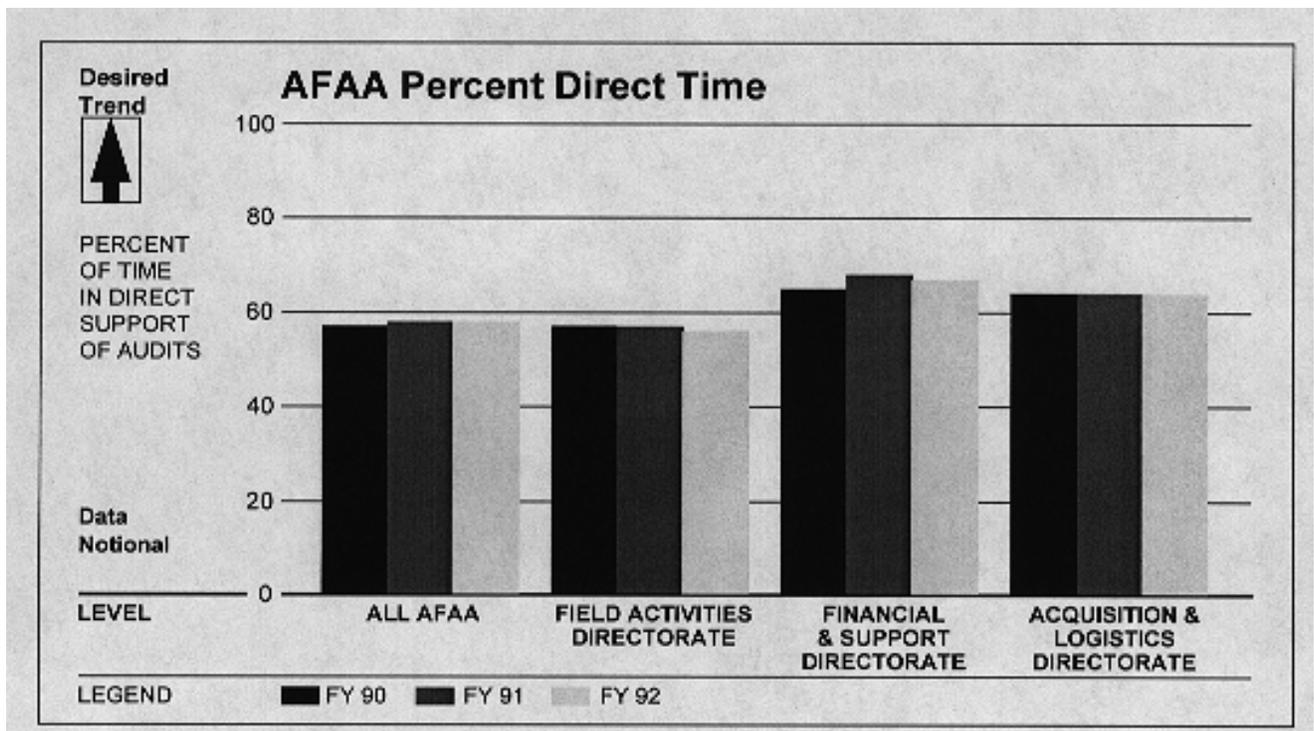


Figure A1.3. Sample Metric of AFAA Topics Recommended by Management.

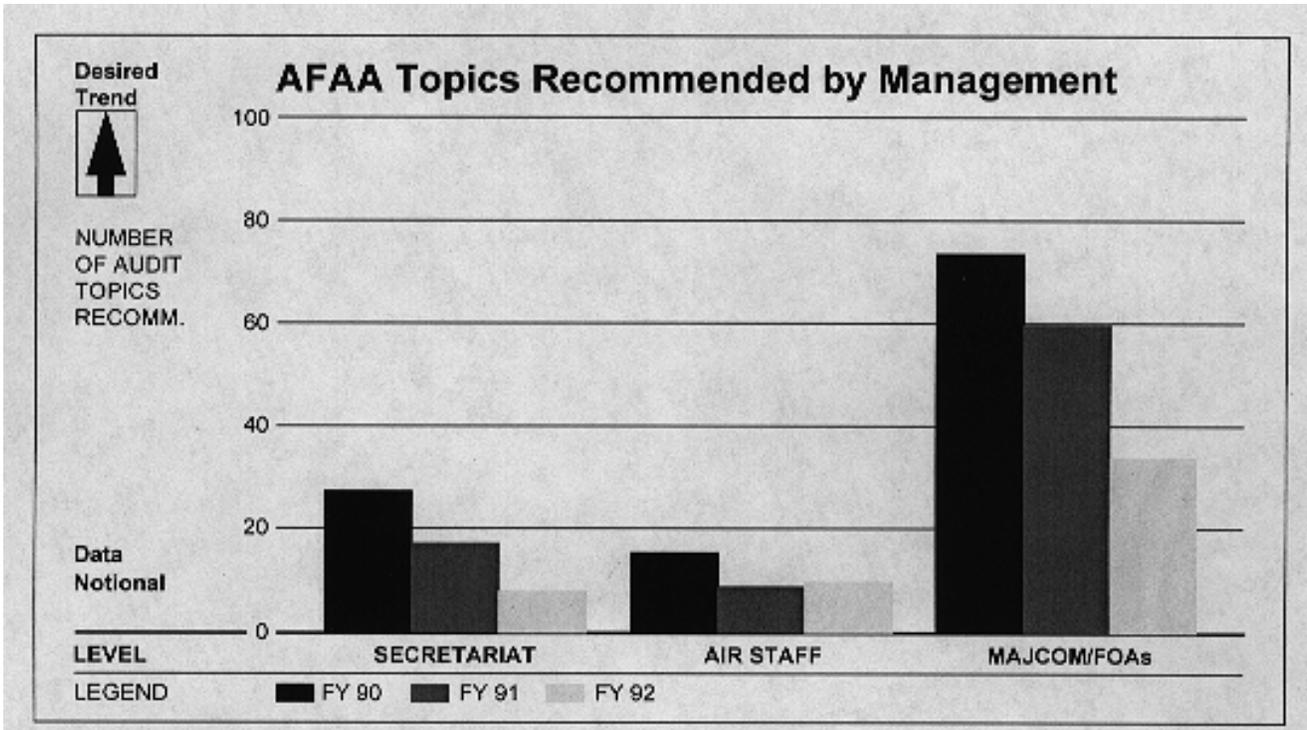


Figure A1.4. Sample Metric of AFAA Reports with Recommendations

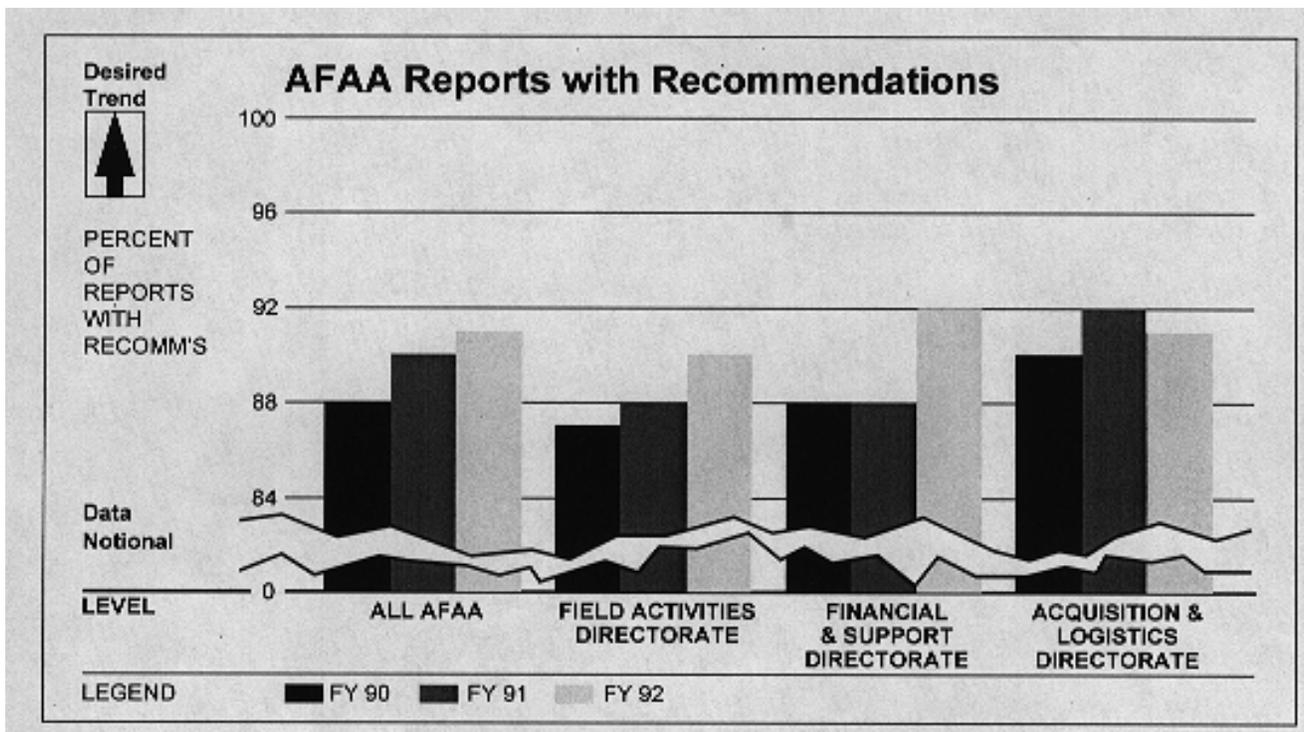


Figure A1.5. Sample Metric of AFAA Percent Recommendations Concurred

