



**DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PAS 730.3.B.2.4

October 22, 2009
09-PAS-021(R)

**MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA
HEADS OF PRINCIPAL STAFF ELEMENTS**

SUBJECT: Audit Guidance on the Status of Contractor Systems of Internal Controls as Documented in the Contractor Organization and Systems and Scope of Audit Sections of Audit Reports

Summary

This memorandum provides guidance on addressing noncurrent audits of relevant internal control systems in related audit reports (e.g., forward pricing audits). If the internal control audit report is no longer current (e.g., the contractor's system has not been audited in the last 4 years or there have been significant changes to the system since the last audit), the paragraphs in the Contractor Organization and Systems section and Scope of Audit section of the audit report addressing the status of that system should indicate that a current audit of the system has not been performed.

Auditors are reminded that where the audit of a contractor internal control system is not current, control risk must be assessed at maximum when planning the scope of other related audits and expanded substantive testing must be performed.

Background

Current guidance requires that each relevant accounting or management system that has a significant impact on Government contract costs be audited on a cyclical basis, based on a documented risk assessment (i.e., every 2 - 4 years, however, no less frequently than 4 years). Generally, audits of contractor internal controls are conducted only at major contractor locations. The Contractor Organization and Systems section and the Scope of Audit section of the audit report are used to communicate current relevant information (e.g., our current opinion on contractor's system) to the readers that rely on our audit reports. Auditors must ensure that only current information is included in audit reports. Considering the FY 2010 audit priorities limits new internal control audits initiated in 2010 to audits of contractors' billing systems and audits of contractors' control environment and overall accounting systems, there will likely be an increase in the instances where audit opinions on contractors' systems are no longer current. In addition, when a contractor significantly changes its system, the previous internal control audit report should no longer be relied upon in related audits.

SUBJECT: Audit Guidance on the Status of Contractor Systems of Internal Controls as Documented in the Contractor Organization and Systems and Scope of Audit Sections of Audit Reports

Guidance

The Contractor Organization and Systems section of audit reports (other than audits of internal controls) provides background information on each relevant internal control system that impacts the audit. In addition, the Scope of each Audit section includes a description of how the contractor's significant internal control system(s) affect the scope of audit. Generally, both of these sections include our opinion on the adequacy of the relevant internal control systems. In those instances where the audit of a relevant internal control system is not current (e.g., the contractor's system has not been audited in the last 4 years or there have been significant changes to the system since the last audit), the prior opinion on the adequacy of the system shall be excluded from the audit report. Instead, the paragraphs in the Contractor Organization and Systems section and Scope of Audit section addressing the status of that system should indicate that a current audit of the system has not been performed.

Auditors are reminded that where the audit of a contractor internal control system is not current, control risk must be assessed at maximum when planning the scope of other related audits and expanded substantive testing must be performed.

FAO personnel should direct questions to their regional offices, and regional personnel should direct any questions to Auditing Standards Division, at (703) 767-3274 or e-mail: DCAA-PAS@dcaa.mil.

/s/

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