



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

PAS 730.3.B.2.4

February 16, 2010  
10-PAS-003(R)

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

SUBJECT: Audit Guidance Related to Audits Performed by Foreign Auditors under Reciprocal Agreements

**SUMMARY**

This memorandum provides guidance related to audits performed by foreign auditors under reciprocal agreements. The results of those audits will not be incorporated into DCAA audit reports. If an audit under a reciprocal agreement is required, the FAO should opine only on those portions of the contractor's submission under DCAA's cognizance and recommend the contracting officer request a separate audit of the foreign company's costs in accordance with the terms of the applicable reciprocal agreement.

**BACKGROUND**

The United States Department of Defense (DoD) has agreements with the Governments of certain foreign countries to provide contract audit services and other contract administration services without charge. Under these agreements, DCAA performs audits of U.S. companies performing or bidding on contracts of the foreign country. In return, the auditors of the foreign country perform audits of the foreign companies performing or bidding on U.S. Government contracts. The U.S. currently has reciprocal audit agreements with five countries: Canada, United Kingdom, France, Netherlands, and Germany.

**GUIDANCE**

For DCAA auditors to use the work of other auditors, auditing standards require the auditor to obtain evidence concerning the other auditors' qualifications and independence, and to determine that the audit work performed is sufficient, both in scope and quality, to meet DCAA's audit objectives in the context of each specific assignment. When audits are performed by foreign auditors under reciprocal agreements, performing the procedures required by auditing standards to allow incorporation of the foreign auditors' results into DCAA audit reports is generally not possible because access needed to perform the procedures is generally precluded by terms of the agreements and restrictions on disclosing proprietary information to the purchasing government. Therefore, the results of audits performed by foreign auditors are not to be incorporated into DCAA audit reports.

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When performing an audit of a contractor submission (e.g., incurred cost or forward pricing proposal) that includes costs requiring audit by foreign auditors under a reciprocal agreement, the FAO should coordinate with the contracting officer. The FAO should advise the contracting officer that DCAA is unable to perform the procedures required by auditing standards to allow incorporation of the foreign auditors' results into the DCAA audit report and that the report opinion will not address those portions of the contractor's submission that are subject to coverage by the foreign auditors. The FAO should recommend that the contracting officer use the procedures outlined in the applicable reciprocal agreement to request that a separate audit of the foreign company's costs be performed by the foreign auditors and that the foreign auditor's report be sent directly to the contracting officer.

For example, if DCAA were requested to audit a contractor's forward pricing proposal that includes foreign subcontract costs requiring audit by foreign auditors under a reciprocal agreement, the FAO would audit only the parts of the proposal under DCAA's cognizance using activity code 27000 (See CAM 9-104.2 for guidance on advising the contracting officer on the need for subcontract assist audits). A similar "parts of submission" approach should be used for incurred cost audits that include foreign subcontract costs. In such cases, the standard subject of audit paragraph should be modified to indicate that the FAO examined the contractor's proposal and related books and records, except for the foreign subcontract costs and provide information sufficient to clearly identify the costs not audited. In situations where the costs audited by the foreign auditors cannot be readily separated and, therefore, a "parts of submission" approach cannot be used (e.g., audits of incurred cost submissions including indirect flow-down costs from a foreign company), the audit report will clearly identify those costs that the FAO did not audit and the report will be appropriately qualified.

In the event the FAO receives the audit report from the foreign auditors, it should be immediately forwarded to the contracting officer. The foreign country's audit report should not be incorporated into the DCAA audit report.

## **CLOSING REMARKS**

FAO personnel should direct questions regarding this memorandum 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](mailto:DCAA-PAS@dcaa.mil).

/Signed/  
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