



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PAS 730.3.B.2.4

July 26, 2011  
11-PPS-012(R)

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

SUBJECT: Audit Guidance on Independent Reference Reviews

This audit guidance sets forth DCAA's policy on performing Independent Reference Reviews (IRR's). Independent reference reviews are a component of the Agency's commitment to providing quality audit reports in compliance with applicable standards. Referencing is a process in which an experienced auditor, who is independent of the audit, verifies all significant facts, figures, and dates are correctly reported; that the findings are adequately supported by evidence in the audit documentation; and that the conclusions and recommendations flow logically from the evidence.

The independent reference reviewer's responsibilities and policies and procedures are set forth in DCAA Instruction 7642.1. Effective immediately, all DCAA assignments listed in Enclosure 1 of this Instruction, where an audit report will be issued, will undergo an independent reference review subsequent to supervisory review but prior to report issuance. These reviews will be performed in accordance with the procedures presented in the Instruction. GS-13 Auditor Staff (e.g., Regional Technical Programs Specialists, Technical Specialists, and Supervisory Auditors) are responsible for performing independent reference reviews in accordance with Agency procedures. All audit programs requiring an independent reference review will have the checklists delivered automatically as an administrative working paper. Auditors with in-process assignments requiring Independent Reference Reviews will be able to obtain the Independent Referencing Checklists on the DCAA intranet. Training slides will be made available in the near future as a Training Module on the DCAI website for presentation at staff conferences or team meetings.

If FAO personnel have any questions regarding this memorandum, they should contact Regional personnel. Regional personnel with any questions should contact Policy Publications and Systems Division, at (703) 767-3274, or by e-mail at [DCAA-PPS@dcaa.mil](mailto:DCAA-PPS@dcaa.mil).

/s/ John C. Shire  
/for/ Kenneth J. Saccoccia  
Assistant Director  
Policy and Plans

Enclosure:  
DCAA Instruction No. 7642.1

DISTRIBUTION: E



## DEFENSE CONTRACT AUDIT AGENCY

8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

PPS

July 25, 2011

DCAA INSTRUCTION  
NO. 7642.1

### INDEPENDENT REFERENCE REVIEW POLICIES AND PROCEDURES

1. PURPOSE. The purpose of this instruction is to assign responsibilities and establish policies and procedures for performing independent reference reviews.
2. APPLICABILITY. This instruction applies to all DCAA organizational levels.
3. POLICY. Independent reference reviews are a component of the Agency's commitment to providing quality audit reports in compliance with applicable standards. Referencing is a process in which an experienced auditor who is independent of the audit checks that the statements of facts, figures, and dates are correctly reported; that the findings are adequately supported by evidence in the audit documentation; and that the conclusions and recommendations flow logically from the evidence. All DCAA assignments listed in [Enclosure 1](#), where an audit report will be issued, will undergo an independent reference review subsequent to supervisory review but prior to report issuance. These reviews will be performed in accordance with the procedures presented in [Enclosure 2](#).
4. INDEPENDENT REFERENCE REVIEW RESPONSIBILITIES.
  - a. The Director, DCAA, establishes the overall policy and organizational responsibilities for the independent reference review program covering DCAA audit reports.
  - b. The Assistant Director, Policy and Plans, is responsible for communicating and providing guidance on the overall policy for the Agency-wide independent reference review program approved by the Director.
  - c. Regional Directors, the Field Detachment Director, Regional Audit Managers, and Detachment Audit Managers are responsible for ensuring that the independent reference review program is effectively executed at offices under their management control in accordance with this instruction.
  - d. Agency Field Audit Office (FAO) managers are responsible for ensuring that the independent reference review program is effectively executed on assignments under their management control in accordance with this instruction.

e. GS-13 Auditor Staff (e.g., Regional Technical Programs Specialists, Technical Specialists, and Supervisory Auditors) are responsible for performing independent reference reviews in accordance with Agency procedures.

5. PROCEDURES. General procedures on the performance of the Agency's independent reference review process are provided as [Enclosure 2](#). The Independent Reference Review Checklist and Certification needed to perform and document the review are provided as [Enclosure 3](#).

6. INFORMATION REQUIREMENTS. This instruction prescribes the Independent Reference Review Checklist and Certification.

7. RELEASABILITY. UNLIMITED. This Instruction is approved for public release and will be available on the internet from the DCAA Website at <http://www.dcaa.mil/>, and the intranet library at <https://infoserv.dcaaintra.mil>.

8. EFFECTIVE DATE. This instruction is effective immediately.

/s/  
Patrick J. Fitzgerald  
Director

Enclosures:

1. Assignments Requiring Independent Reference Review
2. Procedures for Performing Independent Reference Reviews
3. Independent Reference Review Checklist and Certification

ENCLOSURE 1ASSIGNMENTS REQUIRING INDEPENDENT REFERENCE REVIEW

<b>DMIS Activity Code</b>	<b>Assignment Description</b>	<b>Assignments Requiring IRR AUDITOR (Note)</b>
10100	Incurred Cost Audits	If <i>Total Dollars Examined</i> as reported in the DCAA Management Information System (DMIS) equals or exceeds \$100 million (Review of 10100 packages would include referencing back to the supporting packages (e.g., 10160, 10310, and 10320))
10110	OMB Circular A-133 Audits	All
11010 11020 11050 11070 11510 12030 12500 13010 13020 14980 24010 24090 26000	Internal Control Audits	All (except flash reports)
17750 17760 17770	Earned Value Management (EVM) Audits	All
19200	CAS, Reporting Noncompliances	All
19400	CAS Compliance Audits	All
19500	CAS, Cost Impact Statement	All
21000 22000 27000 27010 28000	Forward Pricing Assignments	If <i>Total Dollars Examined</i> equals or exceeds \$100 million for fixed price proposals and \$250 million for cost type proposals
23000	Forward Pricing Rate Audits	At major contractors
23300	Restructuring Rate Proposal Audits	All
42000	Post Award Audits	All

Note: In addition to the activity codes listed above, Independent Reference Reviews must be performed on all Agreed-Upon Procedures engagements, as well as any assignments that pertain to sensitive, controversial, complex, unusual, or significant matters.

ENCLOSURE 2PROCEDURES FOR PERFORMING INDEPENDENT REFERENCE REVIEWS

1. Independent reference reviews will be performed for all assignments listed in [Enclosure 1](#) where a report will be issued. Those reviews will be performed using the Independent Reference Review Checklist and Certification ([Enclosure 3](#)). The Independent Reference Review Checklist and Certification are periodically updated and are available on the Agency Intranet and delivered with every APPS package as an administrative working paper.
2. The cognizant supervisory auditor in conjunction with the audit team will make the determination that the report and working papers are ready for the independent reference review. The cognizant supervisory auditor should ensure that the results of audit in the draft report have been fully referenced to the supporting documentation and that the working papers have been adequately reviewed and are in compliance with Generally Accepted Government Auditing Standards.
3. FAO Managers and RAMs, in consultation with regional management, will select the GS-13 auditor (e.g., Regional Specialists, Technical Specialists, or Supervisory Auditors) to perform the review for each assignment subject to an IRR. The IRR auditor must possess the knowledge and experience necessary to complete an effective review. The selection of the IRR auditor should be based on the potential reviewer's independence, objectivity, experience, and analytical ability. The IRR auditor must be someone not directly associated with the work on which the working papers and report are based, and must not be under the direct supervision of the cognizant supervisory auditor.
4. Once the IRR auditor is selected, the cognizant supervisory auditor will provide the workpapers and audit report to the IRR auditor. The IRR auditor will review the workpapers and the audit report and will complete the Independent Reference Review Checklist and Certification based on the review of the assignment. The IRR auditor must document each "no" answer from the checklist ([Appendix 1 to Enclosure 3](#)) or other concerns on the Independent Reference Review List of Deficiencies form ([Appendix 2 to Enclosure 3](#)).
  - a. If no deficiencies are noted by the IRR auditor, the Independent Reference Review Certification ([Appendix 4 to Enclosure 3](#)) should be marked as such and needs only the signature of the IRR auditor. The IRR auditor will return the workpapers, audit report, and the Independent Reference Review Checklist and Certification to the cognizant supervisory auditor.
  - b. If deficiencies are found, the IRR auditor will not sign the Certification. The IRR auditor will return the workpapers, audit report and the Independent Reference Review Checklist and Certification to the cognizant supervisory auditor for resolution.
5. The cognizant supervisory auditor and audit team will review the issues raised by the IRR and determine if they are in agreement with the issues raised. If the cognizant supervisory auditor and audit team does not agree with the IRR findings, the auditor or lead auditor will document on the Unresolved Deficiencies List ([Appendix 3 to Enclosure 3](#)) the reason for not taking action on

the deficiencies raised by the IRR auditor. Only those IRR recommendations the cognizant supervisory auditor and audit team agrees with will be provided to the auditor for resolution.

6. The auditor or lead auditor for a team assignment will document actions taken for each deficiency on the Independent Reference Review List of Deficiencies ([Appendix 2 to Enclosure 3](#)) and sign the Independent Reference Review Certification Statement ([Appendix 4 to Enclosure 3](#)) acknowledging that the auditor or lead auditor for an audit team assignment has addressed the cited deficiencies. They will then return the Independent Reference Review Checklists and Certification to the cognizant supervisory auditor.

7. The cognizant supervisory auditor will review the Independent Reference Review List of Deficiencies ([Appendix 2 to Enclosure 3](#)) and the actions taken. Once satisfied that the issues identified have been resolved and the results of audit are supported by the working papers, the cognizant supervisory auditor should then submit the package to the IRR. The IRR auditor will verify the resolution and disposition of cited deficiencies. The IRR auditor will document concurrence or non-concurrence with the action(s) taken by the audit team on the Independent Reference Review List of Deficiencies ([Appendix 2 to Enclosure 3](#)). The IRR auditor will document on the Independent Reference Review Unresolved Deficiencies List ([Appendix 3 to Enclosure 3](#)) any deficiencies the audit team did not address appropriately, or any action taken by the audit team with which the IRR auditor disagrees. The IRR auditor will complete the Independent Reference Review Certification ([Appendix 4 to Enclosure 3](#)) and forward the workpapers, audit report, and the Independent Reference Review Checklist and Certification to the cognizant supervisory auditor. The cognizant supervisory auditor should attempt to resolve any issues identified on the Independent Reference Review Unresolved Deficiency List ([Appendix 3 to Enclosure 3](#)). If resolution is reached, the documentation of such resolution should be included on the Independent Reference Review Unresolved Deficiency List ([Appendix 3 to Enclosure 3](#)), and the cognizant supervisory auditor should sign the Independent Reference Review Certification ([Appendix 4 to Enclosure 3](#)). If the issues identified cannot be resolved at the supervisory auditor level, the Independent Reference Review Certification ([Appendix 4 to Enclosure 3](#)) should not be signed. The cognizant supervisory auditor will forward the workpapers, audit report, and the Independent Reference Review Checklist and Certification to the FAO manager for resolution.

8. The FAO manager should resolve any deficiencies cited by the IRR auditor that could not be resolved at the supervisory auditor level. The FAO manager will sign the Independent Reference Review Certification ([Appendix 4 to Enclosure 3](#)) once satisfied that the deficiencies identified have been resolved and the results of audit are supported by the working papers. If the issues cannot be resolved at the FAO manager level, then the FAO manager will forward the workpapers, audit report, and the Independent Reference Review Checklist and Certification to the Regional or Detachment Audit Manager (RAM/DAM) for resolution. Discussions of issues should include all parties. If the issues cannot be resolved at the RAM/DAM level, then the Regional or Detachment Audit Manager (RAM/DAM) will forward the workpapers, audit report, and the Independent Reference Review Checklist and Certification to the Deputy Regional Director for resolution. The resolution should be clearly documented on the Independent Reference Review Unresolved Deficiency List ([Appendix 3 to Enclosure 3](#)).

9. The FAO manager and cognizant supervisory auditor should ensure that the IRR auditor reviews any significant changes to the draft report or working papers occurring after the initial independent reference review and prior to report issuance. The IRR auditor will document his or her review of any significant changes by signing the Independent Reference Review Certification ([Appendix 4 to Enclosure 3](#)) upon completion of this subsequent review and prior to signature and issuance of the final audit report.
10. The Independent Reference Review Certification ([Appendix 4 to Enclosure 3](#)) must be completed prior to the signature and issuance of the final report.
11. All documentation related to the IRR will be maintained in the audit working paper package as an administrative working paper.
12. Time spent performing independent reference reviews will be charged directly to the individual assignment and identified separately on W/P A-1. A new field in DMIS entitled “Spec Use” has been created to record time spent by assignment while performing the independent referencing reviews. Budgeted hours will be adjusted in DMIS to reflect the hours incurred for the independent reference review.
13. Audit assignment due dates will be adjusted, as necessary, in DMIS to accommodate the Independent Reference Review.

ENCLOSURE 3INDEPENDENT REFERENCE REVIEW CHECKLIST AND CERTIFICATION

ASSIGNMENT NO: \_\_\_\_\_

CONTRACTOR: \_\_\_\_\_

REVIEWER: \_\_\_\_\_

DATE OF REVIEW: \_\_\_\_\_

Independent reference reviews of DCAA audits will be performed in accordance with DCAA Instruction 7642.1. Referencing is a process in which an experienced auditor who is independent of the audit, checks that statements of facts, figures, and dates are correctly reported; that the findings are adequately supported by evidence in the audit documentation; and that the conclusions and recommendations flow logically from the evidence. The checklist in Attachment 1 is designed for use by the independent reference reviewer (IRR) performing the review. To be independent, the GS-13 IRR must be someone not directly associated with the work on which the working papers and report are based, and must not be under the direct supervision of the cognizant supervisory auditor.

When the cognizant supervisory auditor determines that the report and workpapers are ready for the independent reference review, the cognizant supervisory auditor will provide the workpapers and audit report to the IRR auditor. The IRR auditor will review the workpapers and the audit report and will complete the Independent Reference Review Checklist and Certification based on the review of the assignment. The IRR auditor must document each “no” answer from the checklist ([Appendix 1](#)) or other concerns on the Independent Reference Review List of Deficiencies form ([Appendix 2](#)).

If no deficiencies are noted by the IRR auditor, the Independent Reference Review Certification ([Appendix 4](#)) should be marked as such and needs only the signature of the IRR auditor. The IRR auditor will return the workpapers, audit report, and the Independent Reference Review Checklist and Certification to the cognizant supervisory auditor.

If deficiencies are found, the IRR auditor will not sign the Certification. The IRR auditor will return the workpapers, audit report and the Independent Reference Review Checklist and Certification to the cognizant supervisory auditor for resolution.

The cognizant supervisory auditor and audit team will review the issues raised by the IRR and determine if they are in agreement with the issues raised. If the cognizant supervisory auditor and audit team do not agree with the IRR findings, the auditor or lead auditor will

document on the Unresolved Deficiencies List ([Appendix 3](#)) the reason for not taking action on the deficiencies raised by the IRR auditor. Only those IRR recommendations the cognizant supervisory auditor and audit team agree with will be provided to the auditor for resolution.

The auditor or lead auditor for a team assignment will document actions taken for each deficiency on the Independent Reference Review List of Deficiencies ([Appendix 2](#)) and sign the Independent Reference Review Certification Statement ([Appendix 4](#)) acknowledging that the auditor or lead auditor for an audit team assignment has addressed the cited deficiencies. They will then return the Independent Reference Review Checklists and Certification to the cognizant supervisory auditor.

The cognizant supervisory auditor will review the Independent Reference Review List of Deficiencies ([Appendix 2](#)) and the actions taken. Once satisfied that the issues identified have been resolved and the results of audit are supported by the working papers, the cognizant supervisory auditor should then submit the package to the IRR. The IRR auditor will verify the resolution and disposition of cited deficiencies. The IRR auditor will document concurrence or non-concurrence with the action(s) taken by the audit team on the Independent Reference Review List of Deficiencies ([Appendix 2](#)). The IRR auditor will document on the Independent Reference Review Unresolved Deficiencies List ([Appendix 3](#)) any deficiencies the audit team did not address appropriately, or any action taken by the audit team with which the IRR auditor disagrees. The IRR auditor will complete the Independent Reference Review Certification ([Appendix 4](#)) and forward the workpapers, audit report, and the Independent Reference Review Checklist and Certification to the cognizant supervisory auditor. The cognizant supervisory auditor should attempt to resolve any issues identified on the Independent Reference Review Unresolved Deficiency List ([Appendix 3](#)). If resolution is reached, the documentation of such resolution should be included on the Independent Reference Review Unresolved Deficiency List ([Appendix 3](#)), and the cognizant supervisory auditor should sign the Independent Reference Review Certification ([Appendix 4](#)). If the issues identified cannot be resolved at the supervisory auditor level, the Independent Reference Review Certification ([Appendix 4](#)) should not be signed. The cognizant supervisory auditor will forward the workpapers, audit report, and the Independent Reference Review Checklist and Certification to the FAO manager for resolution.

The FAO manager should resolve any deficiencies cited by the IRR auditor that could not be resolved at the supervisory auditor level. The FAO manager will sign the Independent Reference Review Certification ([Appendix 4](#)) once satisfied that the deficiencies identified have been resolved and the results of audit are supported by the working papers. If the issues cannot be resolved at the FAO manager level then the FAO manager will forward the workpapers, audit report, and the Independent Reference Review Checklist and Certification to the Regional or Detachment Audit Manager (RAM/DAM) for resolution. Discussions of issues should include all parties. If the issues cannot be resolved at the RAM/DAM level, then the Regional or Detachment Audit Manager (RAM/DAM) will forward the workpapers, audit report, and the Independent Reference Review Checklist and Certification to the Deputy Regional Director for resolution. The resolution should be clearly documented on the Independent Reference Review Unresolved Deficiency List ([Appendix 3](#)).

The FAO manager and cognizant supervisory auditor should ensure that the IRR auditor reviews any significant changes to the draft report or working papers occurring after the initial independent reference review and prior to report issuance. The IRR auditor will document their review of any significant changes by signing the Independent Reference Review Certification ([Appendix 4](#)) prior to signature and issuance of the final audit report.

The Independent Reference Review Certification ([Appendix 4](#)) must be completed prior to the signature and issuance of the final report.

All documentation related to the IRR will be maintained in the audit working paper package as an administrative working paper.

Appendices:

- 1) DCAA's Independent Reference Review Checklist
- 2) Independent Reference Review List of Deficiencies
- 3) Independent Reference Review Unresolved Deficiencies List
- 4) Independent Reference Review Certification

APPENDIX 1 TO ENCLOSURE 3DCAA's INDEPENDENT REFERENCE REVIEW CHECKLIST

	<u>Yes</u>		<u>No</u>
1. Was each planned and approved audit program step correctly referenced? Does each audit step not performed include an explanation of why it was not accomplished?			
2. Does each lead working paper contain the results of audit to include structured notes and/or a lead schedule/summary of the area being evaluated, as applicable (CAM 4-403)?			
3. Do the detailed working papers document the specific purpose of the working papers; the source of the information shown on the working papers; the scope – a detailed description of the audit work performed, including the audit criteria (i.e., FAR, CAS, DoD and non-DoD FAR Supplement, etc.); and the conclusions and recommendations?			
4. Are the conclusions in the draft report, workpaper A, lead, and detailed working papers consistent?			
5. Do the working papers adequately document the sampling plan for any statistical sampling used? If statistical sampling is not used, is other selection criteria adequately documented?			
6. Is all factual data contained in the draft audit report referenced to the appropriate lead working papers and supporting documentation? Independently verify all factual information in the report to the working papers and, where appropriate, source documents.			
7. Does the planned scope of audit/risk assessment match the transaction testing performed?			
8. Does the reviewer understand the report results and recommendations (i.e., free of jargon)?			
9. Is the audit opinion consistent with testing performed and the results of audit?			
10. Does the "Results of Audit" section address the audit objectives (Subject) and provide an explanation for the results and recommendation(s)?			
11. Is the report free of mathematical errors?			

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APPENDIX 3 TO ENCLOSURE 3

INDEPENDENT REFERENCE REVIEW UNRESOLVED DEFICIENCIES LIST

			Page of	
Reviewer			Review Date	
Assignment Number				
W/P Ref. No.	Auditor's Unresolved Deficiency	Reason for Not Taking Action	Auditor Initials	IRR Initials (Indicates agreement. If no agreement, provide comments.)
Documentation of Resolution of Deficiencies				

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APPENDIX 4 TO ENCLOSURE 3

INDEPENDENT REFERENCE REVIEW CERTIFICATION

Report Title:	
Assignment No: _____ [ <input type="checkbox"/> ] Draft [ <input type="checkbox"/> ] Final	
<p>I have read and understand Government Auditing Standard 3.07, "Personal Impairments" and I have no personal impairments to my independence on this project as defined in Government Auditing Standard 3.07. I have not been directly associated with the work on which the report is based and I am not under the direct supervision of the cognizant supervisory auditor involved in preparing the report.</p> <p>I have completed the Independent Reference Review Checklist and provided a List of Deficiencies to the cognizant supervisory auditor. This included verifying the accuracy of all mathematical computations in the report.</p> <p>[ <input type="checkbox"/> ] I have performed my independent reference review and have not identified any deficiencies requiring follow-up action.</p> <p>[ <input type="checkbox"/> ] I have reviewed actions taken in response to the cited deficiencies and am satisfied that all deficiencies identified on the List of Deficiencies have been adequately resolved.</p> <p>[ <input type="checkbox"/> ] I have reviewed actions taken in response to deficiencies and am satisfied that deficiencies have been adequately resolved with the exception of those identified on the Unresolved Deficiencies List.</p>	
_____ Independent Reference Reviewer Signature	_____ Date
<p>I have reviewed the List of Deficiencies provided by the independent reference reviewer and have taken appropriate follow-up action. The List of Deficiencies provided and actions taken is attached.</p>	
_____ Auditor/Lead Auditor Signature	_____ Date

<p>I have reviewed the List of Deficiencies, if applicable, provided by the independent reference reviewer and the actions taken by the lead auditor, if any, and am satisfied that the results of audit are supported by the working papers and that all deficiencies identified, if any, have been satisfactorily resolved.</p>			
<p>_____ Supervisory Auditor Signature</p>		<p>_____ Date</p>	
<p><input type="checkbox"/> I have reviewed the List of Deficiencies provided, if applicable, and actions taken, if any, and am satisfied that the results of audit are supported by the working papers, and that all deficiencies identified by the independent reference reviewer, if any, have been satisfactorily resolved.</p>			
<p>_____ FAO Manager/RAM/DAM/DRD Signature</p>		<p>_____ Date</p>	
<p>Complete this section only if significant changes were made after the independent referencing review was completed.</p>			
<p>I have reviewed significant statements of fact added to or changed in the report for support and accuracy after completion of the initial independent reference review. All significant additions or changes to statements of fact made after the completion of the independent reference review(s) were provided to the IRR for verification.</p>			
<p><input type="checkbox"/> No additional deficiencies found.</p>			
<p><input type="checkbox"/> Additional deficiencies found were identified, and I am satisfied with the actions taken to resolve the deficiencies. The deficiency list is attached.</p>			
<p>_____ Independent Reference Reviewer Signature</p>	<p>_____ Date</p>	<p>_____</p>	<p>_____</p>
<p>_____</p>			
<p>_____</p>			

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