



**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.3

December 18, 2012
12-PAS-032(R)

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

SUBJECT: Audit Guidance on the 2011 Revision to the Generally Accepted Government Auditing Standards (GAGAS)

Summary

The purpose of this memorandum is to advise auditors of the impact on DCAA policy related to the 2011 Revision of the Generally Accepted Government Auditing Standards (2011 GAGAS Revision). This memorandum summarizes the significant changes to GAGAS because of the 2011 revisions and provides guidance on implementing those changes. In summary:

- Chapter 3, General Standards –
 - Removed the rules based approach replacing it with the conceptual framework approach to independence and added additional documentation requirements.
 - Revised the provisions related to nonaudit services for audited entities and the need to assess whether providing the nonaudit service would create independence impairment prior to performing the service.
- Significantly restructured the Yellow Book –
 - Chapter 1 now includes the Foundations and Ethical Principles of Government Auditing.
 - Chapter 2 is now the Standards for Use and Application of GAGAS.
 - Chapter 4 is now a combination of the financial auditing standards from 2007 GAGAS Chapters 4 and 5.
 - Chapter 5 Standards for Attestation Engagements now separately discusses Examinations, Reviews, and Agreed-Upon Procedures.
- Removed the discussion of the Statement of Auditing Standards (SAS) and Statement on Standards for Attestation Engagements (SSAE) requirements and simply incorporates the SAS and SSAEs by reference.
- In addition, other minor wording changes throughout the standards that did not have a material effect on DCAA guidance.

SUBJECT: Audit Guidance on the 2011 Revision to the Generally Accepted Government Auditing Standards (GAGAS)

Background

On December 21, 2011 (with a correction issued January 20, 2012, to correct an error in paragraph 7.19), the Comptroller General of the United States issued the 2011 Revision of Government Auditing Standards (2011 GAGAS), which supersedes the 2007 Revision. The revision is effective for financial audits and attestation engagements for periods ending on or after December 15, 2012, and for performance audits beginning on or after December 15, 2011. The 2011 GAGAS Revision does not permit early implementation. As stated in MRD 12-PAS-026(R), Audit Guidance on the Timing of DCAA's Implementation of the 2011 Revision of Government Auditing Standards, DCAA will implement the 2011 GAGAS Revision as follows:

- Price proposals and other forward pricing audits that begin on or after December 15, 2012;
- All other attestation engagements for periods ending on or after December 15, 2012; and
- For prior period incurred costs the 2007 GAGAS will continue to apply. However, DCAA's implementation of the 2011 GAGAS Revision should allow auditors to apply the same procedures regardless of the period of the incurred cost.

Guidance

The following provides a summary of the impact of the significant changes to the 2011 GAGAS Revision and the implementing guidance.

Revisions to Independence Standards

- We issued MRD 12-PAS-030, FY 2013 Annual Training on the Generally Accepted Government Auditing Standards (GAGAS) Independence Standards and the 2013 CMTL Independence training, to implement:
 - use of the conceptual framework when assessing independence and
 - the requirement for auditors to assess the independence of internal specialists (e.g., industrial engineers, operation research specialists, attorney-advisors) when they provide assistance on an audit.
- We issued MRD 12-PAS-029, Audit Guidance on Revisions to Statements of Independence, to implement:
 - the requirement to document significant threats to independence and the safeguards applied to reduce threats to an acceptable level (2011 GAGAS 3.24) and
 - the requirement to consider independence at the individual assignment level.

SUBJECT: Audit Guidance on the 2011 Revision to the Generally Accepted Government Auditing Standards (GAGAS)

Nonaudit Services

- We issued MRD 12-PAS-027, Audit Guidance on the Use of Activity Codes and Documentation for Nonaudit Services, to provide guidance on assessing independence when performing nonaudit services using activity code 49800. Policy will document all other activity codes designated as a nonaudit service at the organizational level.

Other Revisions

- Restructuring of chapters – The structural changes noted in the summary above did not affect DCAA's current policy. However, the 2011 GAGAS revisions did change the GAGAS references, so auditors will need to be familiar with the new references. For example, CAM 2-202, Competence, references 2007 GAGAS sections 3.40-3.49 but the competence sections are 3.69-3.81 in 2011 GAGAS. We are updating CAM.
- Removed the discussion of the SAS and SSAE requirements and simply incorporates the SAS and SSAEs by reference. The 2011 GAGAS 5.01 provides that auditors performing and reporting on audits in accordance with GAGAS must first comply with the SSAE and then apply the additional requirements in GAGAS. For example:
 - The 2011 GAGAS removed the 2007 GAGAS 6.10-6.11 requirement related to understanding internal controls when planning examination level attestation engagements since AT 601.45 already includes a requirement to understand contractor internal controls during the planning phase.
 - The 2011 GAGAS removed the 2007 GAGAS 6.22(d) requirement to document planned procedures designed to support reliance on computerized data. The Attestation standards require the auditor to obtain sufficient appropriate audit evidence to provide a reasonable basis for their conclusions and simply relying on computer reports is neither sufficient nor appropriate without a documented basis.
- In addition, the 2011 GAGAS made other minor wording changes throughout the standards that do not have a material effect on DCAA guidance. For example, there were minor changes related to communicating noncompliance's with provisions of laws, regulations, contracts, grant agreements under Agreed Upon Procedures; however those changes do not impact the requirement to report material noncompliance's to those charged with governance. We are updating the CAM where necessary.

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

PAS 730.3.B.3

December 18, 2012
12-PAS-032(R)

SUBJECT: Audit Guidance on the 2011 Revision to the Generally Accepted Government Auditing Standards (GAGAS)

/s/

Donald J. McKenzie
Assistant Director
Policy and Plans

DISTRIBUTION: E