DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PAS 730.3.B.2.4

August 22, 2013
13-PAS-018(R)

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

SUBJECT: Audit Guidance on Disclaiming an Opinion

When should the audit team disclaim an opinion?

The audit team should disclaim an opinion when the team has not performed an audit adequate in scope to obtain sufficient appropriate evidence (i.e., reservation about the engagement) to form even a qualified opinion and the auditor concludes that the possible effects of the noncompliances that could have been identified are both **material** and **pervasive** on the subject matter under audit.

When there are multiple teams performing the audit (e.g., One Audit Approach, Subcontract Assist Audits, etc.), the lead audit team should consider the potential effects of reservations about the engagement from a single risk assessment perspective. For example, when the audit team considers disclaiming an opinion because of the lack of a significant assist audit, they must consider the specific risk of noncompliances associated with that portion of the audit and its potential effects on the overall subject matter, not just rely on the fact that the assist audit is significant as the basis for disclaiming an opinion.

Other considerations when disclaiming an opinion

Before making the determination to disclaim an opinion, the audit team should make every effort to complete all planned procedures. If the audit team is unable to perform the planned procedures, they should attempt to perform alternate procedures (i.e., obtain sufficient appropriate audit evidence through other audit procedures). The audit team should use judgment in applying resources and determining whether performing alternate procedures would serve a useful purpose.

The audit team should not disclaim an opinion if they have sufficient evidential matter of the contractor's material noncompliance that warrants expressing an adverse opinion. For additional details on selecting the appropriate audit report opinion, refer to MRD 13-PAS-017(R), dated August 22, 2013.

What is included in a disclaimer report?

The audit team should:

- Modify the Subject paragraph to state that the auditor was engaged to examine the subject matter under audit (e.g., we were engaged to examine XYZ Company FY 2012 Incurred Cost Submission).
- Remove the description of the auditor's responsibility (i.e., our responsibility is to express an opinion based on our examination), since we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
- Omit the Scope of Audit section and replace it with Basis for Disclaimer of Opinion describing the substantive reasons for the disclaimer. Place this section immediately before the opinion paragraph.
- Replace the Results of Audit heading with Disclaimer of Opinion.

Are noncompliances reported in a disclaimer report?

When issuing a disclaimer of opinion, the audit team must report any material noncompliances found (e.g., noncompliances with CAS, FAR, DFARS, contract terms, etc.). The audit team must support the noncompliances with sufficient appropriate audit evidence. The team should present noncompliances in an appendix to the report labeled Other Matters to be Reported (CAM 10-213) and the Disclaimer of Opinion report section should refer to the appendix. The team should describe the nature of the noncompliance and its actual or potential effect on the subject matter of the audit. Summary exhibits showing a difference column and the term "questioned" costs should not be included in the appendix.

Are there other reporting requirements related to a disclaimer report?

The auditing standards remove the scope section from the body of a disclaimer report to prevent auditors from including audit procedures or other information that may overshadow the disclaimer and confuse the report reader that the scope of the audit was sufficient. However, there may be cases where the audit team believes identifying audit procedures will assist the contracting officer (e.g., assist in negotiations). In these cases, the audit team should communicate that additional information in a separate section in the Other Matters to be Reported appendix. This additional information generally should not include a list of audit procedures that were performed since audit procedures in and of themselves would not provide the type of information necessary for contracting officers to make a determination (e.g., assist in the negotiation of rates). When deciding to include additional information, the audit team should coordinate first with the contracting officer and use judgment in determining what information will benefit the contracting officers in their decision-making process.

Other considerations when reporting noncompliances

- Reporting noncompliances do not represent an overall opinion on the subject matter of the audit and are simply the substantiated results of the limited procedures applied during the performance of the audit.
- The audit team should communicate the noncompliances to the contractor and provide the contractor's reaction and auditor's response in the appendix.
- The audit team should issue separate noncompliance reports for CAS noncompliances and business systems deficiencies, when appropriate.

Further Assistance

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 at DCAA-PAS@dcaa.mil.

/Signed/
Donald J. McKenzie
Assistant Director
Policy and Plans

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