

Master Document – Audit Program

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| Activity Code 19100 | Compliance of Revised Disclosure Statement |
| Version 4.5, dated November 2015 | |
| B-1 | Planning Considerations |
| Audit Specific Independence Determination | |
| <p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (w/p 34) prior to starting any work on this assignment.</p> <p><i>(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this work paper. For example, an FAO may add additional auditors (e.g., FAO technical specialist) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)</i></p> | |
| Purpose and Scope | |
| <p>This standard audit program assists the auditor in planning and performing the audit of cost accounting practices submitted in a Disclosure Statement amendment in order to support the cognizant Federal agency official's (CFAO) determination of revised cost accounting practices (including corrections of noncompliances) for compliance with applicable CAS and FAR Part 31, as required by FAR 30.604(b) or FAR 30.605(c)(2). The audit program does not include testing actual practices for compliance with CAS and FAR Part 31, because we perform those tests in conjunction with routine audits (i.e., forward pricing, incurred costs, CAS compliance audits, etc.).</p> <p>NOTE: This program does not replace individual auditor judgment and therefore, must be tailored to reflect a mutual understanding between the audit team as to the scope required to meet auditing standards and objectives for this specific assignment.</p> | |
| Other Planning Considerations | |
| <p>Prior to commencing the audit, review guidance that may impact the audit and adjust the scope and procedures appropriately. Guidance to review includes CAM, open MRDs, FAQ training material, guidebooks, etc. available on the DCAA Intranet.</p> | |
| References | |
| <ol style="list-style-type: none"> 1. CAM Chapter 8, Cost Accounting Standards 2. CAS Board Rules, Regulations, and Standards | |

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| 3. DoD CAS Working Group Guidance Papers 76-6, and 77-20 |
| 4. 48 CFR 9903.202 |

| B-1 | Preliminary Steps | WP Reference |
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| Version 4.5, dated November 2015 | | |
| 1. | Document that the contractor is still performing CAS-covered contracts that requires maintenance of a Disclosure Statement. | |
| 2. | <p>Review the part(s) of the statement requested for audit for adequacy.</p> <ul style="list-style-type: none"> • Determine if the contractor followed the General Instructions in completing the form. Auditors may use w/p B-04, containing the “Conformity of Disclosure Statement with General Instructions” tool, to assist in making this determination. • Determine if the contractor was consistent in completing the items of the Disclosure Statement. Auditors may use w/p B-05, containing the “Internal Consistency of Disclosed Practices in a Disclosure Statement” tool, to assist in making this determination. • Coordinate with the contractor to provide a walk-through of the Disclosure Statement to gain an understanding of the basis of the described practices in the Disclosure Statement and obtain other information needed to complete the risk assessment. <p>Document the audit team’s conclusion about the adequacy of the part(s) of the statement requested for audit.</p> | |
| 3. | Review the audit request to determine the nature and objective of the audit. Note any specific information requested and special requirements. If necessary, contact the requestor to obtain clarification of the request and discuss any specific concerns or special requirements they may have and adjust the audit scope and procedures accordingly. | |
| 4. | Electronically transmit an acknowledgement/notification to the CFAO notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement/notification once the risk assessment is complete. (CAM 2-303). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104. | |
| 5. | Analyze and classify the revised practices subject to audit | |
| a. | If applicable, document the contractor’s notification of cost accounting practice changes, or corrections of noncompliant practices, submitted with the Disclosure Statement revisions | |

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| <p>(required by FAR 52.230-6(b)).</p> | |
| <p>b. Determine and document the reason for the revised item(s) of the submission:</p> <ul style="list-style-type: none"> • correction of noncompliance, • implementation of a particular cost accounting practice change (unilateral, desirable, or required), • initial adoption of cost accounting practice for a new cost or function • partial or total elimination of a cost accounting practice because the cost or function is eliminated, and/or • administrative revision that only alters the description of, but does not reflect any alteration to, the contractor’s cost accounting practice. <i>(Note – As part of the coordination with the CFAO no administrative change should be sent for audit.)</i> <p>Note: Organizational changes by themselves are not changes in cost accounting practices. However carefully evaluate organizational changes which result in a change in the method or technique the contractor uses to measure costs, assign costs to cost accounting periods, or allocate costs to cost objectives to determine if changes in cost accounting practices occurred. (CAM 8-303.3.d).</p> | |
| <p>6. Review perm file, and prior/in-process audits, for significant and relevant risk factors such as, but not limited to:</p> <ul style="list-style-type: none"> • Prior CFAO determinations of compliance • Audit leads • Prior audit tests of compliance and audit findings • Outstanding CAS and FAR noncompliance(s). <p>Evaluate the impact on the scope of this audit.</p> | |
| <p>7. Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit (GAGAS 5.06). If there were findings, auditors should document this information in the risk assessment and perform the following procedures:</p> <p>a. During the entrance conference, ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are relevant to the subject matter of audit. If yes, have contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions.</p> <p>b. Document the results of the inquiry and the impact of the</p> | |

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| <p>corrective actions to the subject matter under audit. (Note: The purpose of this question is to follow up with contractor on relevant prior DCAA audit findings that could have a material effect on the subject matter of audit.)</p> | |
| <p>8. Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter under audit (GAGAS 5.06). If there are no other studies or audits, document that information in the work papers and perform the procedures below. (If you do not perform the following procedures, you must document your justification for the departure.)</p> <p>a. During the entrance conference:</p> <ul style="list-style-type: none"> • Ask contractor management if internal audits were performed. If yes, request contractor provide a summary listing of the internal audits that would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit. • Ask contractor management if other types of audits or studies were performed by other than DCAA (e.g., other Government audit agencies, consultants, Independent Public Accountants, etc.) that would impact the subject matter under audit. If yes, have contractor explain what type of audits or studies were performed, if there were any related findings or recommendations, and any contractor corrective actions taken as a result. <p>b. If the review of the perm file or the contractor identifies relevant internal audits:</p> <ul style="list-style-type: none"> • Determine if access to these reports is necessary to complete the evaluation of the relevant internal controls to support the risk assessment or audit procedures related to the subject matter of the audit. There must be a nexus between the internal audit reports and the scope of this specific assignment. • Document the results of the determination in writing. • If assignment is at a major contractor location, coordinate with the CAC or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports. • If assignment is at a non-major contractor and the FAO does not have a designated POC, the auditor should request the contractor provide access to the internal audit reports. • The request, issued by the CAC, FAO POC or auditor, should include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative work papers. <p>c. If the review of the perm file or the contractor identifies relevant other audits or studies:</p> | |

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| <ul style="list-style-type: none"> • Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.). • Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings. <p>d. Document the results of the inquiries including the response received from contractor’s for any request for access to internal audit reports. (If access was not granted this should include the contractor’s rationale or justification for not granting access).</p> <p>e. Determine if additional audit procedures are needed to address any identified risk. (Note: The purpose of this question is to discover any new audit leads that could affect the scope of current audit.)</p> | |
| <p>9. Ascertain whether the revision(s) will affect any outstanding noncompliance issues or any other current audit assignments, such as a price proposal. If so, notify other teams with ongoing audits at this contractor of the cost accounting practice change and inform them that they should consider its impact on their audit(s).</p> | |
| <p>10. Assess materiality of the practice(s) subject to audit.</p> | |
| <p>11. During the entrance conference, or other appropriate meeting, make inquiries of contractor management regarding knowledge of any fraud or suspected fraud affecting the subject of this audit, managements awareness of allegations of fraud or suspected fraud affecting this audit, and management’s understanding about the risks of fraud relevant to this audit. Note: This discussion and any data submitted should be documented in the working papers.</p> | |
| <p>12. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential noncompliances, due to error or fraud, that could materially affect the subject matter.</p> <p>The discussion should include:</p> <ul style="list-style-type: none"> • relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies) • relevant aspects of the contractor and its environment, • risk of material noncompliance due to fraud (e.g., the • extent of incentives, pressures and opportunities to commit and conceal fraud, and the propensity to rationalize misstatements), • other known risk factors, • the audit team’s understanding of relevant internal | |

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| <p>controls,</p> <ul style="list-style-type: none"> • inquiries to the contractor regarding its fraud management plans and controls. <p>Document fraud risk factors/indicators (see - Sources of Fraud Risk Factors below) that are present and could materially affect the subject matter. If fraud risk factors are present, document specific audit procedures designed to address the increased risk of material noncompliance due to fraud.</p> <p>Communication among audit team members about the risk of material misstatement due to error or fraud should continue as needed throughout the audit.</p> <p>Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> • GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk (http://gao.gov/products/GAO-12-331G) • AU-C 240.A75 (Appendix A)- Consideration of Fraud in a Financial Statement Audit, Examples of Fraud Risk Factors (http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00240.pdf) • DoDIG’s Contract Audit Fraud Scenarios and Resources website (http://www.dodig.mil/resources/fraud/resources.html) <p>(To access the Source of Fraud Indicators, copy and paste the web address shown above into the address block in Internet Explorer.)</p> | |
| <p>13. Using the framework and the guidelines in WP B-2, obtain and document an understanding of the contractor's internal controls that are relevant to compiling and maintaining that the Disclosure Statement amendment is compliant with CAS and FAR Part 31. With the proper planning auditors should be able to obtain and document a major portion of this understanding during a walk-through of the contractor's assertion.</p> | |
| <p>14. Review and discuss with your supervisor (or if appropriate, the audit team) the overall results of the risk assessment and reach an agreement on the (i) planned audit scope, including the detailed audit steps (-01 working papers) to be performed, (ii) timeframe for completing the audit including the proposed delivery date, which will be discussed with the requester and mutually agreed-to, and (iii) zero-</p> | |

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| <p>based budget. Make any further adjustment to the audit program steps necessary to obtain sufficient evidence to provide a reasonable basis for the conclusion that will be expressed in the audit report.</p> <p>Obtain and document supervisory approval of the risk assessment and the planned scope of examination in working paper B and -1 working papers.</p> | |
| <p>15. Conduct an entrance conference. Confirm the team’s understanding of the cost accounting practices being audited and supporting data. Discuss the availability of required data and personnel necessary to timely support the audit. If applicable, include a follow up with contractor management on: a. corrective actions that address previous DCAA audit findings and recommendations (step 8), b. other studies or audits that impact the subject matter under audit (step 9).</p> | |
| <p>16. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p> | |
| <p>17. Issue a final acknowledgment/notification memorandum to the CFAO to communicate our audit scope and the agreed-to due date.</p> | |

| C-1 | Evaluation of Compliance | WP Reference |
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| Version 4.5, dated November 2015 | | |
| 1. | <p>Prepare a list detailing CAS applicability dates for each standard used to evaluate compliance of the contractor’s disclosed cost accounting practices (CAM 8-301.c.).</p> <p>Note: Use the list to determine if the Cost Accounting Standard is applicable, based on the date of applicability, before citing a CAS noncompliance.</p> | |
| 2. | <p>Determine the applicable cost accounting standards included in the scope of audit established in the risk assessment. Compare the disclosed practice to the requirements of the relevant standards and document whether the practice complies with the standard. Limit the scope for the audit to compliance of disclosed practices with the standard and applicable FAR Part 31 cost principle. Compliance of actual practices is tested in other routine audits (i.e., forward pricing, incurred costs, CAS compliance audits, etc.). Document findings and conclusions in sufficient detail to enable an experienced auditor to understand the extent and results of the procedures performed to determine if the disclosed practice is compliant with CAS and FAR</p> | |

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| Part 31 (CAM 2-507). | |
| <i>a. Add Tailored Steps from Planning and Risk Assessment (B) here</i> | |
| <i>b.</i> | |
| <i>c.</i> | |
| 3. Obtain and incorporate results of assist audit(s), if requested. | |
| 4. Coordinate significant or unusual issues with the supervisor and, if applicable, the technical specialist. | |
| 5. If part of a CAC/CHOA network, inform the CAC/CHOA of exceptions and obtain feedback on similar audit issues within the network. In addition, if not already provided, furnish a copy of the Disclosure Statement to the CAC/CHOA. | |

| A-1 | Concluding Steps | WP Reference |
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| Version 4.5, dated November 2015 | | |
| | 1. Summarize and document the results of audit. | |
| | 2. Discuss results with the supervisor and, if applicable, the technical specialist. | |
| | 3. Prepare draft audit report. | |
| | 4. Hold an exit conference with the contractor and provide a draft report to the contractor for comments in accordance with CAM 4-304. Obtain supervisory review, and management review if required, of the working papers and draft audit results section of the audit report before discussion with the contractor. | |
| | 5. Brief the CFAO on significant and/or complex findings/issues. | |
| | 6. Finalize audit report incorporating the contractor’s reaction and auditor’s response, if applicable. | |
| | 7. Complete the administrative working papers. | |
| | 8. Update the permanent files. | |
| | 9. Submit the working paper package and draft report to the supervisor/manager for final review and processing. | |