

## Master Document – Audit Program

<b>Activity Code 10501</b>	<b>Operations Audit – Management Systems</b>
<b>B-1 Planning Considerations</b>	<b>Version No. 3.12, dated April 2019</b>

<b>Type of Service - Performance Audit</b>
<b>Audit Specific Independence Determination</b>
Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (WP 34) prior to starting any work on this assignment.  <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>
Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.

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<b>B-1 Preliminary Steps</b>	<b>WP Reference</b>
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<i>Auditor will develop steps, however, as a minimum, the following step must be performed.</i>	
<p>1. Contact the contracting officer to ascertain any known concerns (including risk related to the contractor’s financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor’s financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-502.10. If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit.</p>	
<p>2. Electronically transmit an acknowledgement/notification to the ACO/Buying Command 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 2-502.10). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104.</p>	
<p>3. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	
<p>4. 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 the audit. 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>5. 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>	

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B-1 Preliminary Steps	WP Reference
<p>6. 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"> <li>• relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies),</li> <li>• relevant aspects of the contractor and its environment</li> <li>• 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),</li> <li>• other known risk factors,</li> <li>• the audit team’s understanding of relevant internal controls,</li> <li>• inquiries to the contractor regarding its fraud management plans and controls</li> </ul> <p>Document fraud risk factor/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"> <li>• Fraud Detection Resources for Auditors (<a href="#">Fraud Detection Resources</a>)</li> <li>• GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk (<a href="http://gao.gov/products/GAO-12-331G">http://gao.gov/products/GAO-12-331G</a>)</li> </ul> <p>Fraud Detection Resources for Auditors (<a href="#">Fraud Detection Resources</a>) (To access the Sources of Fraud Indicators, copy and paste the web address shown above into the address block in a web browser (Firefox, Edge, etc.)).</p>	

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<b>B-1 Preliminary Steps</b>	<b>WP Reference</b>
<p>7. Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit (GAGAS 6.36). If there were findings, auditors should document this information in the risk assessment and perform the following procedures:</p> <ol style="list-style-type: none"> <li>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.</li> <li>b. Document the results of the inquiry and the impact of the 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.)</li> </ol>	
<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 6.36). 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> <ol style="list-style-type: none"> <li>a. During the entrance conference: <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul> </li> </ol>	

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B-1 Preliminary Steps	WP Reference
<p>b. If the review of the perm file or the contractor identifies relevant internal audits:</p> <ul style="list-style-type: none"><li>• 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.</li><li>• Document the results of the determination in writing.</li><li>• 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.</li><li>• 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.</li><li>• 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.</li></ul> <p>c. If the review of the perm file or the contractor identifies relevant other audits or studies:</p> <ul style="list-style-type: none"><li>• Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.).</li><li>• Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings.</li></ul> <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>	

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<b>C-1 Go or No Go Decision</b>	<b>WP Reference</b>
<b>Version No. 3.12, dated April 2019</b>	
<i>Auditor will develop steps.</i>	

<b>A-1 Concluding Steps</b>	<b>WP Reference</b>
<b>Version No. 3.12, dated April 2019</b>	
<i>Auditor to develop steps</i>	
1. Summarize results	
2. Discuss the results with your supervisor.	
3. Draft report	