



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

IN REPLY REFER TO

PAS 730.3.B.2.3

June 19, 2020  
20-PAS-003(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA; CORPORATE AUDIT  
DIRECTORS, DCAA; ASSISTANT DIRECTORS, HQ, DCAA

SUBJECT: Audit Guidance on Implementing the Government Auditing Standards (GAGAS)  
2018 Revision

This memorandum provides guidance to assist auditors in implementing the 2018  
GAGAS Revision.

**When do I need to start applying 2018 GAGAS?**

See the table below to determine when to apply the 2018 GAGAS Revision:

<b>Assignment Subject Matter</b>	<b>Apply 2018 GAGAS Revision to the Following</b>	<b>See Note</b>
Incurring Cost	Assignments where the subject matter is based on costs incurred in <b>periods ending</b> on or after June 30, 2020.	1
Other than Incurring Cost	Assignments that are <b>started on</b> or after June 30, 2020.	2
Performance Audits	Already in effect for all performance audits.	NA

1. You should apply the 2018 GAGAS Revision to annual incurred cost assignments (i.e., 10100) when the contractor's fiscal year (FY) ends on or after June 30, 2020, and for other assignments where costs are incurred or billed in periods that end on or after June 30, 2020 (see Frequently Asked Questions).
2. For assignments where the subject matter is other than incurred cost, the start date is based on the date of the initial acknowledgement or notification letter.

**What are some of the major changes?**

You are encouraged to read the 2018 GAGAS Revision prior to July 1, 2020, to prepare for transitioning to the new standards. Here are some of the major changes:

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- Annual Affirmation of Compliance with Independence Policies and Procedures.  
2018 GAGAS 5.09 adds a requirement for the Agency to obtain written affirmation of compliance with Agency policies and procedures on independence from all personnel required to be independent. This affirmation process will be captured in the mandatory annual independence training.
- Making Inquiries to Contractor Management about Investigations and Legal Proceedings.  
2018 GAGAS 7.14 requires auditors to ask contractor management if any investigations or legal proceedings that are significant to the engagement objectives have been initiated or are in process. Additionally, 2018 GAGAS 7.14 requires auditors to consider the effect of any investigations or legal proceedings on the examination. The updated standard audit programs will include a step in WP B-01 to meet this requirement.
- Changes to Requirements to Design Procedures to Detect Instances of Fraud.  
The 2018 GAGAS Revision no longer contains a requirement to design specific procedures to detect instances of fraud. However, in accordance with AT-C 205.32-.33 and 2018 GAGAS 7.17, you must still assess the risk of material misstatement due to fraud and design audit procedures to respond to those areas of identified risk. The standard audit programs will be updated to address this change.
- Internal Control Deficiencies in Developing the Cause of Findings.  
2018 GAGAS 7.20 requires auditors to consider internal control deficiencies when determining the “cause” of a finding. Auditors should consider (and document the rationale and judgment in the working papers) whether underlying internal control deficiencies are the root cause of any findings.

### **Questions and Further Information**

FAO personnel with questions regarding this audit alert should contact their regional or CAD offices. Regional/CAD personnel with questions regarding this MRD should contact Policy Auditing Standards Division at (703) 767-3238 or via e-mail at DCAA-PAS@dcaa.mil.

/Signed/

Martha E. McKune

Assistant Director, Policy and Plans

Enclosure:

Frequently Asked Questions

DISTRIBUTION: E

## **FREQUENTLY ASKED QUESTIONS**

### **1. When will guidance be updated?**

**Answer:** Policy is revising guidance to incorporate the 2018 GAGAS requirements. The updated CAM, guidebooks, standard audit programs (except 10100), and other audit guidance will be available to the field on July 1, 2020. The standard audit programs for incurred costs audits (10100) will not be available until January 2021. Guidance related to performance audits has already been published in VIPER.

### **2. Can I get training on the 2018 GAGAS Revision?**

**Answer:** DCAI is currently developing an e-learning course, AUD 114E, for the 2018 GAGAS Revision. The course will be available through TRAINext on July 1, 2020. You may self-enroll in the course without supervisory approval. All personnel are encouraged to take the course prior to working on, providing advice or guidance, or reviewing any assignment subject to the 2018 GAGAS Revision.

### **3. Other than Annual Incurred Costs audits (10100), what types of assignments involve subject matter based on costs incurred?**

**Answer:** If the subject matter of an assignment is based on costs incurred, the 2018 GAGAS applies when the costs were incurred in periods ending on or after June 30, 2020. These assignments may include: termination proposals, equitable adjustment claims, and progress payments.

### **4. My Post Award Accounting System audit was opened and some preliminary steps were performed prior to June 30, 2020; however, the notification letter was not issued until after June 30, 2020. Which GAGAS version applies?**

**Answer:** When the subject matter of an audit is not based on costs incurred, you will use the date of the initial acknowledgement letter or notification letter as your “start” date. In this example, the 2018 GAGAS Revision applies to the assignment since the notification letter was issued after June 30, 2020.

### **5. Our FAO started a MAAR 6 and/or 13 assignment in January 2020. The contractor’s fiscal year is January 1st through December 31st. We used the standard audit program in effect when we opened the assignment, which reflects the 2011 GAGAS. What do we need to do?**

**Answer:** MAARs are a part of our comprehensive audit effort at a contractor and are incorporated into the annual incurred costs audits. Once the annual incurred costs assignment is opened, CaseWare will generate the current audit program, which will reflect the 2018 GAGAS Revision. Therefore, no action is necessary. However, if the MAAR 6 or 13 assignment is still open and fieldwork has not been completed, we recommend that the auditor ask the contractor if any investigations or legal proceedings significant to the engagement objectives have been initiated or if any are in process. If so, the auditor should update the risk assessment and adjust the scope of the MAAR 6 or 13, as appropriate.

## **FREQUENTLY ASKED QUESTIONS**

- 6. We received a request to audit a termination proposal. The date of the proposal is July 15, 2020. However, the ending date of the costs already incurred under the contract as stated in the proposal was May 31, 2020. Which GAGAS version applies to my audit?**

**Answer:** Since the subject matter of a termination audit is based largely on costs incurred, the 2018 GAGAS applies to terminations proposals where the ending date of the incurred costs specified in the proposal is on or after June 30, 2020. If costs were incurred through a date prior to June 30, 2020, the 2011 GAGAS applies as with this example. Since the assignment was generated after July 1, 2020, the updated standard audit program reflecting the 2018 GAGAS Revision would have been generated in CaseWare. The FAO should contact Policy Auditing Standards Division (PAS) if this situation is encountered.