# Chapter 2

## Auditing Standards

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**2-000 - Auditing Standards**

**2-001 Scope of Chapter**

This chapter discusses the auditing standards that apply to DCAA audits. Auditing standards differ from audit procedures in that procedures relate to acts to be performed, whereas standards deal with measures of the quality of the performance of those acts and the objectives to be attained by use of the procedures.

**2-100 Section 1 – Auditing Standards and DCAA Audits**

**2-101 – Generally Accepted Government Auditing Standards (GAGAS)**

a. By reference, DoD Instruction 7600.02, “Audit Policies,” incorporates Government Auditing Standards (commonly referred to as the “Yellow Book” and developed and published by the Comptroller General), and requires the Director of DCAA provide contract audit functions for all DoD Components, as prescribed in DoD Directive 5105.36 “Defense Contract Audit Agency”. DoDD 5105.36 requires DCAA perform audits of contractors’ and subcontractors’ accounts, records, documents, and other evidence; systems of internal control; and accounting, costing, and general business practices and procedures in accordance with GAGAS, the Federal Acquisition Regulation, the Defense Federal Acquisition Regulation Supplement, and other applicable laws and regulations to the extent and in whatever manner is considered necessary. These standards are applicable to DCAA.

b. The Yellow Book, alternately referred to as generally accepted government auditing standards (GAGAS), incorporates by reference certain standards of the American Institute of Certified Public Accountants (AICPA). When the Yellow Book incorporates standards of other authoritative bodies, such as the AICPA, those standards become GAGAS.

c. The current revision of GAGAS was issued in July 2018. A copy is included in each DCAA FAO library, and is available on the DCAA Intranet under Useful Audit Links or at the GAO web site. The 2018 revised standards are applicable for financial audits and attestation engagements for periods ending on or after June 30, 2020, and for Performance audits beginning on or after July 1, 2019.

- For attestation engagements, auditors must continue to apply the 2011 Yellow Book standards until the 2018 Revised Yellow Book goes into effect for attestation engagements.

- For performance audits beginning on or after July 1, 2019 auditors must apply the 2018 Yellow Book standards.

d. All audits begin with objectives, and those objectives determine the type of engagement to be performed and the type of engagement determines the auditing standards to be followed. The types of engagements that are covered by GAGAS are...
classified as financial audits, attestation engagements, or performance audits. The majority of the work performed by DCAA falls under the attestation engagement classification. The general, field work, and reporting standards for attestation engagements are in Chapter 7 of the Yellow Book (see 2-300 and 2-400 for a discussion of the field work and reporting standards, respectively). In addition, DCAA routinely performs economy and efficiency audits (operations audits) that fall under the performance audit classification. The field work and reporting standards for performance audits are in Chapters 8 and 9 of the Yellow Book (see 2-500 and 2-600). GAGAS Chapters 1 through 5 apply to all types of GAGAS engagements (see 2-200).

e. Fieldwork and reporting requirements for attestation engagements and performance audits are implemented through CAM guidance, supplemented by the standard audit programs and the audit report shells delivered by CaseWare.

2-102 AICPA Attestation Standards **

a. For attestation engagements, the Yellow Book incorporates the AICPA's Statements on Standards for Attestation Engagements No. 18 (SSAE 18) unless specifically excluded or modified by GAGAS. SSAE 18 is codified by the AICPA as AT-C 205. A copy of the codification of the SSAE 18 is in each DCAA field audit office library.

b. An attestation engagement is defined in the Yellow Book and the SSAE 18 as one in which an auditor is engaged to issue or does issue an examination, a review, or an agreed-upon procedures report on a subject matter, or an assertion about the subject matter, that is the responsibility of another party. In reporting on an attestation engagement, it is important to identify the assertion or subject matter being reported on. In some instances, the auditor will report on an assertion, which may be certified (e.g., incurred cost proposal), or explicit (e.g., price proposals, certified or not). In other instances, the auditor will report directly on a subject matter (e.g., an audit of a contractor's business system), where the assertion is obtained from other evidence such as by reference to a contract, legislation or regulation.

2-102.1 Types of Attestations **

The attestation standards define three types of attestation engagements providing different levels of assurance in relation to the auditor's opinion or conclusions, as reflected in the table below.

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a. An examination report provides a high level of assurance and the auditor's
conclusion is expressed in the form of an opinion (stated as positive assurance) on whether the subject matter or assertion is based on or in conformity with the criteria in all material respects. The auditor’s objective in performing the examination engagement is to obtain sufficient, appropriate evidence to restrict attestation risk to a level that is, in the auditor’s professional judgment, appropriately low for the high level of assurance that is imparted by the audit opinion. In the DCAA contract audit environment, evaluations of complete submissions (incurred cost and forward pricing proposals, claims, and overhead rate proposals), where the auditor establishes the scope, are performed as “examinations”. Additionally, the auditor may examine sufficient evidence to support an opinion for the audit of “parts of a proposal” while disclaiming an overall opinion on the proposal taken as a whole.

b. A "review" consists of sufficient testing to express a conclusion about whether any information came to the auditors’ attention based on the work performed that indicates that the subject matter or assertion is not based on or in conformity with the criteria in all material respects. The auditor accumulates sufficient evidence to restrict attestation risk to a moderate level and the work performed is generally limited to inquiries and analytical procedures and is thus, substantially less than the work required for an examination. The auditor would disclaim an opinion, and express the report conclusion in the form of negative assurance. Under GAGAS and the SSAEs, auditors cannot perform a review if the objective of the engagement is to express an opinion on internal controls or compliance with laws and regulations. DCAA does not perform “reviews” because DCAA performs attestation engagements to audit compliance with laws and regulations. “Reviews,” are not discussed further in this chapter.

c. In an agreed-upon procedure engagement, an auditor is asked by the requestor to report on findings based on specific procedures performed on a subject matter or an assertion. The requestor and auditor must agree on the procedures to be performed and the criteria to be used and the requestor must take responsibility for the procedures being sufficient for their needs. The procedures must be specific and include objective criteria. Auditors should not agree to perform procedures that are subjective and/or that would call for an opinion or opinion-like findings (see 14-1000). An agreed-upon procedures (AUP) report does not provide positive or negative assurance, and the report must disclaim an opinion. The AUP report should state the specific procedures performed and specific findings that should not be expressed in terms of questioned costs or recommendations. In addition, the standards require that all findings be reported unless materiality thresholds have been established by the requestor.

2-102.2 Types of Report Statements - Unqualified, Qualified, Adverse Opinion and Disclaimer of Opinion **

a. When an attestation examination engagement discloses that the assertion is both complete and accurate and the auditor followed all applicable GAGAS requirements, the report opinion will be unqualified and give positive assurance.

b. When an examination discloses that the assertion is not in conformity with the criteria (i.e., the auditor has reservations about the assertion (see 2-402.3), e.g., it is
incomplete or inaccurate), the auditor must issue either a qualified or adverse opinion, depending on the materiality of the departure from the criteria (e.g., considering the nature and significance of the audit exception(s)).

c. If the auditor did not comply with all applicable GAGAS requirements (i.e., the auditor has reservations about the engagement (see 2-402.3), e.g., the auditor was not able to perform all the procedures that he or she considers necessary in the circumstances), the auditor must issue either a qualified opinion or disclaim an opinion, depending on the significance of the potential effects of the departure from the requirements.

d. A qualified opinion indicates that, except for the effects of the matter to which the qualification relates, the subject matter or the assertion is in compliance with the established criteria (e.g., FAR/DFARS). A qualified opinion is expressed when:

   (1) the auditor has significant reservations about the engagement; i.e., there is a lack of sufficient evidence, restrictions on the scope of the examination, or other departure from GAGAS that have led the auditor to conclude he or she cannot express an unqualified opinion and the auditor has concluded, based on the nature and magnitude of the potential effects of the issues and their significance to the subject matter or assertion, not to disclaim an opinion, and/or

   (2) the auditor has significant reservations about the subject matter or assertion; i.e., the auditor believes, based on the audit, the subject matter under audit contains a departure from the established criteria, and based on the materiality of the departure, the auditor has concluded not to express an adverse opinion.

e. An adverse opinion states that the subject matter is not in conformity with the criteria, including the adequacy of the disclosure of material matters. In determining whether to express an adverse opinion rather than a qualified opinion, the auditor must consider the materiality and pervasiveness of the departures from the criteria, keeping in mind that lower materiality levels are generally appropriate for GAGAS audits because of Government accountability and the visibility and sensitivity of Government programs (GAGAS 5.46). An adverse opinion is still an opinion and, therefore, should be expressed only when the auditor has performed an audit of sufficient scope.

f. A disclaimer of opinion is issued when there are scope restrictions and the departures from GAGAS requirements are so significant that the examination has not been performed in sufficient scope to enable the auditor to form an opinion. A scope restriction may be imposed by the contractor, the requestor, or by other circumstances such as the timing of the work or the inability to obtain sufficient evidence (see 10-208.5).

g. When the auditor performs an application of agreed-upon procedures engagement (see 14-1000), the resulting report must disclaim an opinion because the scope is limited to the procedures agreed upon by the specified parties. This is true even when the auditor has recommended the procedures to be applied and the
requestor has merely agreed that the proposed procedures will provide enough information for the requestor's purpose.

2-102.3. Converting Another Form of Engagement to an Agreed Upon Procedures **

a. If, in the course of an attestation examination engagement, the auditor encounters a scope restriction, the engagement may not be converted to an application of agreed-upon procedures merely to avoid disclosing the scope restriction.

b. However, under certain circumstances, an examination may, before the completion of the engagement, be converted to an agreed-upon procedure engagement. A request to change to an agreed-upon procedure engagement may result from a change in circumstances affecting the requestor's requirements, or a misunderstanding about the nature of the original services or alternative services originally available.

c. Before an auditor agrees to change from another form of attestation engagement to an agreed-upon procedure engagement, the auditor should consider:

(1) The possibility that certain procedures performed as part of an examination are not appropriate for inclusion in an agreed-upon procedures engagement.

(2) The reason given for the request.

(3) The additional effort required to complete the original engagement.

(4) If applicable, the reasons for changing from a general-use report (unlimited users) to a restricted-use report (limited to specified users) which is required under an agreed-upon procedures engagement.

d. If the specified parties acknowledge agreement to the procedures performed or to be performed and assume responsibility the sufficiency of the procedures included in the agreed-upon procedures engagement, either of the following would be considered a reasonable basis for requesting a change in engagement.

(1) A change in circumstances that requires another form of engagement.

(2) A misunderstanding concerning the nature of the original engagement or the available alternatives.

e. In all circumstances, if the original engagement procedures are substantially complete or the effort to complete such procedures is relatively insignificant, the auditor should consider the propriety of accepting a change in engagement.

f. If the auditor concludes, based on his or her professional judgment, that there is a reasonable justification to change the engagement, and provided he or she complies with the standards applicable to an agreed-upon procedures engagement, the
auditor should issue an appropriate agreed-upon procedures report. The report should not include reference to either the original engagement or performance limitations that resulted in the changed engagement.

2-102.4. Terminology **

a. GAGAS describes the use of the word “audit” within GAGAS chapters 1 through 3 and corresponding sections of the Appendix as referring to financial audits, attestation engagements and performance audits conducted in accordance with GAGAS. DCAA will use "audit" to describe, in general terms, the work performed. DCAA will use specific terminology in the reporting language for audits requiring different levels of assurance (i.e., an examination or an application of agreed-upon procedures).

2-103 Other Auditing Standards **

a. AICPA. In addition to its attestation standards, the Auditing Standards Board of the AICPA also issues professional standards, referred to as generally accepted auditing standards (GAAS), which apply to audits of financial statements for nonissuers. A nonissuer is an entity that is not subject to the oversight authority of the Public Accounting Oversight Board (PCAOB) created by the Sarbanes-Oxley Act of 2002 or the rules of the U.S. Securities and Exchange Commission (SEC). The AICPA, through its Auditing Standards Board, has also issued an extensive series of interpretations of GAAS (referred to as Statements on Auditing Standards (SAS)) which independent public accountants (IPAs) are expected to follow when performing financial audits of non-public companies. The SAS do not apply to the attestation engagements DCAA performs unless the SSAE incorporated into GAGAS makes reference to the SAS. However, DCAA guidance occasionally incorporates the principles and concepts of certain SAS in interpreting the SSAE. A codification of the SAS is in each DCAA field audit office library.

b. Public Company Accounting Oversight Board (PCAOB). The Sarbanes-Oxley Act (Public Law 107-204) gives the PCAOB the authority to establish auditing standards that apply to financial audits and attestation engagements for issuers (generally publically traded companies with a reporting obligation under the Securities and Exchange Act of 1934). PCAOB auditing standards do not apply to DCAA audits.

c. The International Auditing and Assurance Standards Board (IAASB) has established professional standards that apply to financial audits and assurance engagements. IAASB standards and the related International Standards on Assurance Engagements (ISAE) do not apply to DCAA audits.

2-104 Performance Audits **

a. GAGAS define performance audits as engagements that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audit objectives vary widely and include objectives related to assessing
program effectiveness, economy and efficiency (operations audits); internal control; compliance; and prospective analyses.

b. The audit objectives of economy and efficiency audits address the cost and resources used to achieve program results. The term program as used in GAGAS to include processes, projects, studies, policies, operations, activities, entities, and functions. DCAA performance audits, sometimes referred to as operations audits, are economy and efficiency audits that seek to determine if the contractor is operating in an economical and efficient manner in relation to the performance of Government contracts. Examples of such audit objectives include:

(1) evaluating whether the entity is following sound procurement practices and obtaining resources at reasonable costs while meeting timeliness and quality considerations,

(2) determining whether and how costs can be decreased or productivity increased, and

(3) assessing whether the entity has complied with the laws and regulations concerning matters of economy and efficiency.

c. The other categories of performance audits are generally performed by oversight agencies such as the DoDIG and the GAO. For example, the objectives of an audit of program effectiveness and results address the value of a program and typically measure the extent to which a program is achieving its goals and objectives.

2-105 Stating Compliance with Generally Accepted Government Auditing Standards (GAGAS 2.23 – 2.25) **

a. When auditors perform an audit in accordance with GAGAS or are representing that they did so, they should cite compliance with GAGAS in the auditor’s report by including either an unmodified or modified GAGAS compliance statement.

b. If the auditor performed the audit in accordance with GAGAS, auditors should include an unmodified GAGAS compliance statement in the report. An unmodified statement is used when the auditor has:

(1) followed unconditional and applicable presumptively mandatory GAGAS requirements, or

(2) followed unconditional requirements and documented justification for any departures from applicable presumptively mandatory requirements and have achieved the objectives of those requirements through other means.

c. When auditors do not comply with applicable requirement(s), they should:

(1) assess the significance of the noncompliance to the audit objectives;
(2) document the assessment, along with their reasons for not following the requirement(s), and

(3) determine the type of GAGAS compliance statement.

The auditor’s determination is a matter of professional judgment, which is affected by the significance of the requirement(s) not followed on relation to the audit objectives.

d. If the auditor did not follow all the applicable standards during the audit, the GAGAS compliance statement should be modified as follows depending on the significance of the departure from GAGAS (see 2-402.3a):

   (1) To state that the auditor performed the engagement in accordance with GAGAS, except for specific applicable requirements that were not followed, or

   (2) To state that, because of the significance of the departure(s) from the requirements, the auditor was unable to and did not perform the engagement in accordance with GAGAS.

e. Situations when auditors use modified GAGAS compliance statements also include scope limitations, such as restrictions on access to records, officials or other individuals needed to conduct the audit.

f. When auditors use a modified GAGAS statement, they should disclose in the report the applicable requirement(s) not followed, the reason for not following it, and how not following the requirements affected, or could have affected the audit and the assurance provided. In DCAA audit reports, this information is generally included in the “Scope of Audit” section under the subheading “Qualifications” for cases covered in (1) above (see 10-208.4) or under the “Scope Restrictions” section for cases covered by (2) above (see 10-208.4).

2-106 Nonaudit Services **

  a. Professional services provided to the audited entity by auditors other than audits and attestation engagements, referred to as nonaudit services, are not performed in accordance with GAGAS and must not be reported as such.

  b. DCAA does not provide nonaudit services or audit services to the audited entity (i.e. the contractor subject to DCAA audit). To avoid impairing independence or even the appearance of impairment, auditors will not participate as team members of Integrated Product Teams (IPT), which typically involve teaming with the contractor to develop a proposal. Auditors will also not participate in similar teaming arrangements or provide input to contractors on such items as draft proposals, draft policies and procedures, draft CAS disclosure statements or other draft contractor assertions. Such activities could result in significant self-review or management participation threats.

2-107 Routine Activities Directly Related to an Audit **
a. Routine activities performed by auditors that relate directly to the performance of an audit such as providing advice and responding to questions as part of an audit are not considered a nonaudit service. Such routine activities generally involve providing advice or assistance to the audited entity on an informal basis as part of an audit. Routine activities typically are insignificant in terms of time incurred or resources expended and generally do not result in a specific project or engagement or in the auditors producing a formal report or other formal work product. (GAGAS 3.40)

b. Auditors may provide general advice to a contractor on what constitutes an adequate proposal (to include general discussion of the proposal adequacy checklist in DFARS 252.215-7009) and explain the FAR 15.408 (Table 15-2) requirements for adequate cost or pricing data. Auditor participation in meetings held for these purposes are routine activities directly related to performing the audit that do not impair independence.

c. Refer to CAM 4-100 and CAM 4-300 for additional guidance on communication during the audit process.

2-108 Advisory Services **

a. DCAA provides services other than audits or attestations to government agency officials with cognizance over the contractor. These officials and their agencies are not subject to DCAA audit. Therefore, the services DCAA performs other than audits and attestations do not meet the description of nonaudit services under GAGAS and are not subject to the GAGAS Provisions of Nonaudit Services to Audited Entities (GAGAS 3.33-3.58).

b. DCAA refers to the services it performs for government agency officials with cognizance over the contractor that are other than audits or attestation engagements as advisory services. An advisory service does not provide an opinion, or provide any level of assurance on a contractor assertion.

c. When performing advisory services, audit teams should ensure the requestor of the service is aware the service is not an audit or attestation engagement performed under GAGAS. Therefore, memorandums to the contracting officer on the results of advisory services performed by FAOs should include the following statement:

The scope of the work performed does not constitute an audit or attestation engagement under generally accepted government auditing standards.

Advisory services are discussed in more detail in 2-203.4.

2-200 Section 2 – General Standards **

2-201 Introduction **

This section explains the GAGAS general standards which apply to all types of
GAGAS engagements. General standards relate to the competence of the staff, the independence of the audit organization and the individual auditor, the exercise of professional judgment in performing the audit and in preparing related reports, and quality controls and external peer reviews.

2-202 Competence (GAGAS 3.69 – 3.81)**

a. The competence standard requires that those assigned to the audit collectively possess adequate professional competence to address the audit objectives and perform the work according to GAGAS.

b. Competence is derived from a blending of education and experience. Competencies are not necessarily measured in years of auditing experience because such a qualitative measurement may not accurately reflect the kinds of experiences gained by the auditor in any given time period. Competence enables an auditor to make sound professional judgments.

c. The audit organization should have a process for recruiting, hiring, continuous development, assignment and evaluation of staff to maintain a competent workforce. The nature, extent and formality of the process depend on various factors such as the size of the audit organization, its structure, and its work. DCAA policies and procedures for staff competence are an integral element of the DCAA quality control system set forth in the CAM 2-S103.2 Personnel Management.

2-202.1 Technical Knowledge**

a. The staff assigned to conduct an audit in accordance with GAGAS should collectively have the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that audit. The audit teams’ qualifications should collectively be commensurate with the scope and complexities of the assignments and should include:

- Knowledge of GAGAS applicable to the type of work they are assigned and the education, skills, and experience to apply this knowledge to the work being performed,
- General knowledge of the environment in which the audited entity operates and the subject matter under review,
- Skills to communicate clearly and effectively, both orally and in writing, and
- Skills appropriate for the work being performed. For example, staff or specialist skills in:
  (1) statistical or non-statistical sampling if the work involves use of statistical sampling,
  (2) information technology if the work involves review of information systems,
(3) engineering if the work involves review of complex engineering data,

(4) specialized audit methodologies or analytical techniques, such as the use of complex survey instruments, actuarial-based estimates, or statistical analysis tests, and

(5) Specialized knowledge in subject matters, such as scientific, medical, environmental, educational, or any other specialized subject matter, if the work calls for such expertise.

e. Auditors performing attestation engagements should be knowledgeable in the AICPA attestation standard related to “criteria” as discussed in SSAE 18 and incorporated into GAGAS. They should also be competent in applying these standards and SSAE 18 to the task assigned.

f. Auditors performing performance audits should be knowledgeable in the GAGAS for performance audits. They should also be competent in applying these standards to the task assigned.

g. Since audits frequently require a wide variety of skills, an auditor may need assistance from specialists in other disciplines, such as legal, engineering, and production/quality control. The auditor should make arrangements to secure any needed technical assistance from the ACO/plant representative or responsible acquisition agency (see Appendix B).

2-202.2 Continuing Professional Education **

a. The effectiveness of contract audits is governed in large measure by the caliber and training of the person or persons performing the work. The auditor is expected to have acquired through continuing education, training, and experience the ability to plan; develop and apply effective audit procedures; to determine facts; to make reasonable judgments and decisions; and to prepare objective and effective audit documentation and reports.

b. Auditors performing work in accordance with GAGAS, including planning, directing, performing procedures, or reporting on an audit conducted in accordance with GAGAS, should maintain their professional competence through continuing professional education (CPE). GAGAS 3.76 and DCAA require all audit staff members to complete 80 hours of professional training or development during each two-year reporting period. At least 24 of the 80 hours should be earned in subjects directly related to government auditing or the government environment or the specific or unique environment in which the audited entity operates. At least 20 of the 80 hours of training must be completed in each fiscal year. These hours of training are referred to as continuing professional education (CPE) credits. The terms “training” and “education” are used interchangeably. Additionally, auditors who use the work of external specialists should assess the professional qualifications of such specialists (see B-104 and B-105).
c. Continuing professional education is a shared responsibility of Headquarters and the regions; however, the primary responsibility resides with the individual supervisors and staff members. DCAA staff must have satisfied the CPE requirement to meet the Government Auditing Standards underlying audit planning, directing, conduct, and reporting. The specific responsibilities of all parties are defined in the DCAA Personnel Management Manual, DCAAM 1400.1.

d. These standards do not exclude the use of auditors in a training status, as long as trainees are assigned duties commensurate with their experience and capabilities and are adequately supervised. Proper supervision of the work done by trainees will contribute to their development and should assure maintenance of acceptable standards.

2-203 GAGAS Independence **

a. In addition to complying with the Joint Ethics Regulations (DoD Directive 5500.7-R) demanded of all public servants, it is essential DCAA auditors comply with the prescribed GAGAS independence requirements. The GAGAS general standards emphasize that in all matters relating to the audit work, an individual auditor, and the audit organization, must be independent from the audited entity. The 2011 GAGAS revision established a conceptual framework that auditors use to identify, evaluate, and apply safeguards to address threats to independence (refer to 2011 GAGAS for implementation dates).

b. Auditors and audit organizations maintain independence to ensure their audit opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by reasonable and informed third parties. To comply with the independence standards, an auditor should avoid situations that could lead reasonable and informed third parties to conclude that the auditor is not independent and thus not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work. Each auditor has an obligation to refrain from entering into any relationship (financial, social, or other) with contractors and contractor employees that would impair his or her independence or objectivity or reflect discreditably on him/her, the Agency or DoD.

c. Auditors should be independent from the contractor during any period that falls within the period of the subject matter of the audit and during the period of the professional engagement. The engagement begins when the initial acknowledgement letter to the audit requestor or the audit notification letter to the cognizant government authority (e.g., ACO) is sent or when work is begun on the audit whichever is earlier. However, the period of professional engagement does not necessarily end with the issuance of a report and recommence with the beginning of the next audit. The period of professional engagement lasts the entire duration of the professional relationship, which for recurring audits could cover many periods.

2-203.1 Conceptual Framework Approach to Independence **

a. The conceptual framework assists auditors in maintaining both independence
of mind and independence in appearance (Refer to GAGAS 3.02 for definitions of independence of mind and in appearance). It allows auditors to address threats to independence that result from activities that are not specifically prohibited by GAGAS. Auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels to (1) identify threats to independence; (2) evaluate the significance of the threats identified both individually and in the aggregate; and (3) apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level. If no safeguards are available to eliminate an unacceptable threat or reduce it to an acceptable level, independence would be considered impaired.

b. Threats to independence are circumstances that could impair independence. Threats do not necessarily impair independence. Whether independence is impaired depends on the nature of the threat, whether the threat is of such significance that it would compromise the auditor's professional judgment or create the appearance that the auditor's professional judgment may be compromised. It will also depend on the specific safeguards applied to eliminate the threat or reduce it to an acceptable level. A wide range of relationships and circumstances may create threats to independence. Circumstances that result in threats to independence in one category may result in threats in other categories as well. The GAGAS conceptual framework approach to independence contains the following broad categories of threats to independence to use when identifying and evaluating threats.

1. Self-interest threat - the threat that a financial or other interest will inappropriately influence an auditor's judgment or behavior,

2. Self-review threat - the threat that an auditor or audit organization that has provided advisory services will not appropriately evaluate the results of previous judgments made or services performed as part of the advisory services when forming a judgment significant to an audit,

3. Bias threat - the threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective,

4. Familiarity threat - the threat that aspects of a relationship with management or personnel of an audited entity, such as a close or long relationship or that of an immediate or close family member, will lead an auditor to take a position that is not objective,

5. Undue influence threat - the threat that external influences or pressures will impact an auditor's ability to make independent and objective judgments,

6. Management participation threat - the threat that results from an auditor taking on the role of management or otherwise performing management functions on behalf of an entity undergoing an audit, and

7. Structural threat - the threat that an audit organization's placement within a government entity, in combination with the structure of the government entity being audited will impact the audit organization's ability to perform work and report results
c. A threat to independence is not at an acceptable level if it either (1) could impact the auditors ability to perform an audit without being affected by influences that compromise professional judgment or (2) could expose the auditor or audit organization to circumstances that would cause a reasonable and informed third party to conclude that the integrity, objectivity, or professional skepticism of the audit organization, or a member of the audit team, had been compromised.

d. When an auditor identifies threats to independence of mind or in appearance and, based on an evaluation of those threats, determines the threats are not at an acceptable level, thereby requiring the application of safeguards, the auditor should determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce the threats to an acceptable level.

e. Safeguards are controls designed to eliminate or reduce to an acceptable level, threats to independence. Under the conceptual framework, the auditor applies safeguards that address the specific circumstances under which threats to independence exist. In some cases, multiple safeguards may be necessary to address a threat. GAGAS provides a list of safeguards that may be effective under certain circumstances. The list cannot provide safeguards for all circumstances, it may however, provide a starting point for auditors who have identified threats to independence and are considering what safeguards could eliminate or reduce the threat to an acceptable level. Examples of safeguards include:

   (1) consulting an independent third party, such as a professional organization, a professional regulatory body, or another auditor,

   (2) involving another audit organization to perform or re-perform part of the audit,

   (3) having a professional staff member who was not a member of the audit team review the work performed, and

   (4) removing an individual from an audit team when that individual's financial or other interests or relationships pose a threat to independence.

f. Not all safeguards identified in GAGAS pertain to DCAA; for example, the safeguards included in GAGAS 3.19 relate to the audited entity’s systems and procedures. Since DCAA performs audits for third parties, not the audited entity (contractor), these safeguards would not be applicable for DCAA.

2-203.2 Evaluation and Documentation of Independence Considerations **

a. Certain events require auditors to evaluate threats to independence such as the start of a new audit, assignment of new staff to an ongoing audit; and acceptance of an advisory service. However, many different facts and circumstances, or combination of facts and circumstances, can result in threats to independence or increase the
significance of threats to independence. Auditors should use professional judgment to
determine whether other events in addition to those stated above warrant evaluation
using the conceptual framework.

b. Whenever relevant new information about a threat to independence comes to
the attention of the auditor before, during or after the audit, the auditor should evaluate
the significance of the threat in accordance with the conceptual framework and
determine if the identified threat is at an acceptable level. If the threat is not at an
acceptable level, the auditor should apply appropriate safeguards to eliminate or reduce
the threat.

c. Certain conditions may lead to threats that are so significant that they cannot
be eliminated or reduced to an acceptable level through the application of safeguards,
resulting in impaired independence. Under such conditions, auditors should decline to
perform a prospective audit, terminate an audit in progress, or inform report recipients of
the impairment. Generally, this situation should not occur within DCAA because it is our
policy that an auditor with an independence impairment will not work on affected
assignments or perform advisory services that impair independence.

d. GAGAS contains specific requirements for documentation related to
independence that provides evidence of the auditor's judgments in forming conclusions
regarding compliance with independence requirements. These documentation
requirements include documenting identified threats to independence along with any
safeguards applied to eliminate or reduce the threat to an acceptable level.

e. An audit organizations quality control system should establish policies and
procedures to address independence. Such policies and procedures assist the audit
organization to communicate its independence requirements to its staff, identify and
evaluate circumstances and relationships that create threats to independence, and take
appropriate action to eliminate those threats or reduce them to an acceptable level by
applying safeguards. Refer to 2-S103.1 for the policies and procedures on the
documentation of independence considerations, and the actions to take when a threat
to independence is identified before work is performed on an audit, during an audit and
after report issuance.

2-203.3 Government Auditors and Audit Organization Structure **

The ability of audit organizations in government entities to perform audit work
and report the results objectively can be affected by their placement within the
(see Supplement 1-1S1) established DCAA as an independent agency of DoD; with the
responsibility to perform all necessary contract audits for the Department of Defense.
DCAA has been organizationally positioned within DoD to ensure independence from
the various DoD departments and agencies involved in the acquisition process. In
addition, DCAA performs audits of contractors, not other DoD entities accordingly; an
environment exists where DCAA can function in an independent, objective manner in
performing its contract audit services.
2-203.4 Independence Considerations When Performing an Advisory Service

a. GAGAS recognizes that many different circumstances, or combinations of circumstances, are relevant to evaluating threat to independence. The GAGAS conceptual framework can be applied to many variations in circumstances, such as performing advisory services for a third party requestor, to identify, evaluate, and apply safeguards to address threats to independence. If identified threats are significant, and the application of safeguards would not eliminate or reduce the threat, the resulting impairment to independence could impair the independence of the auditor or the entire Agency.

b. It is DCAA’s policy that auditors only perform advisory services that do not impair independence and do not require the application of safeguards.

c. DCAA defines the advisory services that it performs in the Activity Code Matrix and Activity Code Definitions in the DMIS User Guide. Auditors should perform advisory services only under one of the activity codes designated as such, and the services should fit within the parameters described in the DMIS definition for the particular activity code. Auditors should check the DMIS User Guide definitions when establishing an assignment to ensure that they are using the proper activity code for the audit or advisory service planned.

d. When the auditor cannot identify the requested services with any other activity codes, the auditor should use activity code 49800, Other Advisory Services. Effort under the 49800 activity code should be performed only after the FAO determines that providing the requested advisory service does not create significant threats to independence, either by itself or in the aggregate with other advisory services, with respect to current or future audits. The FAO should perform the assessment for independence threats using the GAGAS conceptual framework approach to independence. An independence assessment template, Other Advisory Services - Assessment of Threats to Independence, is available on the DCAA Intranet to assist FAOs in applying the conceptual framework when considering the performance of an advisory service under activity code 49800. The template includes the applicable references to the 2011 GAGAS standards. The FAO must coordinate the assessment with the Regional Office and Headquarters PAS before accepting the engagement to perform the advisory service. FAOs do not need to perform this assessment for advisory services performed under other DMIS activity codes designated as advisory services, as DCAA will maintain that documentation at the Agency level.

e. Since advisory services are not performed in accordance with GAGAS, any correspondence regarding such services should include a statement to that effect (see 2-108).

f. FAOs should prepare and maintain documentation of advisory services performed. DCAA routinely performs some assignments as advisory services that have formal documentation packages generated by CaseWare that provide for sufficient documentation of the services (e.g., evaluation of final vouchers). However, when an
FAO performs advisory services that do not have formal CaseWare packages, the FAO should prepare and maintain documentation with sufficient information on the advisory services to enable an experienced auditor with no previous connection to the assignment to understand the nature and scope of the work performed. The form and content of the documentation will vary depending on the specific circumstances. In most cases, it should include the request (when applicable), the product provided (e.g., memorandum), and documentation of the nature and scope of the work performed unless it is evident in the product provided.

   g. FAOs should file documentation for work performed under activity codes designated as advisory services in CaseWare in the assignment folder based on the descriptions and guidance in DCAAM 5015.1, Files Maintenance and Disposition Manual. However, for documentation related to FLA services activities (30100, 30300, and 30550), activities related to investigative support, Form 2000 and Board of Contract Appeals cases (48600, 48610, and 49300), and the processing of public vouchers (41500), the applicable organizations should follow their current filing practices.

   2-204 Professional Judgment (GAGAS 3.60 – 3.68) **

   a. Professional judgement is a term used throughout CAM because the exercise of professional judgment is used throughout the audit process. Auditors must use professional judgment in planning and performing audits and attestation engagements and in reporting the results.

   b. Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care concerns acting diligently in accordance with applicable professional standards and ethical principles. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence. Professional skepticism includes a mindset in which auditors assume neither that management is dishonest nor of unquestioned honesty. Believing that management is honest is not a reason to accept less than sufficient, appropriate evidence.

   c. Using professional judgment is important in all aspects of carrying out professional responsibilities, including following the independence standards, and related conceptual framework maintaining objectivity and credibility, assigning competent audit staff to the assignment, defining the scope of work, evaluating, documenting and reporting the results of the work, and maintaining appropriate quality control over the assignment process is essential to performing and reporting on an audit.

   d. The matter of professional judgment concerns what the auditor does and how well he or she does it. Auditors should use professional judgment in determining the type of audit to be performed establishing the audit scope, assessing the level of audit risk and selecting the methods, tests and procedures to perform the audit. Exercising professional knowledge, skills, and experience to diligently perform in good faith and with integrity, the gathering of information and the objective evaluation of the sufficiency and appropriateness of evidence is a critical component of audits. The auditor must be fully aware of the purpose of the audit and be mentally alert, inquisitive, and responsible
while performing the tests and procedures and in evaluating and reporting the audit results.

e. Professional judgment and competence are interrelated because judgments made are dependent upon the auditor’s competence. Professional judgment represents the application of the collective knowledge, skills, and experiences of all the personnel involved in an assignment, as well the professional judgment of individual auditors. In addition to the personnel directly involved in the audit, professional judgment may involve collaboration with other stakeholders, specialists, and management in the audit organization. For example, auditors apply professional judgment when planning the audit in determining if the assistance of a specialist is needed to obtain sufficient appropriate audit evidence.

f. Using professional judgment is important to auditors in determining the required level of understanding of the audit subject matter and related circumstances. This includes consideration about whether the audit team’s collective experience, training, knowledge, skills, abilities, and overall understanding are sufficient to assess the risks that the subject matter may contain a significant inaccuracy or could be misinterpreted. Audit assignments and supervision should be commensurate with the auditor’s level of knowledge, skill and ability. Final responsibility for audit quality rests with the audit team, who are expected to know the relevant accounting and auditing standards and to familiarize themselves with significant aspects of the contractor and submission being evaluated. Responsibility for assignment of audits to field auditors rests with the supervisor.

g. Considering the risk level of each assignment, including the risk that the auditor may come to an improper conclusion is another important issue. Within the context of audit risk, exercising professional judgment in determining the sufficiency and appropriateness of evidence to be used to support the findings and conclusions based on the audit objectives and any recommendations reported is an integral part of the audit process.

h. Auditors should document significant judgments made affecting the audit objectives, scope, and methodology; findings; conclusions; and recommendations resulting from professional judgment.

i. GAGAS places responsibility on each auditor and audit organization to exercise professional judgment in planning and performing audits. However, it does not imply unlimited responsibility or infallibility on the part of the individual auditor or audit organization. Absolute assurance is not attainable because of the nature of evidence and the characteristics of fraud. Therefore, an audit conducted in accordance with GAGAS may not detect a material misstatement or significant inaccuracy, whether from error or fraud, noncompliance of provisions of contracts or grant agreements or abuse. Professional judgment does not mean eliminating all possible limitations or weaknesses associated with a specific audit, but rather identifying, considering, minimizing, mitigating, and explaining them.
2-205 Quality Control and Assurance (GAGAS 3.82 – 3.107)**

Each audit organization performing audits in accordance with GAGAS must establish a system of quality control designed to provide reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements and have an external peer review at least once every three years.

a. A strong, well-documented internal quality control system has been in place within DCAA since its inception. That system encompasses the Agency's leadership, and places emphasis on performing high quality work.

   (1) Key elements of the system are described throughout this manual and summarized in 2-S10. The system is further documented in the Agency's charter, regulations, instructions, personnel management manual, etc. Agency managers and supervisors serve as focal points for assuring that policies and procedures are adequate (including an appropriate reflection of auditing standards) and are properly applied. The functioning strength of the Agency's system is apparent in the attention given to improving it over the years. In particular, the Agency's implementation of the Federal Managers' Financial Integrity Act and related DCAA internal management control system requirements (DCAA Regulation No. 5010.7) was achieved by consolidating the various existing quality controls. Procedures are in place for periodic vulnerability assessments and internal reviews.

   (2) The Agency also documents its system of quality control for the peer reviewers through completion of the Appendix A Policies and Procedures that is part of the Council of Inspectors General on Integrity & Efficiency (CIGIE) Guide for Conducting Peer Reviews of Audit Organizations of Federal Officers of Inspector General.

b. Audit organizations performing audits in accordance with GAGAS must have an external peer review at least once every three years by reviewers independent of the organization being reviewed. The external peer review should be sufficient in scope to provide a reasonable basis for determining whether, for the period under review, the reviewed audit organization's system of quality control was suitably designed and whether the audit organization is complying with its quality control system to provide the audit organization with reasonable assurance of conforming to applicable professional standards. For DCAA, this function is performed primarily by the DoDIG.

2-300 Section 3 – Standards for Attestation Engagements **

2-301 Introduction **

The Generally Accepted Government Auditing Standards (GAGAS) for attestation engagements incorporate by reference the AICPA Statements on Standards for Attestation Engagements No. 18 (SSAE 18). Attestation Standards: Clarification and Recodification. SSAE 18 is comprised of 9 sections, 4 of which are applicable to DCAA engagements:
AT-C Section 105 Concepts Common to All Attestation Engagements
AT-C Section 205 Examination Engagements
AT-C Section 215 Agreed-Upon Procedures Engagements
AT-C Section 315 Compliance Attestation

Section 105, Concepts Common to All Attestation Engagements, contains concepts that are relevant to all DCAA audit assignments. Section 205, Examination Engagements; and Section 215, Agreed-Upon Procedures; represent additional requirements and application guidance specific to the level of service being provided. Under the attestation standards, the applicable requirements and application guidance for any attestation engagement are contained in at least two sections: section 105, and, section 205 or 215, depending on the level of service being provided. In addition, incremental performance and reporting requirements and application guidance unique to specific subject matters, such as compliance with laws and regulations, are contained in the subject-matter sections (for DCAA this is section 315). When performing DCAA audit engagements application guidance for SSAE 18 can be found in AT-C Sections 105, 205, and 315 for examination engagements; and 105, 215, and 315 for Agreed-Upon Procedures. This section consolidates the applicable information from each AT-C section and explains how SSAE 18 and the GAGAS attestation field work standards are integrated with contract audit field work guidance.

2-302 AICPA Criteria **

a. GAGAS incorporates the SSAE 18 standard on criteria. Criteria is defined as the benchmark used to measure or evaluate the subject matter.

b. SSAE 18 states that the auditor must have reason to believe that the subject matter is capable of evaluation against criteria that are suitable and available to users. Criteria are suitable when they exhibit all of the following attributes:

(1) Objectivity – Criteria are free from bias. To be free from bias, the criteria should be constructed so they do not color the subject matter in a way that leads to a predetermined result.

(2) Measurability – Criteria permit reasonable, consistent measurements, qualitative or quantitative, of the subject matter. That is, measurable criteria provide results that would be substantially duplicated by different people using the same measurement methods.

(3) Completeness – Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

(4) Relevance – Criteria are relevant to the subject matter.

c. The relative importance of each characteristic to a particular engagement is a
2-303 Concepts Common to All Attestation Engagements **

a. All DCAA audit engagements must be adequately planned and properly supervised to comply with professional standards and applicable legal and regulatory requirements. Additionally, the auditor expects to obtain sufficient evidence to provide a reasonable basis for the conclusion that is expressed in the report.

b. In addition to the AICPA standards that pertain to all attestation engagements, there are GAGAS requirements for planning and performing attestation examination engagements and agreed-upon procedures engagements that incorporate by reference specific sections of SSAE 18. When performing DCAA audit engagements application guidance for SSAE 18 can be found in AT-C Sections 105, 205, and 315 for examination engagements; and 105, 215, and 315 for Agreed-Upon Procedures. This section consolidates the applicable information from AT-C Section 105 and 315 as it pertains to adequate planning, proper supervision, and obtaining sufficient evidence. Additional requirements specific to AT-C Section 205 and AT-C Section 215 will be discussed in 2-304 to 2-306 for examination engagements and 2-307 for Agreed-Upon Procedures.

2-303.1 Adequate Planning **

a. The audit should be planned and performed (including appropriate direction and supervision) to comply with professional standards and applicable legal and regulatory requirements. The auditor should plan and perform an attestation engagement with professional skepticism.

b. Before beginning an audit assignment, it is essential to coordinate with contracting officials requesting the audit or responsible for disposition of the findings and recommendations to understand the contracting officer/requestor’s needs and/or specific concerns; contractual, regulatory, or other factors pertinent to the audit; and to establish an understanding regarding the type of engagement to be performed. Such an understanding reduces the risk that either the auditor or the contracting officer/requestor may misinterpret the needs of the other party.

c. The understanding with the requestor should include the objectives of the engagement, responsibilities of the parties, and any limitations of the engagement. Additionally the audit team needs to document that understanding in the working papers preferably through a written communication with the appropriate official. The auditor should accept an attestation engagement only when the auditor has no reason to believe that relevant ethical requirements, including independence, will not be satisfied; is satisfied that the audit team collectively have the appropriate competence and capabilities; has determined that the engagement to be performed meets all the preconditions for an attestation engagement; and has reached a common understanding with the requestor of the terms of the engagement, including the auditor's reporting responsibilities. In some cases, the attestation engagement may relate to only one part of a broader subject matter, in such cases, in determining whether the
engagement exhibits the characteristic of having an appropriate subject matter, it may be appropriate for the auditor to consider whether information about the aspect that the auditor is asked to examine is likely to meet the information needs of intended users.

d. Those involved in the engagement need to be informed of their responsibilities, including the objectives of the procedures they are to perform and matters that may affect the nature, timing, and extent of such procedures.

e. The audit team should obtain an understanding of relevant portions of internal control over compliance sufficient to plan the engagement and to assess control risk for compliance with specified requirements. In planning the examination, such knowledge should be used to identify types of potential noncompliance, to consider factors that affect the risk of material noncompliance, and to design appropriate tests of compliance.

f. In an engagement to examine compliance with specified requirements, the audit team should seek to obtain reasonable assurance that the contractor complied with the specified requirements, in all material respects, including designing the examination to detect both intentional and unintentional material noncompliance.

g. When planning the audit the audit team should consider materiality when establishing the overall engagement strategy.

h. Refer to 2-304 for additional guidance on planning specific to attestation examination engagements and 2-307 for additional guidance specific to agreed-upon procedures engagements.

2-303.2 Proper Supervision **

a. Auditors must be properly supervised. Supervision is generally the responsibility of the supervisory auditor and FAO Manager and involves directing the efforts of subordinate staff members who participate in accomplishing the objectives of the audit and determining whether the objectives were accomplished. Engagement supervision includes the following: Tracking the progress of the engagement; Considering the competence and capabilities of individual members of the engagement team, whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement; Addressing significant findings and issues arising during the engagement, considering their significance, and modifying the planned approach appropriately; and identifying matters for consultation or consideration by more experienced engagement team members during the engagement.

b. The auditor is primarily responsible for preparing and executing the audit program and for drafting the audit report. Thus, experience and grade level may differ depending on the complexity or sensitivity of the particular assignment, but must be adequate for satisfactory performance. He or she may act alone, or may be assisted by one or more auditors of the same or lower grade levels for part, or all, of the duration of the assignment. When the audit is conducted by a team, a lead auditor may, in addition
to participating in the audit, monitor the day-to-day activities of all auditors assigned to assist and may review their working papers for both format and content.

c. The various levels of supervisory responsibility discussed in DCAAI 7642.2 Management Review and Technical Support of Audits and the paragraphs below do not relieve each individual auditor of the responsibility for the professional adequacy of his/her own work. Similarly, the necessity for a detailed audit program prepared or approved at a higher supervisory level should not preclude any auditor from applying ingenuity during the course of the assignment to achieve the audit objectives and to recommend improvements of the program.

d. The depth and extent of supervision appropriate on a given assignment depends on many factors, including the nature and complexity of the audit and the qualifications of the individual audit team members performing the work (i.e., the individual auditors’ experience and competence).

e. Supervision of individual audit assignments applies before, during, and after completion of the field work. Before commencing fieldwork for an audit assignment, the supervisory auditor must ensure that the audit team understands clearly the purpose and scope of the audit. The supervisory auditor should inform the audit staff of their responsibilities, including the objectives of the procedures for the particular segments of audit work assigned and any special matters which may be involved that may affect the nature, extent, and timing of such procedures. He or she should ascertain that the auditors assigned have familiarized themselves with all relevant information available in the FAO permanent files (See 4-405).

f. When the audit team is performing an attestation examination engagement, the supervisory auditor should ensure that an adequate audit program has been developed, with the purpose and scope of the audit, references, audit planning, considerations, and preliminary, detailed and concluding steps tailored specifically to the assignment.

g. When the audit team is performing an agreed-upon procedures engagement the supervisory auditor should ensure agreed-upon procedures are appropriate. See CAM 14-1000.

h. On all assignments, the supervisory auditor should also ensure that adequate arrangements have been made for any necessary external support, such as assist audits or specialist assistance. This should preferably be done shortly after the request for audit was received.

i. On the more significant or sensitive assignments, the supervisory auditor and, in some cases, the FAO manager, should participate in entrance, exit, and other significant conferences held with the contractor.

j. While the audit is in process, as applicable the supervisory auditor should:

(1) give timely technical guidance on audit or accounting problems,
(2) coordinate on any major changes the auditor proposes to make to the audit program for an examination engagement.

(3) coordinate on any changes to the time budget or due date of the engagement,

(4) perform interim reviews as warranted based on the complexity of the assignment (with any written review comments documented in CaseWare Issues, Interim Guidance – Corrective Actions), and

(5) maintain familiarity with the status of the audit.

k. The supervisor should keep in contact with the audit team at the audit site, either through visits or by telephone or e-mail, however supervisory activities can generally be conducted more effectively by site visits than by telephone or e-mail.

l. After the conclusion of the audit field work, the supervisory auditor will review the working papers and the report draft for compliance with GAGAS, professional quality, accuracy, and responsiveness to the audit request. The review should be in sufficient depth to determine whether the work was adequately performed and to evaluate whether the results are consistent with the conclusion to be included in the report. The supervisory review must be completed and documented in the working papers prior to report issuance, and should include verification that:

   (1) the auditors conformed to the auditing standards,

   (2) for examination engagements the audit programs are followed, unless deviation is justified and authorized,

   (3) For agreed upon procedure engagements the procedures agreed upon are followed,

   (4) the working papers adequately support findings or conclusions (see 2-505 for the GAGAS on documentation),

   (5) the working papers provide adequate evidence to prepare a meaningful report, and

   (6) the audit team accomplished the audit objectives.

m. As well as making or suggesting any necessary changes to the report draft, the supervisory auditor should also prepare written review comments and include them in the working paper file (typically CaseWare Issues, Final Review SA). For contractors at which there is a recurring workload, the supervisory auditor may also include written observations or any recommended modifications to the audit program for subsequent audits.

n. Reviews of complex or sensitive audits should be conducted onsite if at all
possible. In this way, any additional audit work or necessary discussions with contractor personnel can be readily accomplished. The supervisory auditor should particularly try to complete the review onsite in those instances where monitoring of audit progress or past experience indicates the existence of complex problems which require resolution.

o. The FAO manager is responsible for all aspects of the FAO operations. He or she establishes office procedures and management controls over the programming, scheduling, and timely completion of audits and reports. The FAO manager should direct the audit team to bring to his or her attention significant questions raised during the audit so that their significance can be assessed. In some cases, he or she may participate directly in audit assignments that are in process. In addition to day-to-day supervision of overall audit activities, he or she should review on a continual basis the status and progress of each team’s performance.

p. The FAO manager may be more directly involved in audits of unusual materiality or sensitivity. He or she will also participate in supervising individual audit assignments which involve significant administrative problems, such as denial of access to records or timeliness of reporting. He or she should attend any especially significant conferences with contractors. He or she should assure that technical problems which are expected to require referral to higher levels are brought to his or her attention as soon as practicable rather than at the time of final report review.

q. The FAO manager should review all audit reports considered significant or high risk. The FAO manager should ensure the supervisory review was sufficient to support a GAGAS compliant working paper package and audit report. He or she should also make selective examinations of working paper files as deemed necessary to ensure that GAGAS field work and reporting standards are being observed. For those audits not delegated to the Supervisor for signature authority, the FAO Manager should review the content and format of the draft report to ensure it is appropriate for presentation to the customer and in compliance with GAGAS.

r. The FAO manager or acting FAO manager shall not re-delegate signature authority on certain significant audit reports. DCAA Instruction 5600.1, Delegation of Signature Authority for Audit Reports and Other Audit Related Documents, establishes procedures for delegation and re-delegation of authority to sign audit reports and identifies those audit reports for which signature authority cannot be re-delegated.

2-303.3 Obtaining Sufficient Evidence **

The auditor must obtain sufficient appropriate evidence to provide a reasonable basis for the conclusion expressed in the report. The extent to which attestation procedures will be performed should be based on the level of assurance provided. Refer to 2-306.4 for guidance designing substantive audit tests to obtain sufficient evidence for an attestation examination engagement and 2-307.3 for guidance on obtaining evidential matter for agreed-upon procedures engagements.
2-304 Field Work Standards – Attestation Examination Engagements **

The GAGAS establishes field work requirements for performing examination engagements in addition to the requirements contained in the SSAE 18. Sections 2-304 – 2-306 provide guidance on the additional GAGAS field work standards for attestation examination and the AICPA Statements on Standards for Attestation Engagements No. 18 incorporated by reference into GAGAS.

2-305 Planning Examination Engagements – Communication **

a. In addition to the requirements to obtain an understanding with the client, (see 2-303.1c) the AICPA standards incorporated into GAGAS 5.04-5.05 by reference require the audit team obtain written acknowledgement or other evidence of the contractor’s responsibility for the subject matter or written assertion, as it relates to the objective of the engagement. The acknowledgement of the responsibility can occur in a number of ways, such as in a representation letter, or the presentation of the subject matter, including the notes thereto, or as a written assertion. It may also be obtained from other evidence such as by reference to a contract, or legislation or regulation.

b. When performing a GAGAS examination engagement, GAGAS requires auditors to communicate pertinent information that in the auditor’s professional judgment needs to be communicated to individuals contracting for or requesting the examination engagement and to the cognizant legislative committees when auditors perform the examination pursuant to a law or regulation or they conduct work for a legislative committee that has oversight over the audited entity. DCAA does not perform audits for legislative committees, it perform audits for government officials such as contracting officer that have government oversight responsibility for the audited entity and communicates with these individuals.

c. Auditors should communicate in writing the following information related to the conduct and reporting of the audit to the individuals who requested the audit, i.e., normally the contracting officer (generally in the acknowledgement letter):

   (1) The nature, timing, and extent of planned testing and reporting

   (2) The level of assurance the report will provide. This will generally be the type of engagement/audit service provided; e.g., examination.

   (3) Any potential restriction on the auditor’s report to reduce the risk that the needs or expectations of the parties involved may be misinterpreted. For example, DCAA audit reports generally include restriction on the release due to proprietary information and also state that the report should not be used for purposes other than action on the subject of the audit.

d. Auditors should also communicate the above information to the appropriate representatives of the organization audited (generally at the entrance conference or in a contractor notification letter). The contractor representative will generally be the corporate controller, chief financial officer, or their designated representative; e.g., audit
liaison).

   e. Refer to 1-303 for guidance on processing requests from Non-DoD Agencies; and 4-102, 4-104, 4-300 and 4-302.3 for guidance on communications with the requestor and contractor.

2-306 Planning Examination Engagements – Risk Assessment **

   a. Proper planning directly influences the selection of appropriate procedures and the timeliness of their application. Planning an attestation examination engagement involves developing an overall strategy that sets the scope, timing, and direction of the engagement and guides the development of the audit plan. To do this, the audit team needs to have sufficient knowledge to enable them to understand adequately events, transactions, and practices that, in their judgment, have a significant effect on the subject matter or assertion.

   b. Before preparing the detailed audit program, a risk assessment should be performed to assess attestation risk (commonly referred to in DCAA as audit risk) relative to the audit objectives.

   c. An attestation examination engagement provides a high level of assurance on whether the subject matter or assertion that is the responsibility of a third party is in accordance the criteria or that the assertion is fairly stated. This requires the audit team restrict attestation risk to a level that in the team’s professional judgement is appropriately low for the high level of assurance provided.

   d. Based on the AICPA’s SSAE 18, attestation risk is the risk that the auditor expresses an inappropriate opinion or conclusion, as applicable, when the subject matter or assertion is materially misstated. In general it is composed of inherent risk, control risk, and detection risk. Not all of these components will necessarily be present or significant for all engagements.

Risks that the auditor does not directly influence:

   Inherent risk. The susceptibility of the subject matter to a material misstatement before consideration of any related controls.

   Control risk. The risk that a material misstatement or non-compliance that could occur in the subject matter will not be prevented, or be detected and corrected, on a timely basis by the contractors internal control.

Risks that the auditor does directly influence:

   Detection risk. The risk that the auditor’s procedures will not detect a material misstatement or noncompliance when, in fact, such a misstatement or noncompliance does exist.

   e. In order to keep the overall audit risk of engagements below an acceptable limit,
the auditor must assess the level of risk pertaining to each component of audit risk.

f. A properly performed risk assessment should provide and consider information about risk factors relevant to the subject matter of the audit. In planning the compliance attestation examination, such knowledge should be used to identify types of potential noncompliance, to consider factors that affect the risk of material noncompliance and to design appropriate substantive tests (i.e., detailed testing and analytical procedures) to obtain sufficient appropriate evidence to achieve the objectives of the audit and form an opinion.

2-306.1 Inherent Risk **

a. Assessing inherent risk involves obtaining an understanding of the criteria, the subject matter of the audit, and the entity and its environment; e.g., the size and scope of the contractor's activities, the length of time the entity has been subject to the requirements of the criteria. Additionally it includes considering fraud risk factors, prior experience with the entity’s compliance, assessing the potential impact of fraud or noncompliance on the assertion or the subject matter being audited and making preliminary judgments about materiality for attest purposes.

b. Assessing inherent risk also includes complying with the following additional GAGAS requirements and considerations.

(1) Auditors should evaluate whether the contractor has taken appropriate correction action to address audit findings and recommendations from previous engagements that could have a material effect on the subject matter, or the assertion about the subject matter of the examination engagement. When planning the engagement auditors should ask audited entity management to identify previous audits, attestation engagements, and other studies that directly relate to the subject matter or an assertion about the subject matter of audit being undertaken, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current engagement.

(2) In addition to the AICPA requirements concerning fraud, GAGAS requires auditors design the examination engagement to detect instances of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that may have a material effect on the subject matter or the assertion thereon of the examination engagement. Auditors should assess the risk and possible effects of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that could have a material effect on the subject matter of the examination engagement. When risk factors are identified auditors should document the identified risk factors, the auditor’s response to those risk factors individually or in combination, and the auditor’s conclusions.

(3) When making preliminary judgments about materiality, auditors may find it appropriate to use lower materiality, levels as compared with the materiality levels used
in non-GAGAS engagements because of the public accountability of entities receiving government funding, various legal and other regulatory requirements, and the visibility and sensitivity of government programs. (GAGAS 5.46)

c. Auditors may use inquiries and analyses, analytical procedures, and the team brainstorming discussion to identify inherent and fraud risk factors. All of this is to gain sufficient understanding to be able to reasonably identify the risk associated with the subject matter and to respond accordingly.

When assessing inherent risk audit teams should:

1. Evaluate copies of contracts or contract briefs or the request for solicitation or proposal, and correspondence related to the current audit to ascertain the audit criteria, gain an understanding of that criteria and the subject matter of the audit and the contractor’s environment.

2. Contact the contracting officer to ascertain any known concerns and discuss any significant concerns or other information that the contracting officer may have relevant to the audit (e.g. risk related to the contractor’s financial condition, statute of limitation dates, significant prior findings, contracts that are in an overrun position for potential mischarging, etc.) that may impact audit risk.

3. If information regarding the contractor’s financial condition is not available from the contracting officer, as part of considering potential fraud indicators the auditor should perform a trend analysis (see 14-303e) of the following key financial statement ratios:
   - Profit/loss
   - Sales
   - Cash Flow from Operating activities
   - Working Capital

   If the auditor becomes aware of potential unfavorable or adverse financial conditions from performing the trend analysis (e.g., recurring net losses, deteriorating sales, negative cash flow from operation activities), the auditor should immediately communicate the concerns to the contracting officer, and appropriately adjust the audit risk.

4. Evaluate pertinent files, such as the working papers from previous DCAA audits and audit reports, and whether the contractor has taken appropriate corrective action to the address findings and recommendations from previous engagements that could have a material effect on the assertion or subject matter of the assertion.

5. Ask contractor management (generally during the entrance conference) to identify previous audits, attestation engagements, and other studies (e.g. internal audits) that directly relate to the subject matter or the assertion about the subject matter of the audit including whether related recommendations have been implemented. Refer
(6) Make inquiries to contractor management regarding knowledge of any fraud or suspected fraud affecting the subject matter of the audit, management awareness of allegations of fraud or suspected fraud affecting the audit and contractor management understanding about the risk of fraud relevant to the audit.

(7) Hold a team discussion regarding potential fraud indicators considering the fraud indicators discussed in GAGAS Appendix and on the DoDIG website. Refer to 4-702.2 and 4-702.3 for additional guidance on audit procedures to detect and respond to the presence of fraud risk indicators/factors.

(8) Make preliminary judgments regarding materiality and sensitivity to assist in judgments about selecting accounts, cost elements or audit areas for substantive testing. Establishing preliminary judgments about materiality ensures matters that, either individually or in the aggregate, could be material to the subject matter, are a primary consideration in performing the audit procedures.

(9) Consider if the nature of the subject matter underlying the assertion may require specialized skill or knowledge in a field other than accounting or auditing in order to obtain sufficient audit evidence and achieve the objectives of the audit. Refer to Appendix B for additional guidance on using the work of a specialist.

(10) Consider if the nature and extent to which information technology is used in significant applications as well as the complexity of that technology requires the assistance of auditors with specialized skills. Refer to 4-503.22 for information regarding obtaining guidance and assistance from the DCAA Technical Support Branch.

d. The assessment of inherent risk should be documented in the audit working papers in sufficient detail to enable the members of the engagement team with supervision and review responsibilities to understand the nature, timing, extent of the assessment and the inherent risk factors identified. The Agency's electronic work packages (CaseWare) can be used to meet this objective.

e. Additional guidance on evaluating whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements is available in 3-203, 3-204.3, 3-204.4 and 4-405.

2-306.2 Understanding Internal Controls **

a. Based on the AICPA attestation standards, auditors should gain an understanding of relevant portions of internal control over compliance sufficient to plan the engagement and to assess control risk for compliance with specified requirements.

b. This understanding should include gaining knowledge of the contractor's control environment, information and communication methods, risk assessment processes, monitoring processes, and control activities relevant to the assertion or the subject matter being audited.
c. The control environment represents the collective effect of management's philosophy and operating style, the entity's organizational structure, the functioning of the board of directors and its committees, the methods of assigning authority and responsibility, management's control methods for monitoring and following up on performance, management's attitude toward internal and external audit, the entity's personnel policies and practices, and various other external influences that affect an entity's operations and practices. Judgments about the control environment may positively or negatively influence audit judgments about specific control activities.

d. The accounting system consists of the methods and records established to identify, assemble, analyze, classify, record, and report accounting transactions, and to maintain accountability for the related assets and liabilities. An effective accounting system identifies and records all valid transactions, describes transactions in sufficient detail to permit proper classification for financial reporting, measures the value of transactions in a manner that permits proper monetary recording, records transactions in the proper accounting period, and presents transactions properly in the financial statements or other financial representations.

e. At major and larger nonmajor contractors, the control environment and accounting system is a combination of interrelated accounting and management systems (see 5-102d).

f. Control activities are the policies and procedures that management has established to provide reasonable assurance that specific objectives will be achieved. Such control activities are classified as safeguarding controls and controls over compliance with laws and regulations, and are integrated into specific components of the accounting and management systems.

(1) Safeguarding controls relate to the prevention or timely detection of unauthorized transactions and unauthorized access to assets. Such safeguarding controls might include:

- Proper authorization of transactions and activities.
- Segregation of duties that reduces the opportunities to allow any person to be in a position to both perpetrate and conceal errors or irregularities.
- Adequate safeguards over access to and use of assets and records, such as secured facilities and authorization for access to computer programs and files.

(2) Controls over compliance with laws and regulations provide for:

- Design and use of adequate documents and records to help ensure the proper recording of transactions and events.
- Independent checks on performance and proper valuation of recorded amounts, such as clerical checks, comparison of assets with recorded accountability, computer-programmed controls, and user review of computer-generated reports.
(3) The Agency's standard audit programs for business systems (available on the DCAA Intranet and in CaseWare) identify specific control objectives, likely control activities for accomplishing those objectives, and audit procedures for evaluating the contractor's control activities.

g. The audit team should perform procedures to obtain a sufficient understanding of the contractor's internal controls (i.e., control environment, information and communication methods, risk assessment processes, monitoring processes, and relevant control activities) that are material to the subject matter of audit to plan the audit and design procedures to achieve the objectives of the audit.

h. Auditors gain an understanding of the design of specific controls through.

   (1) Inquiries of appropriate management, supervisory, and staff personal.

   (2) Inspection of entity’s documents.

   (3) Observation of the entity’s activities and operations.

i. At major contractors, the procedures to gain this understanding are normally performed and documented in separate audits of the contractor's business systems, and documented in the permanent files. To the extent that this prior audit work does not provide the audit team with an understanding of internal controls relevant and material to the subject matter sufficient to plan the audit and design procedure to achieve the objectives of the audit, the scope of the current audit must be expanded to gain and document that understanding.

**2-306.3 Assessing Control Risk**

a. Control risk is the likelihood that a material misstatement or noncompliance in an account or area subject to audit will not be prevented or detected and corrected on a timely basis by the contractor's internal controls.

b. Control risk may not be assessed below maximum unless the effectiveness of the internal controls have been tested and found effective. The auditor may choose not to perform the tests of controls needed to assess control risk below maximum when planning substantive audit tests because the contractor's internal controls are unlikely to be effective, or because it would be inefficient to evaluate their effectiveness.

c. Setting control risk at maximum doesn’t relieve the auditor of the responsibility to gain an understanding of internal controls sufficient to plan the audit. Auditors still need to understand the contractor’s processes related to the identified significant inherent risk factors to design the appropriate audit procedures.

d. When the internal controls have been tested and determined to be effective, the auditor should rely on them and reduce the amount of substantive testing in the applicable audit area.
e. The assessment of control risk should be documented in the audit working papers in sufficient detail to enable the members of the engagement team with supervision and review responsibilities to understand the nature, timing, extent of the assessment and the control risk factors identified relevant to the assertion. The Agency’s electronic work packages (CaseWare) can be used to meet this objective.

2-306.4 Detection Risk and Designing Substantive Audit Tests **

a. The process of assessing control risk (together with assessing inherent risk) provides evidential matter about the risk that a noncompliance may exist in the assertion or the subject matter of the assertion. Detection risk is risk that the auditor does directly influence, which consists of the risk that the procedures to be performed by the auditor will not detect a material misstatement.

b. When the auditor's assessment of inherent and control risk is high, detection risk is set at a lower level to keep the audit risk at an acceptable level. A Lower detection risk may be achieved by increasing the amount of substantive testing. Conversely, where the auditor has assessed the inherent and control risk of the engagement to be low, detection risk is allowed to be set at a relatively high level.

c. Use the understanding of the internal control structure, the assessed level of control risk and consideration of inherent risk (see 2-306.1c) and materiality to assess detection risk and design substantive tests for auditing the contractor's assertion or the subject matter of the assertion.

d. Substantive procedures include analytical procedures and tests of detail. Sufficient procedures must be performed to test the contractor’s assertion in relation to the audit criteria to provide a reasonable basis for the high level of assurance expressed in the report.

e. The extent of substantive procedures is based on the assessed level of audit risk; however audit risk will never be low enough to eliminate the need for substantive procedures. Furthermore, inquiry and/or analytical procedures alone are not sufficient to support the high level of assurance provided in an examination engagement. Procedures to obtain evidence can include inspection, observation, confirmation, recalculation, re-performance, and analytical procedures, often in some combination, in addition to inquiry. Tests of detail must be performed in all examination engagements. Detailed guidance on the types of audit evidence is in 3-204.14.

f. The design of the substantive procedures to be performed based on the assessed level of audit risk and to obtain sufficient appropriate audit evidence should be documented in the audit working papers in sufficient detail to enable the members of the engagement team with supervision and review responsibilities to understand the link between the risk assessment and the decision of what audit procedures to perform. The Agency’s electronic work packages (CaseWare) can be used to meet this objective.

g. A written program should be prepared for each audit assignment to effectively communicate objectives to all staff members, to facilitate control of the audit work, and to
provide a permanent record of the work to be accomplished. The test of details to be performed should be carefully set out in the audit program. The Agency's electronic work packages (CaseWare) or standard audit programs can be used to meet these objectives; or, if necessary, an existing set of audit steps can be used as a starting point for developing an audit program tailored to the specific evaluation being planned (see 3-203.3).

h. When multi-location programs are to be performed, the audit organization that is centrally planning the work should assure that assist auditors receive appropriate background information, including purpose, scope, level of evaluation (i.e. examination), and relevant documentation to assure that the resultant fieldwork can be assembled into a single report. However, this should be done in a manner that does not restrict the auditor's professional judgment. Audit programs should never be used as a blind checklist or in a way that stifles initiative, imagination, and thoroughness in performing an audit.

2-306.5 Abuse **

a. Abuse involves behavior that is deficient or improper when compared with the behavior of a reasonable and prudent business person given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Abuse does not necessarily involve fraud, or noncompliance with provisions of laws, regulations, contracts, or grant agreements.

b. Because the determination of abuse is subjective auditors are not required to detect abuse in examination engagements. However as part of a GAGAS examination engagement, if auditors become aware of abuse that could be quantitatively or qualitatively material, auditors should apply procedures specifically directed to ascertain the potential effect on the subject matter, or the assertion thereon, or other data significant to the objective of the examination engagement. After performing additional work, auditors may discover that the abuse represents potential fraud or noncompliance with provisions of laws, regulations, contracts or grant agreements.

2-306.6 Avoiding Interference with Investigations or Legal Proceedings **

a. Avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse. Laws, regulations or policies may require auditors to report indications of certain types of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse to law enforcement or investigatory authorities before performing additional audit procedures.

b. When investigations or legal proceedings are initiated or are in process, auditors should evaluate the impact on the current examination engagement. In some cases, it may be appropriate for the auditors to work with investigators or legal authorities, or withdraw from the engagement or a portion of the examination engagement to avoid interfering with an ongoing investigation or legal proceeding.
c. The information in 4-702.5(a) provides auditors with guidance on evaluating the legal proceeding or investigation, so as to not compromise the investigation. Additionally, CAM 1-405 prescribes guidance on how the field auditor should interact with investigators, the types of information that should be given to the investigator and how to inform DCAA headquarters for requests made by investigatory agencies for contractor data. The guidance specifically directs the auditor that data that is already in possession of the FAO should be given to the investigators when requested, however, under no circumstances is the FAO to contact the contractor or access contractor systems to obtain data or other information in support of an investigation.

d. Additionally the discussions held with contractor management to inquire about their knowledge of any fraud or suspected fraud and within the audit team to discuss fraud indicators as well the asking the contractor to identify other studies or audits that directly relate to the subject matter under audit, including whether related recommendations have been implemented may assist the auditor in identifying any ongoing investigations or legal proceedings that may need to be considered in the current audit planning and evaluated in relation to avoiding interference with investigations or legal proceedings.

e. FAO auditors should not support formally constituted investigations, as discussed in 4-702.6. The auditor's responsibility for detecting fraud on any given audit ends with the submission of a DCAA Form 2000 (DCAA Form 2000) or Hotline referral. The Operations Investigative Support (OIS) Division typically performs the investigative support to DoD investigative organizations as authorized by DoD Instruction 7600.02, "Audit Policies," dated October 16, 2014.

2-306.7 Developing the Elements of a Finding (GAGAS 5.11-5.15) **

a. In an examination engagement, findings may involve deficiencies in internal control, noncompliance with provisions of laws, regulations, contracts, or grant agreements; fraud; or abuse. GAGAS requires that as part of a GAGAS examination engagement, when auditors identify findings, auditors should plan and perform procedures to develop the elements of the findings that are relevant and necessary to achieve the examination engagement objectives.

b. The elements needed for a finding depend entirely on the engagement objectives. Thus a finding or set of findings is complete to the extent that the engagement objectives are satisfied. When auditors identify deficiencies, auditors should plan and perform procedures to develop the elements of the findings that are relevant and necessary to achieve the engagement objectives. The elements of a finding are criteria, condition, cause, and effect or potential effect.

c. An element of a finding is relevant and necessary when it is required to achieve the audit objectives and to clearly relate the findings to assist the contracting officer in understanding the need for taking corrective action.

d. Refer to 4-403g 10-211.2 for guidance on DCAA structured notes and the
2-306.8 Examination Engagement Documentation (GAGAS 5.16-5.17)**

a. The AICPA requirements for attest engagement documentation are incorporated into GAGAS 5.16. These standards require an auditor prepare and maintain attest documentation, the form and content of which should be designed to meet the circumstances of the particular attestation engagement. Engagement documentation may also be referred to as working papers. Auditors should prepare engagement documentation that is sufficient to determine the nature, timing, and extent of the procedures performed, the identifying characteristics of the specific items or matters tested; who performed the engagement work and the date such work was completed; discussions about findings or issues that, in the auditor's professional judgment, are significant, including the nature of the significant findings or issues discussed, and when and with whom the discussions took place; who reviewed the engagement work performed and the date and extent of such review; and the results of the procedures performed and the evidence obtained.

b. Auditors must prepare attest documentation in connection with each engagement in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, extent, and results of procedures performed; and the evidence obtained and its source; and the conclusions reached, including evidence that supports the auditor’s significant judgments and conclusions.

c. The auditor should prepare documentation that contains support for findings, conclusions, and recommendations before they issue the report. Documentation includes a record of the auditor's reasoning on all significant findings or issues that require the exercise of professional judgment and related conclusions. The existence of difficult questions of principle or professional judgment calls for the documentation to include the relevant facts that were known by the auditor at the time the conclusion was reached. Documentation provides the principal support for:

- The statement in the report that the auditors performed the attestation engagement in accordance with GAGAS, and
- The auditors’ conclusion.

d. GAGAS requires auditors to also document the following:

- The objectives, scope and methodology.
- The work performed to support significant judgments and conclusions, including descriptions (identification) of transactions and records examined. The information provided should be sufficient for an experienced auditor to examine the same transactions and records.
- Evidence of supervisory reviews of the work performed before the date of the examination report of the evidence that supports findings, conclusions,
and recommendations contained in the examination report.

- The auditor’s departure from any applicable GAGAS requirements (due to law, regulation, scope limitations, restriction on access to records, etc.);
- The impact on the engagement and on the auditors’ conclusions when the examination engagement is not in compliance with applicable GAGAS requirements due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the audit. This applies to departures from unconditional requirements and from presumptively mandatory requirements when alternative procedures performed in the circumstances were not sufficient to achieve the objectives of the requirement. These circumstances would generally require a modified GAGAS statement (see 2-105).

e. When the timeliness of an audit report is critically important to a customer, it may be appropriate for an FAO to issue its report before completing its non-critical working papers; i.e., those working papers that do not impact the sufficiency of the documented audit evidence supporting the auditor’s findings, conclusions, and recommendations. This would generally be administrative working papers. In these situations, the audit team should:

(1) issue its audit report,
(2) ensure the customer’s immediate need for the audit report is documented in the working papers, and
(3) complete any remaining non-critical working paper documentation as soon as possible.

In no case will the auditor issue an audit report when working papers supporting the audit findings, conclusions or recommendations are incomplete. Significant revisions to the audit working papers after the audit report is issued are allowed only under specific circumstances and conditions described in 4-410.

f. Refer to 3-103.2 for guidance and policy on audit working papers. Additional guidance concerning the sufficiency of audit evidence and working papers is presented in 3-204.14 and 4-400. DCAA policies and procedures related to documenting supervisory reviews in the working papers are addressed in 2-S103.4, 3-103.2, and 4-403. Additionally CaseWare has Issues-Final Review SA to document the Final supervisory review comments and the functionality includes a provision for sign off of each document as “Reviewed by SA”, certifying the supervisory assertion that in the supervisor’s professional judgement, appropriate audit evidence supports the significant judgments and the conclusion reported.

2-306.9 Examination Engagements – Terminating an Engagement **

a. If an examination engagement is terminated and the assignment is cancelled before it is completed with more than 8 hours incurred on the assignment, auditors should write a memorandum for the record to fully document the work performed to the
date of cancellation and explain why the audit was terminated/cancelled (see 4.403f).

b. If the contractor and contracting officer were notified of the assignment through a notification/acknowledgment letter or informal communication (e.g., verbally or e-mail), the auditor should inform them that the audit has been terminated/cancelled and document that communication in the administrative working papers for the assignment.

2-307 Field Work Standards - Agreed-Upon Procedures Engagements **

a. GAGAS 5.58 requires auditors performing work under GAGAS comply with the relevant AICPA standards for agreed-upon procedures and the additional field work requirements and considerations established by GAGAS. The additional requirement relates to communicating significant deficiencies, material weaknesses, instances of fraud, noncompliance with provisions of laws regulations, contracts, or grant agreements, or abuse that comes to the auditor’s attention during an agreed-upon procedures engagement.

2-307.1 Planning – Agreed Upon Procedures Engagement **

a. The SSAE 18 standards for attestation engagements are applicable to agreed-upon procedures engagements as discussed in SSAE 18 sections 105, concepts common to all attestation engagements, section 215 agreed-upon procedures and section 315, compliance attestation.

b. An auditor may perform an agreed-upon procedures engagement provided that the auditor and the third party requesting the engagement is able to provide or have the contractor provide the auditor evidence of the contractor’s responsibility for the assertion or the subject matter. In an agreed-upon procedures engagement, it is the specific subject matter to which the agreed-upon procedures’ are to be applied using the criteria selected. The criteria must meet the requirements SSAE 18. The criteria against which the specific subject matter needs to be measured may be stated within the agreed-upon procedures.

c. The audit team should obtain an understanding of the specified requirements. The audit teams procedures to obtain the understanding should include the following:

(1) Consideration of laws, regulations, rules, contracts, and grants that pertain to the specified requirements, including published requirements.

(2) Consideration of knowledge about the specified requirements obtained through prior engagements and regulatory reports.

(3) Discussion with appropriate individuals within the entity (for example, the chief financial officer, internal auditors, legal counsel, compliance officer, or grant or contract administrators).

2-307.2 Communication – Agreed Upon Procedures Engagement **
a. When performing an agreed-upon procedures engagement the auditor and the specified parties (e.g. the CFAO) establish an understanding regarding the agreed-upon the procedures the auditor is to perform. The specified parties determine the procedures they believe to be appropriate to be applied by the auditor and take responsibility for the sufficiency (e.g. the nature, timing and extent) of the agreed-upon procedures for their purposes. The understanding includes the objectives of the engagement, the responsibilities of the auditor, entity management and the requestor and the limitations about the engagement.

b. The auditor’s responsibility in an agreed-upon procedures engagement is to carry out the procedures and report the findings. The auditor should have adequate knowledge in the specific subject matter to which the agreed-upon procedures are being applied. He or she may obtain such knowledge through formal or continuing education, practical experience, or consultation with others. The auditor has no responsibility to determine the difference(s) between the agreed-upon procedures to be performed and the procedures the auditor would have determined to be necessary if the auditor had been engaged to perform another type of attest engagement.

c. To satisfy this requirement, generally the auditor should communicate directly with the specified parties and obtain affirmative acknowledgment from them regarding this responsibility. This may be accomplished by meeting with the specified parties and documenting that meeting or by distributing a copy of an engagement letter and obtaining their agreement. The audit team should not report on an agreed-upon procedure engagement when specified parties do not agree upon the procedures performed or to be performed and do not take responsibility for the sufficiency of the procedures.

d. In an agreed-upon procedures engagement, the audit team should request written representations from management that:

1. Acknowledge management's responsibility for establishing and maintaining effective internal control over compliance.

2. State that management has performed an evaluation of (i) the entity's compliance with specified requirements or (ii) the entity's controls for establishing and maintaining internal control over compliance and detecting noncompliance with requirements, as applicable.

3. State management's interpretation of any compliance requirements that have varying interpretations.

4. State that management has disclosed any known noncompliance occurring subsequent to the period covered by the practitioner's report.

e. GAGAS 5.64-5.65 includes additional GAGAS considerations regarding communication. GAGAS recognizes that auditors often perform GAGAS engagements for a party other than the officials of the audited entity pursuant to a third-party request. In such cases auditors may find it appropriate to communicate information regarding the
services to be performed to the individuals requesting the engagement.

f. Establishing an understanding with the third party requestor can help the auditor avoid any misunderstandings regarding the nature of the agreed-upon procedures engagement. For example, agreed-upon procedures reports provide neither a high nor moderate level of assurance, and, as such do not perform sufficient work to develop the elements of a finding or provide recommendations that are common in other types of GAGAS engagements. Under such circumstances, for example requesting parties may find a different type of attestation engagement or a performance audit may provide the appropriate assurance to meet their needs.

g. Refer to 14-1002 for guidance with establishing an understanding with the requestor.

h. When the agreed-upon procedures engagement involves multiple geographic locations, the audit organization that is centrally planning the work should assure that assist auditors receive appropriate background information, including purpose, scope, level of evaluation (agreed-upon procedures), the procedures that office is to perform and relevant documentation to assure that the resultant fieldwork can be assembled into a single report.

i. If an agreed-upon procedures engagement is terminated and the assignment is cancelled before it is completed, auditors should write a memorandum for the record to fully document the work performed to the date of cancellation and explain why the engagement was terminated/cancelled (see 4.403f).

j. The auditor should inform the contractor and contracting officer that the engagement has been terminated/cancelled and document that communication in the administrative working papers for the assignment.

2-307.3 Evidential Matter – Agreed-Upon Procedures Engagements **

a. The auditor should obtain evidential matter from applying the agreed-upon procedures to provide a reasonable basis for the finding or findings expressed in his or her report. However the auditor does not need to perform additional procedures outside the scope of the engagement to gather additional evidential matter.

b. The auditor has no responsibility to determine the differences between the agreed-upon procedures to be performed and the procedures that the auditor would have determined necessary to perform if the auditor had been engaged to perform another form of attest engagement.

c. Refer to 14-1002.2 for examples of appropriate agreed-upon procedures.

2-307.4 Additional GAGAS Communication Requirements - Agreed-Upon Procedures Engagements (GAGAS 5.58-59) **

a. If the auditor becomes aware of significant deficiencies, material weaknesses, instances of fraud, noncompliance with provisions of laws, regulations, contracts or
grant agreements or abuse when conducting the procedures agreed-upon for the agreed-upon procedures engagement; the auditor should determine whether the existence of such matters affects the auditor’s ability to conduct or report on the agreed-upon procedures engagement.

b. As indicated in GAGAS 5.65 an agreed-upon procedures engagement does not provide high or moderate assurance as a result the auditor does not perform sufficient work to develop the elements of a finding. If the auditor becomes aware of potential significant deficiencies or material weaknesses as a result of performing the agreed-upon procedures, the auditor should inform the supervisory auditor. The supervisory auditor will then determine if it is appropriate to establish a deficiency report assignment under the attestation examination engagement standards to obtain sufficient acceptable audit evidence and develop the elements of a finding and provide a high level of assurance.

c. The auditor would communicate instances of potential fraud found during the performance of agreed-upon procedures engagement in accordance with the guidance in 4-700.

2-400 Section 4 – Attestation Engagement Reporting Standards **

2-401 Introduction **

The Generally Accepted Government Auditing Standards (GAGAS) for attestation engagements have reporting standards for examination engagements and agreed upon procedures in addition to those found in AICPA SSAE No. 18 which are incorporated into GAGAS by reference. This section explains how the GAGAS reporting standards are integrated with contract audit field work guidance.

2-402 AICPA Reporting Requirements for Attestation Engagements **

AICPA reporting requirements pertaining to attestation engagements can be found in SSAE 18 AT-C Sections 105, 205, and 315 for examination engagements; and 105, 215, and 315 for Agreed-Upon Procedures. For both examination engagements and Agreed-Upon Procedures the audit team’s opinion, conclusion, or findings, is to be contained in a written practitioner’s report which is appropriate to the engagement.

This section consolidates the applicable information from each AT-C section and explains how SSAE 18 and GAGAS are integrated with contract audit reporting requirements.

AICPA reporting requirements that apply to all levels of attestation engagements performed in accordance with GAGAS are discussed below.

2-402.1 Subject and Character of Engagement **

a. The auditor must identify the subject matter or the assertion being reported on and state the character of the engagement in the report.
b. The auditor who accepts an attest engagement should issue a report on the subject matter or the assertion or withdraw from the engagement. If reporting on the assertion, the assertion should accompany the report or should be clearly stated in the report.

c. The statement of the character of the engagement includes a description of the nature and scope of the work performed e.g. the type of engagement performed) and a reference to the governing professional standards (GAGAS).

d. When performing an examination engagement, the term “examination” should be used to describe the engagement to provide a high level of assurance.

e. Guidance on implementing this standard in general is in 10-202 and 10-208. Refer to 2-306.9 for guidance on communications when withdrawing (terminating) an engagement.

2-402.2 Conclusion **

In an examination engagement the auditor must state the auditor’s conclusion about the subject matter or the assertion in relation to the criteria against which the subject matter was evaluated in the report. Guidance on implementing this standard for examination engagements is in 10-208.5.

In an agreed-upon procedures engagement the auditor must state the procedures performed (or reference thereto) and related findings (The auditor should not provide a conclusion.) Guidance on implementing this standard for agreed-upon procedure engagements is in 14-1003.6.

2-402.3 Significant Reservations (Scope Limitations/ Matters Giving Rise to Modified Opinions) **

The auditor must state all of the significant reservations about the engagement, the subject matter, and if applicable, the assertion related thereto in the report. DCAA uses the terms “reservations about the engagement” and “reservations about the subject matter” to describe the nature of matter giving rise to a modified report opinion.

a. Reservations about the engagement (scope limitations) occur when the auditor encounters an inability to obtain sufficient appropriate evidence and can refer to any unresolved problem the auditor had in complying with applicable GAGAS requirements (e.g., the auditor was not able to perform all the procedures that he or she considers necessary in the circumstances) or, in an agreed-upon procedures engagement (AUP), the specific procedures agreed to by the parties. The auditor should not express an unqualified conclusion because GAGAS will not have been complied with if the auditor has been unable to apply all the procedures that he or she considers necessary in the circumstances.

b. Reservations about the subject matter or the assertion occur when the subject matter is materially misstated and can refer to any unresolved reservation about the conformity of the subject matter with the criteria, including the adequacy of the
disclosure of material matters. Reservations about the subject matter or the assertion may relate to the measurement, form, arrangement, content or underlying judgments and assumptions applicable to the subject matter or the assertion and its appended notes, including for example, the terminology used the amount of detail given, the classification of items, and the bases of amounts set forth. The auditor considers whether a particular reservation should affect the report given the circumstances and facts the auditor is aware of at the time.

2-402.4 Significant Reservations – Attestation Examination Engagements **

a. A reservation about the engagement (scope limitation) (see 2-402.3a) results in either a qualified opinion or disclaimer of opinion depending on the materiality and pervasiveness of the reservation. A qualified opinion requires the use of a modified GAGAS statement (see 2-105).

b. A reservation about the subject matter (subject matter is materially misstated) (see 2-402.3b) results in either a qualified or adverse opinion depending on the materiality and pervasiveness of the departure from the criteria. This type of reservation does not require a modified GAGAS statement unless the circumstances also result in a reservation about the engagement. For example, a contractor’s denial of access to records may result in both reservations about the engagement and reservations about the subject matter.

c. Refer to 10-208.5 for guidance on determining the type of opinion, 10-208.4b for guidance on reporting the basis of a qualified opinion and 10-208.7 for guidance on issuing a disclaimer of opinion.

2-402.5 Significant Restrictions on the Performance of – Agreed-Upon Procedures Engagements **

a. When circumstances impose restrictions on the performance of the agreed-upon procedures, the auditor should attempt to obtain agreement from the specified parties for a modification of the agree-upon procedures. When such an agreement cannot be obtained, (e.g. the procedures pertain to testing an element of cost in the assertion for compliance with a specific regulatory clause) the auditor should describe any restrictions on the performance of agreed upon procedures in the report or withdraw from the engagement.

b. Describing the restrictions on the performance of agreed upon procedures would requires the use of a modified GAGAS statement (see 2-105).

2-402.6 Restrictions on Use of Report **

a. The auditor must state in the report that the report is intended for use by specified parties under the following circumstances:

(1) When the criteria used to evaluate the subject matter are appropriate for or available to only limited or specified parties.
(2) When reporting on subject matter and a written assertion had not been provided by the contractor (i.e. the responsible party).

(3) When the report is on an attestation engagement to apply agreed-upon procedures to the subject matter.

b. Restrictions on the use of a report may result from a number of circumstances, including; the purpose of the report, the criteria used in preparation of the subject matter, the extent to which the procedures performed are known or understood, and the potential for the report to be misunderstood when taken out of context in which it was intended to be used. For example, the purpose of the restriction on the use of the agreed-upon procedures report is to restrict its use to only those parties that have agreed upon the procedures performed and taken responsibility for the sufficiency of the procedures. See 10-210.2 for guidance on restrictions included in DCAA reports.

2-403 Additional GAGAS Reporting Requirements for Attestation Examination Engagements (GAGAS 5.18)**

GAGAS establishes reporting standards for attestation examination engagements in addition to the requirements contained in the AICPA SSAE 18. These additional reporting requirements relate to:

1. reporting audits compliance with GAGAS

2. reporting deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements and abuse

3. reporting views of responsible officials

4. reporting confidential or sensitive information

5. distributing reports

Sections 2-404 through 2-411 discuss the additional GAGAS requirements and considerations for attestation examination engagements and the AICPA Statements on Standards for Attestation Engagements (SSAEs) incorporated by reference into GAGAS to attestation examination engagements.

2-404 Reporting Auditors Compliance with GAGAS (GAGAS 5.19)**

When auditors comply with all applicable GAGAS requirements for an examination engagement report they should include a statement in the examination report that the performed the examination engagement in accordance with GAGAS. See 2-105 for guidance on the use of modified and unmodified GAGAS compliance statements.

Refer to 10-208.3 for additional guidance on the GAGAS compliance statement for attestation examination engagements.
2-405 Reporting Confidential or Sensitive Information (GAGAS 5.39 – 5.43) **

a. When performing GAGAS examination engagement if certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that make the omission necessary.

b. Certain information may be classified or may be otherwise prohibited from general disclosure by federal, state, local laws or regulations. In such circumstances, auditors may issue a separate classified or limited use report containing such information and distribute the report only to persons authorized by law or regulation to receive it.

c. Additional circumstances associated with public safety, privacy, or security concern, could also justify the exclusion of certain information from a publicly available or widely distributed report because of the potential damage that would be caused by the misuse of this information. In such circumstances, auditors may issue a limited use report containing such information and distribute the report only to the parties responsible for acting on the auditors’ findings and recommendations.

d. DCAA attestation examination reports generally include sensitive and confidential information that is subject to regulatory or statutory restrictions. As a result, DCAA reports are not distributed publically and are restricted from release (2-402.6). Additionally, DoD Instruction 7600.02; Audit Policies, Enclosure 3, Item No. 3, requires DCAA to refer indications of potential fraud or other criminal acts to the appropriate investigative organization. Therefore, DCAA reports suspected fraud or irregularities separately (see 4-700).

2-406 Distributing Attestation Examination Reports (GAGAS 5.44) **

a. GAGAS 5.44 recognizes that distribution of reports completed in accordance with GAGAS depends on the relationship of the auditor to the audited organization and the nature of the information contained in the report. If the subject matter or the assertion involves material that is classified for security purposes or contains confidential or sensitive information, auditors should and document any limitations on report distribution.

b. DCAA does not perform audits for the audited entity. DCAA performs audits of contractors for Government officials or organizations requiring or arranging for the engagements and the reports generally include sensitive and confidential information that is subject to regulatory and statutory restrictions.

c. In keeping with GAGAS 5.44 and the relationship of DCAA to the audited entity, DCAA distributes the audit reports only to persons whose official duties require access to the report in accordance with Department of Defense (DoD) Manual 5200.01, Volume 4 - DoD Information Security Program, February 2012, Enclosure 3, paragraph 2.d. The contracting officer provides the report to the contractor at their discretion.
d. Refer to 1-507 for additional information on security requirements for contractor information and 10-210.2 for additional general information on audit report distribution restrictions. CAM 13-706.7 addresses the distribution of Uniform Guidance reports in accordance with 2 CFR 200, subpart F; CAM section 15-100 provides general guidance for distribution requirements pertaining to non-DoD agencies and table 15-1S6 provides distribution requirements specified by the non-DoD organizations.

e. The report shells delivered in CaseWare for the assignment include report restrictions documenting the limitations on report distribution due to the sensitive and contractor proprietary information for the audit team to tailor to the specific facts and circumstances of the audit in accordance with the guidance in 10-210.2.

2-407 Reporting Deficiencies in Internal Controls, Fraud, Noncompliance with Provisions of Laws, Regulations, Contracts, Grant Agreements and Abuse (GAGAS 5.20 – 5.26)**

a. When performing GAGAS examination engagements auditors should report based on the work performed:

   (1) significant deficiencies and material weakness in internal control (see 2-407.1a and 2-407.1b),

   (2) all instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or the assertion about the subject matter and any other instances that warrant the attention of those charged with governance (see 2-407.4), and

   (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter of the examination (see 2-407.4), and

   (4) abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement (see 2-407.4).

b. When considering the materiality of instances of fraud, noncompliance with provisions of laws regulations contracts, grant agreements or abuse, additional considerations may apply to GAGAS examination engagements of entities that receive government awards. For example auditors may find it appropriate to use lower materiality levels as compared with the materiality levels used in non-GAGAS engagements because of the public accountability of the entities receiving government funding, various legal and regulatory requirements and the visibility and sensitivity of government programs.

c. Auditors should include this information either in the same or in separate reports. To comply with these requirements, audit reports should either:

   (1) describe the scope of the auditor’s testing of compliance with applicable laws and regulations and testing of internal control (if performed) and present the results of
those tests, or

(2) refer to separate reports containing that information.

2-407.1 Deficiencies in Internal Control (GAGAS 5.22) **

a. GAGAS 5.22 requires that when performing a GAGAS examination engagement, including attestation examination engagements related to internal control, auditors should include in the examination engagement report all deficiencies even those communicated early, that are considered to be significant deficiencies or material weaknesses. The auditor must obtain sufficient evidence to provide a reasonable basis for the conclusion reached.

b. GAGAS 5.22 refers to the AICPA attestation section for the definition of significant deficiency and material weakness. However, since the AICPA definition is related to internal control over financial reporting and the DFARS criteria are related to internal control over compliance, we use the DFARS definition of a significant deficiency.

c. DFARS 252.242-7005(a) defines a significant deficiency as “A shortcoming in the system that materially affects the ability of officials of the Department of Defense to rely upon information produced by the system that is needed for management purposes.”

d. A significant deficiency based on the DFARS definition also will generally represent a material weakness in internal control as defined in the auditing standards. Although, the objective of a compliance attestation audit is to determine the contractor’s compliance with the criteria and to report significant deficiencies based on the DFARS definition of a significant deficiency, GAGAS 5.22 requires auditors to include in the audit report material weaknesses based on the AICPA attestation definition of material weakness. However, since the AICPA definition is related to internal control over financial reporting and the DFARS criteria are related to internal control over compliance, DCAA has modified the definition of material weakness as follows: A material weakness related to internal control over compliance is: A deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that a material noncompliance with a compliance requirement (e.g., applicable Government contract laws and regulations) will not be prevented, or detected and corrected on a timely basis.

e. When auditors report separately on noncompliance and internal control deficiencies, the audit report of the originating assignment should reference the separate report and state that the separate report is an integral part of the audit and should be considered in assessing the results of audit.

2-407.2 Early Communication of Deficiencies in Internal Control (GAGAS 5.47) **

a. Due to the objectives and public accountability of GAGAS examination
engagements, additional considerations related to the early communication of deficiencies may apply.

b. For some matters, early communication of deficiencies may be important because of the relative significance and the urgency for corrective follow-up action. Further when a control deficiency results in a noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, early communication is important to allow prompt corrective action to prevent further noncompliance.

c. When based on sufficient appropriate evidence auditors conclude there is a deficiency, the auditor should communicate deficiencies in internal controls and noncompliance’s that is material to the subject matter or assertion on a “real time basis” using a deficiency report.

d. DCAA normally submits the deficiency report to the contracting officer responsible for acting on the audit findings. Additionally, a copy of the report is provided to the contractor through the contracting officer.

e. When a deficiency is communicated early, the reporting requirements of GAGAS 5.20 (see 2-405) still apply.

2-407.3 Deficiencies Not Considered Significant Deficiencies or Material Weaknesses (GAGAS 5.23) **

a. Determining whether and how to communicate deficiencies that warrant CFAO attention but are not considered significant deficiencies or material weaknesses, is a matter of professional judgement.

b. DCAA auditors should report deficiencies that are not considered significant deficiencies or material weaknesses but warrant the attention of the CFAO by including the information in the audit report. When the audit is a business system audit it should be included as an appendix “Report on Other Matters” entitled “Deficiencies that Warrant Attention of the Contracting Officer”.

2-407.4 Fraud, Noncompliance with Provisions of Laws, Regulations, Contracts, Grant Agreements and Abuse (GAGAS 5.24 and 5.26) **

a. When performing a GAGAS examination engagement and auditors conclude based on sufficient, appropriate evidence, that any of the following either has occurred or is likely to have occurred, they should include in their examination report the relevant information about:

(1) fraud and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or the assertion about the subject matter and any other instances that warrant the attention of those charged with governance),

(2) noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter of the
examination, and

(3) abuse that has a material effect (either quantitatively or qualitatively) on the subject matter or an assertion about the subject matter of the examination engagement.

b. To comply with these requirements, audit reports should either:

(1) describe the scope of the auditor’s testing of compliance with applicable laws regulations, contract terms or grant agreements and if applicable the testing of internal control and present the results of those tests, or

(2) refer to separate reports containing that information (e.g. deficiency reports).

c. In presenting the results of those tests, the auditor should report all noncompliance of provisions of contracts or grant agreements that are material, other material noncompliance, and significant deficiencies/material weaknesses in internal control applicable to the subject matter, or assertion of the engagement.

d. When potential fraud or suspected irregularities are discovered, DoD Instruction 7600.02; Audit Policies, Enclosure 3, Item No. 3, requires DCAA to refer indications of potential fraud or other criminal acts to the appropriate investigative organization. Therefore DCAA reports suspected fraud or irregularities separately to the appropriate investigative agencies (see 4-700) instead of including the issue in the audit report. This is in keeping with the standards for reporting confidential or sensitive information (see 2-405).

e. GAGAS also requires the reporting of abuse that is material to the subject matter. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse does not necessarily involve fraud, violation of laws, regulations, or provisions of contracts. CAM Sections 4-803 and 4-804 address audit responsibilities relating to suspected abuse or unsatisfactory conditions.

f. GAGAS 5.26 discusses that auditors may limit their public reporting of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that either have occurred or are likely to have occurred to matters that would not compromise investigative or legal proceedings and, for example report only on information that is part of the public record. As discussed in 2-402.6 DCAA audit reports may contain contractor propriety information and are not publicly reported. In keeping with GAGAS 5.44 (see 2-407) DCAA audit reports are distributed only to persons whose official duties require access to the report in accordance with Department of Defense (DoD) Manual 5200.01, Volume 4 - DoD Information Security Program, February 2012, Enclosure 3, paragraph 2.d

2-407.5 Noncompliance with Provisions of Contracts, Grant Agreements, or Abuse that are less than Material (GAGAS 5.25) **
a. When auditors performing an attestation examination engagement detect instances of noncompliance with provisions of contracts or grant agreements, or abuse that have an effect on the subject matter or the assertion about the subject matter that are less than material but warrant the attention of those charged with governance they should communicate those findings in writing to audited entity officials. DCAA does not perform audits for audited entity officials, as discussed in 2-407 DCAA performs audits of contractors for Government officials or organizations requiring or arranging for the engagements.

2-407.6 Noncompliance with Provisions of Contracts, Grant Agreements, or Abuse that do not Warrant the Attention of those Charged with Governance (GAGAS 5.25) **

a. When auditors detect any instances of fraud, noncompliance with provisions of contracts or grant agreements, or abuse that do not warrant the attention of those changed with governance, the auditors’ determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment.

2-408 Presenting Findings in the Examination Report (GAGAS 5.27-5.28) **

a. When performing a GAGAS examination engagement and presenting findings such as deficiencies in internal control, noncompliance with provisions of laws, regulations, contracts, grant agreements or abuse, auditors should develop the elements of the findings to the extent necessary.

b. Clearly developed audit findings assist oversight officials of the audited entity, such as the CFAO, in understanding the need to require the audited entity to take corrective action, and assist auditors in making recommendations to the CFAO for corrective action.

c. Auditors should place their findings in perspective by describing the nature and extent of issues being reported and the extent of the work performed that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of the findings, auditors’ should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately.

d. Refer to 4-403 for a discussion on the key elements of a structured note required to be in the detailed working papers, 10-104.5 for guidance of clarity and precision in Audit Reports and 10-212.5 structured Notes for guidance on presenting findings in an attestation examination report.

2-409 Reporting Findings Directly to Parties Outside the Audited Entity (GAGAS 5.29-5.31) **

a. The intent of the guidance in GAGAS 5.29-5.31 is to outline circumstances where
an auditor performing an attestation engagement for the audited entity should report findings on known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements or abuse directly to parties outside the audited entity.

b. DCAA does not perform audits for the audited entity. However GAGAS 5.44 recognizes that distribution of reports completed in accordance with GAGAS depends on the relationship of the auditor to the audited organization and the nature of the information contained in the report and outlines distribution for reports completed in accordance with GAGAS. As such in keeping with GAGAS 5.44 and the relationship of DCAA to the audited entity, DCAA policies and procedures relate to audit report distribution to parties outside the audited entity. Refer to 2-406 for additional discussion of GAGAS 5.44 requirements.

2-410 Reporting Views of Responsible Officials (GAGAS 5.32 – 5.38) **

a. When performing a GAGAS examination engagement, if the examination report discloses deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements or abuse, auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

b. In instances of suspected irregularities DCAA guidance is to issue a Form 2000 and auditors should follow guidance in 4-700 regarding discussions with the contractor.

2-410.1 Providing the Draft Examination Report to the Audited Entity **

a. Providing a draft report with findings for review and comment by responsible officials of the audited entity and others helps the auditor develop a report that is fair, complete, and objective. Including the views of responsible officials results in a report that presents not only the auditors’ findings, conclusions and recommendations, but also the perspectives of the responsible officials of the audited entity and the corrective actions they plan to take.

b. Information on the release of draft audit reports to the audited entity is provided in 4-304, 10-210.3 and 10-210.4. DoD Instruction 7600.02; Audit Policies, Enclosure 3, Item No. 3, requires DCAA to refer indications of potential fraud or other criminal acts to the appropriate investigative organization. Therefore DCAA reports suspected fraud or irregularities separately and auditors should follow guidance in 4-700 regarding discussions with the contractor.

2-410.2 Obtaining Written or Oral Comments **

a. Obtaining the comments of responsible officials of the audited entity in writing is preferred, but oral comments are acceptable.

b. When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials’ written comments, or a summary of the comments received. When the responsible officials provide oral comments only,
Auditors should prepare a summary of the oral comments and provide a copy of the summary to the responsible officials to verify that the comments are accurately stated.

c. Obtaining oral comments may be appropriate when, for example, there is a reporting date critical to meeting a user’s needs, and the responsible officials are familiar with the findings and issues addressed in the draft audit report, or the auditors do not expect major disagreements with findings, conclusions, or recommendations in the draft report or major controversies with regard to the issues discussed in the draft report.

d. Auditors should also include in the report an evaluation of the comments, as appropriate, in cases in which the audited entity provided technical comments, in addition to its written or oral comment on the report auditors may disclose in the report that such comments were received.

e. When the audited entity’s comments are inconsistent or in conflict with the findings, conclusions or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors’ recommendations, the auditors should evaluate the validity of the audited entities comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported by sufficient appropriate evidence.

f. If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the audited entity. In such cases the auditor should indicate in the report that the audited entity did not provide comments.

g. See 4-304 for information on obtaining comments from responsible officials and 10-208.5d for reporting those comments.

2-411 Reporting on Agreed-Upon Procedures Engagements (GAGAS 5.60 – 5.62 and 5.66 – 5.67)**

a. The AICPA attestation standards for agreed-upon procedures require that the auditor’s report on agreed-upon procedures engagements be in the form of procedures and findings and specifies the required elements to be contained in the report.

b. Since GAGAS agreed-upon procedures engagements are substantially less in scope than an audits and examination engagements, it is important not to deviate from the required reporting elements contained in the SSAE 18. For example, a required reporting element of the report on agreed-upon procedures is a statement that the auditor was not engaged to and did not conduct an examination or review of the subject matter, the objectives of which would be the expression of an opinion or limited assurance and that if the auditors had performed additional procedures, other matter might have come to their attestation that would have been reported. Another required element is a statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiently of those
procedures. Including only those elements that the AICPA reporting standards for agreed-upon procedures engagements require or permit ensures that auditors comply with the AICPA standards and that users of GAGAS reports have an understanding of the nature of the work performed and the results of the agreed-upon procedures engagement.

c. GAGAS establishes reporting requirements for agreed-upon procedures engagements in addition to the requirements contained in the AICPA standards. Auditors should comply with these additional standards when citing GAGAS in an agreed-upon procedures report. The additional requirements relate to,

(1) reporting auditors compliance with GAGAS and

(2) distributing reports.

2-411.1 Reporting Compliance with GAGAS (GAGAS 5.61) **

a. When auditors comply with all applicable GAGAS requirements for agreed-upon procedures engagements, they should include a statement in the agreed-upon procedures engagement report that they performed the engagement in accordance with GAGAS.

Refer to 2-105 for guidance on the use of modified and unmodified GAGAS compliance statements.

2-411.2 Distributing Reports- Agreed-Upon Procedures Engagements (GAGAS 5.62) **

a. GAGAS 5.62 recognizes that distribution of agreed-upon procedures reports completed in accordance with GAGAS depends on the relationship of the auditor to the audited organization and the nature of the information contained in the report. If the subject matter or the assertion involves material that is classified for security purposes or contains confidential or sensitive information, auditors should limit the report distribution and document any limitations in the report.

b. DCAA does not perform agreed-upon procedures engagements for the audited entity. DCAA performs agreed-upon procedures engagements of contractor assertions or subject matter for Government officials or organizations requiring or arranging for the engagements and the reports generally include sensitive and confidential information that is subject to regulatory and statutory restrictions.

c. In keeping with GAGAS 5.62 and the relationship of DCAA to the audited entity, DCAA distributes the agreed-upon procedures reports to the requestor and/or other officials who have legal oversight authority or who may be responsible for acting on the report findings and to others authorized to receive such reports. The requestor or the cognizant federal agency official responsible for acting on the agreed-upon procedures report findings provide a copy of the report to the contractor at his or her discretion.
d. The report shells delivered in CaseWare for the assignment include report restrictions documenting the limitations on report distribution due to the sensitive and contractor proprietary information for the audit team to tailor to the specific facts and circumstances of the agreed-upon procedures engagement in accordance with the guidance in 10-210.2.

2-500 Section 5 – Field Work Standards for Performance Audits (Operations Audits) **

2-501 Introduction (2018 GAGAS 8.01 – 8.02) **

In the contract audit environment, performance audits are more commonly described as operations audits. DCAA performance audits seek to determine if the contractor is operating in an economical and efficient manner. Economy and efficiency relate to the reasonableness of costs charged to Government contracts, and may also impacts areas such as program schedules operations, etc. Inefficient operations can result in schedule slippages and contract overruns. Examples of subject matter covered by operations audits performed by DCAA include: labor and facilities utilization, and materials inventory management. The 2018 Yellow Book establishes the field work and reporting standards for performance audits in Chapters 8 and 9 respectively. These standards apply to the operations audits performed by DCAA. The auditor must also follow the requirements in 2018 GAGAS Chapters 1 through 5. Fieldwork requirements establish an overall approach for planning and performing the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for findings and conclusions based on the audit objectives.

2-501.1 Reasonable Assurance (2018 GAGAS 8.12 - 8.13) **

Performance audits that comply with 2018 GAGAS provide reasonable assurance that evidence is sufficient and appropriate to support findings and conclusions in relation to the audit objectives. The sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives significance of the, findings, and overall conclusions. Audit objectives for operations audits range from narrow to broad and involve varying types and quality of evidence. In some audits, sufficient, appropriate evidence is available, but in others, information may have limitations. Professional judgment assists auditors in determining the audit scope and methodology needed to address the audit objectives, and in evaluating whether sufficient appropriate evidence has been obtained to address the audit objectives.

2-501.2 Significance in a Performance (Operations) Audit (2018 GAGAS 8.15) **

The concept of significance assists auditors throughout an operations audit, including deciding the type and extent of audit procedures to perform, evaluating results of audit work, and developing the report and related findings and conclusions. Significance is defined as the relative importance of a matter within the context in which it is being considered, and includes both quantitative and qualitative factors, such as: the magnitude of the matter in relation to the subject matter of the audit; the nature and
effect of the matter; the relevance of the matter; the needs and interests of an objective third party with knowledge of the relevant information; and the impact of the matter to the audited program or activity. Professional judgment assists auditors when evaluating the significance of matters within the context of the audit objectives.

2-501.3 Audit Objectives (2018 GAGAS 6.08) **

a. The audit objectives are what the audit is intended to accomplish. The audit objectives identify the audit subject matter and performance aspects to be performed in the audit. Audit objectives can be thought of as questions about the subject matter that the auditor seeks to answer based on the evidence obtained and assessed against suitable criteria. Information addressing the audit objectives should be provided in an objective, understandable manner.

b. Performance audit objectives vary widely, as discussed in the 2-501 Introduction. The audit team should use professional judgment and consider the requestor’s needs and objectives when establishing the audit objectives.

2-501.4 Audit Risk (2018 GAGAS 8.16) **

a. Audit risk is the possibility that the findings, conclusions, recommendations, or assurance may be improper or incomplete. It is the risk that auditors will not detect a mistake, inconsistency, significant error, or fraud in the evidence supporting the audit. This risk can be based on factors such as evidence that is not sufficient and/or appropriate, an inadequate audit processes, or intentional omissions of information or misleading information due to misrepresentation or fraud. The assessment of audit risk involves both qualitative and quantitative considerations. Factors of audit risk can include such things as: the complexity or sensitivity of the work; size of the program; operations in terms of dollar amounts; adequacy of the audited entity’s systems; the audited entity’s processes to detect inconsistencies, significant errors or fraud, and access to records. Audit risk can be reduced by taking actions such as increasing the scope of work, adding specialists, additional reviewers and other resources to the audit team; changing the methodology to obtain additional evidence, obtaining higher quality evidence, or alternative forms of corroborating evidence; and aligning the findings and conclusions to reflect the evidence obtained.

b. The audit planning steps in the performance audit standard audit programs address assessing audit risk.

2-502 Planning (2018 GAGAS 8.03 – 8.35) **

a. Audit teams must adequately plan the audit and document the planning of the work necessary to address the audit objectives. Auditors must plan the audit to reduce audit risk to an acceptably low level to provide reasonable assurance that the evidence is sufficient and appropriate to support findings and conclusions. This determination is a matter of professional judgment. In planning the audit, auditors should assess significance and audit risk and apply these assessments in defining the audit objectives, scope, and methodology. Planning is a continuous process throughout the audit.
Therefore, auditors may need to adjust the audit objectives, scope, and methodology as work is being completed.

b. The scope is the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as the documents or records to be evaluated, the time period of the evaluation and the geographic locations included in the evaluation.

c. The methodology describes the nature and extent of audit procedures for gathering and analyzing evidence to address the audit objectives. Audit procedures are the specific steps and tests auditors perform to accomplish the audit. Auditors should design the methodology to provide reasonable assurance that the evidence obtained is sufficient and appropriate to support the auditors’ findings and conclusions in relation to the audit objectives and to reduce audit risk to an acceptably low level.

d. Adequate planning for performance audits includes gaining an understanding of the following, within the context of the audit objectives:

(1) the nature and profile of the programs and the needs of potential users of the audit report. The term program as used in 2018 GAGAS includes processes, projects, studies, policies, operations, activities, entities, and functions.

(2) internal control as it relates to the specific objectives and scope of the audit,

(3) information systems controls for purposes of assessing audit risk and planning the audit,

(4) provisions of laws, regulations, contracts, and grant agreements and potential fraud that are significant to the audit objectives,

(5) ongoing investigations or legal proceedings, and

(6) the results of previous audits and attestation engagements that directly relate to the current audit objectives.

e. The audit team will perform the following activities during the planning phase:

(1) Identify suitable criteria based on the audit objectives that will enable the auditor to evaluate the subject matter,

(2) identify sources of audit evidence and determine the amount and type of audit evidence needed, given the audit risk and significance,

(3) evaluate whether to use the work of other auditors and specialist to address some of the audit objectives,

(4) assign staff and specialists that collectively possess the professional competence necessary to perform the audit, and identify other resources needed to
perform the audit,

(5) communicate about planning and performance of the audit to management officials, Those charged with governance, and others as applicable, and

(6) prepare a written audit plan (see 2-502.12).

f. Auditors should communicate an overview of the objectives, scope, methodology, timing of the audit, and planned reporting (including any potential restrictions on the report) to contractor management, including those with sufficient authority and responsibility to implement corrective action in the program or activity being audited and the requestor of the audit services.


a. DCAA auditors perform economy and efficiency audits with primary objectives related to determining the reasonableness of the costs being charged to Government contracts (versus reviewing specific programs). Program audits are typically performed by oversight agencies, such as the DoD OIG and the GAO.

b. 2018 GAGAS 8.36 requires auditors to obtain an understanding of the program under audit and the potential use that will be made of the audit results. Obtaining this understanding helps auditors to assess the relevant risks associated with the program and the impact of those risks on the audit objectives to design the scope and methodology for performing the audit. The auditors’ understanding may come from previous knowledge about the program, knowledge gained from inquiries, observations, and reviewing documents while planning the audit. The extent and breadth of those inquiries and observations will vary among audits based on the audit objectives, as will the need to understand the individual aspects of the program. The auditor should consider the nature and profile of a program, which include:

(1) visibility, sensitivity, and relevant risks associated with the program,

(2) age of the program or changes in its condition,

(3) size of the program in terms of total dollars or other measures,

(4) level and extent of review or other forms of independent oversight,

(5) the program’s strategic plan and objectives, and

(6) external factors or conditions that could directly affect the program.

c. See 2-504 for additional information on obtaining sufficient and appropriate audit evidence and 2-S103.4, 14-502 and 14-503 for additional information on audit planning and planning considerations.
2-502.2 Internal Controls (2018 GAGAS 8.41 – 8.67) **

a. Auditors should obtain an understanding of internal controls that are significant to the audit objectives (for example, controls applicable to any aspect of the activities in which the auditor attempts to judge whether existing practices can be made significantly more efficient or economical). Consideration of internal control in a performance audit begins with determining the significance of internal control to the audit objectives and documenting that determination. See 2018 GAGAS 8.41 for factors that may be considered when determining the significance of internal control to the audit objectives. Additionally, 2018 GAGAS 8.41 through 8.67 Internal Control provides application guidance related to obtaining an understanding, assessing significance, and reporting deficiencies in internal control as well as considerations related to information systems.

b. GAGAS requires auditors to assess, and document their assessment, of the design, implementation, and/or operating effectiveness of internal control to the extent necessary to address the audit objectives (2018 GAGAS 8.49). The levels of internal control assessment that may be performed for controls that are significant to the audit objects are:

1. assessing the design of controls,
2. assessing the design and implementation of controls, or
3. assessing the design, implementation, and operating effectiveness of controls.

Assessment of internal control involves designing and performing procedures to obtain sufficient, appropriate evidence to support and document the findings and conclusions on design, implementation, and/or operating effectiveness of controls that are significant to the audit objectives. Key controls are generally assessed during the planning phase, which may include controls at both the entity and transaction levels. Changes may be made to the initial determination of key controls based on information gathered during fieldwork.

c. Assessment of the design and implementation of internal control is crucial to determine if the internal control is operating effectively to meet the control objective:

- Design. The design of internal control is assessed by determining whether controls individually and in combination are capable of achieving the objective for the control and addressing the related risk.

- Implementation. The implementation of internal control is assessed by determining if the control exists and has been placed into operation. A control that is not effectively designed cannot be effectively implemented.

- Operating Effectiveness. The operating effectiveness of internal control is assessed by determining whether controls were applied at relevant times during the period under evaluation, the consistency with which they were applied, and by whom or
by what means they were applied. If a control is not effectively designed and implemented, it cannot operate effectively.

d. Auditors should document their assessment of internal control and plan to obtain sufficient, appropriate evidence to support their assessment about the effectiveness of those controls. The effectiveness of significant internal controls is frequently dependent on the effectiveness of the information systems internal controls. Thus, when obtaining an understanding of internal control significant to the audit objectives, auditors should also determine whether it is necessary to evaluate information systems controls.

e. The effectiveness of internal control that is significant within the context of the audit objectives can affect audit risk. Consequently auditors may need to modify the nature, timing or extent of audit procedures based on the assessment of internal controls and the results of internal control testing.

f. Auditors may obtain an understanding of internal control through inquiries, observations, inspection of documents and records, review of other audit reports and/or through substantive tests. The nature and extent of procedures performed to obtain an understanding of internal control will vary depending on specific audit’s objectives, audit risk, known or potential internal control deficiencies, and the auditors’ knowledge of internal control gained in prior audits.

g. Consider the following principal types of internal control objectives to identify controls that are significant to the audit objectives.

(1) Effectiveness and efficiency of operations: Controls over operations include policies and procedures that the audited entity has designed and implemented to provide reasonable assurance that the operation meets its objectives, while considering cost-effectiveness and efficiency. Understanding these controls can help auditors understand the program operations.

(2) Relevance and reliability of information: Controls over the relevance and reliability of information include policies, procedures, and practices that have been implemented to provide reasonable assurance that operational and financial information used for decision making and internal and external reporting is relevant and reliable and fairly represented in reports. Understanding these controls can help auditors assess the risk that the information gathered by the entity may not be relevant or reliable, in order to design appropriate tests of the information significant to the audit objectives.

(3) Compliance with applicable laws, regulations, and provisions of contracts or grant agreements: Controls over compliance include policies and procedures that have been implemented to provide reasonable assurance that the program is performed in accordance with applicable laws, regulations, and provisions of contracts or grant agreements. Understanding the relevant controls over compliance with those laws, regulations, and provisions of contracts or grant agreements assist the auditors in identifying the controls that are significant within the context of the audit objectives...
assessing the risk of noncompliance with the provisions of contracts or grant agreements, violations of law and regulations, fraud, and illegal acts.

2-502.3 Internal Control Deficiencies Considerations (2018 GAGAS 8.54 - 8.57) **

a. Deficiencies in internal control may be identified during assessment of a control. A deficiency exists when the design, implementation, or operation of a control does not achieve the desired control objectives to address related risks.

- A design deficiency exists when a necessary control is either missing or not properly designed. An improperly designed control would result in the control objective not being met even if the control operates as designed.

- An implementation deficiency exists when a properly designed control is not correctly implemented.

- A deficiency in operating effectiveness exists when a properly designed and implemented control does not operate as designed, or the person performing the control does not have the necessary competence or authority to perform the control effectively.

b. 2018 GAGAS 8.54 requires auditors to evaluate and document the significance of identified internal control deficiencies within the context of the audit objectives. Deficiencies are evaluated on both an individual and aggregate basis, with consideration given to the correlation among deficiencies.

c. Determining whether deficiencies are significant within the context of the audit objectives involves evaluating the following factors:

1. Magnitude of impact, which is the likely effect that the deficiency could have on the entity (or program) achieving its objectives. Magnitude is affected by factors such as the size, pervasiveness, and duration of the deficiency’s impact. A deficiency may be more significant to one audit objective than another.

2. Likelihood of occurrence

3. Nature of the deficiency involves factors such as the degree of subjectivity involved with the deficiency and whether the deficiency arises from error, fraud or misconduct.

d. When determining the cause of internal control deficiencies, it may be helpful for auditors to perform an analysis to identify the root cause of the deficiencies, for example, is the deficiency due to improper design or improper implementation, override of the control by staff, etc. This may strengthen the quality of the audit recommendations for corrective actions. Findings of internal control deficiencies should be developed using the four elements of a finding identified in 2018 GAGAS 8.116. See 2018 GAGAS 8.58 for examples of control deficiencies.

a. The effectiveness of significant internal controls frequently depends on the effectiveness of information systems controls. When an auditor obtains an understanding of significant internal controls, the auditor should also determine if it is necessary to evaluate the information systems controls. Understanding information systems controls (e.g., general controls, application controls, user controls) is important when information systems are used extensively throughout the program under audit and the fundamental business processes related to the audit objectives rely on information systems.

b. An organization's use of information systems controls may be extensive; and the auditor should focus on the information systems controls that are significant to the audit objectives. Auditors should evaluate the design, implementation, and/or operating effectiveness of such systems controls. Information systems controls that are significant to the audit objectives may need to be evaluated for effectiveness in order to obtain sufficient, appropriate evidence. Auditors should obtain a sufficient understanding of information systems controls necessary to assess audit risk and plan the audit. See 2018 GAGAS 8.67 for factors that may assist in determining the significance of information system controls to the audit objectives.

c. The evaluation of information systems controls may be done in conjunction with the auditors' consideration of internal control within the context of the audit objectives, or as separate audit objectives or procedures. The extent of the audit procedures to obtain such an understanding depends on the significance of the information system controls to the audit objectives. In addition, the nature and extent of audit risk related to information systems controls area affected by the nature of the hardware and software used the configuration of the entity's systems and networks, and the entity's information systems strategy.

d. Auditors should determine which audit procedures related to information systems controls are needed to obtain sufficient, appropriate evidence to support the audit findings and conclusions. The following factors may assist auditors in making this determination.

   (1) Understanding the significance of the impact of the system relative to the accessibility and reliability of the information produced, and

   (2) Identifying key controls that are critical to providing assurance that the information required for the audit is reliable and evaluating those key controls, e.g. general, application, and user controls.

e. The following factors may assist in designing appropriate audit procedures to evaluate the effectiveness of significant information systems controls include:

   (1) The extent of assessment of internal controls that are significant to the audit objectives depends on the reliability of the information processed or generated by the information systems.
(2) The availability of evidence outside the information system to support or corroborate findings and conclusions.

(3) The relationship of information systems controls to data reliability: When critical systems controls are effective, the auditor may be able to reduce the extent of substantive testing of the related data.

(4) Evaluating the effectiveness of systems controls as an audit objective: Auditors should test information systems controls necessary to address the audit objectives. For example, the audit objective may involve assessing the effectiveness of systems controls related to certain systems, facilities, functions, or organizations.

2-502.5 Provisions of Laws, Regulations, Contracts and Grant Agreements, Fraud and Abuse (2018 GAGAS 8.68 – 8.70) **

a. Auditors should identify any provisions of laws, regulations, contracts, or grant agreements that are significant to the audit objectives and assess the risk that noncompliance could occur. Based on that risk assessment, the auditor should design and perform procedures to obtain reasonable assurance of detecting instances of significant noncompliance with provisions of laws, regulations, contracts, or grant agreements.

b. The assessment of audit risk may be affected by such factors as the complexity of the laws and regulations and provisions of contracts. The assessment of audit risk may also be affected by whether the entity has controls that are effective in preventing or detecting violations of laws, regulations, and provisions of contracts. If auditors obtain sufficient, appropriate evidence of the effectiveness of these controls, they may be able to reduce the extent of their tests of compliance.

c. Because the determination of waste and abuse is subjective, auditors are not required to perform specific procedures to detect waste or abuse in performance audits. However, auditors may consider whether and how to communicate such matters if they become aware of them. Auditors may also discover that waste or abuse are indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements. If, during the course of the audit, auditors become aware of waste or abuse that could be quantitatively or qualitatively significant to the program under audit, auditors should apply audit procedures specifically designed to test if the waste or abuse has a potentially material effect on the subject matter. After performing additional work, auditors may discover that the waste or abuse is indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements (see 4-800).

d. Abuse is behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances. The misuse of authority or position for personal gain or for the benefit of family members or business associates is also abuse. While abuse is distinct from acts of fraud, or violations of laws and regulations, and provisions of contracts, it may indicate that fraud or noncompliance with laws, regulations, and
contracts is occurring. Examples of abuse include management having staff perform personal errands for them, or charging unneeded overtime.

e. Waste is the act of using or expending resources carelessly, extravagantly, or for no purpose. Waste can include activities that do not include abuse, and may not result in violations of law. Waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight. Examples of potential waste include making travel arrangements contrary to established policies or that are unnecessarily expensive, or procuring items through vendors that are that are unnecessarily expensive.

**2-502.6 Fraud (2018 GAGAS 8.71 – 8.76)** 

a. In planning the audit, auditors should assess risks of fraud occurring that are significant to the audit objectives. Fraud involves obtaining something of value through willful misrepresentation. Whether an act is in fact fraud is a determination to be made through the judicial or other adjudicative system and is beyond auditors’ professional responsibility. See CAM Chapter 4-700 for auditor responsibilities related to suspected or identified instances of fraud.

b. The audit team should discuss the contractor’s risk of fraud, including factors such as financial incentives, pressures to commit fraud, opportunities for fraud to occur, and rationalizations or attitudes that could allow individuals to commit fraud. Auditors should gather and assess information to identify risks of fraud that are significant to the audit objectives or that could affect the findings and conclusions.

c. Assessing the risk of fraud is an ongoing process throughout the audit. Professional skepticism assists auditors in assessing which factors or risks could significantly affect the audit objectives. If indications of fraud risk, significant to the audit objectives, arise during the course of the audit that were not identified in the planning stage, the auditor should modify the audit program as necessary and perform procedures designed to detect instances of fraud that are material to the subject matter. For example, auditors may obtain information through discussion with officials of the audited entity or through other means to determine the susceptibility of the program to fraud, the extent to which the audited entity has implemented leading practices to manage fraud risks, the status of internal controls the entity has established to detect and prevent fraud, or the risk that individuals in the audited entity could override internal controls. If the auditors become aware that fraud has, or likely has, occurred, follow the procedures in 4-702.4.

d. There is no requirement for auditors to prove the existence of fraud. If the auditors obtain information raising reasonable suspicion of fraud, the procedures in 4-702.3k should be followed to respond to the presence of fraud risk indicators.

**2-502.7 Ongoing Investigations and Legal Proceeding (2018 GAGAS 8.27 – 8.29)**

a. Avoiding interference with investigations or legal proceedings is important when pursuing indications of fraud or noncompliance, with provisions of laws,
regulations, contracts, or grant agreements. When investigations or legal proceedings are initiated or in process, auditors should evaluate the impact on the current audit. In some cases, it may be appropriate for the auditors to work with investigators or legal authorities, or withdraw from or defer further work on the audit or a portion of the audit to avoid interfering with an ongoing investigation or legal proceedings.

b. In relation to reporting fraud, DoD Instruction 7600.02; Audit Policies, Enclosure 3, Item No. 3, requires DCAA to refer indications of potential fraud or other criminal acts to the appropriate investigative organization. Procedures for reporting on potential fraud are provided in 4-702.4. Procedures on evaluating whether or how to perform audit activities subsequent to referral to avoid compromising the investigation are discussed in 4-702.5. Investigative support to investigators or legal authorities is performed by the DCAA Operations Investigative Support (OIS) Division (4-702.6).

c. See 1-405 for guidance on FAO auditor interactions with investigators, the types of information that should be given to the investigator, and how to inform DCAA headquarters of requests made by investigatory agencies for contractor data.

d. In addition to the CAM references above, the audit programs for performance audit have audit planning steps to assist the auditor in avoiding interference with any on-going investigations or legal proceedings.

   (1) The auditor should inquire of management during the entrance conference, or other appropriate meetings, regarding management’s knowledge of any on-going investigations or legal proceedings or awareness, as well as their knowledge or awareness of any fraud or suspected fraud affecting the subject of the audit. This includes management’s awareness of allegations of fraud or suspected fraud affecting the audit objectives, and contractor management understanding about the risks of fraud relevant to the audit objectives.

   (2) The audit team (at a minimum, supervisor and auditor) must hold a planning meeting to understand the criteria, subject matter, and the contractor and its environment to discuss and identify potential noncompliance, whether due to error or fraud, that could materially affect the subject matter. This meeting is also an opportunity to discuss the awareness of any ongoing investigations or legal proceedings and how to proceed with the audit giving consideration to the current circumstances that could materially affect the subject matter of the audit.

e. OIS auditors prepare audit leads and are required to provide the audit lead to the cognizant FAO. Additionally, OIS has procedures in place to reach out to the cognizant FAO when they get notice of an investigation.

2-502.8 Results of Previous Engagements (2018 GAGAS 8.30) **

a. Auditors should evaluate whether the audited entity has taken appropriate corrective action to address previous engagements findings and recommendations that are significant to the audit objectives. When planning the audit, auditors should ask auditee management to identify previous audits, attestation engagements, and other
studies that directly related to the objectives of the audit, including whether corrective actions have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the corrective action is applicable to the current audit objectives.

b. The auditor will document the results of these inquiries and evaluate the information as part of the audit risk assessment.

2-502.9 Audit Criteria (2018 GAGAS 8.17 – 8.19) **

a. The criteria is used as the basis for evaluating the subject matter under audit. Criteria represent the required or desired state or expectation with respect to a program. (2018 GAGAS defines a program as: processes, projects, studies, policies, operations, activities, entities, and functions of an operation). Criteria provide the context for evaluating evidence and understanding findings, conclusions, and recommendations in the report.

b. Auditors should identify suitable audit criteria to achieve the audit objectives. Criteria must be readily available to the auditee and the report user, and can be derived from laws, regulations, contracts, grant agreements, professional standards, specific program requirements, measures, expected performance, defined business practices, benchmarks, etc. Auditors should use suitable criteria that are relevant to the audit objectives and permit consistent assessment of the subject matter.

c. Refer to 2-S103.3 for additional information on criteria.

2-502.10 Evidence (2018 GAGAS 8.90 – 8.107, 8.12 – 8.13, and 8.16) **

a. During planning, auditors should identify potential sources of information that could be used as evidence. Auditors should determine the amount and type of evidence needed to obtain sufficient, appropriate evidence to address the audit objectives and adequately plan the audit work given the audit risk and significance. See 3-204.15 for information on types of sources and quality of evidence.

b. Auditors must obtain sufficient, appropriate audit evidence to provide a reasonable basis for their findings and conclusions. In assessing the appropriateness of evidence, auditors should assess whether the evidence is relevant, valid, and reliable. For example, when the audit objective is to report on the current status or condition of a process, appropriate evidence would provide reasonable assurance that the description of the current status or condition is accurate and reliable and does not omit significant information relevant to the audit objectives.

c. Appropriateness is the measure of the quality of the evidence that encompasses its relevance, validity and reliability in supporting audit objectives and related findings. In assessing the overall appropriateness of evidence, auditors should assess whether the evidence is relevant, valid, and reliable. For oral testimony, the auditor evaluates the objectivity, credibility and reliability of the testimonial evidence.
Strength of the oral testimony is generally higher when obtained under circumstances where the person is speaking freely than under conditions where the person may have felt intimidated.

(1) Relevance refers to the extent to which the evidence has a logical relationship and importance to the issue being addressed.

(2) Validity refers to the extent to which evidence is based on sound reasoning or accurate information.

(3) Reliability refers to the consistency of results when information is measured or tested and includes the concepts of being verifiable or supported.

d. Sufficiency is a measure of the quantity of evidence used to support the findings and conclusions related to the audit objectives. In assessing the sufficiency of evidence, auditors should determine whether enough appropriate evidence exists to address the audit objectives and support the findings and conclusions to the extent that would persuade a knowledgeable person that the findings are reasonable. The following presumptions are useful in judging the sufficiency of evidence. The sufficiency of evidence required to support the auditors’ findings and conclusions is a matter of the auditor’s professional judgement.

(1) Greater the audit risk requires a greater quantity and quality of evidence.

(2) Stronger evidence may allow less evidence to be used.

(3) Having a large volume of audit evidence does not compensate for a lack of appropriate evidence, i.e., evidence that is relevant, valid, and reliable to meet the audit objective.

e. When sampling is used, the method of selection that is appropriate will depend on the audit objectives. When a representative sample is needed, the use of a statistical sampling approach generally results in stronger evidence than that obtained by nonstatistical techniques. See 3.204.15 and 4-600 for guidance on statistical and nonstatistical approaches to audit sampling. For the judgmental selection methodology, see 4-602.1. Requirements or working paper documentation are presented in 4-403g(4)f.

f. As discussed in 2-204 professional judgment is required to determine the sufficiency and appropriateness of evidence used to support the findings and conclusions and any recommendations reported as an integral part of the audit.

g. If the auditors believe that it is likely that sufficient appropriate evidence will not be available, they may need to revise the audit objectives, modify the scope and methodology, and/or determine alternative procedures to obtain additional or other forms of evidence to meet the audit objectives. Auditors should evaluate whether the lack of sufficient, appropriate audit evidence is due to internal control deficiencies or other program weaknesses, and whether the lack of sufficient, appropriate evidence
could be the basis for audit findings.

h. In assessing evidence, professional judgment assists auditors in determining the sufficiency and appropriateness of the evidence as a whole, by evaluating the significance of evidence to the audit objectives, findings, and conclusions, considering corroborating evidence and the level of audit risk. For example, in establishing the appropriateness of evidence, auditors may determine the reliability by obtaining supporting evidence using statistical methods and also obtaining corroborating evidence through physical observations and/or oral testimony. In this example the results of each type of evidence would be considered together to determine the sufficiency and appropriateness of the overall evidence for the audit objective. The concepts of audit risk and significance assist auditors in evaluating the sufficiency and appropriateness of the evidence.

i. When auditors use information that the audited entity officials provided as part of their evidence, the auditor may find it necessary to test management’s procedures to obtain assurance, perform direct testing of the information, or obtain additional corroborating evidence. The nature and extent of the auditor’s procedures will depend upon the significance of the information to the audit objectives and the nature of the information being used. If evidence is identified during testing that contradicts the information provided by management, the auditor may use a risk-based approach to consider additional necessary procedures, and document how the conflicting evidence situation was resolved.

j. Auditors should assess the sufficiency and appropriateness of computer-processed information regardless of whether this information is provided by the audited entity or auditors independently extract it. The nature, timing and extent of audit procedures to assess sufficiency and appropriateness is affected by the effectiveness of the auditee’s internal controls over information, including information systems controls, the significance of the information for its intended use, and the level of detail presented in the auditors’ findings and conclusions in light of the audit objectives. The assessment of the sufficiency and appropriateness of computer-processed information includes considerations regarding the completeness and accuracy of the data for the intended purposes.

k. Professional judgment assists auditors in determining the sufficiency and appropriateness of evidence taken as a whole. Interpreting, summarizing, or analyzing evidence is typically used in the process of determining the sufficiency and appropriateness of evidence and in reporting the results of the audit work. Auditors interpret the results of audit testing and evaluate whether the nature and extent of the evidence obtained is sufficient and appropriate to meet the audit objectives. The steps to assess evidence depend on the nature of the evidence, and how significant the evidence is to support the findings and conclusions. When appropriate, auditors may use statistical methods to analyze and interpret evidence to assess sufficiency.

l. Overall Assessment of Evidence. Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions,
including the results of any specific assessments performed to conclude on the validity and reliability of specific evidence. When assessing the overall sufficiency and appropriateness of evidence, auditors should evaluate the expected significance of the evidence to the audit objectives; available corroborating evidence; and the level of audit risk. Auditors should not use insufficient or inappropriate evidence as support for findings and conclusions.

m. Evidence is sufficient and appropriate when it provides a reasonable basis to support the findings or conclusions within the context of the audit objectives.

n. Evidence is not sufficient or not appropriate when:

   (1) using the evidence carries an unacceptability high risk that it could lead the auditor to reach an incorrect or improper conclusion,

   (2) the evidence has significant limitations, given the audit objectives and intended use of the evidence, or

   (3) the evidence does not provide an adequate basis for addressing the audit objectives or supporting the findings and conclusions.

Auditors should not use insufficient or inappropriate evidence as support for findings and conclusions.

o. Evidence has limitations or uncertainties when the validity or reliability of the evidence has not been assessed in context of the audit objectives or for its intended use. Limitations also include errors identified by the auditors during testing. When auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, additional procedures should be performed as appropriate. Such procedures include:

   (1) seeking independent corroborating evidence from other sources,

   (2) redefining the audit objectives or limiting the audit scope to eliminate the need to use the evidence,

   (3) presenting findings and conclusions that are based on supporting evidence that is sufficient and appropriate, and describing in the report the limitations or uncertainties with the validity or reliability of the evidence, if such disclosure is necessary to avoid misleading the report users about the findings or conclusions, and

   (4) determining whether to report the limitations or uncertainties themselves as a finding, including any related significant internal control deficiencies.

p. Auditors should plan and perform procedures to develop the elements of a finding necessary to address the audit objectives. In addition, the auditors may develop recommendations for corrective action if they are significant to the audit objectives. The elements needed for a finding are related to the objectives of the audit. Thus, a finding
or set of findings is complete to the extent that the audit objectives are addressed and the
report clearly relates those objectives to the elements of the finding. The elements of a finding consist of criteria, condition, effect, and cause. See 10-211.2c for a discussion of these elements in relation to the structured note Statement of Condition(s) and Recommendation(s) (SOCAR) format that is used for performance audits.

2-502.11 Using the Work of Others (2018 GAGAS 8.80 – 6.44 and 8.86) **

a. Auditors should determine whether other audits have been conducted or are being conducting on the program that could be relevant to the audit objectives. The results of other audit work may be useful sources of information for planning and performing the audit. If other audits identified areas that warrant further audit work or follow-up, those results may influence the current audit objectives, scope and methodology.

b. If other audits have been completed, the auditors may be able to use the work of the other auditors that are relevant to the objectives of the current audit to support findings or conclusions and to gain efficiencies and avoid duplication of efforts. When using the work of other auditors, procedures must be performed that provide a sufficient basis for using that work. If the other auditors are not part of DCAA’s quality control system, evidence concerning their competence, qualifications, and independence should be obtained. Whether the other auditors are within DCAA or are from an external organization, the audit team will need to determine whether the scope, quality, and timing of the audit work performed by other auditors are sufficient and appropriate for placing reliance in the context of the current audit objectives. Procedures that auditors may perform in making this determination include reviewing the other auditors’ report, audit plan, and audit documentation. For external auditors, the auditor may also re-perform tests of the other auditor’s work. The nature and extent of evidence needed will depend on the significance of the other auditors’ work performed to the current audit objectives and the extent to which the work will be used.

c. When using the work of another audit organization, the audit team should request the audit organization’s latest peer review report and any other written communication issued. See 4-1000 for additional guidance on using the work of other auditors for performance audits.

d. Some audits may necessitate the use of specialized techniques or methods that require the skills of a specialist. Specialists to whom this section applies include, but are not limited to actuaries, appraisers, attorneys, engineers, environmental consultants, statisticians, and information technology experts. If auditors intend to use the work of external specialists (i.e., not within DCAA), they should assess the professional qualifications and independence of the specialists. Independence is assessed by identifying threats and applying any necessary safeguards using the Independence Framework in 2018 GAGAS chapter 3. See CAM Appendix B for guidance on requesting and evaluating the work of an internal or external specialist.

(1) DCAA internal specialists are under DCAA’s quality control program for independence and they evaluate independence in accordance with the requirements in
2-S103.1. Additional information on objectivity, competence and capability of DCAA internal specialists is in Appendix B-103.

(2) External specialists, such as a specialist who works for DCMA do not come under DCAA’s quality control program. See Appendix B-104 and B-105 for the DCAA Headquarters - level assessment of objectivity (independence), competence and capability the external specialists employed by DCMA and DoD Military Commands.

e. Auditors planning to use the work of a specialist should document the nature and scope of the work to be performed by the specialist including:

1. the objectives and scope of the specialist’s work,

2. the intended use of the specialist’s work to support the audit objectives,

3. the specialist’s procedures and findings so they can be evaluated and applied to other planned audit procedures, and

4. the assumptions and methods used by the specialist.

2-502.12 Communications (2018 GAGAS 8.20 – 8.26)**

a. Auditors should communicate an overview of the objective, scope, methodology, and timing of the audit and planned reporting (including any potential restrictions on the report) to contractor management; to include individuals with sufficient authority and responsibility to implement corrective action in the program or activity being audited as well as the individuals contracting for or requesting the audit services.

b. Determining the form, content, and frequency of communication is a matter of professional judgment, although written communication is preferred. Auditors may use an engagement letter to communicate the information in paragraph a. and retain the communication in the audit file.

c. CAM 4-100 provides additional guidance on FAO coordination with procurement and contract administration personnel, and 4-302.3 provides guidance on contractor notification of the audit. Standard audit programs provide a proforma contractor notification letter and ACO acknowledgment-notification memorandum that may be used for this purpose.


a. Written audit programs must be prepared for each audit and are essential to conducting audits efficiently and effectively. During the course of the audit, the audit plan should be updated, as necessary, to reflect any significant changes to the plan during the audit. The audit plan documents the significant decisions about the audit objectives, scope and methodology and the auditor’s basis for those decisions. Audit programs provide:
(1) A description of the audit methods and audit steps and procedures to be conducted to meet the audit objectives.

(2) A systematic basis for assigning work and supervising the audit staff to ensure that enough staff, supervisors, and specialists with adequate collective professional competence are assigned to the audit and ensuring necessary resources are available to conduct the audit to meet the expected time frame.

(3) Audit objects that are likely to result in a useful report,

(4) Adequately addressing relevant risks,

(5) Ensuring that the audit scope and methodology are adequate to address the audit objectives and the available evidence is likely to be sufficient and appropriate, and.

(6) The basis for a summary record of work.

b. See 3-203 for general information on the audit program and 14-500 for additional information on audit planning and audit programs.

2-503 Supervision (2018 GAGAS 8.87 - 8.89) **

a. Auditors, (i.e., the audit supervisors or other auditors designated to supervise auditors) must properly supervise the audit staff. Audit supervision involves assigning staff with the collective knowledge, skills, and experience appropriate for the job, assigning individuals who, prior to beginning work on the engagement, possess the competence needed for their assigned roles, engaging specialists when needed, providing sufficient guidance and direction to staff assigned to the audit to address the audit objectives and follow applicable standards, staying informed about significant problems encountered, reviewing the work performed for compliance with GAGAS, and providing effective on-the-job training. The nature and extent of the supervision of staff and the review of audit work may vary depending on a number of factors, such as the size of the audit organization, the significance of the work, and the experience of the staff.

b. Supervisory reviews of audit work and the report should be timely and must be performed and documented in the working papers before the report is issued. Supervisory reviews of the evidence that supports the findings, conclusions and recommendations contained in the audit report should include verification that:

(1) auditors complied with the auditing standards,

(2) the audit program adequately addresses relevant risks,

(3) the proposed audit scope and methodology are adequate to address the audit objectives,
(4) the audit program is appropriately modified to meet the audit objectives and is approved by the supervisor including any subsequent changes to the audit program,

(5) the working papers adequately support findings and conclusions,

(6) the working papers provide adequate evidence to prepare a meaningful report, and

(7) the audit team accomplished the audit objectives.

c. See DCAA 7642.2 Management Review and Technical Support of Audits for additional guidance.

2-504 Audit Documentation (2018 GAGAS 8.132 – 8.139) **

a. Auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Working papers should contain sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the working papers the nature, timing, extent, and results of procedures performed and the evidence obtained and its source and the conclusions reached, including evidence that supports the auditor’s significant judgments and conclusions.

b. Auditors should design the form and content of audit documentation to meet the circumstances of the particular audit. The audit documentation constitutes the principal record of the work performed in accordance with standards and the conclusions reached. The quantity, type, and content of audit documentation are a matter of professional judgment.

c. Audit documentation is an essential element of audit quality. The process of preparing and reviewing audit documentation contributes to the quality of an audit. Audit documentation serves to:

(1) provide the principal support for the auditors’ report,

(2) aid auditors in conducting and supervising the audit, and

(3) allow for an efficient review of the audit quality.

d. GAGAS requires auditors to document the following:

(1) the objectives, scope, and methodology of the audit,

(2) the work performed and evidence obtained to support significant judgments and conclusions, as well as expectations in analytical procedures, including descriptions of transactions and records examined; (for example by listing file numbers, case numbers, or other means of identifying specific documents examined, but copies of documents examined or detailed listings of information from those documents are not required) (see 4-400 guidance on documentation of working papers),
(3) evidence of supervisory review, before the audit report is issued, of the evidence that supports findings, conclusions, and recommendations contained in the audit report, and

(4) departures from any applicable GAGAS requirements (due to law, regulation, scope limitations, restriction on access to records, or other issues impacting the audit) and the impact on the audit and on the auditor's conclusions. This applies to departures from unconditional requirements (i.e., must) as well as presumptively mandatory (i.e., should) requirements when alternate audit procedures performed in the circumstances were not sufficient to achieve the objectives of the standard. These circumstances would generally require a modified statement of GAGAS compliance (see 2-603.7).

e. Underlying GAGAS audits is the premise that audit organizations in federal, state, and local governments and public accounting firms engaged to perform audits in accordance with GAGAS cooperate when auditing programs of common interest so that auditors may use others' work to avoid duplication of efforts. Subject to applicable laws and regulations, auditors should make appropriate individuals as well as audit documentation available upon request and in a timely manner to other auditors or reviewers to satisfy these objectives. See 1-203, for guidance on providing access to DCAA audit files to the Government Accountability Office, and 1-404.2 for guidance on providing access to the DoD OIG and other executive branch internal audit organizations.

2-600 Section 6 – Reporting Standards for Performance Audits (DCAA Operations Audits) **

2-601 Introduction (2018 GAGAS 9.01 – 9.02) **

The Yellow Book establishes reporting standards and provides guidance for performance audits conducted in accordance with GAGAS. This section discusses reporting the auditors' compliance with GAGAS, the form of the report, report contents, and report issuance and distribution of performance audit reports.

2-602 Reporting (2018 GAGAS 9.06 – 9-09, 9-68) **

a. Auditors should issue audit reports communicating the results of each completed performance (e.g., operations) audit. DCAA communicates the results of performance audits by issuing an audit report (see also 14-505) transmitted to the report recipients in accordance with 4-407d(4).

b. The purposes of the DCAA performance audit reports are to:

(1) Communicate the results of audits to the appropriate cognizant federal agency official(s) (CFAO) responsible for oversight of the contractor.

(2) Make the results less susceptible to misunderstanding.

(3) Facilitate follow-up to determine whether appropriate corrective actions have
been taken.

c. If an audit is terminated before it is completed follow the procedure in 4.403f.

d. If, after the report is issued, the auditors discover that there is not sufficient, appropriate evidence to support the reported findings or conclusions, they should communicate this in the same manner as the original report was distributed to report recipients to notify them to not rely on the findings or conclusions that were not supported in the original report. The auditors should then determine whether to conduct additional audit work necessary to reissue the report, including any revised findings or conclusions, or to redistribute the original report if the additional audit work does not result in a change in findings or conclusions.


Auditors should prepare audit reports that describe:

- the objectives, scope, and methodology of the audit;
- the audit results with findings, conclusions, and recommendations, as appropriate;
- a statement about the auditors’ compliance with GAGAS; and,
- a summary of the views of responsible officials of the audited entity.

If applicable, the auditor should also describe the nature of any confidential or sensitive information that was omitted from the report.

2-603.1 Objectives, Scope and Methodology (2018 GAGAS 9.15 – 9.17) **

a. The report should communicate the audit objectives in a clear, specific, neutral and unbiased manner that includes relevant assumptions including the purpose of the audit and report. When audit objectives are limited but broader objectives could be inferred by users, auditors should state in the audit report that certain issues were outside the scope of the audit in order to avoid potential misunderstanding.

b. In reporting the audit scope, auditors should describe the scope of the work performed and any limitations, including issues that are relevant to likely users, so they can reasonably interpret the findings, conclusions, and recommendations in the report without being misled. Auditors should also report any significant constraints imposed on the audit approach by information limitations or scope impairments, including denials or excessive delays of access to records or individuals.

c. When describing the work performed to address the audit objectives and support the reported findings and conclusions, auditors should, as applicable, explain the relationship between the population and the items tested; identify organizations, geographic locations and the period covered; report the kinds and sources of evidence;
and explain any significant limitations or uncertainties based on the auditors’ overall assessment of the sufficiency and appropriateness of the evidence in the aggregate.

d. In reporting audit methodology, auditors should explain how the completed audit work supports the audit objectives, including the evidence-gathering and analysis techniques, in sufficient detail to allow knowledgeable users of the report to understand how the auditor addressed the audit objectives. Auditors may include a description of the procedures performed as part of their assessment of the sufficiency and appropriateness of the information used as audit evidence. Auditors should identify significant assumptions made in conducting the audit, describe comparative techniques applied, describe the criteria used, and when sampling significantly supports the auditors’ findings, conclusions, or recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.

2-603.2 Audit Findings Conclusions, and Recommendations (2018 GAGAS 9.24 - 9.28) **

2-603.2.1 Findings **

a. The report should present sufficient, appropriate evidence to support the findings within the context of the audit objectives. Auditors should place the findings in perspective by describing the nature and extent of the issues and the extent of the work performed. The report should give the reader a clear basis for judging the prevalence and consequences of the findings. It should describe limitations or uncertainties about the reliability or validity of the evidence to avoid misleading the reader about the findings and to provide relevant background information to establish the context of the findings. Clearly developed findings assist the responsible Federal agency, as well as the contractor’s management, in understanding the need for corrective action.

b. To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as applicable, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value, or other measures, as appropriate. If the results cannot be projected, auditors should limit their conclusions appropriately.

c. Auditors may provide background information to establish the context for the reader to understand the findings and the significance of the issues discussed. Appropriate background information may be included, such as: operation processes; significance of the operations (e.g. dollars, impact, purposes, past audit work, if relevant); a description of the audited entity’s responsibilities; explanation of terms; organizational structure; and the statutory basis for the program or operations. When reporting audit results, auditors should disclose significant facts relevant to the audit objectives which, if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal significant improper or illegal practices.

d. When developing the elements of a finding, the auditors may provide recommendations for corrective action if they are significant to the audit objectives. The
extent to which the elements for a finding are developed depends on the audit objectives. The auditor should consider internal control deficiencies in their evaluation of identified findings when developing the cause element of the finding when internal control is significant to the audit objectives. Thus, a finding or set of findings is complete to the extent that the auditors address the audit objectives.

e. See 10-104 for general guidance on good writing techniques for effective audit reports.

f. The audit report should describe limitations or uncertainties regarding the sufficiency or appropriateness of evidence in conjunction with the findings and conclusions in addition to describing them as part of the objectives, scope and methodology. Describing the limitations and uncertainties provides report users with a clear understanding regarding how much responsibility the audit team is taking for the information. The report should describe limitations or uncertainties with the reliability or validity of the evidence if:

(1) the evidence is significant to the findings and conclusions within the context of the audit objectives; and

(2) such disclosure is necessary to avoid misleading report users about the findings and conclusions.

Even though the audit team may have some uncertainty with the sufficiency or appropriateness of some of the evidence, they may nonetheless determine that in total there is sufficient appropriate evidence to support the findings and conclusions.

2-603.2.2 Conclusions **

Auditors should report conclusions based on the audit objectives and the audit findings. Report conclusions are logical inferences about the subject matter under audit based on the auditor’s findings, not merely a summary of the findings. The strength of the conclusions depends on the persuasiveness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are more compelling if they lead to the auditor’s recommendations and convince the user of the report that action is necessary.

2-603.2.3 Recommendations **

a. When feasible, auditors should recommend actions to correct deficiencies and other findings that are significant to the audit objectives when identified during the audit and to improve programs and operations when the potential for improvement in programs operations and performance is substantiated by the reported findings and conclusions. Effective recommendations encourage improvements in the conduct of programs and operations. Recommendations should flow logically from the findings and conclusions and be directed at resolving the cause of the identified deficiencies and findings. Strong recommendations also provide the report user and the audited entity with constructive, specific information to enable the contractor to determine an appropriate corrective action. Auditors must not make recommendations for corrective
actions that direct the contractor “how” to correct the deficiency, which would be considered a management decision.

b. See 10-211.2c for additional information on reporting recommendations using the Statement of Condition(s) and Recommendation(s) (SOCAR) format and 14-504 for guidance on computing and reporting on cost avoidance recommendations resulting from a performance audit.

2-603.3 Reporting on Internal Control (2018 GAGAS 9.29 - 9.34) **

a. 2018 GAGAS 9.29 – 9.34 outline the requirements for reporting the scope of work performed on internal controls and deficiencies in internal controls that are significant to the audit objectives. If only some of the internal control components (i.e., the COSO framework components), the components that are significant to the audit objectives should be included in the description of the scope of the audit.

b. When auditors detect deficiencies in internal control that have occurred or are likely to have occurred, and that are significant to the audit objectives, the audit report should include:

(1) the scope of work performed on internal control, and

(2) any deficiencies in internal control that are significant to the audit objectives and based upon the audit work performed.

c. When auditors detect deficiencies in internal control that are not significant to the audit objectives, but warrant the attention of CFAO, the deficiencies can be communicated either in the report or through a separate memorandum to the appropriate CFAO with responsibility for oversight of the audited entity. If the auditors have communicated deficiencies in a separate memorandum to the CFAO, the audit report should refer to that memorandum.

f. When auditors detect deficiencies that are clearly inconsequential considering both qualitative and quantitative factors, and do not warrant the attention of appropriate Government officials, the determination on whether or how to communicate the deficiencies is a matter of professional judgment. If the auditors have communicated deficiencies in a separate memorandum to the CFAO, the audit report should refer to that memorandum.


a. 2018 GAGAS 9.35 – 9.39 outlines the requirements for reporting noncompliance with provisions of laws, regulations, contracts and grant agreements to those charged with governance of the audited entity. DCAA reports findings of noncompliance to the ACO that requested the audit or is responsible for oversight of the audited entity.
b. 2018 GAGAS presents different levels of reporting for instances of noncompliance:

(1) those that are significant to the audit objectives,

(2) those that are not significant but require the attention of those charged with governance, and

(3) those that are clearly inconsequential

c. Significant Noncompliance. When auditors conclude, based on sufficient, appropriate evidence, that noncompliance with provisions of laws, regulations, contracts, or grant agreements either has occurred, or is likely to have occurred, and is significant to the audit objectives they should report the matter as a finding. DCAA reports findings by issuing an audit report to the contracting officer responsible for taking action on finding. The contracting officer provides a copy of the report to the contractor. Buying commands that will be materially impacted by the report findings can also be on distribution of the audit report.

d. Less Than Significant. DCAA auditors communicate instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements that are not significant to the audit objectives, but warrant the attention of the CFAO with responsibility for oversight of the audited entity, in either a separate memorandum to the CFAO or in the audit report. Noncompliances communicated through a separate memorandum should be referenced in the audit report.

e. Clearly Inconsequential. When auditors detect instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements that are clearly inconsequential (considering both qualitative and quantitative factors) in relation to the audit objectives, and therefore do not warrant the attention of the CFAO, the noncompliance should not be included in the audit report, and the determination of whether and how to communicate such instances to the CFAO is a matter of professional judgment.

2-603.5 Reporting on Instances of Fraud (2018 GAGAS 9.40 – 9.44) **

a. DoD Instruction 7600.02; Audit Policies, Enclosure 3, Item No. 3, requires DCAA to refer indications of potential fraud or other criminal acts to the appropriate investigative organization. Therefore, when suspected fraud or irregularities are discovered, DCAA policy is for the auditor to report it separately (see 4-700). 2018 GAGAS 9.44 allows the auditor to limit public reporting of fraud or suspected fraud.

b. Auditors should report a finding when they conclude, based on sufficient, appropriate evidence, that fraud either has occurred, or is likely to have occurred, and is significant to the audit objectives. Auditors may consult with authorities or legal counsel about whether reporting such information would compromise investigative or legal proceedings.
c. For instances of fraud that are not significant to the audit objectives, but warrant the attention of the CFO with oversight responsibility for the audited entity, the instances may be communicated in a separate memorandum to the CFO.

d. Whether a particular act is, in fact, fraud, may have to await final determination by a court of law or other adjudicative body.

2-603.6 Reporting Auditor's Compliance with GAGAS (2018 GAGAS 9.03 – 9.05) **

a. When the auditor complies with all applicable GAGAS requirements, an unmodified statement of GAGAS compliance will be included in the audit report. The proforma audit report in the standard audit program provides the language required by 2018 GAGAS for the unmodified statement.

b. When auditors do not comply with all applicable GAGAS requirements, a modified statement of GAGAS compliance will be included in the audit report. For performance audits, the auditor will modify the statement of GAGAS compliance in the proforma audit report to indicate the requirements that were not followed, or other language indicating the auditors did not follow GAGAS, e.g., because of significant departures from the requirements, the auditor was unable to perform the audit in accordance with GAGAS.

c. When auditors use a modified compliance statements, a scope limitation is also frequently present, such as restrictions on access to records, or access to government officials or other individuals needed to perform the audit. When auditors use a modified statement of GAGAS compliance, the report should disclose the applicable requirement(s) not followed and the impact on the audit objectives and/or scope of the audit resulting from departure from the requirements, and the level of assurance provided.

2-603.7 Obtaining the Views of Responsible Officials (2018 GAGAS 9.50 – 9.55) **

a. Auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report, as well as any planned corrective actions.

b. Auditors should provide a draft report with findings to the responsible officials of the audited entity for review and comments. This assists in developing a report that is fair, complete, and objective. Written comments are preferable, but oral comments are acceptable.

c. When auditors receive written comments from the responsible officials, the comments should be summarized in the report and a copy of the full written comments included as an appendix to the report. When the responsible officials respond with oral comments only, auditors should prepare a summary of the oral comments for inclusion in the audit report. The summary should be provided to the responsible official for confirmation that the summary of the comments is fairly stated prior to issuing the audit
d. When the audited entity’s comments are inconsistent or in conflict with the findings, conclusions or recommendations in the draft report, the auditor should evaluate the validity of the audited entities comments and explain the reasons for the disagreement in the audit report. If the auditor finds the comments to be valid and supported with sufficient, appropriate evidence, the audit report should be appropriately modified.

e. Obtaining oral comments may be appropriate in situations such as: meeting a reporting date that is critical to the user’s needs; the auditors have worked closely with the responsible officials throughout the work and the parties are familiar with the findings and issues addressed in the draft report; when the auditors do not expect major disagreements from the entity’s officials regarding the findings, conclusions, and recommendations in the draft.

f. In cases where the audited entity provides technical comments in addition to its written or oral comments on the report, auditors may disclose in the report that such comments were received.

g. If the audited entity refuses or is unable to provide comments within a reasonable period of time, the audit report should indicate that the audited entity did not provide comments.

h. See 4-304.5 for information on obtaining comments from responsible officials and 10-208.5d for information on reporting those comments.

2-603.8 Confidential and Sensitive Information (2018 GAGAS 9.61 – 9.67) **

a. 2018 GAGAS 9.61 – 9.67 outlines the requirements for reporting on confidential and sensitive information for publicly available reports and in circumstances where information is omitted from the audit report (e.g., classified or sensitive information). Performance audit reports issued by DCAA are issued to the federal official that requested the audit and are not made publicly available.

b. In circumstances where information must be omitted from the audit report, (for example, classified information) auditors should evaluate if the omission could distort the results or conceal improper acts and revise the report language as necessary to avoid report users from drawing inappropriate conclusion based on the information that is contained in the report. If the report refers to the omitted information, the reference may be general and not specific. If the omitted information is not necessary to meet the audit objectives, the report need not refer to its omission.

c. Auditors should consider the potential public availability of classified or limited use performance audit reports through public records laws (e.g., FOIA) when determining whether confidential or sensitive information should be included in the audit report, or whether it should be issued under a separate classified or limited use report containing the information that is classified or may otherwise be prohibited from general report.
disclosure by federal, state, or local laws, and distribute the report only to persons authorized by law or regulation to receive it (GAGAS 9.65).

d. The auditor may consult with legal counsel regarding applicable public records laws and any requirements or other circumstances that may necessitate the omission of certain information. See 1-700 for more information about the Freedom of Information Act.

e. DCAA audit reports may contain contractor propriety information that if disclosed to the public, would reasonably be expected to cause harm to the interested parties. The proforma audit report delivered with the standard audit program contains the “For Official Use Only” (FOUO) marking to indicate that the report may contain information that could be exempt from release under the Freedom of Information Act (FOIA).

f. See 1-507 for additional information on security requirements for contractor information and 10-210.2 for additional general information on audit report distribution restrictions.

2-603.9 Report Quality Elements (2018 GAGAS 9.17) **

2018 GAGAS 9.17 presents report quality elements to assist the auditor in developing and writing the performance audit report. Report quality elements include being accurate, objective, complete, convincing, clear, concise and timely, as the subject matter permits.

(1) An accurate report is supported by sufficient, appropriate evidence with key facts, figures, and findings that are traceable to the audit evidence.

(2) An objective report presents language in a balanced in content and tone.

(3) A complete report contains sufficient, appropriate evidence to satisfy the audit objectives and promote an understanding of the matters reported. It also does not omit significant relevant information related to the audit objectives.

(4) A convincing report is responsive to the audit objectives, presents findings persuasively, and the conclusions and recommendations flow logically from the facts presented.

(5) A clear report is easy for the user to read and understand.

(6) A concise report is no longer than necessary to convey and support the message.

(7) The auditor’s goal is to provide relevant information within the timeframe to meet the needs of the intended user. Throughout the audit, the auditors should communicate significant matters to appropriate entity and oversight officials. Such communication alerts officials to matters needing immediate attention and allows them
to take corrective action before the final report is completed. When corrective action is taken before the report is issued, the auditor will, nonetheless, include the finding in the audit report and may comment on corrective actions taken by the contractor.


a. 2018 GAGAS 9.56 recognizes that distribution of audit reports depends on the relationship of the auditor to the audited organization and the nature of the information contained in the report. Because DCAA does not perform audits for the audited entity, DCAA policies and procedures establish that reporting of deficiencies and noncompliances are issued to the CFAO who has responsibility for oversight of the audited entity, not to the management or governance body of the audited entity. Other Federal officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports may also be on distribution of the audit report (e.g., PCOs, CACOs). When Field Detachment will be receiving the report, provide the report as a blind copy and do not list them on the audit report distribution page.

b. Auditors should document any limitations on report distribution.

c. Chapter 10-210.2 specifies disclosure restrictions applicable to audits performed by DCAA.

d. In addition to the general distribution guidance shown in 10-200, 15-100 provides general guidance for distribution requirements pertaining to non-DoD agencies and Table 15-1S6 provides distribution requirements specified by the non-DoD organizations.

2-S10 Supplement – Description of DCAA Quality Control System**

2-S101 Introduction**

DCAA’s quality control program is an important element of the Agency's overall focus on quality which emphasizes "prevention" as a means for reducing errors and rework. To further ensure that quality is being achieved, it also provides for an adequate level of monitoring and inspection. As an agency that provides professional services, DCAA has a responsibility to establish and conform to professional standards. To meet this responsibility, DCAA has established standards based on generally accepted government auditing standards which incorporate the standards of the American Institute of Certified Public Accountants. To ensure that it provides professional services that conform to professional standards, DCAA is required to have a system of quality control and, indeed, maintains such a system. The authority for and descriptive details of this system can be found in the various official pronouncements and Agency publications, including the DCAA Charter, Instructions, Manuals, and other DCAA directives. A summary description of the system follows.

2-S102 Philosophy, Organization, and Approach to Providing Quality Services
2-S102.1 Philosophy

DCAA is an independent audit agency within the Department of Defense (DoD) with a mission to perform contract audits and provide all necessary accounting and financial advisory services for the DoD, and other agencies by serving the public interest as its primary customer and ensuring that taxpayer dollars are spent on fair and reasonable contract prices. In accomplishing this mission, the Director of DCAA has fully committed the Agency staff to attain the highest level of integrity and competence. This is best explained through our vision statement set forth as follows:

*Dedicated professionals working together to deliver top-quality audit services to support the Department and the warfighter and to protect the taxpayer’s interest.*

Good working relationships and open communications with our stakeholders will minimize potential conflicts between their needs and the Agency’s requirement to perform contract audits that conform with generally accepted government auditing standards.

2-S102.2 Organization

DCAA’s basic system of quality control encompasses the Agency’s organizational structure, as detailed in the DCAA Organization Manual (DCAAM 5110.1), and outlined below.

a. Headquarters

   (1) Office of the Director. DCAA’s Director reports to the Under Secretary of Defense (Comptroller) and exercises worldwide direction of the Agency in performing all contract audits for DoD and other agencies upon request. The Director’s staff includes a Deputy Director, four Assistant Directors (Policy, Operations, Quality and Human Capital and Resource Management (Resources)), a General Counsel and a Chief of Staff. The Director is the senior management official responsible for establishing policies and procedures for the management control program in conjunction with the Federal Managers’ Financial Integrity Act (FMFIA). Resources serves as the focal point for developing regulations and guidance, accumulating information, and drafting the Director’s annual statement required under the FMFIA. Resources monitor tests of critical management controls performed by others as reported through the FMFIA process. Resources also advises the Director and Deputy Director on any sensitive matters disclosed by quality or management control reviews reported through the FMFIA process.

   (2) Assistant Directors

      (a) Operations. Responsible and accountable for providing technical guidance and direction to the Agency for field contract audit operations. This includes directing the development of Agency audit objectives, activities, operational schedules,
and priorities to assure effective accomplishment of field contract audit operations.

(b) Policy and Plans. Responsible and accountable for directing the formulation and development of DCAA contract audit policy and for the coordination, issuance, and integration of this policy. Assigned divisions include: Accounting and Cost Principles (PAC), Auditing Standards (PAS), Policy Programs (PPD), and Pricing and Special Projects (PSP). DCAA’s auditing standards subject matter experts (a Division Chief and several program managers) reside in the PAS Division. PAS is dedicated solely to activities related to the development and formulation of DCAA’s contract audit policy for compliance with auditing standards (GAGAS, SSAEs, SAS, etc.), including but not limited to the following program areas: independence (including advisory services), professional judgment, competence, planning and supervision, auditor communication, sufficient evidence/adequate testing, internal controls, assessing the risk of fraud, audit documentation, reporting, and agreed-upon procedures. For example, PAS monitors and researches relevant auditing standards and develops or revises guidance as needed; develops or provides advice on the development of training related to auditing standards; responds to inquiries from Regional offices, Corporate Audit Directorates (CADs), and field offices; identifies problems with implementation of guidance and determines the need for revision; reviews the work of other Policy divisions for compliance with auditing standards; and provides technical assistance to other Headquarters elements on issues with auditing standards implications. When appropriate, PAS seeks advice from the GAO on the interpretation and implementation of GAGAS related to complex audit policy issues and unusual independence questions using the contact information for technical and practice questions posted to the GAO website. PAS also consults with other organizations, such as the AICPA and DoDIG, to obtain technical advice on auditing standards issues.

(c) Human Capital and Resource Management. Responsible and accountable for formulating, directing, and executing plans, programs, policies, and procedures related to the management of DCAA resources including financial management, personnel management and administration, information resources management, management analysis, security, and general administration activities.

(d) Integrity and Quality Assurance. Responsible and accountable for monitoring the system of quality control and providing the Agency with reasonable assurance that the policies and procedures related to the system of quality control are relevant, adequate, operating effectively and complied with in practice.

b. Regional Offices or Corporate Audit Directorates and Field Detachment

(1) Office of the Regional Director or Corporate Audit Director. DCAA presently has three Regional Directors and four Corporate Audit Directors who are individually responsible and accountable to the Director for planning, managing, and accomplishing the Agency’s mission in assigned geographical or corporate areas. This includes directing the overall management of DCAA personnel and resources assigned to the individual Regional Offices or CADs and to the various Field Audit Offices (FAOs)
and suboffices within the regions/CADs. Each Director’s staff includes a Deputy, several Regional/Corporate Audit Managers, a Special Programs Manager, a Resources Manager/Liaison, and a Special Assistant to the Director.

(2) Director, Field Detachment. The Director of DCAA’s Field Detachment is responsible and accountable for the overall planning, management, and execution of worldwide DCAA contract audits of compartmented programs and for managing all of the resources and staff assigned to the Detachment. The Director’s staff includes a Deputy Detachment Director, several Detachment Audit Managers, and a Special Assistant to the Field Detachment Director.

(3) Field Audit Offices (FAOs).

(a) Resident Offices. Are established at contractor facilities whenever the amount of audit workload justifies the assignment of a permanent staff of auditors and support elements. Resident Offices, which can be made up of several suboffices of components within the same company, are responsible and accountable for planning and executing a comprehensive, integrated audit program to carry out DCAA’s audit mission. Resident offices are responsible for implementing a sound quality control program based on Headquarters and Regional or CAD directives.

(b) Branch Offices. Are established to plan and execute a comprehensive audit program to carry out DCAA’s audit mission at those contractor locations, within a general geographical area, which individually do not have sufficient workload to justify establishing a Resident Office. Branch Offices are generally organized to cover their smaller contractors from one central office on a mobile basis. Larger contractors are often covered from suboffices. Branch offices are responsible for implementing a sound quality control program based on Headquarters and regional directives.

c. Executive Steering Committee

- The Executive Steering Committee (ESC) includes the Director, Deputy Director, Assistant Directors, General Counsel, Inspector General, Regional Directors, Corporate Audit Directors, and Director, Field Detachment. The Chief of Staff and Chief, Enterprise Communications provides staff support to the ESC. The purpose of the ESC is to establish the vision and strategic goals for the Agency; monitor the attainment of the goals and identify, evaluate, and make recommendations on Agency-wide policy and improvement projects.

- identifying, evaluating, and making recommendations on Agency-wide policy and improvement projects.

d. Participative Work Teams

Participative Work Teams (PWTs) are in place at all DCAA field offices. Audit PWT members include the supervisory auditor and his/her assigned auditors. PWTs hold regularly scheduled meetings to share information and complete PWT-related
2-S102.3 Approach **

Auditing in accordance with generally accepted government auditing standards is the principal work of the Agency. To promote the quality accomplishment of this work, DCAA auditors are initially guided to take steps to develop a thorough knowledge of the contractual matters and circumstances affecting their audits. These steps entail:

- Developing an “intelligence base” on a contractor’s operations and contracting environment in order to assess the events and conditions that affect the contractor actions and the Government’s cost impact.

- Identifying the audit universe and documenting interrelationships between a contractor’s organization and operations so that all significant auditable activities which affect the costs of Government contracts are identified.

- Accurately assessing the strengths and weaknesses of a contractor’s internal controls, accounting and management systems, and methods of operation, in order to: (1) identify the relative risk in selecting or deferring a contractor system for audit evaluation in the current period; (2) evaluate the Government’s exposure to potential fraud, waste, and mismanagement; and (3) tailor audit programs for specific assignments. It is DCAA’s policy that each accounting or management system at major contractor segments that have significant flexibly-priced contract work be reviewed on a cyclical basis and the results of these reviews be recorded on an Internal Control Audit Planning Summary (ICAPS) form.

- Accomplishing certain basic, core audit requirements before rendering an opinion on contract costs incurred and before relying on incurred costs in any other review or evaluation. If no weaknesses are disclosed, the satisfaction of these core requirements provides a basic level of assurance that a contractor’s incurred cost representations are reliable. If weaknesses are disclosed, audit procedures must be extended accordingly.

- Determining that contractor systems for estimating prices are adequate and in compliance with applicable regulations.

- Assuring that all laws, regulations, and authoritative technical guidance for the accounting and auditing professions (including those issued by DCAA) are followed.

- Continually assessing progress on individual assignments and program areas in order to react timely and positively to changed conditions within the industry, acquisition, and audit environments. DCAA, for example, continually assesses the increased use of information technology and its impact on Agency audits.

2-S103 Elements of DCAA’s Quality Control System **
2-S103.1 Independence and Ethical Requirements **

a. Objective

To establish policies and procedures on independence, legal and ethical requirements to provide reasonable assurance that the audit organization and its personnel maintain independence and comply with applicable legal and ethical requirements in GAGAS 3.88.

b. Policies and Procedures

(1) General Requirements

(a) DCAA employees at all organizational levels must adhere to the requirements on independence as stated in the GAGAS general standards, DCAA Instructions, Contract Audit Manual (CAM), and Personnel Management Manual (PMM). CAM 2-203 incorporates guidance on the GAGAS general standard pertaining to independence and the following quality control policies and procedures, which prescribe the DCAA auditor's and internal specialist's responsibilities for independence when performing work on audits.

(b) It is DCAA’s policy that auditors and internal specialists must immediately notify their supervisor in writing, if they believe they have or may have a threat to independence of mind or in appearance. The supervisor should take action to resolve the identified threat or potential impairment in a timely manner.

(c) No auditor or internal specialist with a significant threat to independence will be permitted to work on any assignment affected by the significant threat. In these cases, employees may be reassigned or rotated without change in grade to assure independence.

(d) DCAA employees are always expected to act professionally, objectively and without bias when performing audits and dealing with contractor personnel. DCAA management recognizes that disagreements between contractors and auditors over audit issues and the conduct of audits often occur (e.g., regarding access to records) and that such disagreements are not an indicator of potential independence impairment (e.g., bias). However, DCAA management should promptly investigate credible complaints regarding inappropriate behavior toward contractor representatives that would indicate a lack of audit objectivity. The resolution of the complaint should be documented.

(2) Mandatory Annual Training and Evaluation of Independence

All audit staff and internal specialists (e.g. DL attorney-advisors who support audits, OTST industrial engineers, and operations research specialists) must complete mandatory independence training upon entering employment with the Agency and annually thereafter. As part of completing the independence training, all audit staff and internal specialists must acknowledge and confirm that he or she:
(a) Completed the independence training including the reading requirements listed in the introduction.

(b) Has read and understand GAGAS sections 3.02 through 3.26 pertaining to independence.

(c) Has used the GAGAS conceptual framework approach to independence to evaluate threats to his or her independence in relation to the list of contractors under the cognizance of his or her assigned office, as of the date of the training.

(d) Has, if appropriate, informed his or her supervisor in writing using the document titled “Documentation of GAGAS Independence Threat” of any independence threats identified because of the evaluation and will discuss the issue with his or her supervisor to determine if the threat is significant and requires application of safeguards.

(e) Will re-evaluate his or her independence upon assignment to an audit, and if no threats are identified, complete the Audit Specific Independence Workpaper or inform his or her supervisor in writing using the document titled “Documentation of GAGAS Independence Threat” of GAGAS threats to independence identified.

(f) Will re-evaluate his or her independence when facts and circumstances change will inform his or her supervisor in writing using the document titled "Documentation of GAGAS Independence Threat" immediately upon identifying GAGAS independence threats and will discuss the issue with his or her supervisor to determine if the threat is significant and requires application of safeguards.

(3) Re-evaluation of Independence

An auditor or internal specialist should re-evaluate his or her independence upon assignment to an audit and prior to performing any work on the audit when his or her personal situation changes (e.g., marital status changes, spouse changes employer) or upon temporary or permanent reassignment to another office. If the change in circumstances creates threats that may impair independence in relation to the assigned audit, in-process audits, or future audits he or she should disclose this to his or her supervisor in writing by executing Section I of the “Documentation of GAGAS Independence Threat” document. In these cases, the auditor or internal specialist will temporarily cease work on any affected assignment until a determination is made regarding the significance of the threat. If the reevaluation upon assignment to an audit did not identify any independence threats, the auditor or internal specialist should sign the Audit Specific Independence Determination working paper documenting his or her independence in relation to performing the audit. CaseWare delivers the Audit Specific Independence Determination in the audit assignment working paper packages, and it is available on the intranet as an Admin document on the Audit Programs, Audit Report Shells, and Other Audit Guidance webpage.

(4) Actions taken by Supervisor
The supervisor will take action to resolve any identified independence threats in a timely manner. The actions taken by the supervisor to address identified threats to independence will vary depending on whether identification of the threat or potential independence impairment occurred upon completion of the training, before the performance of work on the audit, during the performance of the audit or after report issuance.

(a) Upon Completion of Training or Before Performance of Audit Work. If informed of the threat, upon completion of the training or prior to the individual performing work on the audit, the supervisor should review Section I of the “Documentation of GAGAS Independence Threat” document signed and submitted by the auditor or internal specialist using the following procedures:

   (i) Discuss the identified threat with the auditor or internal specialist, evaluate the significance of the threat, and document the results of the evaluation and the rationale for the conclusions reached in Section II of the “Documentation of GAGAS Independence Threat” document.

   (ii) If application of safeguards is necessary, document the safeguards applied to eliminate or reduce the threat to an acceptable level and explain why the safeguard is effective in Section III of the “Documentation of GAGAS Independence Threat” document.

   (iii) If it is determined, the auditor or internal specialist needs to disassociate him or herself from the audit, or from audits of the contractor, the file documentation should include a copy of the employees disqualification letter.

   (iv) Digitally sign the “Documentation of GAGAS Independence Threat” document for Sections II and III.

(b) During the Performance of the Audit. If informed of a threat to independence during the audit the supervisor should take the following actions:

   (i) Immediately notify DCAA Headquarters, PAS of the issue through the regional office.

   (ii) Ensure the auditor or internal specialist temporarily ceases working on any affected audits pending a determination of the significance of the threat.

   (iii) Follow the procedures in paragraph (4a) Mandatory Annual Training and Evaluation of Independence, to document and evaluate the threat and, if the threat is significant, document the safeguards applied.

   (iv) If the threat is significant, assess the impact on the work already performed on the affected in-process audits and determine what actions are necessary to ensure the audits comply with GAGAS.

   (v) Document the impact assessment, including the rationale for the
conclusions.

(vi) Coordinate the impact assessment and any other actions to be taken regarding the in-process audits with DCAA Headquarters (PAS) through the regional office.

(c) After Report Issuance. If a threat to independence is identified after issuance of the audit report, GAGAS 3.26 requires an evaluation of the threats impact on the audit and on GAGAS compliance. If it is determined the threat was significant, the standards require the auditor provide written notice to the parties to whom the report was distributed and rescind the report. This will ensure the report users are not relying upon audit conclusions that may be impacted by the significant threat to independence. In addition, auditors are required by the standards to perform an assessment to determine if additional audit work is necessary to reissue the audit report, including any revised findings or reissue the original report if the additional audit work does not result in a change in findings or conclusions. When a threat to independence is identified after report issuance, the supervisor should:

(i) Immediately notify DCAA Headquarters, PAS of the issue through the regional office.

(ii) Evaluate the threat, using the GAGAS conceptual framework and document the evaluation including the rationale for the conclusions reached.

(iii) If the threat is significant, draft a written notice to the parties to whom the report was distributed. The written notice should indicate a significant threat to independence existed during the performance of the audit. In addition, the written notice should explain the report is being rescinded. The written notice should include all pertinent information including that an assessment is being conducted to determine the impact on the audit and whether it will be necessary to conduct additional audit work to reissue the report.

(iv) Coordinate the notice with DCAA Headquarters, PAS through the regional office before making any notifications to the report recipients.

(v) Perform the assessment of the impact the threat had on the audit report and determine what additional audit work is necessary to reissue the audit. Document the assessment including the rationale for the conclusions, and a description of the additional audit work to be performed.

(vi) Coordinate the impact assessment with DCAA Headquarters PAS through the regional office.

(vii) Upon completion of the additional audit work, reissue the report, including any revised findings or conclusion or reissue the original report if the addition audit work did not change the findings.

(5) Ethical Requirements
GAGAS also requires all auditors and internal specialists be aware of and comply with applicable Government ethics laws and regulations. The standards of conduct for DCAA employees are set forth in the provisions of DoD Directive 5500.7, “Standards of Conduct,” and DoD Regulation 5500.7R, “Joint Ethics Regulation.” In a particular case, if GAGAS independence or the ethic requirements are more restrictive than the other is, the auditor or internal specialist must follow the more restrictive rule.

(6) Seeking Advice

An auditor or internal specialist who thinks he or she may have a threat to independence of mind or in appearance that would be significant and create an impairment should inform his or her supervisor in writing and discuss it with the supervisor promptly. When an independence or ethics question cannot be answered at the local level, the field audit office should provide the facts and circumstances, including its evaluation of the issue, to the regional office and request a determination from the regional office. If the regional office is uncertain, it should forward the facts and circumstances and the regional analysis of the issue to Headquarters. Since most independence issues also involve ethics, send the request to the Designated Agency Ethics Official or Alternative Designated Agency Official at DCAA’s General Counsel (DL). DL will obtain input from Policy on GAGAS independence issues and prepare a consolidated response to all questions that involve both GAGAS and ethics concerns.

(7) Compliance Requirements

DCAA auditors are required to comply with the preceding policies and procedures. Failure to do so may result in disciplinary action as appropriate.

2-S103.2 Personnel Management **

a. Objective

To provide reasonable assurance that:

- those hired possess the appropriate characteristics to enable them to perform competently,
- work is assigned to auditors having the degree of technical training and proficiency required in the circumstances,
- auditors participate in continuing professional education and other professional development activities that enable them to fulfill responsibilities assigned and satisfy the GAGAS continuing professional education requirements, and
- personnel selected for advancement have the qualifications necessary to fulfill the responsibilities of the position they will assume.

b. Personnel Hiring Policies and Procedures

(1) General. DCAA’s policy is to make use of all available resources to assure
that the Agency is fully staffed with qualified and competent auditor and administrative personnel. Recruiters must be carefully selected for their ability to represent the Agency effectively and to carry out this policy. The procedural guidance and specific responsibilities for implementing DCAA’s recruitment program are contained in DCAA Recruiters. This guidance covers the candidate sources and criteria for source selection, the college recruitment program, recruitment for intermediate- and senior-level positions, and candidate selection procedures.

(2) Qualifications. The Office of Personnel Management (OPM) establishes the required qualifications for Accountant and Auditor positions, GS-5 through 12. Qualifications for DCAA’s administrative positions are found in the OPM Qualification Standards Handbook X-118 governing the particular occupational series.

(3) Informing Applicants and New Hires. During orientations conducted by the Personnel Office and FAO management, applicants and new hires are informed of Agency policies and procedures relevant to them. A recruitment brochure is also available to any interested person or college recruitment office.

(4) Employee Retention. As an extension of the recruitment process, DCAA invokes a probationary period. If, during this period, an employee is determined to lack the skills and character traits necessary for satisfactory performance as a career employee, his or her appointment will be terminated. Details on completing an Auditor Probationary Appraisal Report and the procedures relating to actions required by supervisors of new employees in the probationary period are covered in DCAA Instruction No. 1400.27.

c. Personnel Assignment Policies and Procedures

(1) General. Headquarters is responsible for providing the strong, central direction necessary for development and maintenance of a competent, professional staff and for effective utilization of this staff. Staffing positions are established and personnel are assigned at each organizational level to provide an optimum balance among mission needs, economy and efficiency of operations, and effective employee utilization. The Agency’s personnel policies and procedures relating to position classification and position management are contained in DCAA Instruction No. 1400.15, Position Management and Position Classification Policy. These policies and procedures are compatible with and fully support all affirmative social action programs. Refer to the preceding section on Organization for the general responsibilities of all principal DCAA organizational elements.

(2) Staff Qualifications. DCAA auditors and specialists (see Consultation below) must collectively have the skills necessary to accomplish all aspects of DCAA’s audit mission. This requires detailed knowledge of:

- accounting and auditing theory, principles, procedures, and practices,
- organizations and contracts subject to audit,
- Government contracting policies and regulations, and
management principles and skills.

Update and maintenance of the required skills is accomplished through DCAA’s continuing education program (see Professional Development below).

(3) Staff Requirements and Distribution. DCAA’s staff requirements are determined based on estimates of the workload and the time required to perform this work in accordance with generally accepted government auditing standards. Appropriate consideration in calculating these estimates must be given to such factors as Government financial risk and vulnerability to fraud, waste, and abuse. Guidance for determining staffing requirements is provided annually through issuance of a Headquarters Planning and Staff Allocation Document (PSAD). This memorandum contains specific Agency direction for determining staffing requirements for the coming year.

The distribution of available personnel within DCAA is based on an evaluation of total Agency workload and priorities, and is made in consonance with the respective workloads of the five DCAA Regions, the Field Detachment, and Headquarters. Regional offices make distributions to Field Audit Offices (FAOs). A DCAA office is established when sufficient workload exists to justify a separate audit unit without unnecessarily duplicating administrative support requirements (see Organization).

The general guidelines used by DCAA for organizing staff, programming audits, scheduling performance of audit segments, and analyzing progress are contained in the Audit Planning Guide, available on the Intranet, which covers management of mobile audit workload and management of resident audit offices. Detailed programming objectives and guidance are set forth in the annual PSAD.

(4) FAO Assignments. The Field Audit Office or FAO is DCAA’s base level organizational unit responsible for providing financial services and planning and performing contract audits for the DoD and other Government agencies. Accordingly, FAO managers have primary responsibility for the assignment of field office personnel while audit supervisors (see Supervision below), reporting to the FAO managers, generally direct the actual planning and performance of the individual audits.

The FAO supervisors, together with the FAO managers, are responsible for considering and weighing many variables and factors when assigning personnel. They must ensure the auditor possesses the necessary knowledge, skills, and abilities to perform the audit. They must also consider the technical difficulty, timing requirements, specialized expertise needed, and availability of personnel for each assignment. Under the direction of the supervisory auditor, the GS-13 Technical Specialists assigned to an FAO are responsible for the technical management and performance of the most complex audits in their specific program areas. Examples of these program areas are the Cost Accounting Standards, post award audits, terminations, claims, incurred costs, internal controls, compensation, universities and not-for-profits, and financial capability.

(5) Reassignment/Rotation. Employees are reassigned to different positions and locations as necessary to accomplish the Agency’s mission. In fact, the Agency
encourages employees to be mobile in the interest of broadening their experiences and increasing their qualifications. Specific procedures covering employee reassignment/rotation to satisfy Agency objectives are contained in PMM, Chapter 37.

d. Professional Development Policies and Procedures

(1) General Guidelines & Requirements. It is DCAA’s policy to systematically plan for and provide all of the training and development necessary for its auditors to:

- meet the GAGAS continuing professional education requirements,
- maximize their performance proficiency, and
- assure they remain current in the contract audit environment.

Individual organizational elements are responsible for establishing adequate plans and controls to ensure that all training and employee development activities are accomplished economically, effectively, and on a timely basis, in consonance with the Agency’s training and development program. This program encompasses:

- on-the-job training and skill development through carefully planned and progressively more complex employee assignments,
- formal training, including courses given by the Defense Contract Audit Institute (DCAI),
- self-development courses, developed or approved by DCAA personnel and administered by the Regions or DCAI,
- professional continuing education programs,
- attendance at short-term training courses on specific subjects offered by other sources, and
- self-development through attaining professional certification (e.g., Certified Public Accountant) and advanced degrees (including the Director’s Fellowship Program in Management).

Specific procedures and responsibilities for carrying out the Agency’s professional development program at all organizational levels are contained in the following PMM chapters:

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PMM, Chapter 21 presents DCAA’s Master Training and Development Plan.
for Auditors. This plan identifies the formal technical and management training, by type and course, which is essential or desirable for progression from one audit career level to another within DCAA.

The knowledge and skills that are required by contract auditors at various grade levels to effectively perform their assigned tasks are detailed in Chapters 16 and 17 of the PMM. These chapters also provide guidance on assessing individual performance and identifying individual training and education needs. As an integral part of its overall training and development program, DCAA also requires that specific evaluations be performed to assess the extent to which training sources are achieving stated objectives.

(2) Defense Contract Audit Institute (DCAI). The DCAI is responsible for developing the Agency’s training program and courses. Courses provided at the Institute are designed and periodically updated to enable DCAA’s auditors and managers to gain the knowledge and skills they need to perform their assigned tasks in carrying out DCAA’s audit mission. The courses are also designed to improve performance weaknesses and to prepare employees for higher responsibilities.

(3) Specialization. Training needs are continuously reviewed and updated to meet present and anticipated Agency needs in specialized areas such as information systems and cost accounting for pensions and insurance. This specialized training is accomplished through the same basic training sources described in the General paragraph above, or derived from working with Agency specialists from Headquarters, Regional Offices, or DCAA’s Technical Support Branch (see Consultation).

(4) On-the-job Training. This form of training is an integral part of the Agency’s overall training and development program and is one of the most important responsibilities of all DCAA supervisors. It provides employees with the opportunity to participate in all types of audit assignments at progressively higher levels of complexity and in different contract audit environments.

e. Advancement Policies and Procedures

(1) Required Qualifications. The qualifications necessary for the various levels of auditor responsibility within DCAA can be stated in terms of the progressive growth in an individual’s technical competence and professional ability. This concept of career development is delineated in PMM Chapter 16. The accounting and auditing knowledge and skills that are essential for the contract auditor at various grade levels to effectively perform the assigned tasks are stated in Chapter 16, and Chapter 17, and Appendix B, of the manual.

(2) Criteria for Evaluating Performance. The performance of most DCAA personnel is evaluated in accordance with Office of Personnel Management (OPM) regulations. In many instances, these OPM regulations have been implemented by DoD directives and instructions. The objectives of DCAA’s performance appraisal system include identifying the job elements of each position, establishing performance
standards relative to the elements, informing employees of the job elements and the
performance standards for their positions, and conducting a periodic formal review and
discussion of the quality of each employee's work performance in relation to the
established performance standards. These objectives and associated DCAA appraisal
policies and procedures are presented in the PMM, Chapter 17.

(3) Advancement Decisions. Selections for promotions are made from among
the best qualified candidates, based solely on their relative knowledge, skills, and
abilities. Advancement selections to auditor positions GM-13 and above are made in
accordance with DCAA's Career Management Program policies (see below). Positions
GS-12 and below are filled non-competitively (without using vacancy announcements)
by career ladder promotions, as employees demonstrate their ability to perform higher
level duties. Agency guidance on advancement decisions is contained in PMM,
Chapter 36, Merit Promotion.

(4) Career Management and Career Boards. DCAA managers and
supervisors at all organizational levels are responsible for aiding subordinates in
defining career objectives and implementing career plans and for making advancement
recommendations (or decisions, when authorized) regarding employees under their
supervision. Employees, in turn, are encouraged to familiarize themselves with the
operation of the merit promotion program, provide complete and accurate information
needed for consideration under the merit promotion program, and periodically review
and update their experience records and other personal data maintained by the
Personnel Office. Individual careerists must further provide the initiative and energy
necessary for development of the skills required in their career field and recognize the
advantages of mobility to themselves and the Agency.

A DCAA Career Development Board (CDB) is established at Headquarters
with responsibilities for providing policy guidance and monitoring DCAA’s career
management planning and programming activity. The CDB consists of senior
Headquarters executives who:

- recommend for the Director's approval the establishment or revision of
  employee development activities which may be expected to improve the
  operation of the career management program, and

- review lists of candidates for filling all auditor and administrative positions
  at grade GM-14 and above to determine those best qualified for referral to
  the Director, who is the selecting official.

Regional Directors are accountable for the effective functioning of their
respective Region’s career management programs and Career Management Boards
(CMBs). Each CMB consists of senior regional managers who recommend any needed
revisions in the program to the Regional Director and who periodically evaluate the
region’s career management programs.

2-S103.3 Acceptance of Engagements/Assignments **
a. Objective
To provide reasonable assurance that:

- DCAA undertakes only those engagements/assignments that can be completed with professional competence,
- the risks associated with providing professional services in particular instances are appropriately considered, and
- an understanding is reached with the customer regarding the services to be performed.


(1) General Requirements. It is DCAA’s mission to perform all necessary contract audits for DoD (and other agencies as appropriate) and provide accounting and financial advisory services regarding contracts and subcontracts to those responsible for procurement and contract administration. If a requested audit service appears to be outside the mission of DCAA, the request is referred to the Agency Director for a determination as to whether DCAA will perform the requested service. Only those engagements that can be completed with professional competence are undertaken by DCAA.

(2) Understanding the Services to be Performed. During the planning phase of an assignment, it is essential that auditors coordinate with the customer or contracting official to obtain an understanding of the:

- purpose of the audit,
- contractual, regulatory, or other factors pertinent to the review,
- nature of the audit services to be performed, and
- auditors should determine the scope of audit based on the overall risk.

2-S103.4 Engagement Performance **

a. Objective

To provide reasonable assurance that work performed by personnel meets the applicable professional standards, regulatory requirements, and the Agency’s standards of quality. Audit assignments must be adequately planned, performed, supervised, reviewed, documented, and communicated in accordance with the GAGAS.

b. Engagement Design & Execution Policies and Procedures

(1) Planning of Field Work. Adequate planning requires that appropriate consideration be given to the assignment of personnel. Consideration should also be given to report format and content. Likewise, coordinating the audit with cognizant contractor and Government procurement representatives both prior to and during the audit is important. Although aspects of audit planning are presented throughout CAM, Chapter 3 specifically covers this critical element of quality control.
In planning and managing audits, regions and FAOs are directed to:

- ensure that quality performance is emphasized, and
- implement the total audit concept technique (TACT).

While the techniques of TACT are geared to audits of major contractors, the TACT principle (managing audit activities on the basis of an integrated totality) applies equally to audits of smaller contractors. Certain TACT techniques are required and performed annually as part of DCAA’s planning process. These include use of the internal control audit planning summary for major contractors and the internal control questionnaire for other contractors.

(2) Performance of Field Work. Every auditor assumes the duty to exercise professional judgment in the performance of his/her audits. Professional judgment requires auditors to perform their audits in accordance with generally accepted government auditing standards (GAGAS). Auditors should ensure that the nature, timing and extent of audit procedures performed are consistent with the risk assessments made and audit plan established. The CAM provides detailed audit guidance for the different audits/procedures performed.

(3) Supervision of Field Work. Supervisors are responsible for assuring that the necessary auditing procedures and tests are properly designed and systematically laid out so that they can be understood by the assigned audit staff. The extent of supervision and review required varies with the audit circumstances and depends on such factors as complexity of the work, the qualifications of the persons performing the work, and the extent of consultation available and used. The level of detail in a supervisor’s instructions must be tailored to the auditor’s experience, so that all elements necessary to performing a quality audit are addressed. Sufficient care must be exercised in supervising auditors and in reviewing their work throughout the audit. Findings and audit exceptions should be clearly described and well supported, and recommendations should be responsible and appropriate to the conditions described. Although aspects of audit supervision are presented throughout CAM, Section 2-303.2 specifically covers this critical element of quality control.

(4) Review of Working Papers and Reports. Supervisory review of working papers and reports is required to ensure that:

- the auditor conforms to auditing standards,
- audit programs are followed unless deviation is justified,
- the working papers conform to standards and adequately support the reported audit findings,
- the auditor accomplishes the audit objectives,
- the report is prepared in accordance with CAM, and
- the needs of the customer are understood and considered.

Documentation of supervisory reviews must be prepared and retained. A
technical specialist or GS-12 senior auditor who has been properly delegated to act for a GS-13 supervisory auditor has the same authority as the supervisor to approve/initial-off on all audit working papers and final draft report, unless otherwise prohibited by the supervisor or FAO manager. Copies of delegations of authority must be maintained in the FAO permanent files under file code 205.9, Delegations of Authority.

Supervisors must assure that each auditor is fully aware of the GAGAS auditing and reporting requirements implemented in CAM. FAO supervisors are also responsible, along with their FAO and regional managers, for implementing all Headquarters policy guidance memorandums. Headquarters updates pro forma audit programs and reports as new policy guidance is issued. Audit programs are expected to be tailored to the specific assignment and approved by the supervisor.

The full performance level for DCAA auditors is the GS-12 senior auditor position. Experienced GS-12s may be called upon to give onsite work direction to trainees as long as it does not preempt the supervisor’s responsibility or unduly interfere or prevent the GS-12 from the timely accomplishment of his/her principal work. Some GS-12s may be asked to furnish advice and instructions on specific audit programs, tasks, and techniques; plan and review individual work assignments within the scope of the total audit assignment; maintain the status and progress of work assignments; and provide on-the-job training to trainees.

(5) Documentation of Audit Performance. The auditor’s work should be documented and retained in the form of working papers. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain that the evidence supports the auditor’s significant conclusions and judgments. The auditor should obtain sufficient, appropriate and relevant evidence to support a reasonable basis for his/her conclusions. CAM Section 4-400 contains detailed guidance for the preparation, format, contents and retention of audit working papers.

(6) Communication of Audit Results. Audit reports are the principal means of communicating the audit results to our customers. Auditors must exercise professional judgment in preparing, reviewing, and processing reports to provide reasonable assurance that the reports are accurate, complete, clear, and prepared in accordance with the GAGAS reporting standards. CAM Chapter 10 contains detailed guidance for the preparation and distribution of DCAA audit reports. FAO managers should review and sign significant or sensitive reports as prescribed in DCAA Instruction 5600.1. This Regulation also establishes the requirements for delegating supervisors’ authority for signing certain audit reports and related audit documents.

c. Specialist Assistance

The auditor is responsible for obtaining sufficient evidence to express an opinion. Since the advice of specialists can constitute a significant part of this evidence, auditors must first recognize when areas of an assignment require assistance from an individual possessing expertise in a field other than auditing or accounting, and then obtain
assistance from individuals who have the skills needed to evaluate those areas. CAM Appendix B contains detailed guidance on assessing the need for specialist assistance, requesting assistance from internal and external specialists, evaluating the work of the specialists and referencing the specialists work in the audit report.

2-S103.5 Monitoring **

a. Objective

To provide reasonable assurance that the policies and procedures established by DCAA for each of the elements of quality control described above are suitably designed and are being effectively applied. Monitoring involves an ongoing consideration and evaluation of the:

- relevance and adequacy of DCAA’s policies and procedures,
- appropriateness of DCAA’s guidance materials,
- effectiveness of professional development activities, and
- compliance with DCAA’s policies and procedures, including appropriate follow-up of quality related issues.

b. Policies and Procedures

(1) General. Direct responsibility for quality control in all audit and resource management functions is vested in the line and staff managers and supervisors at all levels of DCAA. As stated above, Resources is responsible for preparing the Director’s annual statement certifying that DCAA’s system of internal accounting and administrative control provides a reasonable assurance that management controls are in place and operating effectively as required under the Federal Managers’ Financial Integrity Act (FMFIA). As reported through the FMFIA process, Resources monitors tests of critical management controls performed by others and advises the Director and Deputy Director on any sensitive matters disclosed by quality or management control reviews. In addition, the Special Assistants to the Regional Director/Corporate Audit Director and Director, Field Detachment coordinate periodic management control reviews in accordance with FMFIA.

(2) Relevance and Adequacy of DCAA’s Policies and Procedures. Quality control review planning considers the universe of all audit and resource management functions at all organizational levels. Areas for review are prioritized on the basis of periodic full-scale vulnerability assessments, supplemented by data monitoring at the Headquarters level and continual input of any other indicators from any source. The assessments consider the coverage and results of external audits and oversight reviews such as those by the Government Accountability Office; the Department of Defense; Office of the Inspector General; Office of Personnel Management; the Information Security Oversight Office; the Office of the Secretary of Defense; and the Office of Government Ethics; to avoid duplication. Depending on its nature, the area to be reviewed may be covered by:
● onsite visits to lower-tier offices by Headquarters or Regional Office program managers or functional specialists,
● fact-finding by cognizant line or functional staff managers or supervisors using such tools as centrally directed survey instruments and checklists for gauging audit performance,
● Headquarters desk reviews of sample transaction/event packages called in from Field Audit Offices (for example, audit reports or working papers),
● onsite review of internal systems by DCAA specialists who normally support our contract audit function, such as IT staff, or
● review by peers from outside the organization being reviewed, including outside DCAA if required.

The quality control program provides timely feedback to all levels of management on the state of compliance with the Agency’s objectives, policies, and procedures. It also provides appropriate focal points for tracking the implementation of corrective action plans established by management to address issues of noncompliance disclosed by external reviews or internal quality control activities. All significant review results and associated plans affecting Agency-wide operations are reported to the Agency’s Executive Steering Committee (see Organization above).

(3) Appropriateness of DCAA’s Guidance Materials. DCAA produces and maintains a substantial amount of audit guidance, audit management guidance, and administrative guidance in the form of regulations, instructions, manuals, pamphlets, and memoranda. DCAA’s guidance publications/issuances are routinely posted to and readily accessible on the Agency’s Intranet. DCAA’s Headquarters, regional, and Field Detachment staffs continually assess the need for new or revised guidance. For example, the Publications and Systems Division (PPS) of the Headquarters Policy and Plans Directorate periodically posts changes to the Agency’s online Contract Audit Manual and republishes a printed Manual on a semi-annual basis. On a continuous basis, PAS updates DCAA’s standard audit programs, working papers, and shell audit reports. Guidance revisions arise from many sources, including the issuance of new professional standards, decisions of DCAA’s Executive Steering Committee, input from Headquarters, regional and field personnel.

(4) Effectiveness of Professional Development Activities. The Defense Contract Audit Institute (DCAI) is responsible for managing the Agency’s professional development and training program. The DCAI staff evaluates on an ongoing basis the effectiveness of the Agency’s professional development program (for additional information on DCAI’s monitoring procedures see the Professional Development section under the Personnel Management quality control element above).

(5) Compliance with GAGAS and DCAA’s Audit Policies and Procedures and Follow-up of Quality Related Issues. Compliance is monitored on a daily basis by regional staff personnel, field audit office (FAO) management, and the members of the participative work teams at the individual FAOs. The QA organization within DCAA (see Organization above) assesses the state of auditor compliance on completed audit
assignments. It does this by performing:

- QA-related review projects on both an Agency-wide and regional basis, and
- continuous rounds of internal reviews that follow the guidelines and use the checklists adapted from the President’s Council on Integrity & Efficiency (PCIE) External Quality Review Guide.

The objectives of the PCIE-based reviews are to:

- Evaluate the effectiveness of DCAA’s quality control system as it relates to the selected audits and determine whether the FAOs and audits satisfactorily complied with the applicable GAGAS and Agency policies.
- Identify the Agency’s audit policies, or elements thereof, that contribute to specific instances of noncompliant activity disclosed by the review.
- Identify the areas where improvements are needed in the level of FAO compliance with the GAGAS and DCAA’s related audit policies.
- Significantly facilitate the implementation of Agency-wide process improvements.

A key component of monitoring is timely and effective follow-up of action taken by DCAA’s audit and policy management to address/correct quality related issues identified by other elements of DCAA’s quality control system. Timely and effective follow-up often involves the need for new or enhanced Agency policies and procedures, as well as the development and implementation of corrective action plans by Regional management (i.e. Regional Directors, Regional Audit Managers, FAO Managers, or Supervisors) to address specific issues or deficiencies. Headquarters Policy and Plans Directorate is responsible for revising Agency policies and procedures when inadequacies in guidance are identified. When deficiencies are identified in the level of field auditor compliance with policies and procedures or GAGAS, Regional management is responsible for developing appropriate corrective action plans to address the deficiencies/noncompliant practices. Regional management is also responsible for:

- assuring that the corrective actions are implemented in a timely and effective manner, and
- following-up on the actions taken on an “as needed” basis to assure that they achieve the intended results.

One of the tools available to regional management to monitor working paper compliance with GAGAS and Agency policy is the DCAA’s Adapted CIGIE-based Checklist for Quality Assurance Reviews of Individual Attestation Assignments. This checklist can be used for the purposes of auditor self-assessment, a peer review, or a supervisory review of the audit working papers. The checklist is maintained by Headquarters – Quality, and can be found in the CaseWare and on the DCAA Intranet under Q links, Integrity & Quality Assurance Directorate webpage.
a. Objective

To provide reasonable assurance that the Agency’s quality control system achieves its objectives. In so doing, appropriate consideration must be given to the:

- assignment of quality control responsibilities,
- means by which quality control policies and procedures are communicated, and
- extent to which the Agency’s policies and procedures and compliance therewith should be documented.

b. Policies and Procedures

(1) Assignment of Responsibilities. All quality control procedures discussed above are designed and maintained by the staff elements of DCAA’s Headquarters, regions, or Field Detachment. All employees are responsible for complying with the procedures.

(2) Communication of Quality Control Policies and Procedures. The Agency’s quality control policies and procedures are contained in various Agency publications, including the DCAA Charter, Instructions, Manuals, and other DCAA directives. Most Agency publications are contained on the DCAA intranet and are accessible to all auditors. The majority of the quality control procedures are contained in the CAM. The CAM is updated continuously and available to all personnel on the DCAA Intranet. It is printed semiannually and provided to all personnel.

(3) Documentation of DCAA’s Quality Control Policies and Procedures. A strong, well-documented internal quality control system has been in place within DCAA since its inception. Key elements of the system are described throughout this manual and summarized in this section. The system is further documented in the Agency’s charter, regulations, instructions, personnel management manual, etc. The Agency also documents its system of quality control for the Department of Defense, Inspector General (DoDIG) through completion of Appendix A – Policies and Procedures, which is part of the Council of the Inspectors General on Integrity & Efficiency (CIGIE) Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General.

The attention given to improving the Agency’s quality system and its documentation over the years is evidence of the strength of the system. The Agency’s implementation of the Federal Managers’ Financial Integrity Act (FMFIA) and related DCAA internal management control system requirements (DCAA Regulation No. 5010.7) are key examples of the continuous improvement of the system and its documentation. FMFIA implementation, in particular, served to consolidate various elements of the system and restructure the system’s documentation.
As noted under 2-S102.2.a.(1), Resources is responsible for drafting the Director's annual statement required by the Federal Managers’ Financial Integrity Act (FMFIA). The statement documents that:

- the Director recognizes the importance of management controls,
- DCAA has conducted an annual evaluation of the Agency's system of accounting and administrative control, which covered the management controls within that system,
- the annual evaluation was conducted in a conscientious and thorough manner, and
- the results of the annual evaluation show that the management controls are in place and operating effectively.

The broadly termed system of accounting and administrative control noted in the FMFIA statement encompasses DCAA's system of audit quality control. The enclosure supporting the annual statement documents in detail the audit quality control system and the monitoring and evaluation of that system.

(4) Documentation of Auditor Compliance with DCAA's Quality Control Policies and Procedures. As mentioned above, the enclosure supporting the annual FMFIA statement documents in detail the monitoring and evaluation of DCAA's audit quality control system. It covers the monitoring and evaluation done by regional management and staff personnel and by the management and personnel assigned to the various Headquarters elements. The Assistant Director for the Headquarters Policy and Plans Directorate has the greatest responsibility for:

- assuring that Agency auditors are performing audits in accordance with the GAGAS, and
- documenting the Directorate's work that provides the appropriate level of assurance.

The Policy Directorate fulfills its responsibilities through the work of its Divisions (see Organization above) and staff of program managers, and through the general management and oversight of DCAA’s Quality Assurance (QA) function.

The management and oversight of the QA function and the documentation of the Agency's QA review efforts are accomplished through the Policy Directorate's Quality Assurance Division in the manner outlined above under Organization – Quality Assurance and Monitoring -- Compliance with GAGAS and DCAA’s Audit Policies and Procedures. The documented results of the QA reviews are routinely provided to the Agency’s Executive Steering Committee and to its external reviewers – the DoD Office of Inspector General.