

MASTER AUDIT PROGRAM

Activity Code 19100	Compliance of Revised Disclosure Statement
B-1 Planning Considerations	Version 7.1, dated Apr 2023

Type of Service - Attestation Examination Engagement
Audit Specific Independence Determination
Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (WP 34) prior to starting any work on this assignment. <i>(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this working paper. For example, an FAO may add additional auditors (e.g., technical specialists) to the audit assignment or may need to consult with an internal specialist (e.g., industrial engineers, and operations research specialists) as the audit progresses.)</i>

Purpose and Scope
This standard audit program assists the auditor in planning and performing the audit of cost accounting practices submitted in a Disclosure Statement amendment in order to support the cognizant Federal agency official's (CFAO) determination of revised cost accounting practices (including corrections of noncompliances) for compliance with applicable CAS and FAR Part 31, as required by FAR 30.604(b) or FAR 30.605(c)(2). The audit program does not include testing actual practices for compliance with CAS and FAR Part 31, because we perform those tests in conjunction with routine audits (i.e., forward pricing, incurred costs, CAS compliance audits, etc.).
The adequacy assessment of the revised Disclosure Statement (activity code 19190) should be conducted prior to accepting the compliance engagement and documented by completing applicable portions of the adequacy checklist B-04 Conformity of Disclosure Statement with General Instructions and B-05 Internal Consistency of Disclosed Practices in a Disclosure Statement. If any inadequacies were identified in the 19190 adequacy assessment, ensure the 11D Inadequacy Notification Letter was sent to the CFAO. Coordinate with the CFAO and provide him/her with enough information to resolve any inadequacies in the descriptions in the revised disclosure statement before a compliance audit is requested. A separate adequacy notification memorandum will not be issued as adequacy is implied upon acceptance of any audit engagement.
NOTE: This program does not replace individual auditor judgment and therefore, must be tailored to reflect a mutual understanding between the audit team as to the scope required to meet auditing standards and objectives for this specific assignment.

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Other Planning Considerations
Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.
References
1. CAM Chapter 8, Cost Accounting Standards
2. CAS Board Rules, Regulations, and Standards
3. DoD CAS Working Group Guidance Papers 76-6, 76-7 and 77-20
4. 48 CFR 9903.202 Disclosure Requirements
5. 48 CFR 9903.302 Definitions, Explanations, and Illustrations of the Terms, “Cost Accounting Practice” and “Change to Cost Accounting Practice”
6. FAR Part 31 Contract Cost Principles and Procedures

Definitions

Allocation of cost to cost objectives: As defined in 48 CFR 9903.302-1(c), “includes both direct and indirect allocation of cost. Examples of cost accounting practices involving allocation of cost to cost objectives are the accounting methods or techniques used to accumulate cost, to determine whether a cost is to be directly or indirectly allocated to determine the composition of cost pools, and to determine the selection and composition of the appropriate allocation base.”

Assignment of cost to cost accounting periods: As defined in 48 CFR 9903.302-1(b), “refers to a method or technique used in determining the amount of cost to be assigned to individual cost accounting periods. Examples of cost accounting practices which involve the assignment of cost to cost accounting periods are requirements for the use of specified accrual basis accounting or cash basis accounting for a cost element.”

Cost accounting practice: As defined in 48 CFR 9903.302-1, “means any disclosed or established accounting method or technique which is used for allocation of cost to cost objectives, assignment of cost to cost accounting periods, or measurement of cost.”

Cost accounting practice change: As defined in [48 CFR 9903.302-2](#), means any alteration in a cost accounting practice method or technique which is used to measure cost, assign cost to cost accounting periods, or allocate cost to cost objectives, as defined in [48 CFR 9903.302-1](#), whether or not such cost accounting practices are covered by a Disclosure Statement. The definition specifies that the initial adoption of a cost accounting practice, the partial or total elimination of a cost, and the revision of a previously immaterial cost accounting practice are not cost accounting practice changes.

Measurement of cost: As defined in 48 CFR 9903.302-1(a), encompasses accounting methods and techniques used in defining the components of cost, determining the basis for cost measurement, and establishing criteria for use of alternative cost measurement techniques. The determination of the amount paid or a change in the amount paid for a unit of goods and services is not a cost accounting practice. Examples of cost accounting practices which involve measurement of costs are -

- (1) The use of either historical cost, market value, or present value;
- (2) The use of standard cost or actual cost; or

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Other Planning Considerations

(3) The designation of those items of cost which must be included or excluded from tangible capital assets or pension cost.”

B-1 Preliminary Steps	WP Reference
Version 7.1, dated Apr 2023	
1. Document that the contractor is still performing CAS-covered contracts/subcontracts that require maintenance of a Disclosure Statement.	
2. Document the audit team’s conclusion about the adequacy of the part(s) of the disclosure statement requested for audit. Prior to the start of the compliance audit, we need to obtain a determination of adequacy from the CFAO.	
3. Review the audit request to determine the nature and objective of the audit. Note any specific information requested and special requirements. Coordinate a post walkthrough meeting with the CFAO to discuss the revised practices which are not significant (i.e., clarifications) and those that are significant (i.e., change in accounting practice) and the risks associated with each. This meeting should result in a clarification of the audit request and discuss any specific concerns or special requirements the CFAO may have. Adjust the audit scope and procedures accordingly.	
4. Notify the appropriate CFAO of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement once the risk assessment is complete. The acknowledgement process should be performed in accordance with CAM 4-104.	
5. If necessary, coordinate with the Home Office(s) auditors to determine the status of the audit of Part VIII, and Part V, VI, and/or VII (if the Home Office establishes either practices or procedures for the types of costs covered by these parts or incurs and then allocates these types of costs to its segments). If part of a CAD network, discuss exceptions that have been identified by other offices to consider as part of this audit.	
6. Analyze and classify the revised practices subject to audit.	
a. If applicable, document the contractor’s notification of cost accounting practice changes, or corrections of noncompliant practices, submitted with the Disclosure Statement revisions (required by FAR 52.230-6(b)).	

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B-1 Preliminary Steps	WP Reference
<p>b. Compare the revised cost accounting practice description to the prior cost accounting practice description to determine and document the reason for the revised item(s) of the submission:</p> <ul style="list-style-type: none"> • correction of noncompliance, • implementation of a particular cost accounting practice change (unilateral, desirable, or required), • initial adoption of cost accounting practice for a new cost or function • partial or total elimination of a cost accounting practice because the cost or function is eliminated, and/or • administrative revision that only alters the description of, but does not reflect any alteration to, the contractor’s cost accounting practice. <i>(Note – As part of the coordination with the CFAO no administrative change should be sent for audit.)</i> <p><i>Note: Organizational changes by themselves are not changes in cost accounting practices. However carefully evaluate organizational changes which result in a change in the method or technique the contractor uses to measure costs, assign costs to cost accounting periods, or allocate costs to cost objectives to determine if changes in cost accounting practices occurred. (CAM 8-303.3.d).</i></p>	
<p>7. Review perm file, and prior/in-process audits, for significant and relevant risk factors such as, but not limited to:</p> <ul style="list-style-type: none"> • Prior CFAO determinations of compliance • Audit leads • Prior audit tests of compliance and audit findings • Outstanding CAS and FAR noncompliance(s). Evaluate the impact on the scope of this audit. 	
<p>8. Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter. If there were findings material to the subject matter, document this information in the risk assessment and perform the following procedures:</p> <p>a. Ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are relevant to the subject matter of audit. If yes, have contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions. (GAGAS 7.13)</p> <p>b. Document the results of the inquiry and the impact of the corrective actions to the subject matter.</p>	

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B-1 Preliminary Steps	WP Reference
<p>9. Review permanent file to determine if the contractor has previously provided other studies or audits (e.g., summary listing of internal audits or external audit reports) that directly relate to the subject matter. If there are no other studies or audits, document that information in the working papers and perform the procedures below.</p> <ol style="list-style-type: none"> a. Ask contractor management if internal audits were performed. If yes, request contractor provide a summary listing of the internal audits that would assist us in understanding and evaluating the efficacy of the internal controls relevant to the subject matter of the audit. b. If the review of the perm file or the contractor identifies relevant internal audits: <ul style="list-style-type: none"> • Determine if access to these reports is necessary to complete the evaluation of the relevant internal controls to support the risk assessment or audit procedures related to the subject matter of the audit. There must be a nexus between the internal audit reports and the scope of this specific assignment. • If assignment is at a major contractor location, coordinate with the CAD or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports. • If assignment is at a non-major contractor and the FAO does not have a designated POC, the auditor should request the contractor provide access to the internal audit reports. • The request should include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative working papers. c. If the review of the perm file or the contractor identifies relevant other audits or studies: <ul style="list-style-type: none"> • Obtain publicly available information for the relevant other Government agency audits (e.g., websites for DoD IG or other IGs, service audit agencies, etc.). • Make appropriate adjustments to your risk assessment and planned procedures based on the reported findings. d. Document the results of the inquiries including the response received from the contractor for any request for access to internal audit reports. (If access was not granted this should include the contractor's rationale or justification for not granting access). e. Determine if additional audit procedures are needed to respond to identified risk. 	

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B-1 Preliminary Steps	WP Reference
<p>10. Ascertain whether the revision(s) will affect any outstanding noncompliance issues or any other current audit assignments, such as a price proposal. If so, notify other teams with ongoing audits at this contractor of the cost accounting practice change and inform them that they should consider its impact on their audit(s).</p>	
<p>11. Assess materiality of the practice(s) subject to audit. If applicable, compare the previous forward pricing rate proposal to the forward pricing rate proposal with the revised cost accounting practice.</p>	
<p>12. During the entrance conference, or other appropriate meeting, make specific inquiries of contractor management and other appropriate parties regarding the following:</p> <ul style="list-style-type: none"> a. Their knowledge of any actual, suspected, or alleged fraud or noncompliance with laws and regulations affecting the period of time corresponding to the subject matter under audit. (AT-C 205.32) b. If any specialists (internal or external) were used in the preparation of the subject matter. If yes, have the contractor explain how the specialists were used in the preparation of the subject matter. (AT-C 205.16) c. Whether any investigations or legal proceedings, that are significant to the engagement objectives, have been initiated or are in process with respect to the period of time corresponding to the subject matter. (GAGAS 7.14) d. The existence of other audits and studies (performed by other than DCAA) that relate to the subject matter under audit. If yes, have the contractor explain the audits and studies performed, any related findings or recommendations, and any contractor corrective actions taken. (GAGAS 7.13) <p><i>Note: Specifically document in the working papers; the inquiries and the corresponding responses as well as how the responses affect the performance of the engagement.</i></p>	

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B-1 Preliminary Steps	WP Reference
<p>13. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential material noncompliances, whether due to error or fraud, that could affect the subject matter. The discussion should include:</p> <ul style="list-style-type: none"> • relevant prior audit experience (e.g., questioned cost, relevant reported accounting system deficiencies), • relevant aspects of the contractor and its environment, • risk of material noncompliance due to fraud (e.g., the extent of financial incentives, pressures to meet budgetary and contractual commitments, and opportunities to commit and conceal fraud). 	
<p>Consider the fraud risk factors and scenarios presented in the DoD OIG's webpage: Fraud Detection Resources for Auditors. Copy link and paste into web browser,</p> <ul style="list-style-type: none"> • other known factors that increase the risk of increase the risk of material noncompliance with laws and regulations, and • the audit team's understanding of relevant key internal controls. Document the factors identified that increase the risk of material noncompliance due to error or fraud that could affect the subject matter, and design audit procedures to respond to the increased risk of material noncompliance. <p>Communication among audit team members should continue as needed throughout the audit regarding the risk of misstatement and noncompliance due to error or fraud.</p>	
<p>14. Obtain and document an understanding of contractor internal controls relevant to the audit. Auditors may obtain a significant portion of this understanding during the walkthrough.</p>	

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B-1 Preliminary Steps	WP Reference
15. Review and discuss with your supervisor (or if appropriate, the audit team) the overall results of the risk assessment and reach an agreement on the: <ul style="list-style-type: none">a. planned audit scope, including the detailed audit steps (-01 working papers) to be performed,b. timeframe for completing the audit including the proposed delivery date, which will be discussed with the requester and mutually agreed-to, andc. zero-based budget.d. Make any further adjustment to the audit program steps necessary to obtain sufficient evidence to provide a reasonable basis for the conclusion that will be expressed in the audit report.	
16. Obtain and document supervisory approval of the risk assessment and the planned scope of examination in working paper B and -1 working papers.	
17. Conduct an entrance conference. Confirm the team's understanding of the cost accounting practices being audited and supporting data. Discuss the availability of required data and personnel necessary to timely support the audit. If applicable, include a follow up with contractor management on: <ul style="list-style-type: none">a. corrective actions that address previous DCAA audit findings and recommendations, andb. other studies or audits that impact.	
18. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.	
19. Issue a final acknowledgment memorandum to the CFAO to communicate our audit scope and the agreed-to due date.	
20. Update the information in the permanent files as needed. (MAAR 3).	

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C-1 Evaluation of Compliance	WP Reference
Version 7.1, dated Apr 2023	
<p>1. Prepare a list detailing CAS applicability dates for each standard used to evaluate compliance of the contractor's disclosed cost accounting practices (CAM 8-301.c.).</p> <p><i>Note: The applicability date marks the beginning of the period when the contractor's accounting and reporting systems must comply with a new or revised standard. Most standards are applicable at the beginning of the next fiscal year after receipt of a contractor's first CAS-covered contract. CAS 418 and 420 are applicable at the beginning of the second fiscal year, and CAS 401, 402, 405, and 414 are applicable immediately. Use the list to determine if the Cost Accounting Standard is applicable, based on the date of applicability, before citing a CAS noncompliance.</i></p>	
<p>2. Determine the applicable cost accounting standards and FAR Part 31 regulations that will be included in the scope of audit established in the risk assessment. Compare the disclosed practice to the requirements of the relevant standards and regulations and document whether the practice complies with the standard and regulation. Limit the scope for the audit to compliance of disclosed practices with the standard and applicable FAR Part 31 cost principle. Compliance of actual practices is tested in other routine audits (i.e., forward pricing, incurred costs, CAS compliance audits, etc.). Document findings and conclusions in sufficient detail to enable an experienced auditor to understand the extent and results of the procedures performed to determine if the disclosed practice is compliant with CAS and FAR Part 31 (GAGAS 7.34).</p>	
<p>a. <i>Add Tailored Steps from Planning and Risk Assessment (B) here</i></p>	
<p>b.</p>	
<p>c.</p>	
<p>3. Obtain and incorporate results of assist audit(s), if requested.</p>	
<p>4. Coordinate significant or unusual issues with the supervisor and, if applicable, the technical specialist.</p>	
<p>5. If part of a CAD or home office network, obtain feedback on similar audit issues within the network.</p>	
<p>6. If a CAS and/or FAR Part 31 noncompliance is identified:</p>	
<p>a. Document the auditor's discussion with the CFAO regarding the CAS/FAR noncompliance in accordance with CAM 4-105 and 8-302.4.</p>	
<p>b. draft the Condition (condition, criteria, cause, and effect) and Recommendation of the SOCAR (CAM 10-211.2c).</p>	
<p>i. Document the type of CAS/FAR noncompliance.</p>	

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C-1 Evaluation of Compliance	WP Reference
<p><i>Note: An estimating noncompliance is one where the contractor used a noncompliant practice to price contracts/subcontracts, and an accumulating noncompliance is one where the contractor used a noncompliant practice to allocate incurred costs to contracts/subcontracts. Contractors may fail to comply with a CAS requirement, FAR regulation or its own disclosed/established practice.</i></p>	
<p>ii. The actual or estimated time the noncompliance has existed. Also, if the contractor implemented corrective action to correct the noncompliance, does the CFAO consider the action sufficient to reduce the future potential impact to the Government.</p>	
<p>iii. The significance (<i>CAM 8-302.7</i>) and/or rough order of magnitude (ROM) of the materiality if possible (48 CFR Part 9903.305 Materiality). While the cost impact is the contractor's responsibility, clearly communicating the effect on CAS-covered contracts increases the persuasiveness of the SOCAR and the need for the CFAO to require the contractor to take corrective action.</p>	
<p>7. After management review and approval, send the draft SOCAR to the contractor and request a formal written response. (<i>CAM 4-304.6(b)</i> transmittal letter)</p>	

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A-1 Concluding Steps	WP Reference
Version 7.1, dated Apr 20230	
1. Summarize and document the results of audit.	
2. Discuss results with the supervisor and, if applicable, the technical specialist.	
3. Prepare the draft audit report.	
4. Obtain supervisory/management review of the working papers and draft audit results section of the audit report before discussion with the contractor. Hold an exit conference with the contractor and provide a draft report to the contractor for comments in accordance with CAM 4-304.	
5. Brief the CFAO on significant and/or complex findings/issues and document the communications in the working papers.	
6. Finalize audit report by incorporating the exit conference details, contractor's reaction and auditor's response, if applicable.	
7. Complete the administrative working papers.	
8. Update the permanent files in accordance with CAM 4-405.	
9. Submit the working paper package and draft report to the supervisor/manager for final review and processing.	
10. If a material weakness or significant internal control deficiency is detected during the course of this audit, ensure that the findings have been fully developed to determine if a significant deficiency in compliance with the DFARS 252.242-7006 criteria exists. If so, open a Business System Deficiency assignment (Activity Code 11090) to report the deficiency and submit it to the contractor for comment.	