



**DEFENSE CONTRACT AUDIT AGENCY**  
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IN REPLY REFER TO

PIC 730.5.35.1

October 19, 2018  
18-PIC-005(R)

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

**SUBJECT: Audit Alert on Tailoring Standard Audit Program Steps**

This audit alert is to remind audit teams of current policy to tailor standard audit program steps based on the audit objectives and circumstances of the specific assignment.

Agency policy requires that auditors use the most current version of Agency electronic working papers when beginning any audit. As provided in CAM 2-303.2, supervisors are responsible for ensuring that the audit team clearly understands the purpose and scope of the audit, and that an adequate audit program is developed and tailored specifically to the assignment. CAM 3-203.3 provides Agency guidance for tailoring audit steps during the risk assessment stage of the audit, and CAM 3-203.4 provides guidance for modifying the audit program steps after the initial risk assessment has been approved.

**Tailoring the Initial Audit Program (CAM 3-203.3)**

When a new assignment is started, auditors, in conjunction with their supervisors, should apply professional judgment in developing tailored audit steps, taking into consideration the significance of the proposed amounts and known risk factors. Auditors can tailor audit steps by:

- adding new steps to the audit program,
- identifying and lining out steps as not applicable (N/A) and adding an explanation for why the step is unnecessary by documenting directly below the lined-out step or in a separate working paper, as necessary, and/or
- modifying the standard audit program steps based on initial supervisory guidance to meet the specific audit objectives of the assignment.

In addition, if the audit team determines a section(s) of the audit program is not relevant (e.g., Direct Material section, when no material costs are proposed) during the risk assessment phase of the audit, it is not necessary to include the section(s) of the audit program that is not applicable. Include only the relevant detailed audit program sections for the cost element/area being evaluated in the working papers.

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### **Modifying the Audit Program during the Audit (CAM 3-203.4)**

Auditors are required to follow similar procedures if the auditor determines modifications to the initial audit program are necessary after the risk assessment and initial audit program have already been developed/approved. If the auditor believes there is a need to modify the audit program, the auditor first should discuss the need to modify the audit program with the supervisor. If changes to the audit program are necessary, the auditor should:

- document the results of the discussion in the interim supervisory guidance section, and
- modify the audit steps accordingly.

If it is determined that a step is no longer necessary, the auditor should:

- identify the audit step as N/A, and provide an explanation directly below the lined-out step or in a separate working paper, as necessary, and
- update the risk assessment working papers if the modification to the audit program is a result of a significant change to the initial risk assessment.

As a reminder, CAM 4-409 should be followed to resolve any differences of opinion in tailoring the audit steps.

### **Questions and Further Information**

FAO personnel with questions regarding this audit alert should contact their regional or CAD offices. Regional/CAD personnel with questions regarding this audit alert should contact Policy Incurred Cost Division at (703) 767-2270 or via e-mail at DCAA-PIC@dcaa.mil.

/Signed/  
Martha E. McKune  
Assistant Director, Policy and Plans

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