

Master Document – Audit Program

Activity Code 19100		Compliance of Initial Disclosure Statement		
Version 4.11, dated May 2019				
B-1	Planning Considerations			
Type of Service - Attestation Examination Engagement				
Audit Specific Independence Determination				
<p>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.</p> <p><i>(Note: Because staff is sometimes added to on-going audits, supervisors should ensure that all individuals who are directing, performing audit procedures, or reporting on this audit as a member of the audit team who are performing as a consultant have signed this work paper. For example, an FAO may add additional auditors (e.g., 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></p>				
Purpose and Scope				
<p>This standard audit program assists the auditor in planning and performing the audit in support of the cognizant Federal agency official's (CFAO) initial determination of compliance of the contractor's description of cost accounting practices submitted in the Disclosure Statement. 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 cost, CAS compliance audits, etc.). The compliance audit should be scheduled for completion within 60 days after the CFAO has made a determination of adequacy (CAM 8-303.2).</p>				
<p>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.</p>				
Other Planning Considerations				
<p>Prior to commencing the audit, review Agency guidance that may impact the audit and adjust the scope and procedures appropriately.</p>				
References				
1. CAM Chapter 8, Cost Accounting Standards				
2. CAS Board Rules, Regulations, and Standards				

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3. DoD CAS Working Group Guidance Papers 76-6, and 77-20
4. 48 CFR 9903.202

B-1	Preliminary Steps	WP Reference
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1.	Document that the contractor is required to submit a Disclosure Statement (48 CFR 9903.202). Consider whether the contractor was awarded a “trigger contract”, or is a home office or segment that is required to submit a disclosure statement because it allocates costs to, or has costs in, a CAS-covered contract held by another segment. Use the CAS Coverage flow chart in CAM Chapter 8 (Figure 8-1-1) as a tool to help make this determination.	
2.	If the organization being examined is a joint venture, teaming arrangement, or contractor wholly-owned subsidiary or division, read Chapter 37 of the Selected Areas of Cost Guidebook. Determine the need for a CAS Disclosure Statement in accordance with Chapter 37 of the Selected Areas of Cost Guidebook.	
3.	<p>Make a determination of adequacy for the Disclosure Statement.</p> <ul style="list-style-type: none"> • Determine if the contractor followed the General Instructions in completing the form. Auditors may use WP B-04, containing the “Conformity of Disclosure Statement with General Instructions” tool, to assist in making this determination. • Determine if the contractor was consistent in completing the items of the Disclosure Statement. Auditors may use WP B-05, containing the “Internal Consistency of Disclosed Practices in a Disclosure Statement” tool, to assist in making this determination. • Coordinate with the contractor to provide a walk-through of the Disclosure Statement to gain an understanding of the basis of the described practices in the Disclosure Statement and obtain other information needed to complete the risk assessment. <p>Document the audit team’s conclusion about the adequacy of the Disclosure Statement. Discuss the audit team’s conclusions on the adequacy or inadequacy of the Disclosure Statement with the CFAO and confirm your discussion by memorandum. Prior to the start of the compliance auditing, we need to obtain from the CFAO a determination of adequacy. At this point it does not have to be a formal memorandum.</p>	

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However, prior to issuance of the report, we need to obtain a formal memo of adequacy from the CFAO.	
<p>4. Coordination with Cognizant Federal Acquisition Official:</p> <p>a. If this is a requested audit, review the audit request to determine the nature and objective of the audit. Note any specific information requested and special requirements. Contact the requestor to obtain clarifications of the request and discuss any specific concerns or special requirements they may have and adjust the audit scope and procedures accordingly.</p> <p>b. If self-initiated, contact the CFAO to discuss any specific concerns or special requirements they may have and adjust the audit scope and procedures accordingly.</p>	
<p>5. Electronically transmit an acknowledgement/notification to the CFAO notifying them of the commencement of the risk assessment and that the expected completion date will be provided in the formal acknowledgement/notification once the risk assessment is complete. (CAM 2-305). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104.</p>	
<p>6. 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 CAC/CHOA network, discuss exceptions that have been identified by other offices to consider as part of this audit.</p>	
<p>7. Perform a cursory review of the Disclosure Statement to identify practices, which appear to be obviously noncompliant with an applicable Cost Accounting Standard or FAR Part 31, including agency supplements, to be considered in the scope of the audit.</p>	
<p>8. Review permanent file to determine if previous audits included findings and recommendations that impact the subject matter under audit (GAGAS 5.06). If there were findings, auditors should document this information in the risk assessment and perform the following procedures:</p> <p>a. During the entrance conference, ask contractor management if corrective actions were taken to address findings and recommendations reported in previous DCAA audits (e.g., questioned costs, business system deficiencies, CAS audits) that are relevant to the subject matter of audit. If yes, have contractor explain corrective actions taken and determine if additional audit procedures should be included in the fieldwork to test the corrective actions.</p>	

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<p>b. Document the results of the inquiry and the impact of the corrective actions to the subject matter under audit. (Note: The purpose of this question is to follow up with contractor on relevant prior DCAA audit findings that could have a material effect on the subject matter of audit.)</p>	
<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 under audit (GAGAS 5.06). If there are no other studies or audits, document that information in the work papers and perform the procedures below. (If you do not perform the following procedures, you must document your justification for the departure.)</p> <p>a. During the entrance conference:</p> <ul style="list-style-type: none">• 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.• Ask contractor management if other types of audits or studies were performed by other than DCAA (e.g., other Government audit agencies, consultants, Independent Public Accountants, etc.) that would impact the subject matter under audit. If yes, have contractor explain what type of audits or studies were performed, if there were any related findings or recommendations, and any contractor corrective actions taken as a result. <p>b. If the review of the perm file or the contractor identifies relevant internal audits:</p> <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.• Document the results of the determination in writing.• If assignment is at a major contractor location, coordinate with the CAC or FAO point of contact (POC) for internal audit reports to request the contractor provide access to the reports.• 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, issued by the CAC, FAO POC or auditor, should include information on how the internal audit report is relevant to the DCAA audit. Place a copy of the request in the assignment administrative work papers.	

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<p>c. If the review of the perm file or the contractor identifies relevant other audits or studies:</p> <ul style="list-style-type: none"> • 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. <p>d. Document the results of the inquiries including the response received from contractors for any request for access to internal audit reports. (If access was not granted this should include the contractor's rationale or justification for not granting access).</p> <p>e. Determine if additional audit procedures are needed to address any identified risk. (Note: The purpose of this question is to discover any new audit leads that could affect the scope of current audit.)</p>	
<p>10. Identify the accounting practices expected to have a material effect on the flow of costs to Government contracts. Materiality is a prime consideration in determining the extent of disclosure and degree of audit effort needed to assure compliance. If an area is not being audited in depth because of materiality considerations, the working papers should document this decision.</p>	
<p>11. During the entrance conference, or other appropriate meeting, make inquiries of contractor management regarding knowledge of any fraud or suspected fraud affecting the subject of this audit, managements awareness of allegations of fraud or suspected fraud affecting this audit, and management's understanding about the risks of fraud relevant to this audit. Note: This discussion and any data submitted should be documented in the working papers.</p>	
<p>12. Based on the team's understanding of the criteria, subject matter, and the contractor and its environment, hold a planning meeting with the audit team (at a minimum, Supervisor and Auditor) to discuss and identify potential noncompliances, due to error or fraud, that could materially affect the subject matter.</p> <p>The discussion should include:</p> <ul style="list-style-type: none"> • relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies), • relevant aspects of the contractor and its environment, • risk of material noncompliance due to fraud (e.g., extent of incentives, pressures and opportunities to commit and 	

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<p>conceal fraud, and the propensity to rationalize misstatements),</p> <ul style="list-style-type: none">• other known risk factors,• the audit team’s understanding of relevant internal controls, and• inquiries to the contractor regarding its fraud management plans and controls. <p>Document fraud risk factors/indicators (see - Sources of Fraud Risk Factors below) that are present and could materially affect the subject matter. If fraud risk factors are present, document specific audit procedures designed to address the increased risk of material noncompliance due to fraud.</p> <p>Communication among audit team members about the risk of material misstatement due to error or fraud should continue as needed throughout the audit.</p> <p>Sources of Fraud Indicators:</p> <ul style="list-style-type: none">• Fraud Detection Resources for Auditors (Fraud Detection Resources)• GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk (http://gao.gov/products/GAO-12-331G) <p>(To access the Source of Fraud Indicators, copy and paste the web address shown above into the address block in a web browser (Firefox, Edge, etc.)).</p>	
13. Using the framework and the guidelines in WP B-2, obtain and document an understanding of the contractor's internal controls that are relevant to compiling and maintaining that the Disclosure Statement is compliant with CAS and FAR Part 31. With the proper planning auditors should be able to obtain and document a major portion of this understanding during a walk-through of the contractor's assertion.	
14. Request assist audit(s), if needed. A condition that may warrant an assist audit is a segment Disclosure Statement contains Parts V, VI, and/or VII that was prepared by the home office and the home office is not currently or has not previously audited these Parts.	
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 (i) planned audit scope, including the detailed audit steps (-01 working papers) to be performed, (ii) timeframe for completing the audit including the proposed delivery date, which will be discussed with the requester and mutually agreed-to, and (iii) zero-based budget. Make	

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<p>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.</p> <p>Obtain and document supervisory approval of the risk assessment and the planned scope of examination in working paper B and -01 working papers.</p>	
16. 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: a. corrective actions that address previous DCAA audit findings and recommendations (step 8), b. other studies or audits that impact the subject matter under audit (step 9).	
17. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.	
18. Issue a final acknowledgment/notification memorandum to the CFAO to communicate our audit scope and the agreed-to due date.	

C-1	Evaluation of Compliance	WP Reference
Version 4.11, dated May 2019		
1.	<p>Prepare a list of CAS applicability dates for each standard affected by the audit used to evaluate compliance of the contractor's disclosed cost accounting practices (CAM 8-301.c.).</p> <p>Note: Use the list to determine if the Cost Accounting Standard is applicable, based on the date of applicability, before citing a CAS noncompliance.</p>	
2.	<p>Determine the applicable cost accounting standards included in the scope of audit established in the risk assessment. Compare the disclosed practice to the requirements of the relevant standards and document whether the practice complies with the standard. Limit the scope of 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 cost, 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 practices is compliant with CAS and FAR Part 31.</p>	
	<i>a. Add Tailored Steps from Planning and Risk Assessment (B) here</i>	
	<i>b.</i>	

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c.	
3. Obtain and incorporate results of assist audit(s), if requested.	
4. Coordinate significant or unusual issues with the supervisor and/or the FAO technical specialist.	
5. If part of a CAC/CHOA network, inform the CAC/CHOA of exceptions and obtain feedback on similar audit issues within the network. In addition, if not already provided, furnish a copy of the Disclosure Statement to the CAC/CHOA.	

A-1	Concluding Steps	WP Reference
Version 4.11, dated May 2019		
1.	Summarize and document the results of audit.	
2.	Discuss results with the supervisor and, if applicable, the technical specialist.	
3.	Prepare draft audit report.	
4.	Hold an exit conference with the contractor and provide a draft report to the contractor for comments in accordance with CAM 4-304. Obtain supervisory review, and management review if required, of the working papers and draft audit results section of the audit report before discussion with the contractor.	
5.	Brief the CFAO on significant and/or complex findings/issues.	
6.	Finalize audit report incorporating the contractor's reaction and auditor's response, if applicable.	
7.	Complete the administrative working papers.	
8.	Update the permanent files. If not already received, obtain a copy of the CFAO's determination of adequacy of the Disclosure Statement sent to the contractor. Note: The audit report should not be issued until the determination of adequacy is received (FAR 30.202-7(b)(1)).	
9.	Submit the working paper package and draft report to the supervisor/manager for final review and processing.	