

**Master Document – Audit Program**

<b>Activity Code 19100</b>		<b>Compliance of Initial Disclosure Statement</b>
<b>Version 3.9, dated August 2012</b>		
<b>B-1</b>	<b>Planning Considerations</b>	
<b>Purpose and Scope</b>		
To provide general objectives to be considered in auditing an initial D/S for compliance with the CAS standards. Compliance of actual performance will be tested later in accordance with the routine audit planning cycle and is not covered by this program.		
NOTE: This program does not replace individual auditor judgment and therefore, should be tailored to the audit scope of the particular assignment. The revised audit program must reflect a mutual understanding between the auditor and supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment.		
<b>References</b>		
1. CAM, Chapter 10, Section 8		
2. CAM, Chapter 8		
3. CAS Board Rules, Regulations, and Standards		
4. DoD CAS Working Group Guidance Papers 76-6, and 77-20		
5. 48 CFR 9903.202		

<b>B-1</b>	<b>Preliminary Steps</b>	<b>WP Reference</b>
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1.	Review the open MRD's for guidance which may impact the audit and adjust the scope and procedures appropriately. Open MRDs can be identified using the link provided on the DCAA Intranet home page for "MRDs, AGMs, & AMGMs"	
2.	Upon receipt of an initial D/S, the auditor will generally audit the disclosure statement for adequacy prior to compliance. The compliance audit should be scheduled for completion with 60 days after the cognizant Federal agency official (CFAO) has made a determination of adequacy (CAM 8-303.2). Advise the CFAO of the compliance audit in accordance with CAM 4-103. Advise the CFAO of any delays encountered during the audit.	

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<p>3. Contact the contracting officer to ascertain any known concerns (including risk related to the contractor’s financial condition) that will impact the audit and adjust the audit scope and procedures accordingly. If information regarding the contractor’s financial condition is not available from the contracting officer, the auditor should perform the procedures addressed in CAM 2-302.1h. If during the course of the audit the auditor becomes aware of unfavorable or adverse financial conditions, they should immediately communicate their concerns to the contracting officer, and appropriately adjust the scope of audit.</p>	
<p>4. Electronically transmit an acknowledgement/notification to the ACO/Buying Command 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 2-303). The acknowledgement/notification process should be within the timeframe and in accordance with the procedures in CAM 4-104.</p>	
<p>5. If the organization being examined is a joint venture, teaming arrangement, or any other type of special business unit (SBU), (e.g. contractor wholly-owned subsidiary or division), read CAM 7-1800.</p>	
<p>a. Determine the need for a CAS Disclosure Statement in accordance with CAM 7-1810.2.</p>	
<p>b. Determine the actual relationship between the contracting organizations using the criteria in CAM 7-1807.</p>	
<p>c. Determine if the contractor is proposing to and/or is accumulating and allocating costs consistent with the actual relationship, e.g., if the actual relationship more closely resembles that of a prime contractor/subcontractor then costs should be allocated consistent with this type of relationship. (See CAM 7-1810.3 Cost Allocation)</p>	
<p>6. Review permanent files and prior audit assignments (e.g., forward pricing, incurred cost, and financial capability audits) to determine whether the contractor is involved in any off-balance sheet financing activities. If the contractor has off-balance sheet activity, determine the impact of the activity on the allocation bases (See CAM 9-703.4d).</p> <ul style="list-style-type: none"> <li>• If the contractor is publicly held, off-balance sheet financing activities will be identified in the “Management’s Discussion and Analysis” (MDA) section of the contractor’s quarterly and annual SEC filings (see CAM 14-306a(1)). If a review of the SEC filings has not been performed in a prior audit for the period(s) covered by the CAS audit, review the SEC filing. Quarterly and annual SEC filings can be accessed via the Securities and Exchange Commission website at <a href="http://www.sec.gov">http://www.sec.gov</a>.</li> </ul>	

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<ul style="list-style-type: none"> <li>• If the contractor is not publicly held, review the contractor’s last financial capability audit to determine if the contractor has provided written confirmation that its financial statements include disclosure of all off-balance sheet arrangements and related party transactions. If the contractor has not provided the written confirmation, request the contractor to provide this documentation. (See CAM 14-306a(2).)</li> </ul> <p>Note: A proforma letter requesting contractor confirmation of the financial statements is included in the APPS of Financial Capability Audits (17600), Other Audit Guidance section, entitled ConfirmLtr – Financial Statements.</p>	
<p>7. Request assist audits, if needed.</p>	
<p>8. Materiality is a prime consideration in determining the degree of audit effort needed to assure compliance. Considering materiality includes identifying accounting practices which have a material impact on Government contracts. If an area is not being audited in depth because of materiality considerations, the working papers should document the restricted scope.</p>	
<p>9. Hold a planning meeting with the audit team (e.g., RAM, Manager, Supervisor, Auditors) to discuss the risk of fraud and other noncompliances with applicable laws and regulations that could have a material effect on the assertion. The discussion should include relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies), relevant aspects of the contractor’s environment (e.g., the extent of incentives, pressures and opportunities to commit fraud and the propensity to rationalize misstatements), other known risk factors, and the audit team’s understanding of relevant internal controls (see W/P B-2). The team should also review and discuss the general and other relevant sections of the IG Handbook on Fraud Indicators for Contractors as well as the relevant fraud indicators in CAM Figure 4-7-3. See “Principal Sources of Fraud Indicators” below.</p> <p>Based on the team discussion and other risk assessment procedures the team should document on W/P B, Section 4 the risk factors/indicators identified and design audit procedures to meet the audit objectives and provide reasonable assurance of detecting fraud and other noncompliances with applicable laws and regulations that could have a material effect on the proposal (i.e., tailor (add/delete/modify) the audit steps). GAGAS 6.13(a)</p> <p>Communication among audit team members about the risk of material misstatement due to fraud should continue as needed throughout the audit.</p>	

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<p>Principle Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> <li>• Handbook on Fraud Indicators for Contract Auditors, Sections I and III, (IGDH 7600.3, APO March 31, 1993) located at: <a href="http://www.dodig.mil/PUBS/igdh7600.doc">http://www.dodig.mil/PUBS/igdh7600.doc</a>.</li> <li>• CAM Figure 4-7-3.</li> </ul> <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	
<p>10. Examine the ICQ or relevant ICAPS (whichever is applicable) to obtain information regarding accounting system adequacy, identify any known outstanding system deficiencies, and perform preliminary assessment of risk. Document results.</p>	
<p>11. 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 the audit. 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.</p>	
<p>12. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	

C-1	Evaluation of Compliance	WP Reference
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1.	Prepare a list of CAS applicability dates for each standard affected by the audit.	
2.	Survey the D/S to identify practices, which appear to be obviously noncompliant with an applicable standard or FAR including agency supplements.	
3.	Prepare a schedule listing apparent noncompliance(s). Also, list sensitive or critical areas requiring in-depth audit, including those accounting practices which have a material impact on Government contracts, as identified during the risk assessment. Perform risk analysis and assign audit priorities.	
4.	Audit those described accounting practices involving significant costs or sensitive issues to determine compliance with applicable standards. Limit the scope of the audit to compliance of described practices with the CAS. Compliance of actual performance will be tested later in accordance with the routine audit planning cycle. Document findings, conclusions, and observations.	
5.	Coordinate significant or unusual issues with the supervisor and the	

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FAO technical specialist	
6. If a noncompliance issue is identified and supported, a separate assignment should be established to report and resolve the noncompliance (activity code 19200 and CAM 8-208)	

<b>A-1</b>	<b>Concluding Steps</b>	<b>WP Reference</b>
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	1. Summarize the result of audit	
	2. Discuss results with the supervisor and the FAO technical specialist.	
	3. Prepare draft audit report in accordance with CAM 10-805. Noncompliance issues should be reported separately in accordance with CAM 10-808.	
	4. Hold an exit conference with the contractor and provide a draft report to the contractor for comments in accordance with CAM 4-304.	
	5. Finalize audit report incorporating the contractor’s reaction and auditor’s response, if applicable.	
	6. Update the permanent files, e.g., ICAPS or ICQ, and Mandatory Annual Audit Requirements (MAARs) schedules, as appropriate.	