

Master Document – Audit Program

Activity Code 19100	Concurrent Adequacy and Compliance Revised Disclosure Statement
Version 3.12, dated August 2012	
B-1	Planning Considerations
Purpose and Scope	
To provide general objectives to be considered in auditing a revised D/S for adequacy and compliance. Normal ongoing compliance audits, not directly associated with a change in D/S, should be performed in accordance with the routine audit planning cycle and are 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.	
References	
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-1	Preliminary Steps	WP Reference
Version 3.12, dated August 2012		
	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 a revised D/S, coordinate the audit report due date with the cognizant Federal agency official (CFAO). Advise the CFAO of any delays encountered during the audit.	
	3. Contact the contracting officer to ascertain any known concerns (including risk related to the contractor's financial condition) that will	

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<p>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 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.</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"> • 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 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 http://www.sec.gov. • 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 	

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<p>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).)</p> <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. Briefly evaluate the D/S to determine if it appears to be complete. If it is obviously incomplete, report it to the CFAO. Coordinate with the contractor to determine if any modifications are being contemplated which would affect the current audit.</p>	
<p>8. Determine the reason for the submission (e.g., response to a noncompliance determination, proposed accounting change, etc.) The auditor should identify the contractor’s cost accounting change(s) (see 48 CFR 9903.302) and each item of the DS-1 that is affected by the change(s) to ensure that all revisions to the DS-1 are included in the scope of the audit. This listing should also be included in the audit report as required by CAM 10-806.5, Statement of Changes. Ascertain whether the revision(s) will affect any outstanding noncompliance issues or any other current audit assignments, such as a price proposal.</p>	
<p>9. Request assist audits, if needed.</p>	
<p>10. Materiality is a prime consideration in determining the extent of disclosure and 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>11. 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>	

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<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> <p>Principle Sources of Fraud Indicators:</p> <ul style="list-style-type: none"> • Handbook on Fraud Indicators for Contract Auditors, Sections I and III, (IGDH 7600.3, APO March 31, 1993) located at: http://www.dodig.mil/PUBS/igdh7600.doc. • CAM Figure 4-7-3. <p>(To access the fraud handbook, copy and paste the web address shown above into the address block in Internet Explorer.)</p>	
<p>12. 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>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 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>14. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.</p>	

C-1	Evaluation of Adequacy	WP Reference
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1.	Emphasis of the audit should be on accounting practices which have a material impact on Government contracts, as identified during the risk assessment.	
2.	Audit D/S interrelationships are listed below to assure internal consistency:	

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a. If item 1.4.0 is marked A or B, item 2.2.1 or 2.2.2 should be marked A, and/or item 2.5.0 should be coded D in at least one column.	
b. Section 2.4.0 should be completed, only if line A of item 2.2.1 or 2.2.2 is marked.	
c. Section 2.6.0 should be completed, only if one or more columns in item 2.5.0 were marked D.	
d. If item 2.2.2 is marked A, B, C, D, or Y, item 3.2.1(f) must be marked with a code other than Z.	
e. If item 2.7.1 is marked with a code other than Z, item 3.2.3(v) should be marked D or E.	
f. If item 3.2.1(b) is marked other than Z, item 5.5.0(a) must be completed.	
g. If item 4.5.0(b) is marked A, B, C or D then item 3.2.3(l) or (m), or both (l) and (m) must be marked other than F or Z.	
h. If item 3.2.3(w) is marked with a code other than Z, item 6.3.0 cannot be marked Z.	
i. If item 4.3.0, column (3), is marked with a rate code A, item 4.4.0 cannot be marked Z.	
j. If item 4.6.0 is marked A, the G&A pool described in item 4.2.0 must include IR&D/B&P functions and activities.	
k. If item 4.6.0 is marked B, one of the pools listed in item 4.1.0 must include the IR&D/B&P pool.	
l. If item 3.2.2(f) is marked other than Z, item 7.1.0 cannot be marked Z.	
m. If item 3.2.2(g) is marked other than Z, item 7.2.0 cannot be marked Z unless the plan is reportable under item 7.3.0.	
n. If item 3.2.2(h) and/or (i) are marked other than Z, item 7.3.0 must be marked A.	
o. If item 3.2.2(j) is marked other than Z, item 7.4.0 and/or 7.5.0 must be marked A.	
p. If one of the lines in 7.1.0.A is marked, item 7.1.2 cannot be marked Z.	
q. If one of the lines in 7.1.0.B is marked except 7.1.0.B.2.b or 7.1.0.B.2.c, item 7.1.3 cannot be marked Z.	
r. If item 7.1.0.B.2.b or 7.1.0.B.2.c is marked, item 7.1.2 cannot be marked Z	
s. If item 7.2.0 is marked other than Z, items 7.2.1 and 7.2.2 must be	

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completed.	
t. If item 7.3.0 is marked A, item 7.3.1 must be completed.	
u. If item 7.4.0 is marked A, items 7.4.1 and 7.4.2 must be completed.	
v. If item 7.5.0 is marked A, item 7.5.1. must be completed.	
w. If item 7.6.0 is marked A, item 7.6.1 must be completed.	
x. If the submission includes Part VIII (which is only completed by a home office in accordance with Part VIII instructions), at least one of the items, 8.3.1, 8.3.2, or 8.3.3 must be completed by the home office.	
y. If item 8.2.0 is marked other than Z, the corresponding part(s) (ie Parts V, VI or VII) of the disclosure statement must be completed	
3. Determine if the particular D/S item is adequately described (i.e., current, accurate, and complete) and document your workingpapers accordingly. This determination should first be attempted using data existing in your current files. If insufficient information exists in the files to determine the adequacy of a D/S item, then perform any additional audit steps necessary to verify the adequacy of the D/S item.	
a. A disclosure statement item is "current" if it describes the current accounting practices which the contractor intends to follow for estimating, accumulating and reporting costs associated with covered contracts.	
b. An item is "accurate" if it correctly, clearly and distinctly describes the actual method of accounting the contractor uses or intends to use on covered contracts.	
c. An item is "complete" if it clearly describes the cost accounting practices the contractor intends to use and gives you sufficient information to fully understand the accounting system being described.	
d. When a particular item is adequately described (i.e., current, accurate, and complete) mark it accordingly and cross-reference it to related audit files.	
4. If the description is inadequate, document the reasons for the inadequacy.	
5. If insufficient information is available to form an opinion, mark the item(s) for additional follow-up. Evaluate additional contractor records to verify the adequacy and accuracy of the accounting practice(s).	

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6. Examine closely for any disclosed practices which are different from established practices. The contractor may intend to make an accounting practice change.	
7. Coordinate significant or unusual issues with the Supervisor or the FAO technical specialist.	
8. Discuss with the contractor those items that you intend to recommend to the CFAO as inadequate or that may constitute an accounting practice change.	
9. If part of a CAC/CHOA network, coordinate exceptions with the CAC/CHOA to assure consistent audit positions. In addition, furnish a copy of the D/S to the CAC/CHOA for consistency considerations.	

D-1	Evaluation of Compliance	WP Reference
Version 3.12, dated August 2012		
1.	Prepare a list detailing CAS applicability dates for each standard included in 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 each apparent noncompliance. 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. Document findings, conclusions, and observations.	
5.	Coordinate significant or unusual issues with the supervisor and the 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)	

A-1	Concluding Steps	WP Reference
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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 10-806. 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 SHORTICQ, and Mandatory Annual Audit Requirements (MAARs) schedules, as appropriate.	