

**Master Document – Audit Program**

<b>Activity Code 19100</b>	<b>Compliance of Initial Disclosure Statement</b>
<b>Version 4.3, dated November 2015</b>	
<b>B-1</b>	<b>Planning Considerations</b>
<b>Audit Specific Independence Determination</b>	
<p>Members of the audit team and internal specialists consulting on this audit must complete the Audit Specific Independence Determination (w/p 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., FAO technical specialist) 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>	
<b>Purpose and Scope</b>	
<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>	
<b>Other Planning Considerations</b>	
<p>Prior to commencing the audit, review guidance that may impact the audit and adjust the scope and procedures appropriately. Guidance to review includes CAM, open MRDs, FAQ training material, guidebooks, etc. available on the DCAA Intranet.</p>	
<b>References</b>	
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>B-1</b>	<b>Preliminary Steps</b>	<b>WP Reference</b>
<b>Version 4.3, dated November 2015</b>		
1.	Document that contractor is performing or bidding on CAS-covered contract(s) that require submittal of a Disclosure Statement.	
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>Review the Disclosure Statement (or part(s) of the statement under review) for adequacy.</p> <ul style="list-style-type: none"> <li>• Determine if the contractor followed the General Instructions in completing the form. Auditors may use w/p B-04, containing the “Conformity of Disclosure Statement with General Instructions” tool, to assist in making this determination.</li> <li>• Determine if the contractor was consistent in completing the items of the Disclosure Statement. Auditors may use w/p B-05, containing the “Internal Consistency of Disclosed Practices in a Disclosure Statement” tool, to assist in making this determination.</li> <li>• 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.</li> </ul> <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.</p>	
4.	<p>Coordination with Cognizant Federal Acquisition Official:</p> <ol style="list-style-type: none"> <li>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.</li> </ol>	

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<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 2-303). 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. 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>9. 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>10. 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>	

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<ul style="list-style-type: none"> <li>• relevant prior audit experience (e.g., questioned cost, relevant reported estimating or accounting system deficiencies)</li> <li>• relevant aspects of the contractor and its environment,</li> <li>• risk of material noncompliance due to fraud (e.g., the</li> <li>• extent of incentives, pressures and opportunities to commit and conceal fraud, and the propensity to rationalize misstatements)</li> <li>• other known risk factors,</li> <li>• the audit team’s understanding of relevant internal controls</li> <li>• inquiries to the contractor regarding its fraud management plans and controls.</li> </ul> <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"> <li>• GAGAS Appendix Section A.10 – Examples of Indicators of Fraud Risk (<a href="http://gao.gov/products/GAO-12-331G">http://gao.gov/products/GAO-12-331G</a>)</li> <li>• AU-C 240.A75 (Appendix A)- Consideration of Fraud in a Financial Statement Audit, Examples of Fraud Risk Factors (<a href="http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00240.pdf">http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-C-00240.pdf</a>)</li> <li>• DoDIG’s Contract Audit Fraud Scenarios and Resources website (<a href="http://www.dodig.mil/resources/fraud/resources.html">http://www.dodig.mil/resources/fraud/resources.html</a>)</li> </ul> <p>(To access the Source of Fraud Indicators, copy and paste the web address shown above into the address block in Internet Explorer.)</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 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</p>	

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assertion.	
12. 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.	
13. 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 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.  Obtain and document supervisory approval of the risk assessment and the planned scope of examination in working paper B and -1 working papers.	
14. 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.	
15. Issue a notification letter to the contractor regarding the audit in accordance with CAM 4-302.3.	
16. Issue a final acknowledgment/notification memorandum to the CFAO to communicate our audit scope and the agreed-to due date.	

<b>C-1</b>	<b>Evaluation of Compliance</b>	<b>WP Reference</b>
<b>Version 4.3, dated November 2015</b>		
1.	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.).  Note: Use the list to determine if the Cost Accounting Standard is applicable, based on the date of applicability, before citing a CAS noncompliance.	
2.	Determine the applicable cost accounting standards included in the scope of audit established in the risk assessment. Compare the	

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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 (CAM 2-507).	
<i>a. Add Tailored Steps from Planning and Risk Assessment (B) here</i>	
<i>b.</i>	
<i>c.</i>	
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.	

<b>A-1</b>	<b>Concluding Steps</b>	<b>WP Reference</b>
<b>Version 4.3, dated November 2015</b>		
	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.	

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<p>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.</p> <p>Note: The audit report should not be issued until the determination of adequacy is received (FAR 30.202-7(b)(1)).</p>	
<p>9. Submit the working paper package and draft report to the supervisor/manager for final review and processing.</p>	