

Auditing by Checklist

Written by Nick Sanders

Thursday, 25 October 2012 00:00

The image shows a detailed checklist form for auditing. It is organized into several columns and rows, with yellow headers for each main section. The sections include:

- BEFORE START**: Contains various checkboxes for pre-audit preparations.
- TIME**: A section for recording time-related data.
- TRANSITION**: A section for recording transition-related data.
- BEFORE LANDING**: A section for recording pre-landing data.
- AFTER LANDING**: A section for recording post-landing data.
- SHUT DOWN**: A section for recording shutdown data.
- APPROVAL**: A section for recording approval data.

The form is dated 'SEP 2019' at the bottom right.

Before we had a falling-out, I used to know this guy, Ben. Ben was a very smart guy—as he would be the first to tell you. Ben had a lot of talents and a lot of experience and a lot of knowledge ... but he had this way about him that just pissed people off. (Yes, guys in the back. Indeed, I *do* realize I frequently hear that I have the *exact same* personality attributes, but this is a story about Ben. So shut up and sit back down.) Like me, Ben got hired into the world of Big 4 Accountancy after many years in industry. Like me, Ben tried to bring the benefit of his experience to the world of auditing, with—shall we say?—mixed results.

Ben's big innovative idea was to review the work of the auditors he managed by use of a checklist. The checklist formed a cover sheet, an approval sheet, and evidence that the review had been performed. It was a pretty cool idea, actually.

So naturally everybody hated it.

I can't articulate exactly why everybody hated it. Maybe they thought a checklist was too mechanical. Maybe they thought it was too easy to simply check a box and, as a result, reviewers would fudge their substantive reviews. Maybe they just didn't like Ben (a distinct probability).

It might have been a reaction to the idea that the Firm's audit approach could be improved. Certainly, if the Firm had wanted supervisors and managers to use checklists, it could have created them and mandated their use; and that was just not the case. Use of a checklist was

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not in the approved audit approach—so Ben’s innovation was a subtle implied criticism of the approved audit approach, which was used by thousands of auditors at thousands of clients every single day.

It might have been because Ben was not a Partner. The Firm had a pervasive respect for Partners. If anybody was going to improve the audit approach, it would be one or more Partners, likely supported by at least one field testing team. The change would be tested, reviewed and approved—and it would be done at the Partnership level. And it would be done in New York. A lone Audit Manager in Southern California simply wasn’t going to be the source of innovation.

For whatever reason or reasons, Ben’s management tool immediately ran into strenuous objections.

Ben replied that astronauts used checklists. Pilots used checklists. Use of checklists reduced the chance of omission and ensured that the reviews were thorough. If checklists were good enough for astronauts and pilots, they should be good enough for accountants and auditors. So he was going to keep using his checklist, even if doing so was not the official Firm policy.

Ben was deemed to be “not a good fit” and quickly transferred out of his audit supervisor role ... and then it became my privilege to work with him. We both left the Firm a relatively short time thereafter.

Which brings me to DCAA.

DCAA seems to be moving towards an expanded use of checklists in its audit procedures. Some of us can gripe and moan and complain about “auditing by checking the box” but, as Ben asserted, a checklist can form a useful audit tool, providing assurance that important steps are not omitted through human error. So we need to get over it, already.

DCAA has a checklist for proposal adequacy, called “Criteria for Adequate Contract Pricing Proposals.” Other folks (including those at DCMA) became enamored of it and tried to get it

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made an official proposal requirement for defense contractors. We [opined](#) that was a bad idea. Despite our concerns, it

[looks like](#)

the proposed DFARS rule is moving forward; the DAR Editor is “currently reviewing” the final language (as of October 5, 2012).

DCAA also has a checklist to use in performing pre-award accounting system adequacy surveys, called “Preaward Survey of Prospective Contractor Accounting System Checklist.” It is a mystery to me as to why DCAA felt the need to have its own checklist for this exercise, given that the government already had a perfectly good Standard Form (SF) [1408](#)—called “Preaward Survey of Prospective Contractor Accounting System.”

DCAA also has a checklist to use to evaluate the adequacy of a contractor’s proposal to establish final billing rates, called “Incurred Cost Adequacy Checklist.” We’ve discussed this checklist before, including [right here](#). Why DCMA continues to permit DCAA to usurp the authority given to the Administrative Contracting Officer by the FAR, i.e., to determine whether or not a contractor’s submission is adequate, continues to baffle me. In any case, this is a very important checklist to understand because, for some contractors, it will

[form the basis](#)

for

all

review work that is performed by DCAA.

And now DCAA has added a new checklist—called “Adequacy Checklist for Forward Pricing Rate Proposals.” This new checklist addresses the format and content of the proposal to establish a Forward Pricing Rate Agreement (FPRA). We have discussed the process needed to establish FPRAs before, such as in [this article](#).

DCAA’s notion is that an adequate FPRP will facilitate the audit and speed up the process. There are 29 adequacy criteria. We were interested to see that DCAA has put a backdoor into its checklist, stating—

The existence or adequacy of some of the supporting data can be determined only by discussing it with the contractor during the walk-through or during the course of a detailed audit. **Therefore, it is possible that an initial finding of adequacy may be changed once the audit has started.**

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[Emphasis in original.]

From our point of view, the problem with all these checklists is that they are based on certain assumptions that would seem to be questionable. Does every contractor generate its FPRP based on a bottoms-up estimate of every direct and indirect cost element, including secondary pool allocations? Does every contractor need to submit every Incurred Cost Electronically schedule, even those that are clearly not applicable? We don't think so.

And so the question is, will the DCAA auditors and Quality Assistants and Internal Reference Reviewers feel comfortable in tailoring the checklists to adapt to the individual circumstances of the contractors they are auditing? Or will they simply mark "INADEQUATE" on any submission that doesn't meet the standards established by the checklist?

If you experience one or the other, why don't you send me an email?