July 2020

Audits have been affected by the Coronavirus Disease 2019 (COVID-19) pandemic. This alert highlights audit considerations and reminders given the circumstances related to the pandemic, including those for audits of new government programs arising from the pandemic response as well as ongoing audits.

This alert is part of a series of alerts that GAO is issuing. To consult other alerts in this series, visit www.gao.gov/yellowbook.

This alert provides nonauthoritative guidance on auditing matters prepared by GAO staff. It does not amend Government Auditing Standards, commonly referred to as generally accepted government auditing standards (GAGAS) or the Yellow Book.1 Reading this alert is not a substitute for reading GAGAS and, as applicable, the American Institute of Certified Public Accountants' (AICPA) standards incorporated by reference.2 The considerations in this alert apply, as applicable, to all engagements conducted under GAGAS.

Responsibility to Comply with the Yellow Book

Auditors and audit organizations conducting engagements in accordance with GAGAS are required to comply with all applicable requirements of the Yellow Book. Auditors and audit organizations conducting GAGAS financial audits, attestation engagements, and reviews of financial statements are required to comply with the AICPA auditing standards, attestation standards, and standards for reviews of financial statements, incorporated in GAGAS by reference.

GAGAS Engagements

For GAGAS engagements, auditors may need to pay increased attention to certain areas of auditors’ work because of the circumstances of the COVID-19 pandemic. Some of the areas include:

- Identifying risks, including inherent risk and risk of fraud

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2See Yellow Book paras. 2.13a, 6.01, and 7.01. For financial audits and attestation engagements, GAGAS incorporates by reference AICPA Statements on Auditing Standards and Statements on Standards for Attestation Engagements. For reviews of financial statements, GAGAS incorporates by reference AR-C, section 90, Review of Financial Statements.
For audits and certain attestation engagements, auditors have a responsibility to identify and consider audit risk when planning the engagement and assessing the sufficiency and appropriateness of evidence. The COVID-19 pandemic is changing the environment in which audited entities operate. As discussed below, audited entities likely face new and increased risks that auditors need to consider in their engagements.

When identifying and assessing risks, auditors consider inherent risk, control risk, and the risk of fraud. Inherent risk is the risk that exists before considering the effectiveness of internal control in reducing risk to an acceptable level. Control risk is the risk that the entity’s internal control will not prevent, or detect and correct, events that adversely affect the entity’s achievement of mission, goals, and objectives (material misstatements for financial audits and certain attestation engagements). For financial audits and certain attestation engagements, fraud risk is the risk of material misstatement due to fraud. For performance audits, fraud risk is the risk of fraud occurring that is significant within the context of the audit objectives.

In assessing risk, auditors may need to obtain more extensive evidence to confirm these risks and may assess the effectiveness of controls to address them. Auditors may also need to revisit their risk assessments if their engagement has already started, given the changing environment in which entities are operating.

A discussion of the potential effect of the COVID-19 pandemic on each of these risks and related engagement procedures follow.

As noted above, inherent risk is risk that exists before considering the effectiveness of internal control in reducing risks to an acceptable level. Auditors may identify and assess inherent risks separately from other types of audit risk.
There may be increased inherent risks because of the COVID-19 pandemic. Conditions that may indicate an increased level of inherent risk include:

- new programs and rapid program growth;
- new laws, regulations, and responsibilities;
- programs with a large number of payments sent to external recipients;
- additional pressures on audited entity management; and
- changes in economic conditions.

For financial audits, auditors identify and assess inherent risks by obtaining an understanding of the entity and its environment. Similarly, for performance audits, auditors obtain an understanding of the nature of the program or program component to identify and assess risks.

An engagement team began an audit of a new government program created in response to the COVID-19 pandemic. The engagement team identified increased inherent risks because the program was new and subject to new laws and regulations. The engagement team also noted that the program was sending a large number of payments to external recipients. The engagement team considered all of these inherent risks in establishing the scope and methodology of the audit.

For financial audits and certain attestation engagements, auditors assess the risk of material misstatement due to fraud. For performance audits, auditors assess the risk of fraud occurring that is significant within the context of the audit objectives. If the engagement began prior to the COVID-19 pandemic, auditors may need to revisit their assessments of the risk of fraud, given the changing environment in which entities are operating.

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3See paras .12 and .27 of AU-C section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (AICPA, Professional Standards).

4See Yellow Book para. 8.36.

5Fraud involves obtaining something of value through willful misrepresentation. Whether an act is, in fact, fraud is determined through the judicial or other adjudicative system and is beyond auditors’ professional responsibility.
Reasons for Enhanced Attention

Increased risk of fraud for new or expanded programs may exist at entities responsible for disbursing government funds made available for the COVID-19 pandemic response and the related economic stimulus plans. Auditors may consider conditions that may indicate increased inherent risks, as discussed above, when identifying and assessing fraud risks. Specifically, the following conditions related to the COVID-19 pandemic may indicate an increased risk of fraud:

- Management or other personnel have an incentive or are under pressure to commit fraud because of, for example, economic conditions that threaten the entity’s financial stability or the need to execute a new program quickly.
- Management or other personnel have the opportunity to commit fraud because of, for example, a large number of payments or high dollar value payments being disbursed with no or ineffective controls in place.
- Management or other personnel are able to rationalize their actions under the circumstances.

Key Steps

Auditors gather and assess information to identify fraud risks that are significant within the scope of audit objectives or that could affect the audit findings and conclusions. Audit team members discuss and brainstorm fraud risks. Auditors may consider the audited entity’s

- most recent fraud risk assessment of the program and, if the fraud risk assessment has been revisited in response to the COVID-19 pandemic, its economic impacts or related legislation;
- controls or measures, if any, implemented (or planned) to mitigate the risks of fraud (through prevention, detection, and response) in the program’s response to the COVID-19 pandemic;
- mechanisms or indicators, if any, used to identify potential fraud associated with the response to the pandemic and related conditions; and
- identified attempts to defraud the program’s response to the COVID-19 pandemic.

Additional key steps related to fraud risk include the following:

- For performance audits, if information comes to the auditors’ attention indicating that fraud, significant within the context of the audit objectives, may have occurred, extending the audit steps and
procedures to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings.\textsuperscript{6}

- For performance audits, reporting a matter as a finding when the auditors conclude based on sufficient, appropriate evidence, that fraud either has occurred or is likely to have occurred that is significant to the audit objectives.\textsuperscript{7}

- For financial audits, including in the report on internal control or compliance the relevant information about fraud when auditors, based on sufficient, appropriate evidence, identify or suspect fraud that is material, either quantitatively or qualitatively, to the financial statements or other financial data significant to the audit objectives.\textsuperscript{8}

Example

The auditors interviewed entity officials to determine if the entity had identified new risks of fraud related to the COVID-19 pandemic. The auditors considered whether entity officials had appropriately identified such risks. The auditors considered the implications of audited entity’s identification of risks on the audit’s scope and methodology, including the planned procedures.

Internal Control

Auditors’ responsibilities related to internal control vary depending on the type of GAGAS engagement. Auditors may be required to consider internal control deficiencies in evaluating identified findings when developing the cause element of the findings and reporting on internal control.

Reasons for Enhanced Attention

As noted above, increased risks may exist for audited entities and programs because of the COVID-19 pandemic, including new laws and regulations that may be significant to the engagement. Audited entities address risks through systems of internal control. Audited entities may not have made the necessary changes to their systems of internal control, or properly documented or effectively communicated new internal control procedures, to respond to these risks.

Conditions that may indicate an increased level of control risk include

\textsuperscript{6}See Yellow Book para. 8.72.

\textsuperscript{7}See Yellow Book para. 9.40.

\textsuperscript{8}See Yellow Book para. 6.41.
• audited entity employees working remotely;
• changes in staffing at audited entities, such as those caused by furloughs or layoffs; and
• changes in audited entity staff responsibilities.

Key Steps

When performing internal control procedures, auditors obtain an understanding of internal control significant to the audit objectives, including determining whether audited entities have made the necessary changes to their systems of internal control. Questions auditors may consider include the following:

• Has the audited entity recently created a new program or process to use or disburse government funds made available for the COVID-19 pandemic response?
• Has the audited entity updated its system of internal control for applicable new laws, regulations, and responsibilities related to the use or disbursement of government funds made available as part of the response to the COVID-19 pandemic?
• Has the audited entity made sufficient changes to its internal control system given risks associated with the increased number of employees working remotely?
• If key employees have been furloughed or laid off, has the audited entity made the appropriate changes to its internal control system?
• Are there additional pressures on management that may affect the auditors’ assessment of the audited entity’s control environment and system of internal control? For example, did management not design or implement controls effectively, or did management override existing controls to execute a COVID-19 pandemic–related program quickly?
• Have the auditors become aware of waste or abuse of COVID-19 pandemic–related funds that could be the result of internal control deficiencies?
• Were controls operating effectively throughout the period given pressures and accelerated timelines in the COVID-19 pandemic environment?

For financial audits and certain attestation engagements, and for performance audits where internal control is significant to the audit objectives, other key engagement procedures include, as applicable,
• assessing whether controls were properly designed, implemented, and operating effectively (including, if applicable, assessing the controls in place both before the COVID-19 pandemic began and after);
• evaluating the significance of identified internal control deficiencies; and
• reporting on internal control as required by GAGAS.

Example
Auditors conducted an audit of a government program that focused on accounts payable. Four of the seven staff who processed the program’s accounts payable had been reassigned to perform work related to the COVID-19 pandemic. Auditors interviewed entity staff and found that the three remaining staff members were both preparing purchase orders and paying the vendors. The auditors concluded that this process lacked appropriate segregation of duties and that management did not design controls properly to reduce the risk of error or fraud.

Professional Skepticism
Exercising professional skepticism is key to conducting GAGAS engagements.9 The circumstances related to the COVID-19 pandemic amplify the need to exercise professional skepticism. Professional skepticism is even more important when auditing an entity with new and changing risks. Auditors need to be attuned to the conditions that may indicate an increased level of risk, as discussed above. Given the changing risks, auditors may need to revisit their understanding of the entity and its environment throughout the engagement to ensure that their understanding remains current.

Evidence
Auditors are required to obtain sufficient, appropriate evidence to support findings and conclusions. Circumstances related to the COVID-19 pandemic may prevent auditors from performing engagement procedures at audited entity facilities and may necessitate that audit organizations consider alternative methods to conduct engagements and obtain evidence. In some circumstances, auditors may be unable to obtain sufficient, appropriate evidence.

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9See Yellow Book para. 3.110 for a discussion of professional skepticism. Attributes of professional skepticism include a questioning mind, awareness of conditions that may indicate possible misstatement owing to error or fraud, and a critical assessment of evidence. Professional skepticism includes being alert to, for example, evidence that contradicts other evidence obtained or information that brings into question the reliability of documents or responses to inquiries to be used as evidence.
### Reasons for Enhanced Attention

Auditors may face challenges such as (1) difficulty accessing audited entity records, automated information systems, and personnel; (2) difficulty observing an entity’s inventory and property; (3) restrictions on auditor travel; and (4) limited ability to access sensitive or classified data. Auditors may have to change the methodology used in prior engagements to overcome these challenges and comply with GAGAS requirements.

Increased risks may also cause auditors to increase the scope of work or change the methodology to obtain additional evidence. As discussed above, auditors have a responsibility to identify and consider risks when assessing the sufficiency and appropriateness of evidence.

### Key Steps

Auditors may need to consider alternative ways to obtain evidence. For example, auditors may obtain digital copies of records. In addition, auditors may conduct inquiries with audited entity officials through video teleconference or other remote methods. If auditors obtain evidence through inquiry, they need to consider whether additional verification or corroboration is necessary. Auditors also need to consider how they will perform internal control procedures, such as obtaining evidence using remote methods and determining whether such evidence is sufficient and appropriate for its purpose. Documentation requirements are key. In the COVID-19 pandemic environment, there will likely be more electronic communications and documentation. Auditors may document electronic correspondence with the audited entity by maintaining email messages in the audit files.

Auditors should determine whether circumstances related to the COVID-19 pandemic prevent them from obtaining sufficient, appropriate evidence. Auditors’ evaluation of the sufficiency and appropriateness of evidence obtained includes considering factors such as

- the identification and assessment of risks and
- the identification of conflicting or inconsistent evidence.

Auditors consider whether additional procedures are necessary based on their evaluation of the sufficiency and appropriateness of evidence.

If audit organizations cannot comply with GAGAS requirements, audit organizations may consider delaying the issuance of the reports until they can meet the requirements or modifying the GAGAS compliance statement, accordingly.
Auditors usually performed procedures at the audited entity’s facilities because the audited information was sensitive and contained personally identifiable information (PII). However, the audited entity’s office closed because of the COVID-19 pandemic. Rather than delay the audit, the auditors worked with the audited entity to use a secure method to access the sensitive information. The auditors were able to perform audit procedures remotely and obtain sufficient, appropriate evidence to support the findings and conclusions. The PII remained secure at all times.

Audit organizations are required to establish and maintain systems of quality control designed to provide the organizations with reasonable assurance that they and their personnel comply with professional standards and applicable legal and regulatory requirements. Audit organizations’ systems of quality control are key in the complex COVID-19 pandemic environment. The pandemic has changed the way many auditors are working, with more auditors working remotely than ever before. Further, new or changing government programs may exist that are subject to audit. These changes may require that audit organizations enhance their systems of quality control.

Audit organizations may need to consider how to assure that proper supervision and review of engagement work occur given a remote workforce and the changing nature of audited programs. Given the changes to how the auditors are working and increased audit risks, audit organizations may consider requiring additional reviews of work for engagements focusing on new or changing government programs and enhanced monitoring of the audit organization’s system of quality control. Audit organizations may also need to pay careful attention to GAGAS requirements for consultation on difficult and contentious issues, which may increase because of the effects of the COVID-19 pandemic on engagements, such as the interpretation of new legislation. Auditors may be accustomed to conducting these consultations in person and may have to adapt these consultations to the remote work environment.

An audit organization conducted an audit related to COVID-19 pandemic legislation. The audit required a quick turnaround, and the audit organization’s personnel were working remotely. Because auditors were

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10See Yellow Book paras. 5.02 through 5.59 for quality control requirements and guidance.
working remotely, the audit organization decided to perform enhanced supervisory reviews of audit documentation that engagement team members prepared and included additional reviews by those who are not engagement team members.

Other Resources

Other resources that may be helpful to auditors conducting GAGAS engagements affected by the COVID-19 pandemic include the following:

- GAO: COVID-19: GAGAS CPE Alert
- GAO: GAO Coronavirus Oversight
- AICPA: COVID-19 Audit and Assurance Resources
- Federal Accounting Standards Advisory Board (FASAB): FASAB’s Response to COVID-19
- Governmental Accounting Standards Board (GASB): GASB Response to COVID-19
- International Auditing and Assurance Standards Board: Guidance for Auditor’s During the Coronavirus Pandemic
- National Association of State Auditors, Comptrollers, and Treasurers: COVID-19 Resources for States
- Public Company Accounting Oversight Board (PCAOB): PCAOB Response to COVID-19

For More Information

To view the 2018 revision of the Yellow Book, visit https://www.gao.gov/yellowbook.

For technical assistance, call (202) 512-9535 or email yellowbook@gao.gov.