

COVID-19: GAGAS Audit Alert



August 2020

The audit community has been affected by the Coronavirus Disease 2019 (COVID-19) pandemic. This alert provides considerations and reminders—given the circumstances related to the pandemic—for audits of new government programs arising from the pandemic response as well as ongoing audits.

To consult other alerts, visit www.gao.gov/yellowbook.

This alert, prepared by GAO staff, is for informational purposes. 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

This alert does not contain requirements and is not considered interpretive guidance, as defined in chapter 2 of GAGAS.

Procedures to be performed as part of an engagement should be developed to the extent they are necessary to the engagement objectives and in light of the context of a particular engagement. The considerations in this alert may be useful for auditors conducting any type of engagement in accordance with GAGAS, including financial audits, attestation engagements, reviews of financial statements, and performance audits.

¹GAO, *Government Auditing Standards: 2018 Revision*, [GAO-18-568G](#) (Washington, D.C.: July 2018).

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*.

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 particular attention to certain areas of audit work because of potentially compressed reporting time frames and possible limitations on the means of obtaining evidence during the COVID-19 pandemic. Some of the areas follow:

- Audit risk
- Risk of fraud
- Internal control
- Evidence
- Quality control

These areas are discussed in more detail below.

Audit Risk

Auditors have a responsibility to reduce audit risk to an acceptably low level when planning an engagement and assessing the sufficiency and appropriateness of evidence within the context of the audit objectives.

For financial audits, audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk. Risk of material misstatement is the risk that the financial statements are materially misstated prior to the audit and consists of inherent risk and control risk.

For performance audits, audit risk is the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete as a result of factors such as evidence that is not sufficient or appropriate, an inadequate audit process, or intentional omissions or misleading information because of misrepresentation or fraud. Audit risk includes the risk that auditors will not detect a mistake, inconsistency, significant error, or fraud in the evidence supporting the audit.

Reasons for Attention

The circumstances related to the COVID-19 pandemic may increase audit risk. Auditors are working under tight time frames and examining complex or sensitive programs. The sizes of programs in terms of dollar amounts and numbers of citizens served may be substantial, and the adequacy of the audited entity's systems and processes for preventing and detecting inconsistencies, significant errors, or fraud may be in question.

Key Steps

Depending on the circumstances of a particular engagement, audit risk can be reduced by taking actions such as ensuring a scope of work sufficient to address the audit objectives, adding specialists and other resources to conduct the audit, changing the methodology to obtain alternative forms of corroborating evidence, and carefully aligning the findings and conclusions to reflect the evidence obtained.

Risk of Fraud

For financial audits and certain attestation engagements, auditors assess the risk of material misstatement due to potential fraud. For performance audits, auditors assess the risk of potential fraud occurring that is significant within the context of the audit objectives.³ 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.

Reasons for Attention

Risk of potential fraud involving 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 risks 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.

³Fraud 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.

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- Management or other personnel are able to rationalize their actions under the circumstances.
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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. 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.⁴
- 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.⁵
- 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.⁶

⁴See Yellow Book para. 8.72.

⁵See Yellow Book para. 9.40.

⁶See Yellow Book para. 6.41.

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 Attention

Increased risks may exist for audited entities and programs created in response to the COVID-19 pandemic. Audited entities address risks through systems of internal control but 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.

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?
- 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.

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.

Reasons for 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.

Key Steps

Auditors may need to determine whether circumstances related to the COVID-19 pandemic prevent them from obtaining sufficient, appropriate evidence. In determining the sufficiency and appropriateness of evidence, auditors exercise professional skepticism.⁷

Audit organizations are required to establish policies and procedures for the continuance of engagements that are designed to provide reasonable

⁷See 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.

assurance that the audit organization complies with GAGAS, including obtaining sufficient, appropriate evidence.⁸ The procedures would include processes for such decisions as delaying the audit; terminating the audit; or changing the objectives, scope, and methodology of the audit.

Quality Control

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.⁹

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. Further, new or changing government programs may exist that are subject to audit.

Audit organizations should take care to ensure that their systems of quality control are working effectively for all engagements and that all policies and procedures for ensuring quality, including assessments of evidence and supervisory review of audit documentation, are being followed.

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](#)

⁸See Yellow Book para. 5.12.

⁹See Yellow Book paras. 5.02 through 5.59 for quality control requirements and guidance.

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- 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.