
Chapter 4
Field Work Standards for Financial
Audits

design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material violations of provisions of contracts or grant agreements. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible violations of provisions of contracts or grant agreements that could have a material indirect effect on the financial statements or significant indirect effect on other financial data needed to achieve audit objectives, auditors should apply audit procedures specifically directed to ascertain whether violations have occurred or are likely to have occurred.

4.19 Abuse is distinct from fraud, illegal acts, and violations of provisions of contracts or grant agreements. When abuse occurs, no law, regulation, or provision of a contract or grant agreement is violated. Rather, abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.⁶¹ Auditors should be alert to situations or transactions that could be indicative of abuse. When information comes to the auditors' attention (through audit procedures, allegations received through a fraud hotline, or other means) indicating that abuse may have occurred, auditors should consider whether the possible abuse could affect the financial statement amounts or other financial data significantly. If indications of possible abuse exist that significantly affect the financial statement amounts or other financial data, the auditors

⁶¹For example, in a financial statement audit, auditors might find abuse when examining sensitive payments such as travel of senior management officials to locations chosen for personal reasons rather than less costly locations which would have been appropriate to satisfy the business objectives of the travel. While auditors generally will not view travel expenses of senior management officials as quantitatively material to the financial statements, this expense generally would be considered qualitatively material to the financial statements.