

# Audit Quality: Auditors' Challenges in COVID-19 Era

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## Abstract

**Purpose:** This paper aims to discuss the theoretical issues on auditor's challenges on providing audit quality during COVID-19 era.

**Design/methodology/approach:** This paper uses a documental review method to explore the auditors' challenges to provide audit quality in this global pandemic era by focusing on audit evidence, going concern assessment, auditor's competency, and audit fees.

**Findings:** From the discussion, it is suggested that there will be an increase of evidence collection, complication in assessing going concern, decline of auditor's competency if the company did not provide the necessary training, and reduction of audit fees.

**Research limitations/implications:** This is a theoretical conceptual paper. However, the limitation mentioned will not invalidate the findings of the study.

**Practical implications:** This theoretical study could be used by researcher, management, practitioner, and auditor in the future. In addition, this research could be expanded by constructing questionnaire or/and interview to examine the impact of COVID-19 on audit quality especially in Malaysia perspective.

**Originality/value:** There is a limited study on the auditor's challenges to provide audit quality during this COVID-19 era in Malaysia. Thus, this theoretical study is giving new light on the impact of COVID-19 to the auditor, the audit firm itself as well as the company (the client).

**Paper type:** Conceptual paper

**Keywords:** Audit quality, Audit evidence, Auditor competency, Going concern, Audit fees, COVID-19

## Introduction

COVID-19 turned the whole world upside down, changing the norm and the way human /live their everyday life. Government had taken a drastic action by enforcing a movement control order to control the transmission of the virus, forcing individuals to work and stay at home. For auditors, their work needs to be done remotely without visiting client premises nor going to the office to work (ACCA, 2021). Business entities are facing financial distress as market volatility is affecting their investors' confidence (KPMG, 2020). As most companies are affected by the financial turbulences, there are higher chances that the management is using the situation to manipulate their earning figures (Albitar et al., 2020). The auditor is facing huge challenges as a part of the auditor's responsibility is to add credibility to the management assertions to ensure the users of financial information are able to make the right decision (Gul & Mahzan, 2017). Thus, The International Auditing and Assurance Standards Board (IAASB) came out with a

guidance for auditors during the COVID-19 pandemic. Under these unavoidable circumstances, the auditor needs to consider developing alternative procedures to gather sufficient, appropriate evidence to support their audit opinion, or to modify audit opinion.

IAASB (2020) identified eight (8) International Standard of Auditing (ISA) that required auditors' consideration during this pandemic:

- i. ISA 315 (Revised): Auditor needs to consider new planned audit approach, revision of risk assessment, and changes in auditor's understanding on entity's system of internal control.
- ii. ISA 330: Auditor needs to consider on alternative procedures to obtain sufficient evidence, financial statement closing process, and evaluation of overall presentation of financial statement.
- iii. ISA 540 (Revised): Auditor needs to consider on the effect of accounting estimates, assumptions on the appropriate applicable financial reporting framework, relevance and reliability of data used, and inherent risk factors especially on uncertainty.
- iv. ISA 560: Auditor needs to consider on moving the reporting deadline due to the event after financial year end and the proper disclosure of any material on subsequent events.
- v. ISA 570 (Revised): Auditor needs to consider on the impact of COVID-19 on the evaluation of management assertions of going concern and modification of auditor's report.
- vi. ISA 600: Group auditor needs to consider reviewing the work of the component auditor especially on the planned procedures and evidence collection.
- vii. ISA 700 (Revised) and 701: Auditor needs to consider on key audit matters due to the impact of COVID-19 in the new or changed laws or regulation by the government, matters such as calculation of accounting estimates and further evidence needed on any area of business operation that directly are impacted from the new regulation.
- viii. ISA 720 (Revised): Auditor also needs to consider any inconsistency between information provided by the management and financial statement due to the impact of COVID-19.

In Malaysia, Audit Oversight Board (AOB) also released a circular in April 2020 to ensure high quality audit on the financial report of public interest entities. Some of the issues raised were:

- i. Auditor needs to revisit the audit plan to ensure adequate time to perform audit work.
- ii. Auditor needs to consider carrying out alternative procedures to ensure sufficient, appropriate audit evidence is obtained to support audit conclusion.
- iii. Auditor needs to be cautious and use their professional skepticism on crucial areas such as going concern assumption and potential asset impairment.
- iv. As for group auditor, they need to plan and ensure that they would obtain sufficient, appropriate audit evidence from the components auditor but expected there are possibilities of delay on the components' work.
- v. Auditor needs to determine whether to disclose any related effects of COVID-19 pandemic to the client business operation and future prospects.
- vi. Auditor needs to access event after reporting date to see whether it requires additional audit procedure to be performed.
- vii. Auditor needs to disclose key audit matter if they identify any significant economic, regulatory, industry or other development arising due to COVID-19.
- viii. Modification of audit report needs to be done if the auditor is unable to obtain sufficient audit evidence especially if it leads to material and pervasive financial statement.
- ix. Provide additional guidelines to the audit team when dealing with key risk area as part of engagement performance.

As an independent professional service provider, auditor is required to provide audit quality to the clients as well as the users of the accounting information. The audit quality will be heavily affected due to the movement control order as well as the new regulation by the government. Hence, this study tries to answer this theoretical research question:

*RQ1: What are the auditor's challenges to provide audit quality in COVID-19 era?*

There is a limited number of studies on the impact of COVID-19 on audit quality especially in Malaysia. As the auditors struggle to deliver their audit work and adapt with the new working norm, there are possibilities that audit work are being done improperly. Previously, there were various cases in Malaysia that the auditor was unable to deliver quality audit to the stakeholders. Wong Weng Foo & Co and its two partners have been fined RM30,000 and barred by the AOB as the audit firm failed to remain fit to properly audit the public interest entities (The Edge, 2014). In another case, an audit partner of Messrs Roger Yue, Tan & Associates, was fined RM400,000 and sentenced to a year's imprisonment for assisting United U-Li Corp Berhad by making misleading statement to Bursa Malaysia (SCM, 2015). Auditors' credibility once again is being questioned due to the case of 1MDB. Although there was no accounting scandal involved, the company's accounts have gone through three of the Big Four audit firms and two of it were replaced due to asking too many questions (Liew & Yeap, 2016). Therefore, the objective of this study is to examine the auditor's challenges on providing audit quality during COVID-19 era. This paper will discuss four (4) aspects related to audit quality; (1) audit evidence, (2) going concern assessment, (3) auditor's competency, and (4) audit fees. This paper is expected to contribute new literature on the possible effects of COVID-19 on audit quality. It also offers a whole new picture for researcher, management, practitioner, and auditor to be discussed and explored.

This paper is structured as follows; audit evidence is discussed in the next section. It is followed by the discussion on going concern assessment. Auditor's competency is explained in the fourth section. Next is a discussion on audit fees and lastly, the conclusion will be elaborated in the last section.

## **Literature Review**

### ***Audit Evidence***

Under SAS 106, evidence is defined as "all of the information used by the auditor in arriving at the conclusion on which the audit opinion is based". Audit evidence is considered more reliable if it is obtained from external resources, in written document form or being obtained directly by the auditor (Appelbaum et al., 2020). The reliability and appropriateness of the evidence are determined by the sufficiency or quantity of the evidence collected (Gul & Mahzan, 2017). However, due to the restriction of movement control order enforced by the government, certain method of audit evidence especially the one that needs to be conducted physically cannot be done by the auditor. For example, observation, property plant and equipment assessment, document collection and inquiries. Auditor needs to review their client evidence remotely while complying to the standard to provide audit quality. Auditor also needs to utilise analytical procedure as an alternative method to identify whether the data given by the client is true and fair (Albitar et al., 2020). Analytical procedure is considering the lowest cost of evidence and easily use (Rose et al., 2019). According to Arens et al., (2014), analytical procedure can be used on every stage of audit from audit planning until evaluation and reporting stages. As the companies were struggling to operate, the possibility of earning manipulation could occur. Analytical procedure are able to detect the unexpected fluctuations during audit planning process and warned the auditor of the possibility of major misstatement or fraud risk (Rose et al., 2017; Rose et al., 2019). According to KPMG (2020), the auditor needs to rely more on analysis procedures to reduce detailed test due to the movement

restriction. However, the quality of audit evidence still needs to be relevant and reliable to support auditor's conclusions (Rose et al., 2017). ACCA (2021) also highlighted about the procedure of impractical inventory visit where the auditor needs to discuss with their clients whether to do it virtually or on later date. The auditor is advised to assess the validity of the recorded changes between the count date and the date of the financial statement. Evidence from the independent provider is well sought after due to the evidence being considered more reliable from within (Arens, 2014). External sources such as creditor or banker is considered as independent provider (PWC, 2020). The usage of generated invoices and documents through email also reduce the reliability of the evidence, hence the auditor must identify supportive evidence to combine the evidence to ensure its reliability (IFAC, 2009).

### ***Going Concern Assessment***

The government was forced to close down certain industries to curb the transmission of the corona virus. Thus, the action caused financial position to deteriorate in many companies (Dohrer, 2020). This has affected the major concern on going concern assessment. Around 27% of people saw the arising of audit risk associated with completeness of liabilities and valuation of assets on going concern (Duh et al., 2019). According to KPMG (2020), it is difficult for auditor to assess going concern as the companies have implemented closures and reduced the level of sales and production due to the government's new regulation for standard of business operation. IASB (2020) also suggested auditor to increase the period to ensure about the events occurring between the date of the financial statements and the date of the auditor's report. The auditor also needs to expand their audit effort to reduce the high risk exposed to them that could lead to negligence (Xu et al., 2011). ISA 570 also highlighted on the importance of auditor to exercise professional scepticism particularly on-going concern assessment. Auditors are facing a huge challenge as they are unable to visit and experience the internal control of the client operation nor inquires with the person in charge face to face. The auditor needs to work with the clients virtually and adapt with the uncertainty of the situation (KPMG, 2020). This will affect the audit quality as the auditor have to accept uncertainties in the completion of the going concern assessment.

### ***Auditor's Competency***

Auditor companies need to ensure their auditors work even during this pandemic. Exercising work from home policy is an ideal way to chase those datelines. Working from home needs determination, skills, and personal qualities (Albitar et al., 2020). A study stated that 53% of people experience pressure in finishing work of client services and 36% people said that they are unable to meet reporting dateline and a quarter said that they are experiencing difficulties in collecting audit evidence (COVID-19 having noteworthy influence on the auditors of world, 2020). Therefore, auditors need to be trained to ensure they are able to provide better expertise and competency in auditing work. According to Lennox and Wu (2017), expertise and professional knowledge can be obtained through direct and indirect experience. Hence, audit firms should continue to provide training and moral support to their auditors during this work from home phase. Before the pandemic, audit firms were able to arrange monthly training sessions and workshop for their auditors (Albitar et al., 2020). However, online training is able to provide the same amount of knowledge to the auditors but with less cost (Deloitte, 2020). With up-to-date knowledge and training, auditors are able to improve better audit quality.

### ***Auditor Fees***

During the global financial crisis in 2008, about 38% companies in Australia cut off their audit fees compared to the previous year. For example, Caltex Australia which was audited by

KPMG, paid an audit fee of A\$1,048,000 in 2008 and just A\$740,000 in 2009 (ACUITY, 2020). Reducing audit fees means reducing the audit effort or audit work. According to Chen et al. (2019), during the financial instability, company's liquidity, risk, and performance will be affected. Hence, there is a high chance that the company manipulates their earnings or even their sales to continuously stay in the business. The auditor is facing a challenge as there is a possibility that the management assertions for financial and non-financial information could be fabricated by the management (Arens et al., 2014). This will force the auditor to adapt to a more sophisticated audit procedure to reduce audit risk to an acceptable level (Zhang & Huang, 2013). According to Waresul Karim and Van Zijl (2013), to avoid negligence and litigation, the auditors will increase their effort and working hour to ensure they provide the best audit quality to their clients. It is undeniable that working from home indeed increases the working hours for the auditors. Thus, it is unacceptable to reduce the audit fees and use COVID-19 as a reason to ask for lower fees. Nevertheless, the pressure to reduce audit fees by the client will be unavoidable.

### **Methods**

This paper used a documentational review to explore the auditors' challenges to provide audit quality in this global pandemic era by focusing on audit evidence, going concern assessment, auditor's competency, and audit fees. Document review is a method to collect data by reviewing existing documents (Data Collection Methods for Evaluation: Document Review, 2018). Documents such as hard copy or electronic, reports, program logs, minute of meetings, newsletters can be used as benchmarks in the research process.

### **Discussion and Conclusion**

This paper has used a documentational review to examine the theoretical impact of COVID-19 on auditor's challenges in providing audit quality. From the discussion, it suggested that there will be an increase of evidence collection, complication in assessing going concern and decline of auditor's competency if the company did not provide the necessary training and reduction of audit fees. All these aspects will influence the audit quality.

### ***Practical and Social Implications***

The new era of Fourth Industrial Revolution (4IR) could ease the impact of COVID-19 in audit profession. The usage of data analytics in performing audits are able to provide added value services to the clients with more efficient manner (Lim, 2018), thus making remote auditing and digitalisation as the future of auditing. However, audit firms need to invest on more advanced software to adjust with the new era. With more open communication, there is a need to tighten the network security of the audit firm database. The authorities need to be more flexible and understand the current situation. For example, Companies Commissions of Malaysia in Practice Directive No. 8/2021 stated that if a company is unable to submit their financial statement and report within the stipulated timeframe, the company may apply for extension of time. There is a limited study on the auditor's challenges to provide audit quality during this COVID-19 era in Malaysia. Thus, this theoretical study is giving new light on the impact of COVID-19 to the auditor, the audit firm itself as well as the company (the client).

### ***Limitations and Suggestions for Future Research***

Although this is a conceptual paper, this paper is anticipated to contribute to the new literature on auditor's challenges in COVID-19 towards audit quality. Furthermore, it could be used by researcher, management, practitioner, and auditor in the future. In addition, this research could



be expanded by constructing questionnaire or/and interview to examine the impact of COVID-19 on audit quality especially in Malaysia perspective.

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## Appendix

International Standards of Auditing referred to in this paper are:

- i. ISA 315 (Revised): Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
- ii. ISA 330: The Auditor's Responses to Assessed Risks
- iii. ISA 540 (Revised): Auditing Accounting Estimates and Related Disclosures
- iv. ISA 560: Subsequent Events
- v. ISA 570 (Revised): Going Concern

- vi. ISA 600: Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)
- vii. ISA 700 (Revised): Forming an Opinion and Reporting on Financial Statements
- viii. ISA 701: Communicating Key Audit Matters in the Independent Auditor’s Report
- ix. ISA 720 (Revised): The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements