

THE IMPLICATIONS OF THE COVID-19 PANDEMIC FOR THE AUDITING AND ASSURANCE PROCESSES

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ABSTRACT

This study aims at highlighting the severe impacts of the COVID-19 pandemic on the audit and assurance processes and procedures. In doing so, desk research is employed to collect data for this study. The researcher drew upon document analysis, literature review, and websites analysis to understand the possible impacts of the pandemic on auditor work. We observed that the COVID-19 had significant implications for the whole audit process, including the emergence of new fraud risks and posing changes in risk assessment and accounting estimates and the required revisions of the previous set audit plans. This has affected both the treatment of subsequent events and the type of opinion issued by the auditor. This study directs auditors' attention and standard setters to the required changes and revisions in the audit process and procedures. This is beneficial in the present exceptional situation for the audit process to match the changes needed in the business society brought about by the COVID-19 pandemic.

Keywords: Audit, Accounting, COVID-19, Fraud, Risk Assessment.

INTRODUCTION

Humanitarian crises (such as Tsunami, HIV/AIDS, and COVID-19) are a category of social problems that needs a quick and inclusive range of responses (Rahaman et al., 2010). These crises are having vast social and economic implications, including implications for organizational practices. The beginning of 2020 witnessed a new global pandemic that has widespread economic and social impacts. COVID-19 has led to substantial negative economic and operational consequences for several institutions and personal challenges for individuals to achieve their tasks during these uncertain times (Metwally et al., 2021). Several institutions analyse the effect of this pandemic on their supply chain, revenue streams, liquidity, and labour force, among other consequences. Considering the vast effects of the global crises, we are interested to comprehend the possibilities and limitations of the auditing function during the global COVID-19 pandemic (Rahaman et al., 2010; Diab, 2021; Diab et al., 2021).

A few studies are conducted in this regard. For example, Rahaman et al. (2010) investigated how accounting practices can be used to manage a geographically dispersed and heterogeneous set of actors in the resistance of HIV/AIDS in Ghana. Awio et al. (2011) examined the effects of social capital and grassroots non-governmental organizations by focusing on community-led HIV/AIDS movements in Uganda. They explained how these community-led initiatives could complement functional accountability duties to funders,

positively impacting social services delivery. The present study presents insights to scholars seeking to examine the effects of the COVID-19 pandemic on accounting and auditing practices.

Recently, the COVID-19 crisis has increased the complexity surrounding organizations' accounting, auditing, and governance (Rinaldi et al., 2020). While accounting and auditing research has developed and become more sophisticated, the COVID-19 pandemic posed a new challenge and further need for research in this area (Rinaldi et al., 2020). In this concern, Popkova et al. (2020) examined the effect of the COVID-19 crisis and its ensuing social distancing on corporate social responsibility and how the labour process is also influenced by the COVID-19. Albitar et al. (2020) theoretically discussed the effect of the COVID-19 social distancing requirement on the quality of the audit process. They argued that the consequences of the COVID-19 pandemic would be the most formidable problem for audit firms and their auditees since the international financial crisis of 2008/2009. Particularly, they suggest that the COVID-19 social distancing issue can have significant influences on various audit matters such as auditor fees, going concern evaluation, the audit of social capital, audit events, and the audit of the payroll. This can eventually result in significant implications for the quality of the audit process. We complement this work by discussing the effects of the COVID-19 issue on other audit matters as fraud risk, risk assessment, revising audit plan, subsequent events, and audit evidence and opinion, as discussed in the following sections.

The Emergence of Fraud Risks

With the present economic crisis following the pandemic, organizations become more vulnerable to fraud. This is because organizations are currently facing significant financial pressure to meet earnings expectations. Thus, employees now more than before perceive the necessity to save the organization and their personal life. Employees are currently facing pressure to make fraudulent journal entries to enhance the company's performance. In addition, with the frequent news related to the loss of jobs and the fear of a disastrous personal financial situation, many employees have the incentive to commit fraud. Those employees might argue that they are just modifying the numbers to make the company performance look better during this difficult time and that they will pay the fraudulent amounts back when things become normal.

With the current gaps in controls resulting from remote working and social distance requirements, fraud risk might result. The recent breakdown in internal controls presents an opportunity for committing this fraud (Karpoff, 2020). Emerging fraud risks that a company may encounter during the COVID-19 pandemic include tunneling, disclosure-related frauds, inappropriate earnings recognition, and inappropriate capitalization of expenditures, vendor fraud, and procurement fraud (Deloitte, 2021). As a result, most organizations are now being forced to investigate these new types of fraud (Naseeb et al., 2021).

The auditor's duties regarding fraud in the auditing of financial statements require significant vigilance during the performance of the audit process to obtain reasonable and adequate assurance on whether the financial statements are free of significant misstatements resulting from error or fraud. The present situation indicates that the audit firm should exercise

professional scepticism and undertake the audit process with the anticipation that a material misstatement because of fraud is likely to be extant. Hence, the effects of COVID-19 might generate specific risk factors that can influence the risk of a misstatement as a result of fraudulent financial statements. The audit firm must be more vigilant concerning the different forces that might indicate higher fraud risk.

Changes in Accounting Estimates and Risk Assessment

The uncertainty caused by the COVID-19 pandemic created problems for managers and accountants. Because of the high level of uncertainty regarding the forthcoming corporate performance and economic situations influencing assumptions, estimations will probably be more difficult to determine. Presently, the assurance of accounting estimates bears more risks because of the significant complications and judgments required (Deloitte, 2020). According to the ACCA article related to the impact of the COVID-19 pandemic on companies' financial reporting, businesses should consider the pandemic as a "triggering" event that requires more recurrent impairment tests and significant scepticisms. The affected accounting estimates by the COVID-19 issue include sales volume discounts, revenue recognition, allowance for doubtful accounts, asset impairments (in case of intangible assets and goodwill), and fair value of investments. For example, regarding the expected credit losses (ECL), where accountants adopt IFRS 9 (related to financial instruments or corresponding local accounting standards), the IASB's new release concerning IFRS 9 and the COVID-19 pandemic required businesses to make estimations. By doing so, they should draw upon the best extant information concerning previous events, present situations, and predictions of the economic condition.

Now, auditors must, for example, consider any changes to the client company's internal control system as a result of the COVID-19 pandemic. Besides, they should consider if any intended dependence on internal controls in determining responses to the risks of significant misstatements need to be evaluated, as reported in the IAASB's Staff Audit Practice Alert (ACCA, 2020). Here, the audit staff should remain skeptical while evaluating corporate management's judgments. Further, it is currently expected that more auditors will recognize the present higher audit risks in the process of asset valuations.

Thus, estimates from previous periods need to be revised in light of the COVID-19 risk. Auditors need to decide if the past assumptions are still suitable and if the data being used by the audit firm are applicable and dependable in the present circumstances (IAASB, 2020). Shortly, while evaluating the forecasting process conditions, auditors should consider the impacts of the COVID-19 pandemic. For example, as a portion of the audit staff's risk assessment actions, as per ISA 315 (Revised), auditors should consider any initial assessment made by corporate management concerning the auditee's capability to continue as a going concern. These initial assessments or estimates have to be revisited in light of the effects of the COVID-19 pandemic (ACCA, 2020).

Further, supporting the above arguments, in March 2020, the UK's Financial Reporting Council (FRC) issued a bulletin related to the impacts of the COVID-19 issue. They noted that, for the audit engagements that are ongoing concerning the year ending 2019, the effects of the

COVID-19 will mostly request the audit staff to revisit their previous risk assessments and planned responses to the identified risks (FRC, 2020). Finally, the Institute of Certified Public Accountants of Cyprus' Technical Circular in February 2020 presented parallel guidelines. It clarified that they previously made risk assessment should be consistently evaluated and revaluated till the signature day of the audit report. The institute also emphasized that this issue would require a high level of professional skepticism (ACCA, 2020).

Thus, the audit personnel must have up-to-date information concerning the different updates presented by professional auditing and accounting institutions. They also need to recognize that some of the updates might be temporal. Thus, while auditors might have evaluated managers' estimations in previous periods by bearing in mind past results, auditing 2021 results may request the auditors to use valuation experts (ACCA, 2020).

Is a Revision of the Audit Plan Required?

The current exceptional situation due to the COVID-19 pandemic has affected the operating environment of companies. This would require audit firms to think about the design and execution of their responses to the recognized risks: whether these responses are still applicable or, otherwise, they require revision (ACCA, 2020). With the COVID-19, auditors need to decide which type of audits or audit procedures can add the most value in the short run, empowering audit firms to manage the pandemic effects more effectively. In doing so, they should consider the present limitations in data availability and the skills of auditors, the health risk for auditors, movement limitations, and the inadequate capability of official institutions to help the audit staff with the required information.

Thus, audit firms should review their audit plans by mapping out the extant and expected consequences of the COVID-19 pandemic on the client company country and the official measures applied to manage and control the emerging problems. This is because the social impacts of the COVID-19 pandemic are more probably to differ in degree throughout different contexts over time.

The Issue of Subsequent Events

Most companies considered the COVID-19 as a non-adjusting post-balance sheet event for the year ended December 2019. By this time, the ACCA's articles concerned with the effects of COVID-19 on companies' financial statements noted that there is doubt concerning whether, for January and February 2020 reporting dates, businesses should report the influences of the COVID-19 pandemic as adjusting or non-adjusting post-balance sheet events. It was argued that the outcome should be based on the specific situations affecting the company, the reporting dates of the entity, and when the significant impacts of COVID-19 affected the entity, an issue that differed from one country to another (Gould and Arnold, 2020). For example, in contexts where the audit of financial reporting was related to the year ended 2019, it was suggested that auditors might be required to get adequate and appropriate audit evidence concerning the disclosures done by company managers after the applicable financial reporting framework. This is based on

the assumption that the COVID-19 pandemic effects were considered a non-adjusting post-balance sheet event. In contrast, for the audits of the financial statements relating to the year ending 2020, it was suggested that auditors might be required to get adequate and appropriate evidence concerning the required adjustments done by corporate managers after the applicable financial reporting framework. Here, businesses might report the consequences of the COVID-19 pandemic as adjusting events. In this regard, Paragraph 4 of ISA 560 required audit firms:

1. To get adequate and appropriate evidence concerning if events happening between the corporate financial statements' date and the audit firm's report date requires disclosures or adjustments in the financial statements;
2. To react correctly to the information existing after the audit firm's report date relating to matters acknowledged to the audit firm at the audit report time, mainly if it has caused the audit firm to modify its report (ACCA, 2020).

Impacts on Audit Evidence and Reporting

As previously mentioned, the present COVID-19 pandemic-related restrictions influence auditors and the organizations they audit. During the pandemic, accessing client records and key personnel for inquiry may be risky for auditors, especially when records are paper-based. The matter is worse in the case of foreign operations because of flight restrictions. As a result of the existing limitations in place due to the COVID-19 pandemic, the audit staff can't, in several insurances, make extensive visits to audit client sites. This results in clear practical problems for the audit staff seeking to get adequate and proper physical types of evidence (Albitar et al., 2020). Thus, as a result of the COVID-19 pandemic, there might be substantial scope limitations on the capability of the audit to get adequate and proper audit evidence. For example, the audit staff might be unable to get original copies of documents related to significant issues from an institution (i.e., a confirmation from a third party) when alternate methods are not accessible or applicable. This also can result due to the incapability of the audit staff to observe the substantial inventory balances reported in corporate financial statements. This is because the remote work environment has disrupted audit staff's conventional methods used in examining inventory.

As a result, audit firms may be obligated to use alternate methods of getting substantive evidence, postpone the counting process after the lockdown restrictions are removed, perform backward reconciliation, postpone the entire audit process if possible, or issue a scope limitation type of auditor report due to the absence of adequate substantiation and evidence. Paragraph A13 of ISA 501 notes that when the auditor's attendance is unfeasible, alternate auditing methods might include the examination of documents of the successive selling of particular inventory items purchased before the count of the physical inventory. This may provide sufficient appropriate audit evidence concerning the existence and state of the inventory (ACCA, 2020).

Hence, auditors should apply audit methods to evaluate the documented variations between the counting date and the financial statements' date. The differences between the two dates will primarily be based on the industrial sector in which the client company works. In instances in which client companies stopped their operations, the changes might be insignificant and hence, should not represent many problems for the audit staff to do their auditing

procedures. However, this might still affect the inventory estimation. However, in cases where operations were conducted during this difficult time, the variations between the year-end and the counting dates might be important. Yet, this might be worsened in cases as the period between the two dates become longer. Here, the ACCA's Audit and Assurance Global forum made some recommendations. They suggested the inclusion of more audit individuals during observation by video-conferencing to improve the observation ability and alleviate the risk. They also highlighted the importance of testing more items during the observation compared to the situation in normal times. Finally, auditors can make screenshots during the virtual observation to improve the collected evidence (ACCA, 2020).

Further, auditors might have to depend on scanned copies in this situation, but they need to be ensured that they are not forged ones. Then, they might ask for original documents or depend on other more reliable evidence if they suspected the existence of fraud risk; otherwise, they have to report scope limitation (IAASB, 2020). That is, in case the audit staff cannot get adequate and proper auditing evidence concerning the inventory existence and situation—because of the recent limitations brought about by the COVID-19 pandemic—the audit staff members can identify the required adjustments in their audit opinions. This should be evaluated in light of the significance of this problem to the entire financial statements.

This means that the uncertainty resulting from the COVID-19 pandemic is likely to affect the type of audit report issued by the audit firm. For example, with the COVID-19 pandemic, auditors are expected to use an emphasis of matter paragraph in the audit report to highlight the uncertainties resulting from the COVID-19 pandemic. This is because, with the COVID-19 pandemic and the ensuing economic uncertainty, firms might face obstacles that can negatively affecting their capability to operate as a going concern. In this regard, the IAASB issued Staff Audit Practice Alert on some cases of events and situations that might occur due to the COVID-19 issue. These include the loss of significant market, main customers, and earnings; labor deficiencies; considerable decline in the assets' value employed to produce cashflows; substantial decline in the current assets' value, especially inventory; postponement in the introduction of new products/services; fluctuation in the foreign exchange; measurements influenced by the high uncertainty; and the company's solvency (IAASB, 2020).

In these cases, the auditors might need to use an explanatory paragraph in their auditing report (Hay et al., 2021). This kind of auditing report might be in instances in which the client company reported has revealed considerable doubt concerning its capability to continue as a going concern due to the COVID-19 impacts on its financial statements. This also occurs when the audit staffs finds that corporate managers' plans to deal with such situations can reduce the emerging risks. In addition, the issuance of a qualified type of auditor opinion might be needed when the audit staff members find that the client company's financial disclosures concerning its capability to continue as a going concern for an acceptable period are insufficient.

CONCLUSION

It is observed that the COVID-19 pandemic's implications have primarily affected different audit issues, including changes in accounting estimates, revision of audit plan, and

going concern assessment. Eventually, this can substantially affect the quality of the audit process (Albitar et al., 2020). This has directed auditors to employ alternative audit procedures while doing their audit work. For example, it was recently highlighted that the employment of technology could assist auditors in managing emerging problems. For instance, audit staff can observe the counting of inventory virtually via video calls or using drone technology. Here, auditors might need to require their client firms' personnel to display the view of the whole warehouse before the beginning of the inventory examination and the counting process (Castka, et al., 2020). Hence, with the current new normal in the society due to COVID-19, there is unexpected new normal in doing the audit process.

In summary, the international professional auditing institutions have not significantly changed auditing standards along with the COVID-19 pandemic effects. Thus, audit firms have applied alternate audit procedures, such as video technologies, to build audit evidence. However, these alternative methods have to be used with high levels of vigilance and skepticism from the auditor's side, not to be vulnerable to fraud risks from client staff or the involved third party. Besides, this process is not straightforward as might be expected. For example, regarding the audit of inventory items' existence, while auditors may use alternate methods to get adequate and appropriate audit evidence concerning the inventory existence, there might be instances in which alternate procedures to examine the existence of inventory are not obtainable or practical. In these cases, if inventory is substantial to the firm's financial statements, the incapability of the audit staff to get adequate and appropriate audit evidence might entail the audit staff to issue a qualified type of audit opinion. The auditor's decision to issue a qualified or disclaimer opinion is grounded on the auditor's evaluation of the extent of the anticipated consequences of the issues under study and their implications on the financial statements (Hay et al., 2021). Hence, using qualified types of audit reports might be employed in instances in which the audit staff finds that the usage of the going concern base of accounting is unsuitable.

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