

Auditing Financial Statements during Covid-19 Outbreak: Case Study in ABC Indonesian Public Accounting Firm

Retno Hapsari Kusuma Wardhani¹, Agung Nugroho Soedibyo²
{retno.hapsari2912@gmail.com¹, asoedibyo@gmail.com²}

Universitas Indonesia, Indonesia^{1,2}

Abstract. This study explores approaches taken by auditors in ABC Public Accounting Firm in responding to audit of financial statements during the COVID-19 outbreak and comparing them to several Indonesian Public Accounting Firms. The qualitative approach was used in this case study. Data analysis was examined by conducting participatory interviews with auditors in ABC and collecting questionnaires survey to twelve respondents in six Indonesian Public Accounting Firms. This study shows an increment in audit risk since most of the audit clients experienced a declining financial statements performance during the outbreak, which requires a corroborative review of going concern assessment. Increment of going concern risk level also required further reviews of subsequent events assessment to obtain reliable and sufficient audit evidence. In certain cases, auditor needs to consider the necessity of additional financial statements disclosure and additional emphasis paragraph on the auditor's report. Furthermore, technology platform acceleration has a significant role as an alternative to obtain audit evidence during the outbreak. More audit processes are carried out online and an extensive communication between auditors and audit clients is required when the audit deadline needs to be rescheduled to comply with the audited financial statements submission requirement to the regulator. In this case, the regulator had responded by extending the period to submit audited financial statements during the outbreak. This research is expected to have implications for future studies on auditing financial statements during the COVID-19 outbreak and recommend alternative approaches to increase audit efficiency during normal circumstances.

Keywords: Financial Statements Audit, Audit Risk, Technology, Audit Evidence, Regulator

1 Introduction

In 2020, the Corona Virus Disease (COVID-19) outbreak entered Indonesia. The development of this outbreak affects business life and economic activities in Indonesia and global. The pandemic led to a global economic recession. The infrastructure, transportation, tourism, and retail sectors experienced a decline due to the outbreak's impact. This situation shows that business life and various industries worldwide are still in an outbreak environment and have been significantly impacted.

The outbreak environment creates distance restrictions which then reduce business activity. This decrease in activity causes slowing down the economy and declining of the financial figures. The annual financial reports of several industries on the Indonesia Stock Exchange show that many industries experienced a decline in financial performance (Table 1).

These industries are hospitality, retail, automotive, and transportation. The decrease was mainly due to activity restrictions and the decline of people's purchasing power.

Table 1. Summary of Industry Average Revenue Several Listed Companies in Indonesia

Industries	Average Total Revenue (in billions of IDR)		
	31 December 2020	31 December 2019	Fluctuation
Hospitality	483	802	-40%
Retail	11,871	16,909	-30%
Automotive	95,138	127,891	-26%
Transportation	1,829	5,379	-66%
Telecommunication	5,252	3,910	34%
Pharmacy	16,560	16,017	3%

Source: Data processed based on average total revenue amounts of the Financial Statements as of 31 December 2020 published by several listed companies (Indonesia Stock Exchange, 2020)

Table 1 also shows that some industries were able to maintain their financial performance during the outbreak. The pharmaceutical and telecommunications industries are still experiencing an increase in average revenue. These industries have benefited from the outbreak environment.

In an economic crisis, companies often experience a decline in company performance accompanied by high debt and negative growth in working capital, thus triggering the going concern risk. In this case, going concern issue will become the attention of stakeholders. A similar condition is described by companies experiencing cash flow difficulties due to the lack of consumers during the outbreak, so the company is in danger of closing its business [1]. Companies that experience a decline in financial performance will experience uncertainty over their business functions and give significant attention. Therefore, the company must be able to assess the continuity of its business as early as possible.

The auditor must consider potential risks that arise during the audit in an outbreak situation. Examining the presentation of financial statements is necessary to provide reliable and accountable information for shareholders and stakeholders. Therefore, an independent auditor or Public Accountant needs to examine and provide an opinion on the company's financial statements to fulfill their obligations to the applicable regulations.

Auditors can obtain audit evidence by examining documents during fieldwork, observations, document inspections, and interviews with clients directly in normal circumstances. The remote audit causes auditors to have limitations in obtaining audit data through face-to-face communication in the COVID-19 outbreak. Therefore, the auditor is required to conduct alternative approaches to obtain sufficient and appropriate audit evidence. This makes it necessary to evaluate how far the impact this outbreak has on auditing financial statements.

Based on the above phenomena, research questions can be formulated: (1) How to audit financial statements in the COVID-19 outbreak situation? (2) How do auditors respond to the regulations issued by the regulator on financial statements audit due to the COVID-19 outbreak? This study aims to have implications for further research on financial statement auditing methods during the COVID-19 outbreak situation and is expected to become audit efficiency in normal conditions.

2 Literature Review

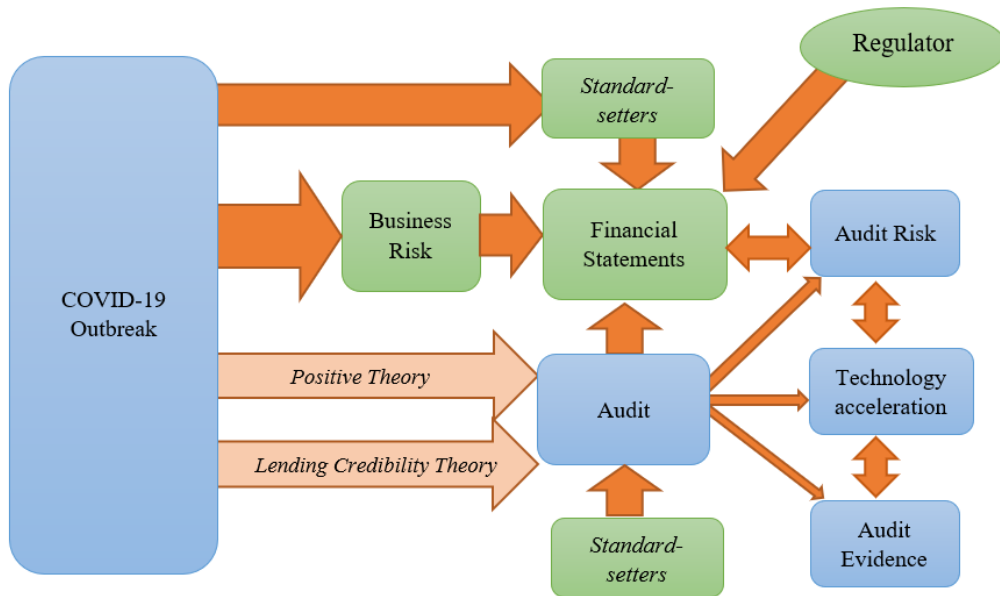


Fig. 1. Research Framework (Source: Audit Process by Tuanakotta [2] and modified by researcher).

The research framework in Figure 1 described those financial statements are the most crucial and a source of information for stakeholders. An audit of the financial statements is needed to convince these stakeholders. This is initiated by the positive theory, which will encourage the acceleration of technology and become a source of alternative approaches used in auditing a financial report. Positive theory research [3] examines how current circumstances can affect accounting and predict alternative possibilities in the future. The existence of an outbreak provides room for discussion on audit risk considerations and the validity of obtaining audit evidence. Therefore, this research will investigate further into studies in gathering audit evidence and reviewing the audit risks.

The audit process is also influenced by lending credibility theory, which explains stakeholders' perspectives on audit quality during the outbreak. Lending credibility theory put forward by Limperg [4] and Watts and Zimmerman [5] explain that the theory is expected to apply audit services to increase the confidence of stakeholders in the information prepared by management. The lending credibility theory in this study is used to measure users' responses to audited financial statements during the outbreak.

Auditing Standard 315 explains that identifying and assessing risks of material misstatement, whether caused by fraud or error, is based on an understanding of the entity and its environment. Albitar et al. [6] examined distance restrictions when conducting audits. Auditors are required to identify audit risks on company financial statements that can be potentially affected by the outbreak, which is the going concern issue.

The research of Xu et al. [7] found that there was a modified opinion is issued due to going concern issues. Kozjak [8] examines the factors that must be considered in preparing a going concern assessment. Accordingly, the auditor needs to consider the need to modify the opinion

on the inadequacy of audit evidence on the assumptions used when there are indications of going concern issues to the audit client.

Jirapattanapongsin et al. [9] argued that updating auditing methods would improve audit performance as measured by the adequacy and accuracy of audit evidence obtained. The study proved that the audit evidence obtained in changing circumstances is still appropriate and sufficient. On the other hand, research by Albitar et al. [6] stated that audit evidence quality declines when social restrictions occur during an outbreak. The decline in quality was caused by the unpreparedness of technology which led to audit evidence reliability issues. Al-Sayyed et al. [10] explains that integrated technology positively impacts collecting audit evidence. Another study from Appelbaum et al. [11] explains that collecting audit evidence using big data analysis can develop audit efficiency, such as increasing the speed for selecting procedures.

Based on the Financial Services Authority (OJK) Regulation Number 44/POJK.04/2016, the client's financial statements shall be submitted to the OJK no later than ninety days from the end of the financial reporting period. The phenomenon of face-to-face restrictions provides additional time for the auditors to complete the audit. Therefore, the auditor needs to consider alternative audit methods so that the audit runs on time and the client can still meet the criteria for reporting to regulators.

The previous studies are based on empirical studies with various theories conducted outside Indonesia, including Thailand, Croatia, and England. Therefore, this case study has not been widely studied in Indonesia, and it is expected to close the gap in previous research. This research will describe the method to be used and analyze audits during the outbreak.

3 Research Methods

This study describes a case study at ABC Public Accounting Firm on the approach taken by ABC's auditors in responding to the impact of the outbreak on the way it audits financial statements and compares what ABC practice with other accounting firms. This case study was conducted by initiating a study and understanding of research problems by conducting interviews about the difficulties faced by ABC's auditors in carrying out audits during the outbreak. Then, the researcher conducted confirmation with other public accounting firms to overview the practical problems faced by auditors during the outbreak. The researcher compares with articles and research journals about the audit process during a crisis and the audit process in normal conditions.

This study uses a qualitative research paradigm. The data collection technique chosen in this study was carried out using research instruments in the form of interviews, observations, and questionnaires. An essential instrument in this research is interviews with several expert sources with more than three years of experience in carrying out their roles as auditors or having a public accountant certification at ABC. The respondents for this research are auditors at the in-charge, manager, and partner level. The auditor's experience level is measured by the employment period and the position occupied at the accounting firm. The stratification in interviewing ABC's personnel is based on length of service and position. The interview method used in this study is a semi-structured interview. Thus, it is hoped that in-depth information will be collected by using this interview technique.

The questionnaire consists of seventy-nine questions distributed using an online form to twelve respondents who served at the manager and partner level spread across six public accounting firms. The questionnaire was designed based on Technical Newsflash April [12] and interview results which comprised problem formulation in the research on conducting audits

during an outbreak. The distribution of this questionnaire is intended to see the consistency of auditors from various firms in using alternative approaches when conducting audits during an outbreak and responding to regulations issued by regulators. The questionnaire results were also used to validate the interview results in this study. Both instruments will be supported by literature studies of articles, journals, and applicable standards. This study uses an analytical approach because the results of interviews from auditors will be analyzed descriptively and explained by analogy with theory and counter-theory in accordance with facts related to how to audit financial statements. The unit of analysis used in this study is ABC as a single unit of analysis.

4 Results and Discussion

ABC is an Indonesian accounting firm that provides assurance, advisory, internal audit and risk management services, reviews or systems development assistance, and taxation in DKI Jakarta. ABC was established in 2015 and currently has branches spread throughout Indonesia. The establishment of several branches throughout Indonesia requires a uniform approach in carrying out financial statement audits.

ABC focuses on audit clients' going concern risk at the risk assessment stage during the outbreak. The risk assessment analyzes how the company operates throughout the year during the outbreak and how the audit client's business capabilities can withstand. The risk assessment includes assessing the assumptions used by the audit client in conducting an internal assessment of its business capabilities. Assumptions of future business forecast used by audit clients vary widely according to their business industry. Under normal circumstances, the going concern assessment assumptions can be analyzed more clearly. However, during the outbreak, audit assessments require substantial support to prove that the assumptions used for future financial forecast are correct and adequate.

ABC's firm guidelines in auditing standards and audit framework provide general guidelines in testing the assessment of assumptions. Thus, ABC needs to review the adequacy of assessing each audit client's assumptions in more detail during the outbreak. ABC needs to pay attention to internal and external factors in the assessment assumptions.

Regarding risk assessment, ABC auditors conducted interviews with those charged with governance and management to obtain an overview of the assumptions in the analysis of fluctuations in cash flow projections for the next five years known by shareholders. In addition, ABC's auditors obtain supporting evidence of financial support to ensure the client's continuing operation for at least twelve months from the date of the shareholder's report for the working capital examination.

The questionnaire results also show that all respondents agree that going concern risk is an important issue when receiving, assessing risk, and identifying events after the date of financial statements during an outbreak. All respondents agreed with ABC approach that an inquiry procedure, a review of the going concern assessment with cash flow estimates for the next three to five years, and a going concern guarantee of at least twelve months were necessary to fulfill the going concern risk assessment. In addition, respondents also believe that cash flow assessment requires supporting evidence, including management's plan for the period.

ABC auditors perform remote audit and also uses a technological platform to carry out inquiries, observations, and communication between team members. Intensive communication by using online application platforms with the audit client is required to monitor the audit progress and assess whether the audit comply with the agreed timeline. This application also

can reduce the auditor's travel time to the client's premises, and the time can be allocated to perform other audit activities.

As many as 83.4% of respondents revealed that engagements were handled using remote methods and using meeting applications. Respondents agree that the use of meeting applications speeds up communication with team members and clients. In addition, 91.7% of respondents revealed that the remote audit method is supported by guidelines issued by each public accounting firm. In contrast, other respondents indicated that several audit approaches are still conducted face-to-face.

A total of 91.7% of respondents consider that confidentiality of information is protected when using the application and ensure that access granted to users is only limited to specific people. The limitation faced by 66.7% of auditors is online network problems when conducting audits outside the office. The advantages and disadvantages of the remote method approach revealed by the questionnaire results are consistent with those stated by the auditors at ABC.

In normal conditions, the auditor conducts client visits to perform audit testing. However, due to the outbreak, auditors are required to find alternative ways to gather audit evidence to meet applicable audit standards. Auditing Standard 700 explains that the auditor's purpose is to formulate an opinion based on the evaluation of the evidence obtained during the audit. In addition, the Auditing Standard 500 explains that the obtaining of audit evidence must be sufficient and appropriate to support the auditor's opinion. During Outbreak, documents sent by the audit client are in the form of softcopy sent via e-mail and cloud storage or photocopy of the original document. ABC's auditors examine the electronic media documents and photocopies by checking the authorization of supporting evidence and comparing it with control and substantive documents from the previous year and the current year and checking several samples directly to check the validity of the documents during online meetings. If there is a discrepancy between the documents, ABC's auditors will check further by conducting inquiries to confirm. Therefore, ABC has high confidence in the reliability and relevance of the data.

The questionnaire results show that 75% of respondents received client data documents in digital form and 91.7% of respondents also said that the audit data flow from clients uses e-mail or cloud storage. As many as 58.3% of respondents answered that access to data sent via cloud services is minimal and can only be accessed using a password. All 91.7% of these respondents ensured that information privacy protection for data storage and audit evidence remains secure. ABC explained that such security includes restricted access by members of the audit team and the use of passwords to maintain client data privacy, so auditors need to pay attention to the possibility of data theft or phishing.

As many as 91.7% of respondent auditors ensure that digital documents sent by clients are guaranteed reliable, relevant, and accurate. In addition, 75% of respondents also think that the addition of audit methods can be supported by comparing the control elements in the supporting documents provided by the client in the previous period with the current period. Additionally, 91.7% of respondents conducted inquiries to ensure the document's reliability, relevance, and accuracy. This shows that additional procedures for checking digital data take longer than normal situations. Those conditions are consistent with what the ABC's auditors highlighted.

A procedure that is quite difficult to carry out during the outbreak is the asset observation procedure. Observation procedures carried out in normal situations require the auditor to visit the client's factories and warehouses to observe the stock count and fixed assets observation process. ABC's auditors can face these obstacles during the outbreak by conducting virtual observations to obtain audit evidence.

In the procedure for observing fixed assets, 50% of respondents observe fixed assets using virtual methods such as video conference or video call via Microsoft Teams, Zoom, or

WhatsApp and using drones to capture the condition of the assets. At the same time, the other 50% of respondents still do face-to-face observations on the client's premises.

Another interesting fact is that 66.7% of respondents continue to observe inventory by physically visiting the client's sites while complying with health protocols. In this case, ABC auditors and respondents explained that the difficulty in implementing the virtual observation because each client has a different inventory condition, such as the warehouse layout and the nature of the inventory. The video recordings of inventory observations can be used as audit evidence. However, the auditors must consider the validity of the video in testing its reliability by inquiry procedures to the client. Other audit evidence obtained during the virtual method is taking photos of the warehouse, products, and inventory tags.

During the outbreak, the procedures for testing reconciliation, confirmation, and examination audit assumptions experienced some delays since the clients could not provide supporting data to the auditors promptly. Therefore, the auditor should reschedule the audit timeline and inform the audit client because it will result in rescheduling the deadline for submitting the audited financial statements to the regulator. ABC's auditors monitor client scheduling during the outbreak on a weekly basis by providing information on the progress of the audit stage and the remaining time limit. In addition, monitoring the audit timeline also assists ABC's auditors in communicating appropriately with clients so that the audit process runs smoothly. In the other hand, OJK had extended the period of audited financial statements submission to provide relaxation during the outbreak.

All respondents agreed that intensive two-way communication with clients is necessary during the outbreak. The auditor believes that such communication will affect the audit process, which then meets the deadline for submitting financial statements to the regulator. In terms of delays in the audit process, 91.7% of respondents agreed that rescheduling audit tests are necessary so that audit clients understand the consequences that must be borne, including an extension of the deadline for submitting financial statements to regulators.

5 Conclusion

This research shows that positive theory and lending credibility theory led the critical point of auditing during the outbreak situation. Auditors are required to consider the risks and alternative approaches that the auditors should take. The main focus of how to audit during the outbreak is to assess business' going-concern risks, develop alternative audit procedures through the adoption of technology, and intensive communication to clients to mitigate delays in submitting financial reports to regulators.

Understanding the client's business environment will help the auditor analyze the level of risk faced and the scope of the audit client's business risk during the outbreak. The auditor sees that the going-concern risk of clients during the outbreak is higher than during normal conditions. In addition, a review of the assessment of subsequent events is required. In cases where there is doubt about the assumptions used in the risk assessment, the auditor should determine the need to disclose the effects of the outbreak in the financial statements. The auditor should also consider modifications in the formulation of the audit opinion if the significant impact of the outbreak has not been sufficiently reflected in the financial statements.

During the outbreak, auditors can obtain audit evidence through alternative media other than face-to-face interactions by adopting the use of technology. The media is used to perform meetings with clients, discussions between members of the audit team, and the fulfillment of audit procedures to obtain audit evidence. This can be used to improve audit efficiency at a later

normal time. However, this alternative media requires security procedures and a higher level of skepticism, such as data reliability and security in sending confidential data.

Based on the regulation, the company's financial statements must be submitted to the regulator no later than ninety days from the financial reporting period. However, the outbreak makes it difficult for clients to complete audit data on time because audits are carried out remotely. In rescheduling the audit deadline to meet the requirements for submitting the audited financial statements to the regulator, the auditor communicates with the client more intensively to reschedule the audit completion target. In addition, the regulator responded by extending the submission period of audited financial statements for two months in the outbreak situation.

It is expected that further research can provide a detailed and comprehensive picture of other audit risks during the outbreak. The discussion of fraud risk is often fascinating because it has a different pattern in each case. The absence of a detailed discussion of a particular business sector is expected to be further research to understand auditing in a particular industry. In an outbreak situation, it is hoped that detail guidelines on conducting audits during an outbreak will be issued soon to assist those developing resources and to improve audit efficiency in the future.

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