

# **THE IMPACT OF COVID-19 ON THE AUDITOR'S RISK ASSESSMENT PROCESS**

**BY**

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for the award of the Master in Accountancy degree  
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L-Università  
ta' Malta

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# **Abstract**

## **TITLE: THE IMPACT OF COVID-19 ON THE AUDITOR'S RISK ASSESSMENT PROCESS**

**PURPOSE:** The objectives of this study are (i) to understand how COVID-19 has altered auditors' identification and assessment of risks; ii) to evaluate any changes in the timing, nature and extent of the risk assessment procedures involved in the audit risk assessment; (iii) to assess how COVID-19 may have modified the methods used to gather sufficient and appropriate audit evidence on the identified risks; and (iv) to investigate whether COVID-19 will have a long-term impact on the audit risk assessment and how this is anticipated to evolve in a post-COVID world.

**DESIGN:** To attain these objectives, the researcher adopted a mixed-methods research approach. A total of fifteen semi-structured interviews were conducted with audit partners/senior managers from the Big Four and mid-tier audit firms.

**FINDINGS:** This research deduced that obtaining an understanding of clients' businesses and their operating environment required a greater degree of audit effort due to substantial changes to entities' operations, requiring auditors to be mindful of any emerging audit risks. Going concern was commonly the biggest risk identified followed by impairment of assets, including PPE, trade receivables and fraud. Consequently, professional scepticism, professional experience and audit firm's size were crucial as to challenge the heightened audit risks emanating from COVID-19. Additionally, the pandemic has resulted in adjustments to the timing, nature and extent of the risk assessment procedures (RAPS), as RAPS were continuously revisited and performed more extensively, where inquiries and analytical procedures were used more widely as opposed to observation and inspection. Furthermore, the implementation of IT tools led to a significant change in the way auditors gather audit evidence including verification of inventory and PPE, third party confirmations, communication with clients and within the audit team, inspection of documents and observation procedures. Electronic file sharing solutions and videoconferencing were essential to still perform high-quality risk assessments during the health crisis. Finally, the study highlighted the lessons learnt for auditors to gain a more comprehensive understanding of material risks and be more vigilant about how external events could affect companies.

**CONCLUSIONS:** COVID-19 has resulted in renewed concern on the audit risk assessment, nonetheless, auditors still managed to perform high quality risk assessments despite the added complexities brought about by COVID-19. It was also concluded that although the pandemic was a game changer for auditors and for the procedures performed, ultimately positive aspects also emanated from COVID-19 as the new ways of working shall continue to be useful in a post-COVID world.

**IMPLICATIONS:** This study hopes to provide insights on how COVID-19 has impacted the audit risk assessment process. The proposed recommendations seek to help audit firms learn from COVID-19 in developing more efficient and effective audits, possibly using the implications of the global pandemic as a reference for other similar external events, such as the Russia-Ukraine War, future pandemics and as the audit process undergoes digital transformation.

**KEYWORDS:** COVID-19, Risk Assessment, Risk Assessment Procedures, Audit Evidence

## **Dedication**

***To my mother, Ann,  
for her endless love, sacrifices and support.***

***I owe my academic journey to her.***

*'...A mother is she who can take the place of all others but whose  
place no one else can take...'*

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## **List of Abbreviations**

AE	Accountancy Europe
AI	Artificial Intelligence
AICPA	American Institute of Certified Public Accountants
AP	Analytical Procedures
CAQ	Centre for Audit Quality
CIA	Careers in Audit
COVID-19	Coronavirus Disease 2019
CPA	Chartered Professional Accountants
ECA	European Court of Auditors
ECL	Expected Credit Losses
FRC	Financial Reporting Council
FS	Financial Statements
FV	Fair Value
GC	Going Concern
ICAP	Institute for Chartered Accountants of Pakistan
ICPAC	Institute of Certified Public Accountants of Cyprus
IFAC	International Federation of Accountants
IRBA	Independent Regulatory Board for Auditors
ISA	International Standard on Auditing

NOCLAR	Non-compliance with laws and regulation
PCAOB	Public Company Accounting Oversight Board
PPE	Property, Plant and Equipment
RAPS	Risk Assessment Procedures
WHO	World Health Organisation

# Chapter 1

---

## *INTRODUCTION*

## 1.1 Introduction

This chapter introduces the dissertation. As illustrated in Figure 1.1, Section 1.2 presents a background to the study, followed by Section 1.3 which outlines the rationale for the study. Subsequently, Section 1.4 sets out the key research objectives and Section 1.5 highlights any limitations of scope. Finally, Section 1.6 details the dissertation's structure.

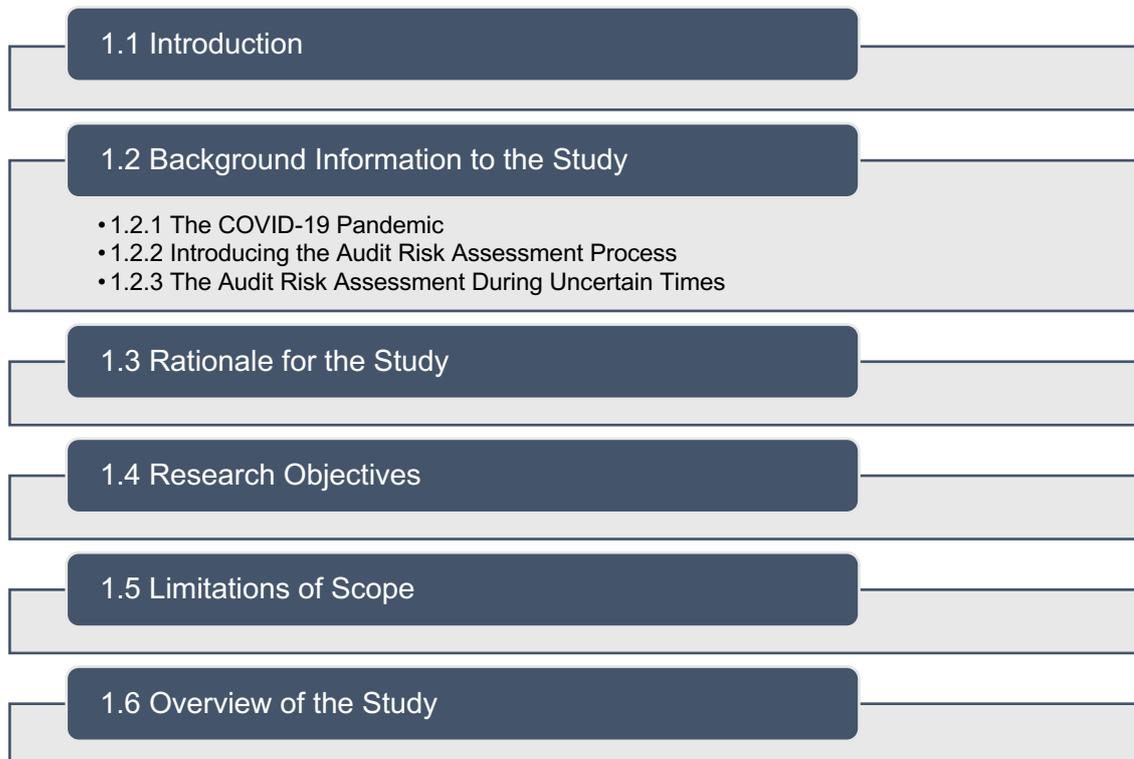


Figure 1.1: Outline of Chapter 1

## 1.2 Background Information to the Study

### 1.2.1 The COVID-19 Pandemic

The Coronavirus Disease 2019 (COVID-19) pandemic is a global outbreak of a worldwide illness caused by the severe acute respiratory syndrome coronavirus 2 (SARS-Cov-2). This was initiated in December 2019, in Wuhan, China, and despite numerous attempts to contain it, the virus spread worldwide (McKibbin,

Fernando 2020). The World Health Organisation (WHO) declared the outbreak, a pandemic on March 11, 2020 (WHO 2023a).

Aimed at restraining the virus' spread, strict measures were taken by most governments across the globe. Most countries entered lockdowns, set curfews in place, introduced social distancing policies, closed institutions of all kinds and imposed travel restrictions across countries especially during the initial months of the pandemic (Hazaea et al. 2022). This triggered global economic uncertainties with the International Monetary Fund, describing this world-wide downturn as "*the worst since the Great Depression of the 1930s*" (Chan 2020, p.1).

However, during September 2022, the WHO declared that the pandemic's end is in sight as weekly global deaths from the virus fell to their lowest level since March 2020 (Badshah 2022). Nevertheless, it did caution that coronavirus still poses an acute global emergency, as the virus is still actively spreading, although not as alarming as early in the pandemic, given the effectiveness of today's tools, including vaccinations (United Nations 2022).

In the most recent statement released in March 2023, the WHO stated that they anticipate declaring the end of the pandemic sometime in 2023 as the illness begins to resemble seasonal flu. "*A threat to health, a virus that will continue to kill, but a virus that is not disrupting our society*" declared the director-general of WHO (WHO 2023b, p.10). However, given the daily reports of innumerable deaths happening all across the world, the end of the pandemic has not been reached as of yet (Ellis 2023).

## **1.2.2 Introducing the Audit Risk Assessment Process**

The entire audit is deeply grounded on the risk assessment process as it is through this process that the auditor effectively identifies and assesses audit risks (Klasson, Knuttson 2021). Audit risk identification is essential to the auditing process since auditors do not seek to review each and every transaction but focus their audit efforts on those balances and transactions where there is a higher probability of a substantial misstatement. Addressing trivial risks in huge detail

will be both inefficient and ineffective. This is the key premise of the risk-based approach (ACCA 2023a). International Standard on Auditing (ISA) 200 defines audit risk as:

*“The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. This risk is a function of the risks of material misstatement and detection risk.”*

(IAASB 2009a, p. 19)

As can be observed in Figure 1.2, audit risk is comprised of inherent risk and control risk (which make up the risks of material misstatement) and detection risk (European Court of Auditors [ECA] 2022). As explained by Zukauskaite (2021), inherent risk is the risk attributable to the particular traits of the company and its operating environment. In response to inherent risks, companies develop internal control systems. Control risk arises when the system of internal controls has certain weaknesses which may result in material misstatements not being detected by the control system. Contrarily, detection risk represents the risk that a substantial inaccuracy in the financial statements (FS) will not be discovered by the auditors' procedures and testing performed (ACCA 2023b). Auditors must lower detection risk, as control or inherent risk rise, to gradually bring the overall audit risk down to a reasonable level (Eze Gbalam 2013).

The audit risk model also reveals the close link between business risk, the risk inherent to companies' operations and audit risk (ACCA 2023a). Business risk, such as the risk of failure of business operations, can lead to inherent audit risk which in turn cause a material misstatement if this risk is left uncontrolled. Hence, in order to detect the risks of substantial misstatement, auditors must first evaluate clients' business risks (IAASB 2019).

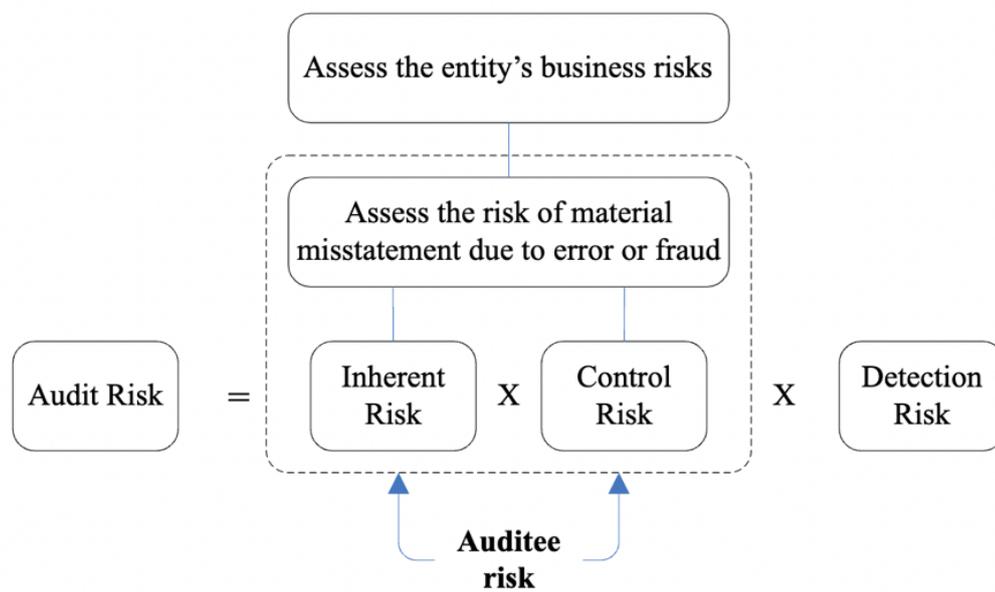


Figure 1.2: The Audit Risk Model

(ECA 2022, p.1)

ISA 315 further requires auditors to perform risk assessment procedures (RAPS). RAPS are performed to obtain a practical understanding of entities and their environment, including their system of internal controls and the pertinent financial reporting framework. These shall serve as a foundation for detecting and assessing the risks of substantial misstatement, both at FS level and at the level of assertions, to ensure sufficient audit evidence is collected (Zukauskaitė 2021, IAASB 2019).

There are three key RAPS: (i) inquiries, about both financial and non-financial matters, including those with management, employees, marketing team, risk management team and others; (ii) observation and inspection of entities' operations and its premises, internal or external records and documents or tangible assets; and (iii) analytical procedures (AP). AP consists of the analysis of financial information through scrutinising connections between both financial and non-financial data, for example through ratios (Chukwu et al. 2019, ACCA 2015).

### **1.2.3 The Audit Risk Assessment during Uncertain Times**

Throughout history, the auditor's role has evolved, mostly as a result of audit failures brought on by several external events such as the financial crisis of 2008, WorldCom's scandal, the collapse of ENRON and the increased level of criminal activities over time (Johnsson, Persson 2021). Following these failures, damaging the audit profession's credibility over the years, it has become essential to improve the audit process through adopting a risk-based approach. Auditors must adapt to environmental difficulties by focusing the audit process on risk assessments, with the main goal being that of reducing risk (Klasson, Knuttson 2021). In addition, the COVID-19 pandemic served as another opportunity for auditors' role to evolve and for the audit process to adjust to the ever-changing expectations of stakeholders (Deloitte 2020a).

The state of emergency brought on by COVID-19 has significantly impacted companies' operational environment resulting in production interruptions, delays in business expansions and supply chain disruptions (El-Mousawi, Kanso 2020, Kaka 2021). In a study carried out in Greece, 78% of respondents indicated that due to the interruptions to clients' operations, COVID-19 negatively affected the auditing process (Tasios et al. 2022). Auditors had to determine the increased level of threat to pre-existing risks and any emerging risks (Magri, Camilleri 2020).

The virtual reality has also impacted the several RAPS in place, as inquires, AP, inspection and observations had to be adapted accordingly (Alao, Timilehin 2021). Additionally, as traditional methods of obtaining audit evidence were not feasible in times of social distancing, auditors had to change the way evidence is collected where the abrupt shift to remote working may have influenced the quality of evidence collected and the overall quality of risk assessments conducted under these tumultuous times (ACCA 2023c, Al-Aamaedeh, Alhosban 2021).

## 1.3 Rationale for the Study

The risk assessment process is fundamental as failing to detect and assess risks is typically a contributing factor to audit deficiencies, leading to audit failure (Arnold 2020). Given such importance, the Financial Reporting Council (FRC) and the International Federation of Accountants (IFAC) issued specific guidelines for auditors, focusing on key audit concerns arising from COVID-19. These guidelines stressed that auditors had to focus on the ramifications of the pandemic on the auditor's risk assessment process, consider altering the planned audit strategy, and adopt alternative procedures to gather adequate audit evidence (FRC 2020, IFAC 2020).

Both IFAC (2020) and FRC (2020) emphasised that the unpredictability in businesses caused by the pandemic, may have led to heightened risks of material misstatements. This is also supported by ACCA (2023c) who administered a global survey amongst auditors and found that 27% of respondents observed increased audit risk while a quarter admitted they are struggling in obtaining evidence. Hence, it is considered necessary to explore how auditors and audit firms have responded to the global pandemic and whether an effective risk assessment that fully complies with professional scepticism is performed, despite the added complexities caused by the pandemic. After all, positive aspects in the audit engagement may have also been developed (Murphy 2020, Al-Aamaedeh, Alhosban 2021).

Maltese literature aimed at analysing the implications of COVID-19 on auditing has to date been limited. A recent study conducted by Connor (2022) addressed this aspect by exploring the impact of the pandemic on the auditor's report and whether any modifications to the auditor's opinion were necessary, whilst Saliba (2022) conducted a study assessing the influence of teleworking on audit firms in view of COVID-19. Given the importance of the audit risk assessment in driving the overall direction of the audit, this study now aims to extend Maltese studies analysing the implications of COVID-19 on audit aspects, by exploring how the

global pandemic altered auditors' identification and assessment of risks. This is an essential research gap to fill in auditing literature, given the extensive reports issued by the biggest audit firms in the world, emphasising the substantial impact of the pandemic on the audit risk assessment and the various changes to FS items that had to be audited differently (EY 2020, PWC 2020b, Deloitte 2020b, KPMG 2020). This study also serves as a response to a call by Hazaea et al. (2022) to investigate the lessons learned from the COVID situation, as this research shall explore how the audit risk assessment is anticipated to evolve in a post-COVID world.

## **1.4 Research Objectives**

This study shall focus on the following objectives:

1. To understand how this global pandemic has altered the auditor's identification and assessment of the risks of material misstatement.
2. To evaluate any changes in the nature, timing and extent of the risk assessment procedures involved in the audit risk assessment.
3. To assess the impact of COVID-19 on the process of obtaining sufficient and appropriate audit evidence on the identified and assessed risks.
4. To evaluate whether COVID-19 will have a long-term impact on the audit risk assessment and how this is anticipated to continue to evolve in a post-COVID world.

## **1.5 Limitations of Scope**

The scope of this study is limited to a selected number of Big 4 and mid-tier audit firms. Hence, not all audit firms in Malta will be taken into consideration. However, in response to this limitation, the researcher intends to consider individuals at high seniority level whilst communicating with the most prominent, larger audit

firms in Malta. Thus, ensuring that the study's participants are knowledgeable and have adequate experience to provide high quality results.

Also, since the end of the COVID-19 pandemic has not yet been announced, the study will not cater for COVID-related news updates, changes to the applicable auditing standards or any new measures imposed after the study's submission in May 2023.

## 1.6 Overview of the Study

As visually presented in Figure 1.3, the research study is structured as follows:

**Chapter 1** presents a background to the topic being researched, highlights the key research objectives and discusses the rationale for the study. Any limitations of scope are also emphasised.

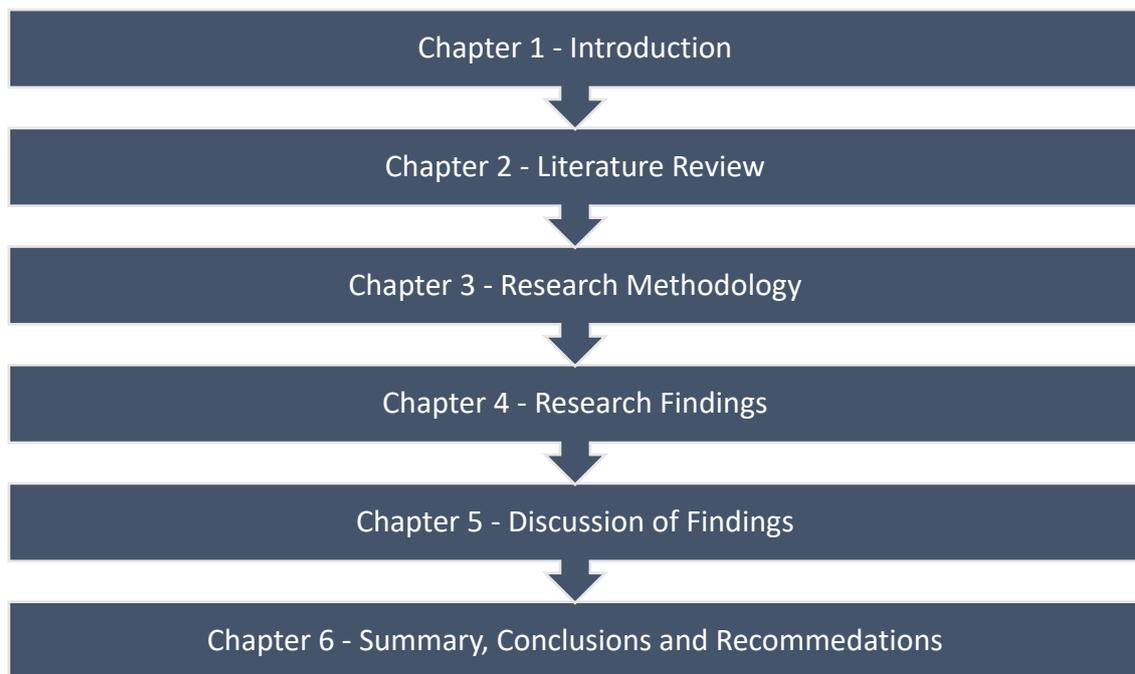
**Chapter 2** delves deeper into the subject area by providing a comprehensive review of international literature pertaining to COVID-19 and the audit risk assessment.

**Chapter 3** describes and justifies the research methodology adopted to attain the research objectives.

**Chapter 4** outlines the key research findings attained through semi-structured interviews.

**Chapter 5** presents a thorough discussion on the findings presented in Chapter 4, in view of the literature reviewed in Chapter 2.

**Chapter 6** concludes the study by summarising the main findings and proposes various recommendations and areas for further research.



*Figure 1.3: Structure of the Study*

# Chapter 2

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## *LITERATURE REVIEW*

## 2.1 Introduction

This chapter provides a thorough examination of existing literature on the research area. As illustrated in Figure 2.1, Section 2.2 provides an overview of COVID-19. This is followed by Section 2.3 exploring how COVID-19 altered the auditor's risk identification process and Section 2.4 analysing the determinants for a high-quality risk assessment, both of which tackle the first research objective. Subsequently, Section 2.5 explores any changes in the performance of the risk assessment procedures (RAPS) in line with the second research objective followed by Section 2.6 unfolding the modified ways of gathering audit evidence, addressing the third research objective. Finally, Section 2.7 addresses the last objective by exploring any lessons learned from COVID-19.



Figure 2.1: Outline of Chapter 2

## **2.2 COVID-19 Overview: From a Business Perspective**

Initially, the outbreak of COVID-19 was solely considered as a health emergency, however it surpassed its expectations as it posed not only health but also vast economic, financial, and social challenges (Hazaea et al. 2022). According to Goodell (2020), an evident way in which COVID-19 left a destructive effect on the economy is through its tremendous economic costs, namely a decrease in employee productivity, social distance that interferes with business operations and a negative influence on tourism. Besides, these extraordinary circumstances gave rise to the cost of capital, limiting financial flexibility, discouraging investments whilst negatively impacting the expansion of the global economy (Johnsson, Persson 2021).

COVID-19 has also disrupted most professional services world-wide, with accounting and auditing being no exception, leading to huge pressures within the audit team (Alao, Timilehin 2021). The effect of this disease served as a reminder to auditors that they are responsible to recognise, evaluate and address any possible risks of significant misstatements by clients (Tasios et al. 2022). However, it is the responsibility of auditors to not only serve the needs of a single client but act in the public's best interest (American Institute of Certified Public Accountants [AICPA] 2020). Failure to identify ambiguous errors as a result of the COVID restrictions, may reduce the quality of audit performance, exposing institutions to a lack of investor confidence (Hazaea et al. 2022).

## **2.3 Auditors' Identification and Assessment of Risks**

### **2.3.1 Understanding of the Entity and its Environment**

According to ISA 315, auditors are obliged to detect and evaluate risks by having a comprehensive understanding of clients' businesses, including any industry or regulatory factors and the effectiveness of their internal control system (Alao, Timilehin 2021, ACCA 2023a). However, COVID-19 and the ensuing general economic shutdown had a huge impact on clients' financial operations, their access to capital and liquidity and the demand for their products. As a result, it was suggested that the inherent general economic risk must be re-examined, together with auditors' understanding of entities and their environment (Appelbaum et al. 2020, EY 2021a). As highlighted by Arnold (2020) the uncertainties brought about by the novel virus may have changed entities' objectives, strategies, organisational structure, business risks and business models.

#### **2.3.1.1 Laws and Regulation**

In addition, changes to financial reporting standards together with the complexities of new regulations in place, such as new directives related to the closure of business operations intended to protect public health, may have also impacted clients' businesses (Diab 2021, Chartered Professional Accountants [CPA] 2021). As a result, the risk of non-compliance with laws and regulations (NOCLAR) for certain clients was heightened, having a substantial influence on FS (Dohrer 2020).

According to Murphy (2020) certain government programs introduced during COVID-19 may have also heightened non-compliance risk. Hence it was vital for auditors to comprehend the provisions and terms of grants and consider the impact of clients' improper claims for financial support on the audit risk

assessment (FRC 2020). Many businesses may have never received grants before; thus, they lacked an accounting procedure for them (KPMG 2020).

### **2.3.1.2 Internal Controls**

During COVID-19, clients' controls may have also changed drastically as they shifted to working remotely and as many financial reporting activities moved virtual, leading to heightened risk of breakdown in internal controls (Dohrer 2020). It was vital for auditors to thoroughly understand any adjustments made as well as any new or additional controls implemented (Diab 2021). Consequently, auditors had to evaluate whether new risks arose because of these changes and whether anticipated reliance on controls in responding to risks were still valid (ACCA 2023c, CPA 2021). The Public Company Accounting Oversight Board (PCAOB) (2020) further highlighted the risk of deficiencies in controls as a result of lack of segregation of duties and ineffective monitoring of controls, leading to increased risk of management override.

### **2.3.2 Approach to the Audit Risk Assessment**

During the unprecedented times of COVID-19, it was crucial to emphasise that taking "*a same as last year approach to audit planning and risk assessment*" was not an effective strategy (Murphy 2020, p.1). More specifically, risks identified during the COVID period were distinct from those identified in previous years' audits and risks previously identified could potential be more severe (Cohen & Co 2020). Henceforth, the information underpinning previous years' risk assessments changed drastically as a result of the heightened uncertainty, necessitating a more structured and rigorous risk assessment (Independent Regulatory Board for Auditors [IRBA] 2020).

In assessing risks, auditors also had to consider the various industries of their clients as different clients may require different risk assessments (Al-Aamaedeh, Alhosban 2021, Accountancy Europe [AE] 2020). In fact, industries such as restaurants resulted in elevated risks as a result of COVID-19 whilst other

industries such as frozen foods may have benefited from it (Murphy 2020). Kend and Nguyen (2022) also revealed that in Australia for real estate, insurance, banking and transportation industries, more COVID-related audit procedures had to be performed due to higher audit risks, than in other industries.

### **2.3.3 Emerging Audit Risks**

In light of the COVID-19 outbreak and its adverse consequences, auditors had to be mindful of audit risks becoming more significant or any new emerging risks such as the ones discussed below (ACCA 2023c).

#### ***I. Fraud Risk***

Due to the potential breakdown in internal controls, increased pressures to meet targets and management focusing more on operational issues and giving less attention to fraud, the risk of fraud may have upsurged significantly during COVID-19 (Diab 2021, Centre for Audit Quality [CAQ] 2020). It was imperative for auditors to focus on any risk factors that may indicate fraud including related parties' transactions and any unusual transactions which could have been made to participate in fraudulent financial reporting (Institute of Chartered Accountants of Pakistan [ICAP] 2020).

#### ***II. Materiality***

Owing to the financial implications of COVID-19, auditors had to reconsider materiality levels, including the benchmarks used to establish it (Arnold 2020). It may have been necessary to lower performance materiality for particular transactions or revise the materiality for FS as a whole, for example, as a business decides to dispose of a large part of the business (ICAP 2020).

#### ***III. Subsequent Events***

Given that disclosures regarding subsequent events are quite judgemental in nature, special scrutiny had to be given as the COVID-19 situation was evolving on a daily basis, particularly for January and February 2020 reporting dates (Diab

2021, ACCA 2023c, FRC 2020). Auditors had to act prudently to assess how much of the COVID-19 impact arose from non-adjusting or adjusting subsequent events (Appelbaum et al. 2020). This depended on the reporting date, the circumstances specific to entities' operations and the extent to which COVID-19 impacted the entity (AE 2020, Gould, Arnold 2020).

#### **IV. Impairment of Assets**

Companies may have also faced additional risks when it comes to assets such as PPE and goodwill impairment since travel restrictions and the temporary closure of plants served as an impairment indicator. When considering impairment, firms should determine the expected future cashflows; however, in uncertain environments, there was serious concern about whether the prediction of future cashflows could be supported by subsequent performance (EY 2020).

PWC (2020b) also noted that because COVID-19 affected borrowers' capacity to repay loans, the expected credit losses (ECL) calculation had to reflect the increased probability at default together with the heightened credit risk. Nonetheless, companies may have found it difficult to factor in forward-looking information associated with the economic impact of the pandemic in the ECL calculation. Hence, auditors devoted extra attention to the heightened audit risk in relation to impairment of financial instruments (Deloitte 2020b).

#### **V. Valuation of Assets**

The economy's partial closure also had a significant impact on the valuation of assets. Certain key inputs to the valuation models, including discount rates and cash flow forecasts needed to reflect the increased risk and uncertainties during COVID-19 (PWC 2020a). In particular, this applied to those assets measured at fair value (FV), as auditors had to ensure that companies have re-considered changing the valuation economic assumptions used to measure FV (KPMG 2020).

This is in line with Kend and Nguyen's study (2022), who expressed that audit work was mostly heightened in relation to impairment and valuation of assets, requiring a more demanding risk assessment.

## **VI. Going Concern**

During COVID-19, auditors had to ensure companies could remain solvent both during and after the period of COVID restrictions, as forecasts previously used were of limited relevance in the changing environment (KPMG 2020). Non-accessibility to external borrowing and a worsened financial health of customers and suppliers led to increased doubts on the ability of audit clients to continue operating as a going concern (GC) (ICAP 2020). In fact, according to FRC (2020) and AE (2020) auditors had to consider reporting on material uncertainties related to GC.

### **I. Financial Statement Line Items**

Kaka (2021) provides a thorough examination of the various FS items that were affected by COVID-19, which increased audit risk and made risk assessments more demanding. Firstly, the uncertain environment strongly impacted receivables as during COVID-19, it took longer to complete debt collection forcing auditors to analyse the volume of bad debts. Companies may have also been unable to sell all their inventories with some commodities becoming obsolete. A decline in demand, forced plant shutdowns and failure to fulfil purchase and sales contracts all substantially influenced inventory. Hence, auditors had to ensure inventory was valued at the lower of cost and net realisable value and that the required impairment was made (Deloitte 2020b).

Some firms may have also experienced capital degrade as well as cash depletion. Henceforth, COVID-19 may have compelled firms to violate loan agreements owing to their inability to meet loan repayments. Additionally, due to the closure of businesses and movement restrictions, firms may have experienced a fall in revenue generation (Kaka 2021). Any modifications to

contractual arrangements with lenders due to cashflow challenges also impacted revenue and lease accounting (EY 2020).

This is consistent with Al-Khasaweneh's (2021) study in Jordan, who found the impact of COVID-19 on auditing estimations of some FS line items to be statistically significant.

## **2.4 Determinants for a High-Quality Risk Assessment**

To be able to perform a high-quality risk assessment, literature has shown that there are numerous aspects which stimulate the effectiveness and quality of the risk assessment process, focusing both on the individual auditor and on audit firms. (Klasson, Knuttson 2021). Owing to the complexities and uncertainties emanating from COVID-19, these determinants may have become more crucial.

### **2.4.1 Individual Determinants**

#### ***I. Professional Scepticism***

Auditors should approach an audit with an impartial and diligent mindset including a presumptive doubt which assumes dishonesty unless the contrary is shown by evidence (Nolder, Kadous 2018). This may have become more crucial in the COVID environment as the danger of a material misstatement in the FS was higher than in pre-COVID times (ACCA 2023c, Arnold 2020). The presence of fraud indicators, incomplete audit evidence and complex judgements in light of COVID-19, required auditors to demonstrate heightened levels of professional scepticism (ICAP 2020). Sian (2022) further highlighted that the lack of non-verbal cues as a result of virtual inquiries, the concerns surrounding authenticity of digitised documents and the risk of relying more on management assertions, further enhanced auditors' professional scepticism during the risk assessment process.

The importance of professional scepticism was also highlighted in Al-Khasaweneh's study (2021), which concluded that the impact of COVID-19 on professional scepticism throughout the risk assessment process was statistically significant.

## ***II. Professional Experience***

Auditors with a higher level of experience tend to reach reliable conclusions quicker and are less likely to be implicated in audit failures since experience is seen as a key component in effectively navigating stressful and unpredictable situations. Consequently, their audit risk assessment will be more precise and reliable (Hearidistia, Fadjaranie 2019). Kaka (2021) further contended that the extent of RAP depends on auditors' level of professional experience with Satya and Shauki (2022) and Zahmatkesh and Rezazadeh (2017) highlighting that the greater the professional experience, the better auditors assess the risks of material misstatement and the better the adequacy of audit evidence.

Professional experience was indeed crucial in the COVID environment as experienced auditors would be better able to detect the probable impacts of COVID-19, comparing this to other historical events, having better capabilities of foreseeing future repercussions (Johnsson, Persson 2021). Contrastingly, Klasson and Knuttson (2021), highlighted that experienced auditors tend to rely on beliefs from prior audits, rendering them blind to fresh knowledge, and causing them to overlook crucial details for risk assessments.

## **2.4.2 Organisational Determinants**

### ***I. Audit Firm's Size***

According to Sawan and Alsaqqa (2013), audit firm's size is an important factor for an effective risk assessment since larger firms are better in assessing risks due to their vaster knowledge, experience and global reach. In addition, the Big Four employ more specialised auditors, including auditors with industry-specific expertise, who are better equipped to supervise clients' management and detect

fraud in clients' businesses (Salman, Setyaningrum 2023). This suggests that the Big Four would provide more accurate risk assessments when compared to other audit firms, especially when working in an unpredictable environment, like COVID-19 (Klasson, Knuttson 2021). In fact, Gong et al. (2022), found that the Big Four adapted more effectively to virtual auditing and maintained high quality audits during COVID-19, unlike other smaller audit firms which struggled to navigate the challenges of the virtual working environment. In addition, both Janvrin et al. (2009) and Beecham (2021) found that the Big Four employ more advanced technological tools, higher usage of video conferencing and higher levels of collaboration with IT auditors in performing their risk assessments.

## **2.5 The Performance of Risk Assessment Procedures**

### **2.5.1 The Timing of Risk Assessment Procedures**

As a result of the rapidly changing environment, auditors faced time constraints in completing audits due to challenges in performing RAPS (PCAOB 2020). The Institute of Certified Public Accountants of Cyprus (ICPAC) (2020) affirmed that the RAPS had to be continuously re-examined and calibrated as the COVID situation evolved. Throughout the audit, external factors including customer behaviour and retail reopenings had to be constantly assessed as a result of the frequent changes to COVID-related measures (CAQ 2020). Additionally, it was vital for auditors to engage in inquiries with clients at an earlier stage in the audit process as to evaluate the implications of COVID-19 (PCAOB 2020, Arnold 2020).

### **2.5.2 The Nature of Risk Assessment Procedures**

In their study in China, Luo and Malsch (2020) introduced the concept of improvisation to auditing, as auditors had to depart from their planned RAPS to ensure the timely completion of a high-quality audit. Consequently, performing

RAPS became more sophisticated as audit firms had to adopt procedures specifically intended to tackle audit risks related to the pandemic (Kend, Nguyen 2022). Similarly, GCS (2021) highlighted how auditors had to increase the volume of RAPS performed to understand any changes to clients' businesses such as any internal control modifications.

In addition, auditors also introduced new behaviour both with their clients and within the audit team. In fact, during the process of modifying the RAPS, CAQ (2020) highlighted how auditors expanded the participation of seasoned engagement team members to those areas associated with more complicated concerns and consulted subject-matter experts where necessary. Additionally, it was crucial to strengthen the guidance and oversight of the less experienced audit staff to enhance the review of their work (ICAP 2020). These served as compensating procedures in response to the interruptions in the team-based audit work (Luo, Malsch 2020).

### **2.5.3 The Extent of Risk Assessment Procedures**

In addition, during the outbreak of the pandemic, auditors had to carefully consider which RAPS provided the greatest value in the short run (Diab 2021).

#### **2.5.3.1 Greater Reliance on Analytical Procedures**

Literature has shown that early in the pandemic, auditors increased their use of analytical procedures (AP), being the least expensive and the most straightforward to compute (Hazaea et al. 2022). As many firms experienced bankruptcy and could have purposely tried to falsify their income, AP were perceived to be more relevant, helping auditors to obtain a thorough understanding of companies' financial position and determine the cause for any unforeseen modifications in account balances (Albitar et al. 2020, Akrimi 2021). Nonetheless, Cohen & Co (2021) and ICAP (2020) highlighted that the economic downturn of COVID-19 led to a lack of comparability, negatively affecting ratio

analysis since financial data from earlier periods was not a viable data point for comparison purposes.

### **2.5.3.2 Additional Focus on Inquiries**

During COVID-19 certain inquiries may have necessitated additional focus as a result of the drastically changed environment. Supplementary inquiries had to be performed on suspected fraud, NOCLAR, litigations, unusual or related-party transactions and on clients' communication from regulatory agencies (Cohen & Co 2021). Inquiries regarding subsequent events were also vital for auditors, so as to determine whether adjustments or disclosures were necessary (Kaka 2021). Inquiries with management, boards of directors, audit committees and other employees were indeed vital to ensure risks are suitably detected, evaluated and responded to by auditors (CAQ 2020). This was mostly the result of increased GC issues, new key audit matters and internal control modifications (ICAP 2020).

### **2.5.3.3 Drawbacks related to Observation and Inspection**

As stated by Arnold (2020), inquiries alone are not sufficient RAPS and despite the COVID challenges, relevant audit work still had to be conducted by performing the required onsite observation and inspection procedures. However, these may have become impossible in the COVID-19 environment consequent to mandatory social distancing, travel restrictions and imposed quarantine periods (Luo, Malsch 2020).

## **2.6 Gathering Sufficient and Appropriate Audit Evidence**

Despite the COVID-19 audit challenges, auditors were nonetheless bound by ISA 500 to perform audit procedures to gather sufficient and appropriate audit evidence that enable them to form a reliable audit opinion (IAASB 2009b). However, the lack of first-hand audit evidence as a result of the strict COVID

measures, may have contributed to pronounced difficulties in the audit risk assessment process and in auditors' ability to challenge managements' assertions (Gong et al. 2022). In fact, below is a detailed explanation of how COVID-19 modified the different methods used to obtain audit evidence, focusing on those procedures which are typically physical in nature.

### **2.6.1 Inventory Verification**

In cases where attendance was not permitted as a result of the social distancing restrictions, web-based videoconferencing was used to be able to conduct an 'auditor first view' inventory observation (Arnold 2020). ACCA (2023c) further advised auditors to request clients to provide a clear view of the warehouse. Auditors could have also tested more items of inventory than usual and take screenshots during the inspection to enhance the collected evidence (Diab 2021, Al-Aamaedeh, Alhosban 2021).

Besides, video streams could be recorded by the audit team, such that one could review these videos more closely and as often as needed. Artificial intelligence (AI) tools such as 'AI picture recognition software' could also be used to verify quantities of inventories through snapshots (Appelbaum et al. 2020). Further, where earlier observations had been made, for example at an interim inventory count, or in cases where physical counts could be delayed, roll forward and roll back procedures were feasible to acquire evidence on inventory fluctuations between the date of the FS and the date of the count (ICAP 2020, ACCA 2023a, Diab 2021, Sian 2022).

Nonetheless, Gong et al. (2022) found that such alternative procedures could never match the comprehensiveness of in-person physical observations, where engagements with heightened levels of inventory experienced a higher decline in overall audit quality during COVID-19. Additionally, according to Sian (2022), the lack of physical verification led to increased audit risk in inventory valuation.

## **2.6.2 Property, Plant & Equipment Verification**

Auditors are also required to examine property, plant and equipment (PPE) to verify both existence as well as condition, to be able to determine the value of these assets. Same as with inventories, during COVID times, real-time video-streams for an 'auditor first view' observation were feasible (Appelbaum et al. 2020, Kashyap 2020). Several participants in Sian's study (2022) also highlighted the use of drones, especially in places difficult to reach.

## **2.6.3 Third Party Confirmations**

During COVID-19, auditors also tended to place higher reliance on obtaining confirmations from third parties, including banks, suppliers or customers (Dang Huy 2022). Akrimi (2021) emphasised that obtaining trade receivables' confirmations directly from consumers is in fact more trustworthy than if obtained from clients' records. However, Dang Huy (2022), and Luo and Malsch (2020) revealed their concern that since obtaining confirmations from third parties was done electronically during COVID-19, the time taken for receiving and responding was frequently lengthy.

## **2.6.4 Observation Procedures**

To corroborate auditors' inquiries with management and others within the entity, at risk assessment stage, auditors are required to perform observation procedures on clients' operations, such as observation of clients' control processes, through visiting clients' premises and plant facilities (ECA 2022).

However, as a result of the COVID-19 restrictions, auditors were not able to make extensive visits to clients, thus physical observation of clients' processes became much harder to conduct (Sharma et al. 2022, IRBA 2020). In a study carried out by Johnsson and Persson (2021), participants claimed that not being able to visit clients' premises was in fact the biggest challenge as through clients' visits, auditors would be able to connect with several people such as salespersons, who

could provide valuable information of revenue streams. As stated by one of the respondents in Johnsson and Persson's (2021) study *"To be at place and see the customer's business, is a critical aspect."* (p. 34)

### **2.6.5 Interviews**

The COVID-19 restrictions changed the way auditors inquire with their clients and communicate with the audit team, resulting in major disruptions to face-to-face communication and a huge push to video conferencing tools including Microsoft Teams, Skype and Zoom (Luo, Malsch 2020, Appelbaum et al. 2020).

Nonetheless, despite the change, Mugabe et al. (2021) and EY (2021a) found that the use of digital communication platforms greatly improved communication, so much so that the audit engagement was not significantly impacted by the absence of in-person meetings. In fact, according to Sian (2022) and Johnsson and Persson (2021), the move to virtual meetings ensued heightened levels of communication and inquiries as both audit team members and clients needed further support and motivation during COVID times. Luo and Malsch (2020) further found that meetings were more structured and directed to the issues addressed, resulting in more time-efficient communication with clients.

Nonetheless, auditors had to be aware of certain limitations to video conferencing, such that it was difficult to interpret information through body language (Johnsson, Persson 2021). Reduced eye-to-eye contact, together with increased difficulty to pick up non-verbal and emotional cues made it tough for auditors to gain an intuitive grasp of individuals (Appelbaum et al 2020, Sian 2022). It may have been especially challenging in relation to new clients, leading to loss of knowledge about clients' businesses in certain instances (Johnsson, Persson 2021). In some cases, it was also difficult to keep track of audit team members' progress and quality of work, to provide coaching and to gain adequate access to client personnel (Dang Huy 2022).

## 2.6.6 Document Collection

Accessing clients' records during the health crisis was also challenging for auditors, especially those reports which are paper-based, or which require to be signed physically at clients' premises (Kaka 2021). In these situations, auditors had to rely on copies of records and on documents sent electronically through the use of different file sharing platforms (Dang Huy 2022, AICPA 2020). Nonetheless, the investment in technological tools such as AI, including cloud-based accounting software, has in fact resulted in a more effective document collection process as evidence could be gathered quickly in real time (Sharma et al. 2022). Consequently, the quality of the risk assessment process was not compromised as documents could still be shared digitally for inspection. However according to Sian (2022) problems occurred when clients refused to grant auditors unfettered access as they lacked fully digitalised systems or were worried about data security. Litzenberg et al. (2020) further highlighted heightened delays in receiving documents from clients as it took significantly more time for clients to upload everything to file sharing platforms as opposed to physical access.

As auditors had to rely on digital inspection of documentation, concerns also emerged regarding the authenticity of digitised documents. Henceforth, additional procedures had to be carried out to test the credibility of the data sources used (PCAOB 2020, Sharma et al. 2022). In some instances, it was necessary to forensically examine documents or watch clients extract data such as in relation to bank statements, to closely monitor clients' actions (Sian 2022, Appelbaum et al. 2020).

Overall, Mugabe et al. (2022)'s study highlighted that although significant challenges were encountered when gathering audit evidence, they were able to work around these difficulties and still perform high quality audits and RAPS.

## **2.7 Lessons Learnt from COVID-19: Adaptations and Improvements for a post-COVID world**

As outlined in the previous sections, the COVID-19 pandemic brought about innovative methods for conducting a yet effective audit risk assessment (Careers in Audit [CIA] 2022). Any lessons learnt during the social distancing enforcements will surely be carried forward as audit firms constantly concentrate on improving the audit process (Barr 2022).

### **2.7.1 Audit Risk Assessment: Greater Dependence**

Klasson and Knuttson (2021) and CIA (2022) concluded that risk assessments will become even more crucial in the future, highlighting their ongoing value throughout the audit rather than just a step at the beginning of an audit, even in a stable environment. Auditors' heightened awareness of risks will be kept in mind in a post-pandemic world, where the emphasis on GC will uphold its current status even after the pandemic, citing a newly discovered awareness of its significance. Besides, a research conducted in New Zealand suggests that given their increased focus during COVID-19, post-pandemic, auditors shall have heightened responsibility for fraud and increased reporting on internal controls (Hay et al. 2021).

COVID-19 has taught professionals to focus their audits on risk. Organisations with strong administrations will take advantage of all the weaknesses uncovered in the COVID environment and develop powerful audit strategies that involve in-depth risk assessments (Hazaea et al. 2022).

### **2.7.2 Further Adoption of Virtual Auditing**

Although remote auditing did not emerge specifically due to the social restrictions caused by COVID-19, its adoption was surely accelerated (Muskett 2020). A study carried out in 2020 found that 61% of 23 audit firms plan to conduct most of their audits remotely in the future. However, that same question asked prior to

COVID-19 resulted in only an inferior 17% (Ovaska, Murphy 2022). This is confirmed by Serag and Daoud (2023) who suggest that performing audit risk assessments remotely, will remain popular in the years to come due to financial and time gains attributed to remote auditing. Additionally, Farcane et al. (2023) revealed that Romanian auditors discovered an improved efficiency in the performance of RAPS when conducted remotely, asserting that they could still apply heightened professional scepticism.

Nonetheless, certain audit procedures, namely inspection of assets such as PPE and inventory, are still not commonly adopted remotely as Miller Kaplan (2023) stresses that the utilisation of drones and security cameras are not enough to verify condition of inventory as onsite and in-person procedures are preferred. Conversely, Sian (2022) claims that roll-forward and roll-back procedures used during COVID-19 could still be utilised even though government restrictions were eased, since these proved to be an effective alternative. Wilson in Ovaska and Murphy (2022) further states that whilst maintaining client relationships by working at clients' offices during risk assessments is important, clients portray this as hinderance as they usually do not like auditors within their offices. All in all, Farcane et al. (2023) stresses that the future of the audit risk assessment is not just about virtual auditing but rather using the right tools and leveraging technologies to accomplish a more efficient audit.

### **2.7.3 Further Utilisation of Advanced Technological Tools**

In a post-COVID world, the new technological tools adopted during COVID-19, such as electronic document storage, cloud-based accounting software and video conferencing tools continue to be useful for auditors to conduct their procedures (EY 2021b, Mitchell 2021). Whilst including technological tools within the audit risk assessment is surely a hefty expense for audit firms, this is a worthwhile investment, assures Sharma et al. (2022), as by time the benefits from these investments will outweigh the costs.

As the risk assessment process becomes more receptive to new technologies, the audit process will be streamlined, leading to future RAPS that are more effective (Barr 2022). Making use of satellites, sensors and the cloud, real-time client monitoring is now possible. This could shorten or eliminate the time taken for an external or internal event including an accident or a non-compliance to be discovered (Castka, Searcy 2023). Digitisation within the audit risk assessment by audit firms is pivotal in the future, Deloitte (2023) explain, as converting documents from hard to soft copies allow for real-time access to clients' documentation where week-long clients' visits could be reduced and only prioritised when they matter most. Sharma et al. (2022) further contended that blockchain and AI technologies enabled improved review of data at risk assessment stage at previously unreachable quantities and speed.

## **2.8 Conclusion**

This chapter examined in detail existing literature pertinent to the topic of study. In line with the research objectives outlined in Chapter 1, this chapter sought to determine the implications of COVID-19 on the process of identifying and assessing risks within auditing and whether any modifications were made to the RAPS and the way audit evidence is gathered. This chapter then concluded on how the audit risk assessment process is anticipated to continue to evolve post pandemic. The next chapter presents the research methodology adopted for this study.

# Chapter 3

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## *RESEARCH METHODOLOGY*

## 3.1 Introduction

This chapter portrays and justifies the research methodology applied in this study. Figure 3.1 hereunder outlines the main segments of this chapter.

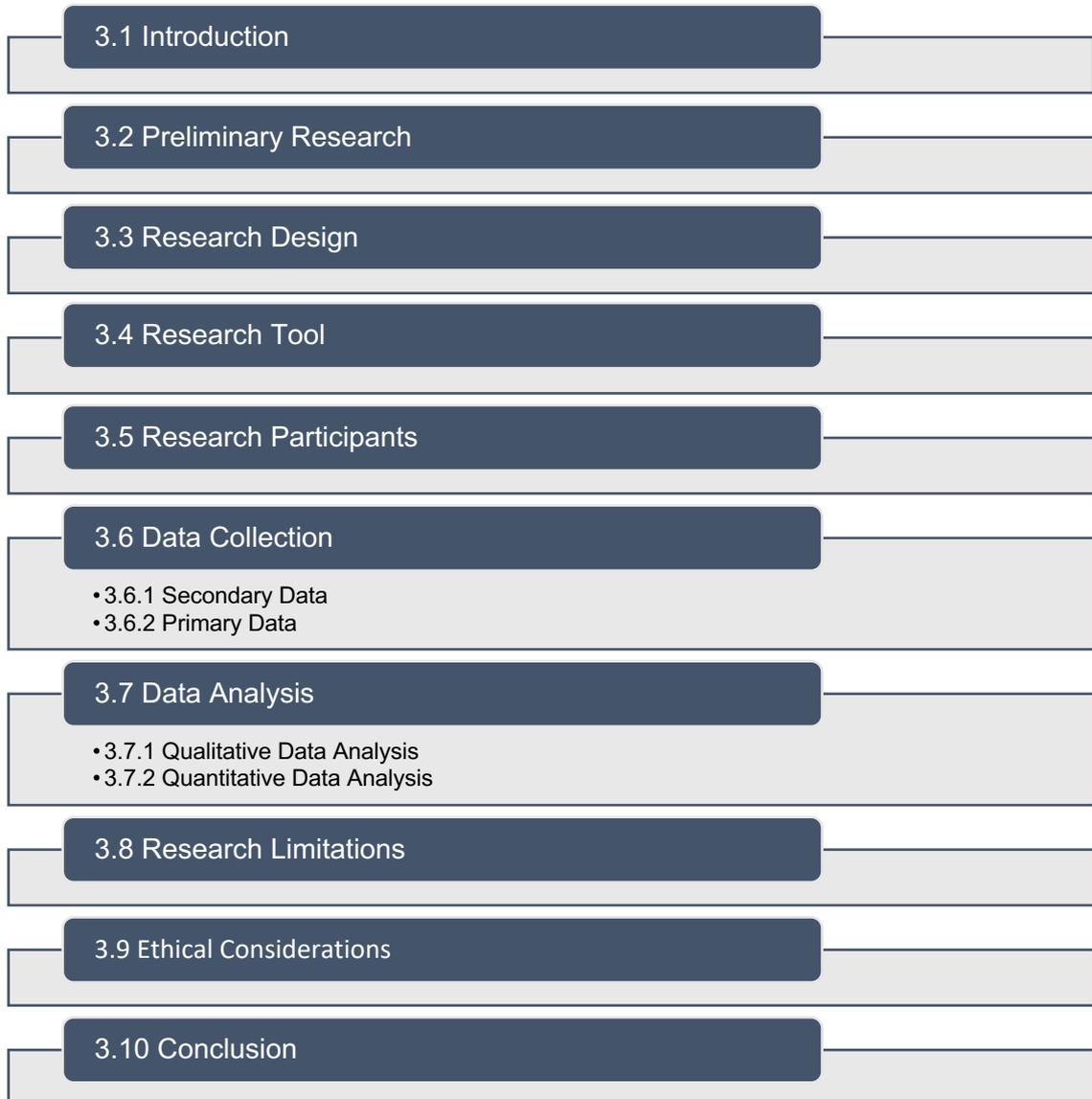


Figure 3.1: Outline of Chapter 3

## 3.2 Preliminary Research

Relevant international literature was thoroughly examined upon initiation of the study to clearly comprehend the research area. Literature sources were primarily made up of peer-reviewed academic papers and journal articles, past dissertations, reports, books and websites. Local literature pertaining to this topic was also referred to but was found to be limited due to the scarcity of Maltese studies on the subject under examination. Hence, more emphasis was made on foreign literature.

Additionally, to ascertain the relevance and feasibility of the study, preliminary deliberations with academics from the University of Malta and professionals in the field of accountancy were conducted. Once it was established that the study is feasible, given the available resources and time, the research title and objectives were formulated.

## 3.3 Research Design

In gathering primary data, the researcher can choose from three main research designs: qualitative, quantitative or the mixed-methods research design (Saunders et al. 2012). A hallmark of qualitative research is the researcher's capacity to capture and communicate participants' experiences through interviewing using open-ended questions (Yilmaz 2013). Conversely, quantitative research refers to research that analyses numerical data using mathematically based techniques, particularly statistical analysis, in order to understand a particular phenomenon. It requires the researcher to utilise standardised response categories in which the participants' perspectives are expected to fit, i.e. involving the use of close-ended questions (Creswell, Creswell 2017).

On the other hand, a mixed-methods approach refers to:

*“An approach to research in the social, behavioral, and health sciences in which the investigator gathers both quantitative (closed-ended) and qualitative (open-ended) data, integrates the two, and then*

*draws interpretations based on the combined strengths of both sets of data to understand research problems”*

(Creswell 2014, p. 19)

It was concluded that the mixed-methods approach is the most suitable research design for the study with higher emphasis being placed on qualitative research as *“using only one method may be insufficient because of the inherent weaknesses of each approach”* (Creswell 2014, p.31). Quantitative research fails to adequately investigate individuals’ personal ideas on the research topic whilst qualitative research does not enable us to generalise as it is quantitative research that facilitates comparison through statistical analysis (Yilmaz 2013). As outlined by Rutberg and Bouikidis (2018), the mixed-methods approach offers enhanced variability enabling researchers to be more confident of the legitimacy of their findings because of the multiple data types supporting the research questions.

### **3.4 Research Tool**

In light of the study’s objectives, semi-structured interviews were deemed to be the most appropriate and effective research tool due to the flexibility and accessibility it offers. Such research tool allows the interviewer to adjust the pace, style and arrangement of questions accordingly so as to elicit the richest responses from interviewees (Rowley 2012) Yet, a detailed interview schedule was used guided by identified themes with questions that must be covered. Henceforth, given that the same questions were asked to all interviewees, the data acquired is comparable and may be transformed numerically for statistical analysis (McIntosh, Morse 2015). Besides, depending on the interviewees’ response, probing was also used. This was either planned after the main questions or spontaneously throughout the interview, either for further clarification or for completeness so as to elicit more elaborate and complete responses (Harrel, Bradley 2009).

The structure of the interview schedule prepared for the study is presented in Table 3.1. This was divided into different sections, showing the link to the respective research objectives.

Section Heading	Question Numbers	Addressing Objective
<b>Section A:</b> Auditors' Identification and Assessment of Risks	1-3	1
<b>Section B:</b> Determinants for a High-Quality Risk Assessment	4-7	1
<b>Section C:</b> Risk Assessment Procedures	8-10	2
<b>Section D:</b> Sufficient and Appropriate Audit Evidence	11	3
<b>Section E:</b> Way Forward: Lessons Learnt from COVID-19	12-16	4

*Table 3.1: Interview Schedule Structure*

The interview schedule included both close-ended and open-ended questions. Each section of the interview scheduled has been organised into open-ended and close-ended questions in Table 3.2. With regards to the close-ended questions, Table 3.3 portrays the two different 5-point Likert Scale forms which were utilised. Table 3.4 then depicts the questions applicable to each of the Likert scales forms.

Question Type	Section	Question Number
<b>Open-ended Questions</b>	Section A	1, 3, 3a
	Section B	4
	Section C	8, 9
	Section D	11
	Section E	13, 14, 15
<b>Close-ended Questions</b>	Section A	2
	Section B	5, 6, 6a, 7
	Section C	10
	Section D	-
	Section E	12, 16

*Table 3.2: Distinction between open-ended and close-ended questions*

Likert Scale Response – Form 1	Likert Scale Response – Form 2	Scale
Not Important	Strongly Disagree	1
Slightly Important	Disagree	2
Moderately Important	Neutral	3
Very Important	Agree	4
Extremely Important	Strongly Agree	5

*Table 3.3: Likert Scales Forms*

Applicable Likert Scale	Close-ended Question Number
Likert Scale Form 1	5, 10
Likert Scale Form 2	2, 6, 6a, 7, 12, 16

*Table 3.4: Questions utilising each Likert Scale*

### 3.5 Research Participants

A fundamental step in a research study is to correctly recognise the target population in accordance with the research objectives (Saunders et al. 2012). The target population of this study consisted of audit firms in Malta. As of 18<sup>th</sup> April 2023, according to the Accountancy Board, there are 125 registered audit firms in Malta (Accountancy Board 2023).

Purposive sampling was applied, and the sample consisted of the most prominent audit firms in Malta; including the Big Four and other mid-tier audit firms. Purposive sampling is a non-probability sampling method where the selection of interviewees is based on virtue of knowledge, i.e. the researcher tries to select the most proficient, well-informed individuals on the topic being investigated with the aim to meet the research objectives, not excluding the importance of availability and readiness to participate (Etikan et al. 2016). The researcher tried to obtain reliable information by contacting high ranking representatives from the different audit firms, having extensive knowledge on the research topic. In fact,

as can be seen in Table 3.5, all auditors interviewed were either audit partners or managers.

The exact number of interviews was not pre-set, as data collection halted once data saturation was reached, that is after conducting fifteen interviews. Data saturation is defined as “*information redundancy*” (Braun, Clarke 2019, p.1) referring to the point where obtaining fresh information is not feasible (Fusch, Ness 2015).

Interview	Type of Audit Firm	Audit Staff Rank
1	Big Four	Audit Partner
2	Big Four	Audit Manager
3	Big Four	Audit Director
4	Big Four	Audit Partner
5	Mid-Tier	Audit Manager
6	Mid-Tier	Audit Director
7	Mid-Tier	Audit Manager
8	Mid-Tier	Audit Partner
9	Mid-Tier	Audit Partner
10	Mid-Tier	Audit Partner
11	Mid-Tier	Audit Manager
12	Mid-Tier	Audit Partner
13	Mid-Tier	Audit Manager
14	Mid-Tier	Audit Partner
15	Mid-Tier	Audit Partner

*Table 3.5: Research Participants*

To contact the potential interviewees, email addresses were acquired from the respective firms' websites. The email invited potential interviewees to participate in this study. The email's authenticity was enhanced as a '*Letter of Introduction and Invitation to Participate in Research*' signed by the Head of Department of Accountancy was attached. Potential interview candidates who did not respond within one week were sent an email reminder, and if no response was obtained,

a phone call attempt was made. Despite some efforts, a few prospective interviewees were unreachable.

## **3.6 Data Collection**

According to Harrel and Bradley (2009) the “*accuracy, validity and reliability of research findings*” (p. 2) are enriched when the suitable data collection method is applied, leading to high-quality research. For this study, both secondary and primary data were used in investigating the subject matter.

### **3.6.1 Secondary Data**

In light of the research objectives, secondary data was gathered by making use of a variety of sources; including reputable online journals, academic publications, research papers and past dissertations. This was thoroughly analysed and subsequently presented in Chapter 2 of this study. Secondary data was subsequently used to formulate the interview schedule.

### **3.6.2 Primary Data**

Interviews were conducted between November 2022 and February 2023 at a time, date and meeting platform or location most convenient for interviewees. All interviewees had the choice of having the interview conducted in person or virtually over a video conference call. 7 out of 15 interviews were carried out in-person with the rest being conducted virtually. In the case of virtual interviews, cameras were constantly switched on to capture the interviewees’ facial expressions. Interviews lasted between 40 to 90 minutes depending on the discussion offered by participants.

## **3.7 Data Analysis**

The researcher transformed the data collected into an analysable form by transcribing the audio recordings of all interviews. These transcripts made it

simpler to comprehend and become familiar with the data collected, facilitating data analysis.

### 3.7.1 Qualitative Data Analysis

Qualitative data was assembled through the open-ended questions comprised in the interview schedule and any additional annotations provided following respondents' ratings to the Likert Scale questions.

In analysing the collected qualitative data, thematic analysis was embraced. Thematic analysis is defined as a “*method for identifying, organising, analysing and interpreting patterns of meaning (themes) within qualitative data*” (Clarke, Braun 2016, p.297). Multiple codes were generated for concepts which were mentioned by most of the participants. At this point certain regularities and patterns began to show up in the data. Analysis then started to take shape by sorting and grouping all the potentially relevant coded data extracts into themes and subthemes in line with the research objectives (Nowell et al. 2017). This process facilitated the formulation of Chapter 4 of the dissertation.

In order to prevent the identification of participants and their respective firms to safeguard confidentiality, codes were also given to interviewees in the manner illustrated in Table 3.6.

Interviewees	Firm Size	Code
1- 4	Big Four	B1 to B4
5-14	Mid-Tier Audit Firms	M1 to M10

Table 3.6: Interviewees Codes

### 3.7.2 Quantitative Data Analysis

Quantitative data was compiled from the interview schedule's close-ended questions. Subsequently, IBM SPSS software was used to scrutinise the quantitative data.

The **Wilcoxon Signed Ranks test** was used to compare the mean rating scores provided to a number of statements before and during COVID-19 as shown in Q10 and to compare the mean rating scores to Q6 between normal circumstances and uncertain circumstances like COVID-19. The mean rating scores range from 1 to 5, where 1 corresponds to Not Important/Strongly Disagree and 5 corresponds to Extremely Important/Strongly Agree. The **null hypothesis** ( $H_0$ ) specifies that the mean rating scores vary marginally between the two phases and is accepted if the  $p$ -value exceeds the 0.05 level of significance. The **alternative hypothesis** ( $H_1$ ) specifies that the mean rating scores vary significantly between the two phases and is accepted if the  $p$ -value is smaller than the 0.05 criterion.

The **Mann Whitney test** was used to compare mean rating scores between two types of audit firms (Big 4, Mid-Tier) for Q.7 and Q.16. The mean rating scores vary from 1 to 5, where 1 corresponds to Strongly Disagree and 5 corresponds to Strongly Agree. The **null hypothesis** ( $H_0$ ) specifies that the mean rating scores vary marginally between the two firm types and is accepted if the  $p$ -value exceeds the 0.05 level of significance. The **alternative hypothesis** ( $H_1$ ) specifies that the mean rating scores vary significantly between the two firm types and is accepted if the  $p$ -value is less than the 0.05 criterion.

**Frequency Tables** were also used for the other Likert scale questions to show the distribution of observations based on the options in a variable. This was helpful to determine which options occur less or more often in a dataset. Data in frequency tables was then extrapolated into pie-charts.

### 3.8 Research Limitations

In completing this study, the researcher came across the following limitations:

- i) The participants interviewed in the study all have their personal views and experiences and therefore, the results can be subjective or biased.

- ii) Participants might have been hesitant to disclose all their expertise with the researcher in an effort to remain loyal to the companies they represent.
- iii) Minor discrepancies were found between the respondents' Likert scale ratings and their justification, and the responses to the open-ended questions. This limitation was mitigated by revisiting the Likert scale ratings if replies to other questions counter-act the rating.

### **3.9 Ethical Considerations**

In October 2022, the researcher submitted the Research Ethics and Data Protection form together with all required documents for assessment and approval. Following approval, upon acceptance to participate, interviewees were forwarded a copy of the interview schedule and were obliged to sign a consent form authorising the researcher to use their responses for the purpose of this study. It was made clear that they had the option to refuse answering any questions and can withdraw from participating at any moment. Confidentiality was adhered to as the anonymity of the interviewees was protected throughout the whole process.

Additionally, before each interview, consent of all participants was obtained to record the session for the purpose of the transcript. None of the interviewees objected. Following transcription, all interview recordings were destroyed, and transcriptions were confidentially stored in password-protected documents. Finally, data collected will be annihilated upon completion of the study, ensuring that it was solely used for the purpose of the study.

### **3.10 Conclusion**

This Chapter outlined and validated the research methodology chosen for the study. The next Chapter presents the research findings gathered from the fifteen interviews conducted.

# Chapter 4

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## *RESEARCH FINDINGS*

## **4.1 Introduction**

This chapter presents in detail the research findings attained from the fifteen semi-structured interviews. As indicated in Section 3.7.1, interviewees are referred to according to the code outlined in Table 3.6. Figure 4.1 outlines this chapter:

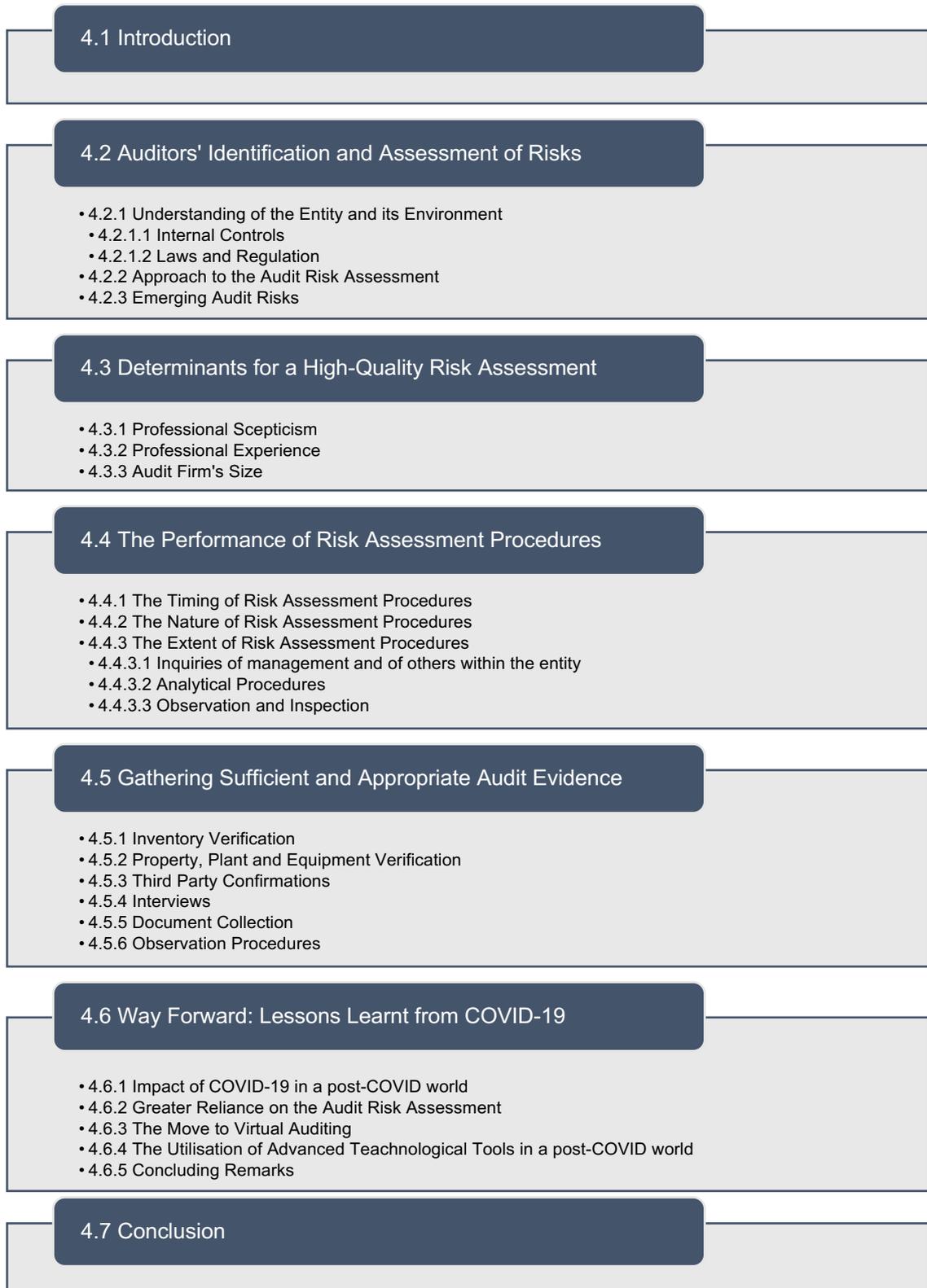


Figure 4.1: Outline of Chapter 4

## 4.2 Auditors' Identification and Assessment of Risks

Section A of the interview schedule sought to investigate how COVID-19 altered auditors' identification and assessment of risks, addressing the first research objective.

### 4.2.1 Understanding of the Entity and its Environment

The opening question asked interviewees whether they noticed a higher audit risk because of changes in their understanding of the entity and its environment during COVID-19.

The majority of respondents<sup>(9/15)</sup> claimed that prior to COVID-19, auditors' understanding of the entity and its environment was typically a confirmation of the previous year's understanding but the drastically altered environment caused significant changes to entities' operations. Interviewee M5 emphasised that *"obtaining an understanding of the client took a higher level."*

Besides, some respondents<sup>(8/15)</sup> noted that the impact varied from client to client and from one industry to another. Interviewee M4 highlighted how COVID-19 impacted positively some gaming clients, as people were spending less and resorted to playing more online games, and also shipping clients as higher fees were charged by the shipping industry. Nonetheless, most of these interviewees<sup>(6/8)</sup> highlighted how COVID-19 negatively impacted the hospitality and tourism industry with Interviewee M3 emphasising how lack of tourism in Malta negatively affected souvenir shops, language schools and those clients in the conference business.

#### 4.2.1.1 Internal Controls

The majority of respondents discussed<sup>(8/15)</sup> how most companies were not geared to have online systems, leading to a heightened risk of breakdown in internal

controls. Interviewee B1 explained that although some clients had robust controls where everything was verified and manually signed, once COVID-19 struck, their controls broke down and it took the company months to start redesigning and rethinking remote controls. In addition, a few respondents<sup>(4/8)</sup> mentioned that certain control procedures could not be carried out as businesses encountered staff shortages. Respondents claimed that as a result, they took a stricter approach to monitoring control procedures and recognised internal controls as an area of focus in their audit risk assessment.

#### **4.2.1.2 Laws and Regulation**

Some respondents<sup>(4/15)</sup> mentioned an increased audit risk in relation to NOCLAR, as a result of changes to both general regulations and also those specific to the gaming or financial services industry. Interviewee M11 also mentioned the risk of clients, such as restaurants, not adhering to COVID-19 regulations despite government and health authorities' enforcement efforts.

### **4.2.2 Approach to the Audit Risk Assessment**

Respondents were subsequently asked to rate their extent of agreement that taking *“a same as last year approach to audit planning and risk assessment”* (Murphy 2020, p. 1) was not an effective strategy during COVID-19.

With reference to the frequency table found in Appendix 2 which has been extrapolated in the pie chart in Figure 4.2, the majority of respondents<sup>(9/15)</sup> strongly agreed with the statement as they believe that information from prior year audits became outdated, necessitating a thorough reassessment of risks to reflect the changing environment.

In addition, some respondents<sup>(5/15)</sup> claimed that they agreed but not strongly agreed because they think there needs to be some form of continuity, in the sense that the prior year audit would serve as a good foundation for where the current year audit's focus should be. Lastly, one respondent disagreed stating that *“one*

shouldn't dismiss the previous year's understanding as the prior year's risk assessment would have been reviewed by the higher audit staff."

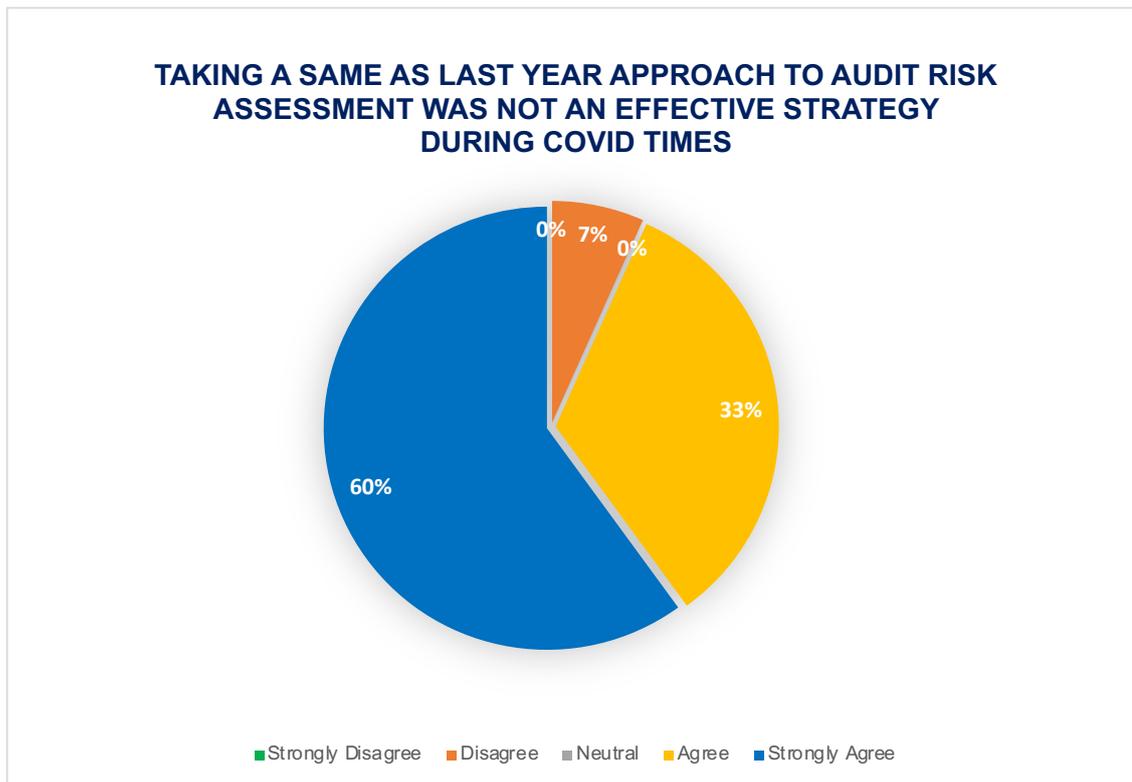


Figure 4.2: Approach to the Audit Risk Assessment (Q.2)

### 4.2.3 Emerging Audit Risks

Respondents were subsequently asked to describe in detail any emerging audit risks or audit risks which became more significant as a result of the COVID-19 uncertainties.

The majority of respondents<sup>(9/15)</sup> remarked that the biggest risk that came about because of COVID-19 was **GC**. Interviewee M1 explained that it was particularly challenging to determine how long could companies survive in this situation; with closed doors, receiving government support. Some interviewees<sup>(4/9)</sup> highlighted instances where they had to include an '*emphasis of matter paragraph*' or '*material uncertainty related to GC paragraphs*' within the audit report.

Another area mentioned by respondents<sup>(9/15)</sup> as high audit risk is **impairment of assets**, including intangible assets, investments and PPE. Respondents claimed that they had to consider whether the estimated useful life was still accurate and hence whether impairment or provisioning was necessary. Additionally, some respondents<sup>(5/9)</sup> working on banking clients highlighted increased audit risk surrounding the ECL framework for the recognition of impairment of financial instruments. The ECL calculation was based on the economic environment prior to COVID-19, hence it had to be altered. Interviewee B2 argued how the 30-day/90-day rebuttable presumptions could not continue to be used.

Another high-risk area highlighted by several auditors<sup>(5/15)</sup> interviewed was **valuation of assets**, especially those carried at FV. Interviewee B3 emphasised that because many valuation models are based on projected cashflows, those projected cashflows became completely superseded which caused the discount rate to be increased as the risk grew. Additionally, due to the issue of stock obsolescence brought on by lower sales and the fact that attendance at stock counts was forbidden, many respondents<sup>(6/15)</sup> mentioned inventory valuation as posing a higher audit risk.

A few respondents<sup>(3/15)</sup> also mentioned an elevated audit risk in relation to **leases**, since in certain instances the terms of the lease had altered, such as a decrease in the rental amount, which affected lease recognition. Some respondents<sup>(4/15)</sup> further mentioned higher audit risk related to the **wage supplements provided by the government**. Interviewee M4 stated that they had to learn how it should be accounted for as it was novel to everyone. Interviewee M10 added that clients' false beliefs that supplements were tax-free continued to raise audit risk in this regard.

Some respondents<sup>(4/15)</sup> further highlighted the need to lower **materiality** levels at risk assessment stage as they base materiality on turnover and if turnover was lower, then materiality had to be decreased. Others<sup>(3/15)</sup> explained that they only lowered performance materiality with respect to those classes of transactions which they felt COVID-19 had a significant impact on.

Elevated audit work in relation to **subsequent events** was also mentioned by most respondents<sub>(10/15)</sub> due to an added complexity so as to ensure disclosures in the FS were capturing the COVID-19 situation at the time. Most of these auditors<sub>(7/10)</sub> claimed that it was especially challenging in 2020 when they were looking at year-end 2019 as it was difficult for both management to quantify the impact of COVID-19 on their business and also for auditors to challenge whether there were GC issues and whether it was an adjusting or a non-adjusting event.

Several respondents<sub>(9/15)</sub> claimed that they also increased audit risk in terms of **fraud** due to increased risk of management override on key controls. Interviewees M3 and B2 asserted that lack of segregation of duties as a result of workers layoffs in most businesses led to increased fraud risk as they encountered instances where “*one person was collecting cash, depositing it and reconciling it.*” Moreover, some interviewees<sub>(5/9)</sub> mentioned that the COVID-19 supplements issued by government were also a potential area for fraud threats if companies manipulated related figures.

Auditors were subsequently asked to explain which **FS line items** required more audit work during COVID-19 and hence made risk assessments more demanding. A number of respondents<sub>(8/15)</sub> claimed that due to liquidity concerns, debts such as trade **receivables** or loans were taking longer to be settled therefore auditors needed to understand what had to be impaired and recovered. A few respondents<sub>(3/15)</sub> claimed that audit work was also heightened in relation to **payables** since a build-up of payables could impact the company in terms of litigation, disputes, and the provision of goods by key suppliers. Lastly, respondents<sub>(6/15)</sub> expressed elevated audit work in relation to **revenue** as management may try to show a better picture in the FS due to increased pressures to meet covenants or certain targets for the sake of their stakeholders.

## 4.3 Determinants for a High-Quality Risk Assessment

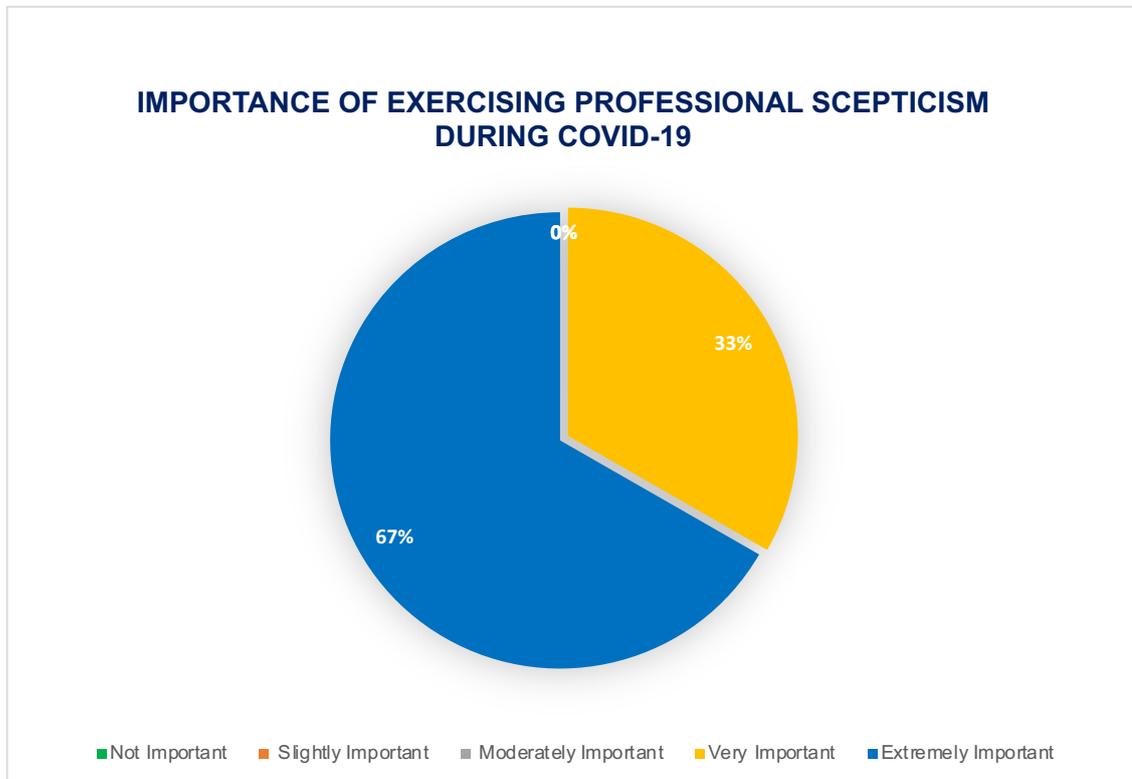
There are numerous aspects which stimulate the quality of the risk identification process and Section E of the interview schedule sought to investigate how these aspects may have become more crucial in the COVID-19 environment. This section also aims to address the first research objective.

### 4.3.1 Professional Scepticism

Respondents were asked whether they thought audit staff at their firm had the appropriate level of professional scepticism to perform high quality risk assessments during uncertain times.

A significant portion of respondents<sub>(7/15)</sub> argued that the degree to which audit staff are professionally sceptic varies by grade. In fact, four of these interviewees<sub>(4/7)</sub> highlighted that during COVID-19 they elevated the involvement of the higher grade staff in the audit risk assessment due to their better ability to challenge and question assertions. Interviewee M6 further asserted that they do not give the audit risk assessment to junior staff in general as they “*may fall into the trap of simply asking a question, receiving an answer and putting it on file.*”

Respondents were subsequently asked to rate the importance of exercising professional scepticism during COVID-19. With reference to Figure 4.3, participants had quite a positive response as 33% of respondents considered professional scepticism as ‘*Very Important*’ whilst 67% believed it is ‘*Extremely Important*’.



*Figure 4.3: The Importance of Professional Scepticism during COVID-19 (Q.5)*

The majority of respondents<sup>(8/15)</sup> claimed that to challenge the increased audit risks brought forward by the health crisis, auditors had to be more sceptical when assessing businesses' future outlook and management's assessment on the company's internal and external risks. Interviewee M3 added that it was crucial to "*not take things at face value and come up with innovative ideas to validate the information that the client has provided*". Interviewee B1 further claimed that auditors professional scepticism was especially enhanced when tackling GC and provisions for writedowns on PPE, inventory and trade receivables.

### **4.3.2 Professional Experience**

The Wilcoxon Signed Ranks Test was used to determine the degree to which professional experience enables auditors to improve the accuracy of their risk assessment. Table 4.1 demonstrates that the rating score provided decreased from "*on normal circumstances*" to "*during uncertain conditions*," leading to an

apparent lower mean. The  $p$ -value, however, exceeds the 0.05 level of significance, showing that the difference between the mean rating scores was not significant. This may be because, although a number of respondents downgraded their rating, the change in rating was negligible (from a 5 to a 4), indicating that professional experience was still helpful in performing risk assessments during COVID-19. In addition, the majority of respondents provided the same rating score for both scenarios.

#### Wilcoxon Signed Ranks Test (Q6 & 6a)

		Mean	Std. Dev.	P-value
<i>To what extent do you agree that high level of professional experience tends to help auditors to come to reliable conclusions faster, are less likely to be implicated in audit failure and hence their risk assessment will be more accurate?</i>	On normal circumstance	4.87	0.352	0.180
	During uncertain conditions	4.67	0.488	

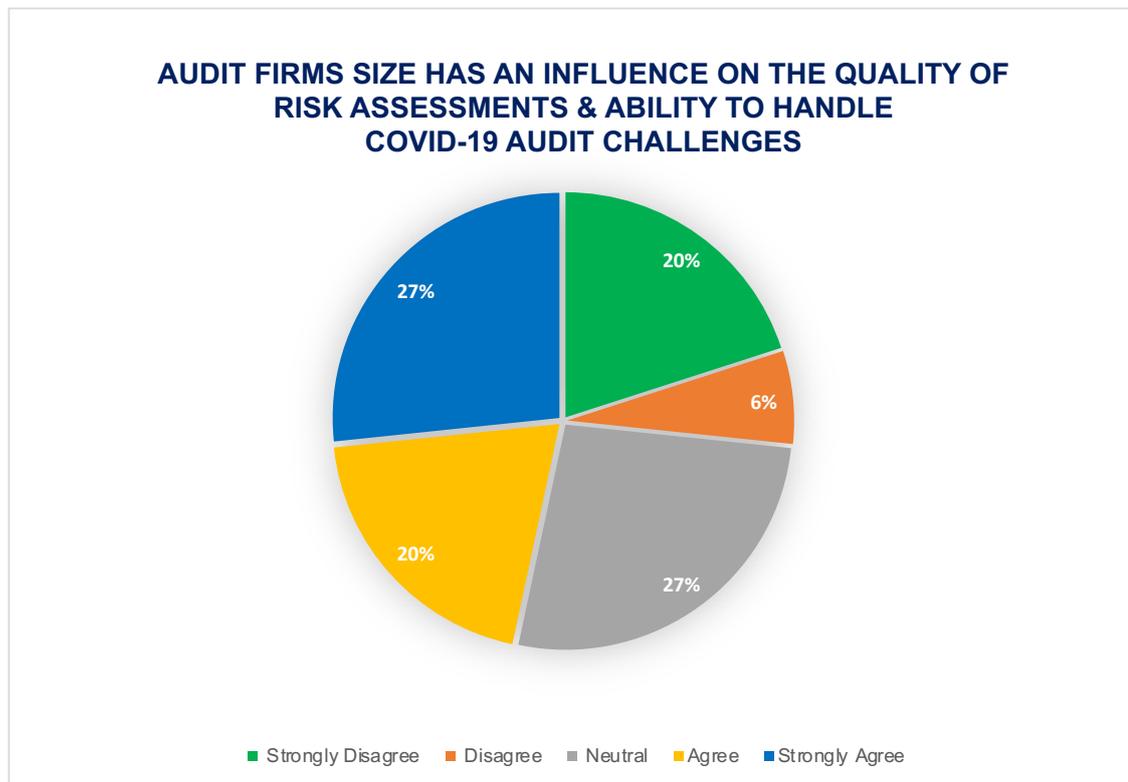
Table 4.1: Significance of Professional Experience (Q.6 & 6a)

Those respondents<sub>(10/15)</sub> who provided the same rating score believe that the wider the experience, the better the risk assessment capabilities and the quicker an auditor would pick up certain crucial elements. Some respondents<sub>(4/10)</sub> pointed out how experience helps in dealing with different scenarios. Reference was made to the Libya crisis in the early 2010s whereby Maltese businesses were heavily impacted due to their close connections with Libya, hence previous experience in these uncertain conditions came in handy when dealing with COVID-19.

Other respondents<sub>(5/15)</sub>, meanwhile, decreased their rating score. Interviewee M3 explained that professional experience might have caused seasoned auditors to draw the usual conclusions and assumptions. Interviewee M5 compliments M3 in that auditors' experience may cause them to ignore details that may appear minor but have significant ramifications.

### 4.3.3 Audit Firm's Size

Auditors were subsequently asked to rate their extent of agreement that audit firm's size has an influence on how well-prepared the firm was to handle the COVID-19 audit challenges. As can be observed in Figure 4.5 below, there were mixed views in this regard.



*Figure 4.4: Significance of Audit Firm's Size (Q.7)*

Some respondents (3/15 - Strongly Disagree, 1/15 - Disagree) disagreed, stating that as long as a firm has enough time and resources for the clients it has accepted, firm size does not matter. Interviewee M8 also commented that the quality of the risk assessment must be outstanding for both the Big Four and mid-tier audit firms as they are all subject to the same accounting standards and regulated by the Accountancy Board.

On the other hand, other respondents (4/15 - Strongly Agree, 3/15 - Agree) agreed that firm size was influential for a variety of reasons. A few respondents (2/15) asserted that

the bigger the size of the business, the greater the level of guidance received from the network of firms on how to handle the COVID-19 audit challenges. Some other respondents<sup>(3/15)</sup> claimed that firm size reflects the resources available to conduct risk assessments including the involvement of internal experts. Interviewee B1 further emphasised that large firms have more funds to invest in technology and in platforms to exchange documentation. Additionally, 27% of respondents<sup>(4/15 – Neutral)</sup> were neutral in this regard. Interviewee B2 further stated that “*Big firms were just in the dark as small firms when it came to adapting to COVID-19 audits.*”

In addition, utilising the **Mann Whitney Test**, an analysis was carried out on whether there is a significant difference in the rating scores provided between the Big Four and Mid-Tier audit firms. Table 4.2 illustrates how Mid-Tier firms provided lower rating scores in this regard, hence having a lower mean. However, the difference among rating scores is not significant as the *p*-value exceeds the 0.05 level of significance. From a qualitative point of view, firms may have been biased in this regard, as all large firms claimed that they have more specialisations, whilst some mid-tier firms claimed that although they are not as large as the Big Four, they still managed to perform high quality risk assessments during COVID-19.

#### Mann Whitney Test (Q.7)

	Audit Firm	Sample Size	Mean	Std. Dev.	P-value
<i>To what extent do you agree that audit firm's size has an influence on the quality of the audit risk assessment and on how well-prepared the firm is to handle the COVID-19 audit challenges?</i>	Big Four	4	4.25	0.957	0.138
	Mid-Tier	11	2.91	1.514	

Table 4.2: Significance of Audit Firm's Size - Big 4 vs Mid-Tier Audit Firms (Q.7)

## 4.4 The Performance of Risk Assessment Procedures

Section C of the interview schedule sought to evaluate any changes in the timing, nature and extent of the risk assessment procedures (RAPS) during COVID-19, addressing the second research objective.

### 4.4.1 The Timing of Risk Assessment Procedures

Interviewees were asked whether they adjusted the timing for the performance of certain RAPS. There were mixed views in this regard.

Some interviewees<sup>(5/15)</sup> claimed that given that more work had to be performed to include COVID-19 related considerations, they started performing RAPS at an earlier stage to still be able to meet the established audit timeframes. Four of these interviewees<sup>(4/5)</sup> stated that this was the case for clients, such as manufacturing companies or hotels, which were heavily impacted by the pandemic. Opposed to this, few respondents<sup>(3/15)</sup> claimed that RAPS were pushed a bit backwards until clients had a clearer understanding of the COVID-19 impact on their business.

In addition, several respondents<sup>(5/15)</sup> stated that RAPS had to be frequently revisited, demanding more follow-ups which persisted until the very end of the audit engagement. Interviewee M7 explained that *“The RAPS performed had to be continuously reassessed to consider new developments such as the introduction of government assistance.”*

Finally, a few respondents<sup>(2/15)</sup> explained that they did not feel the need to adjust the timing of the RAPS since procedures could still be carried out remotely if it was problematic to be performed physically.

## 4.4.2 The Nature of Risk Assessment Procedures

Interviewees were subsequently asked whether they effected any modifications in the format of the RAPS during the pandemic.

The majority of respondents<sub>(8/15)</sub> explained that the RAPS were performed more extensively, and more questioning had to be done on certain aspects. Some interviewees<sub>(3/8)</sub> commented that during COVID-19 they were referring to more information and documentation, for instance *“correspondence with banks and regulators to understand the kind of discussions going on.”* Other respondents<sub>(4/8)</sub> discussed that auditors had to delve deeper into clients' risks, focusing on what the client could be missing or any provisions which they did not account for. Interviewee B1 further claimed that they were inquiring about GC for each and every client with Interviewee B2 stating that they were requesting two different forecasts/budgets from clients, one considering COVID-19 and one without, so as to compare and challenge differences accordingly. In addition, a few respondents<sub>(2/8)</sub> explained that they were including qualitative aspects to their analytical reviews. Whereas before they used ratio analysis to comment on any trend movements, during COVID-19 they were highlighting for instance how the revenue dynamic had changed by splitting revenue according to service lines and examining any variances.

Finally, some respondents<sub>(2/15)</sub> commented that there were no modifications to their RAPS. Interviewee M4 emphasised that *“we have to follow a methodology; through the Accountancy Board, IFRS and also our audit manual. Nothing in the audit manual indicated that we should tailor downwards because of COVID-19.”* An interesting finding was that both of these respondents mentioned that their clients were not affected much by the outbreak; mainly gaming clients, shipping companies and clients in the payments' industry.

### 4.4.3 The Extent of Risk Assessment Procedures

Utilising the Wilcoxon Signed Ranks Test, the researcher was able to conduct an analysis on whether there is a significant difference in the usage of the distinctive RAPS between pre-COVID times and during the pandemic. Figure 4.7 shows that for inquiries and analytical procedures (AP), there was an increase in the rating score provided, hence having a higher mean, whilst for observation and inspection there was a decrease in the rating score provided. However, the differences among these mean rating scores were not significant because the  $p$ -value exceeded the 0.05 level of significance. This is because some respondents kept the same rating from pre COVID-19.

#### Wilcoxon Signed Ranks Test (Q10)

		Mean	Std. Dev.	P-value
How important is the following risk assessment procedure, in terms of its usage: <i>Making inquiries of management and of other appropriate individuals within the entity</i>	Pre COVID-19	4.33	0.724	0.206
	During COVID-19	4.60	0.737	
How important is the following risk assessment procedure, in terms of its usage: <i>Analytical Procedures</i>	Pre COVID-19	4.47	0.516	0.655
	During COVID-19	4.53	0.640	
How important is the following risk assessment procedure, in terms of its usage: <i>Observation and Inspection</i>	Pre COVID-19	4.20	0.676	0.454
	During COVID-19	4.00	1.000	

Table 4.3: The Use of Different Risk Assessment Procedures (Q.10)

#### 4.4.3.1 Inquiries of management and of others within the entity

From a qualitative standpoint, those respondents<sup>(6/15)</sup> which increased their rating score claimed that they were discussing with clients' management, with audit committees and with the boards of directors more extensively to get a better understanding of how COVID-19 was impacting businesses. Interviewee B4 asserted that "*for particular clients we were inquiring on a daily basis at risk assessment stage.*" On the other hand, interviewee M3 claimed that since observation and inspection were limited due to the COVID-19 restrictions; they increased the use of other RAPS, most especially inquiries with management. In

contrast, two auditors decreased their rating, claiming that it was more difficult to perform inquiries remotely.

For those interviewees who provided the same rating score<sup>(7/15)</sup>, this was attributed to the fact that ultimately, auditors can build up an understanding of clients by discussing with management and with the finance team, creating expectations on what they envisage to find in clients' FS.

#### **4.4.3.2 Analytical Procedures**

The majority of respondents<sup>(8/15)</sup> provided the same rating score claiming that AP remained crucial as they could highlight particular risks, such as fraud through a significant change in Gross Profit Margin. However, some respondents<sup>(4/8)</sup> mentioned that although AP were still consistently used during COVID-19, they provided less useful information. Interviewee B1 claimed that *"AP are relevant when you can observe a trend or any unusual transactions, but during the pandemic every FS line item was decreasing."* For this particular reason, a few respondents<sup>(2/15)</sup> decreased their rating.

On the other hand, some respondents<sup>(5/15)</sup> increased their rating claiming that during COVID-19 all RAPS had to be elevated due to higher risks. Some respondents<sup>(3/5)</sup> further stated that inquiries and observations were more difficult to perform remotely and hence they relied more on AP.

#### **4.4.3.3 Observation and Inspection**

Only a few respondents<sup>(3/15)</sup> increased their rating for observations and inspection. They believe that given the vast changes COVID-19 brought to businesses it was important to get a proper observation of how things were being operated and controlled. Furthermore, a large part of interviewees<sup>(6/15)</sup> provided the same rating score, emphasising that observation and inspection as RAPS are fundamental as relying solely on management replies is not sufficient; one must inspect and observe as necessary to assess assertions and audit risks.

An equivalent amount of interviewees<sup>(6/15)</sup> lowered their rating claiming that conducting these procedures remotely was not ideal as they missed any informal inspections they would have conducted by simply observing clients' day-to-day functions at their premises without their awareness.

## **4.5 Gathering Sufficient and Appropriate Audit Evidence**

This section explores how COVID-19 modified the ways audit evidence is gathered, most especially in respect to in-person procedures, in line with the third research objective. This section relates to Section D of the interview schedule.

### **4.5.1 Inventory Verification**

As highlighted earlier, one of the heightened audit risks during COVID-19 related to inventories. Hence a preliminary question addressed what alternative procedures were performed in cases where attendance at inventory counts was not permitted. A large part of respondents<sup>(8/15)</sup> claimed that in such cases video conferencing tools were used. Interviewee B2 stated that *"the warehouse manager would walk us through on a virtual call to verify that the items on our stock list were actually present."* In contrast, a few respondents<sup>(3/15)</sup> stated that instead they relied solely on the stock list provided by the client.

Some respondents<sup>(5/15)</sup> mentioned that when video calls did not provide the sufficient and appropriate evidence, inventory roll forward and roll back procedures were performed. Interviewee M1 stated that *"we looked at closing inventory for the prior year, examined purchases and sales and performed some AP to determine the inventory amount at year-end."* According to Interviewee B1 where onsite verifications were not feasible, emphasis was placed on AP focusing on the pricing they were applying and the stock turnover rate.

Regarding roll back procedures, a few respondents<sup>(4/15)</sup> mentioned that they were performing a stock check later when restrictions were eased and then work

backwards to arrive at the inventory amount at year-end. Two respondents also referred to other alternative procedures such as confirmations with CCTV.

### 4.5.2 Property, Plant and Equipment Verification

At risk assessment stage, PPE was also recognized as an area of higher audit risk during COVID-19. Hence, interviewees were probed to explain what alternative methods were used to verify the existence and condition of these assets.

Some respondents<sub>(4/15)</sub> claimed that virtual calls or photographs were used for inspection. However, the majority of respondents<sub>(7/15)</sub> mentioned other procedures such as a thorough inspection of the fixed asset register and looking into more detail at supporting documentation such as supporting invoices, delivery notes and proof of payments. Interviewee B1 and M7 stated that in certain instances they increased the sample of invoices obtained. Opposed, some interviewees<sub>(2/15)</sub> opined that valuation of PPE was more challenging than verifying its existence.

### 4.5.3 Third Party Confirmations

Respondents were also questioned whether greater reliance was placed on third party confirmations. Several respondents<sub>(6/15)</sub> claimed that they tried to push more on obtaining circularisation of payables, receivables and confirmations from banks. Interviewee M5 went on to explain that since they were unable to view original copies of specific documents or to conduct certain physical procedures because they required travel or being on site, they resorted to alternatives, some of which included confirmations from third parties.

However, the majority of respondents<sub>(9/15)</sub> stated that they always place significant reliance on third party evidence as auditors cannot simply accept management's assertions but need to look for contradictory audit evidence. Interviewee M9 stated that *"this is the best documentation one could have on file."*

### 4.5.4 Interviews

As mentioned earlier, one of the main RAPS is performing inquiries of management and of others within the entity. Hence, respondents were asked whether they encountered any difficulties in communicating with clients.

All respondents highlighted that during COVID-19 most interviews were conducted virtually due to a strong push to switch to Microsoft Teams and Zoom. Some respondents<sub>(4/15)</sub> claimed that they felt communication was improved as more meetings were actually being held with clients, eliminating travelling time which costs a lot of money. This could possibly be the result of clients being more available due to a slowdown in their business. Interviewee B4 further commented that *“thanks to technology, as an audit partner, I could still keep in touch and monitor my team on a timely basis.”*

On the other hand, a number of interviewees<sub>(6/15)</sub> remarked that it was much harder to address sensitive topics, like fraud, over a virtual conversation which further complicated the risk assessment. Respondents<sub>(7/15)</sub> argued that during COVID-19 they lost non-verbal communication as they could not assess body language which is quite an important factor on its own.

### 4.5.5 Document Collection

One vital step during the risk assessment is for auditors to inspect and observe relevant, internal and external, client documents and records. Hence, interviewees were subsequently asked whether there has been a change in the process of gathering information from clients and in obtaining confirmations from external sources.

All respondents claimed that there has been a shift away from original hardcopies in favour of soft copies. Some respondents<sub>(6/15)</sub> commented that documents were being transferred via email, WeTransfer or Google Drive and transferred to SharePoint. However, a large part of respondents<sub>(8/15)</sub> commented that they

resorted to live audit tools where clients were uploading everything on a cloud-based software. Some respondents<sup>(4/8)</sup> claimed that prior to COVID-19 they had already made this transition, nonetheless, Interviewee B2 stated that “*clients were reluctant to use it and would demand us to go to their premises and look for things there.*”

Despite the technological tools, Interviewee B1 explained that two specific clients did not have any documentation digitally stored, thus auditors were granted special authorization to visit premises. Also, according to two respondents, clients delivered documents to their office in sealed boxes, which were quarantined before being opened. Many respondents<sup>(7/15)</sup> highlighted delays in receiving the required paperwork from clients, particularly businesses who were seriously impacted.

With regards to confirmations from external sources, interestingly, several respondents<sup>(5/15)</sup> spoke about their shift away from the historical paper process to ‘*confirmation.com*’ which has a quick digital authorisation process. Several respondents<sup>(6/15)</sup> also mentioned how they started accepting online signatures using ‘*DocuSign*’ which enabled the signing and approving of documents in an efficient and secure manner.

Further, some respondents<sup>(7/15)</sup> claimed that they went through additional measures to verify the reliability of the data sources used. Two of these respondents explained that for sensitive documents and in areas where there was heightened audit risk, documents were being certified by a lawyer ensuring that what they were given were true copies of originals. Contrarily, Interviewee M9 mentioned that a clause in the representation letter signed by clients was being included, where clients confirmed that all scanned documents provided were true copies of originals. Interviewee B1 further emphasised that, “*instead of just requesting the bank statement from clients we would set up a virtual call and watch them extract the data we would need.*”

### **4.5.6 Observation Procedures**

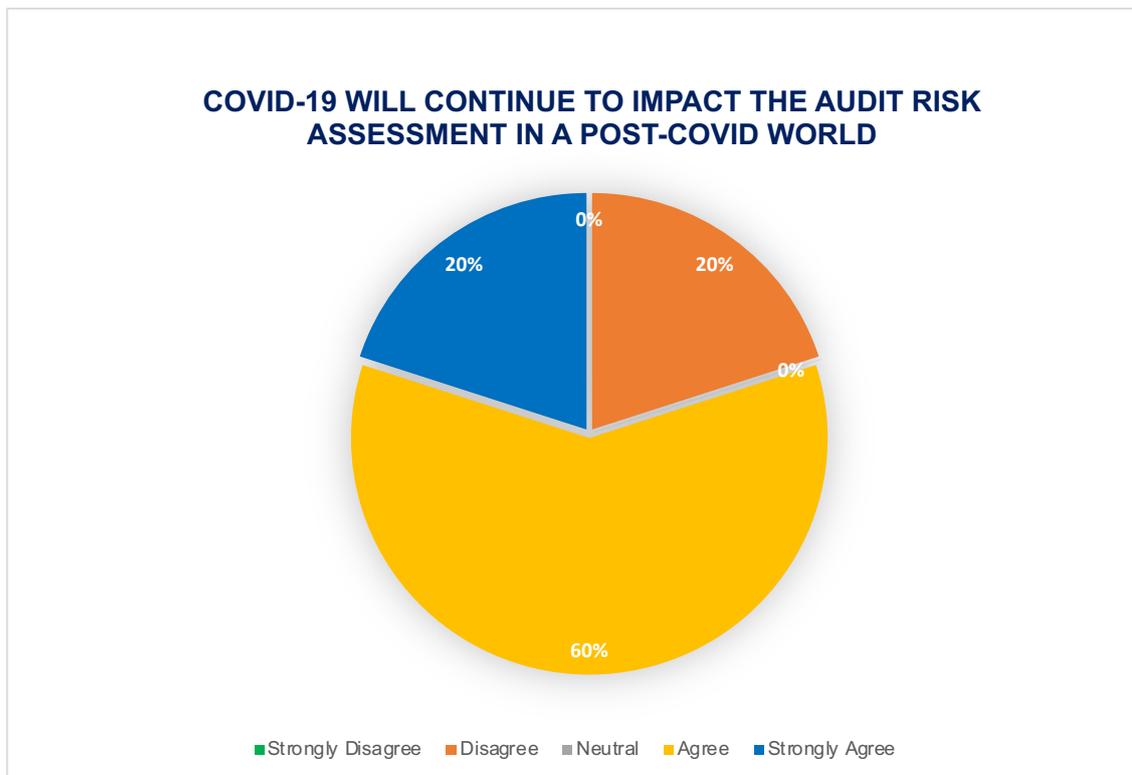
At risk assessment stage auditors would need to obtain an understanding of how their clients operate by conducting observation procedures at client's premises. Consequently, respondents were asked whether the number of visits to clients' premises was in any way affected during COVID-19. The majority of respondents<sub>(11/15)</sub> confirmed that visits to clients' premises were decreased substantially, and for a while non-existent. Interviewee B2 and B4 claimed that having informal conversations at clients' locations are an essential source of information for auditors to get an understanding of clients' and unfortunately, they lost this aspect; opening up to higher risk of fraud and inadvertent errors which auditors might miss.

## **4.6 Way Forward: Lessons Learnt from COVID-19**

Section E of the interview schedule explores whether COVID-19 will have a long-term/permanent influence on the audit risk assessment and how this is anticipated to continue to evolve in a post-COVID world, addressing the fourth research objective.

### **4.6.1 Impact of COVID-19 in a post-COVID world**

Respondents were asked to rate their extent of agreement that COVID-19 will continue to have an impact on the audit risk assessment in a post-COVID world. As can be observed in Figure 4.6 below, 60% of respondents agreed to this statement, 20% strongly agreed, with the other 20% disagreeing.



*Figure 4.5: Impact of COVID-19 in a post-COVID world (Q.12)*

From a qualitative point of view, those respondents who agreed<sub>(9/15)</sub> or strongly agreed<sub>(3/15)</sub> felt that COVID-19 was a wakeup call for auditors to think a bit further than just the obvious as ultimately, they do not merely audit FS line items. Interviewee B1 claimed that “we assess GC, NOCLAR, fraud, subsequent events etc and the resilient focus on these during COVID-19, will undoubtedly remain.”

In addition, some of these respondents<sub>(6/9)</sub> claimed that COVID-19 taught them how to be more open to risk scenarios they don’t really envisage and more vigilant about how external events could affect companies. Respondents referred to the Russia-Ukraine War, were thanks to COVID-19, whilst compiling their risk assessment, auditors were more aware of how this could affect companies such as in terms of GC and breakdown in internal controls.

On the other hand, those respondents who disagreed<sub>(3/15)</sub> claimed that COVID-19 repercussions were not as pronounced as the literature might have suggested. Interviewee B2 asserted that “it was just another external event, but auditors are

*used to dealing with external events” whilst interviewee M1 stated that “COVID-19 simply complicated our RAPS until it halted, now we are back to normal circumstances.”*

### **4.6.2 Greater Reliance on the Audit Risk Assessment**

When respondents were asked whether greater reliance should be placed on the audit risk assessment in a post-COVID world, most respondents<sup>(8/15)</sup> claimed that the risk assessment should remain at the same level of importance. Interviewee M1 claimed that the revised ISA 315 issued in 2019 had already elevated the importance of risk assessments by increasing the focus on identifying significant classes of transactions, account balances and disclosures.

On the other hand, some respondents<sup>(5/15)</sup> claimed that post-COVID the auditor’s risk assessment has become even more fundamental as the global pandemic made them realise how one external event could have such a significant impact on the audit risk assessment. Interviewee B2 highlighted that *“COVID-19 reiterated the point that an audit should be built on a risk-based approach.”*

### **4.6.3 The Move to Virtual Auditing**

Respondents were subsequently asked whether they are still making use of remote working when conducting RAPS and collecting evidence.

Some respondents<sup>(7/15)</sup> claimed that video conferencing tools are still used for inquiries with clients. But still, they turned to in-person meetings if they considered it more appropriate as they still believe that face-to-face communication is essential for making certain important inquiries at risk assessment stage and building strong client relationships. As a result, they commented on the usefulness of a hybrid approach which is being adopted.

In line with the hybrid approach, the majority of interviewees<sup>(7/15)</sup> claimed that visits to clients’ premises increased from COVID times for a number of reasons. A large part of respondents<sup>(4/7)</sup> asserted that, despite all the available technology,

one can truly comprehend how a firm operates if they can observe how its employees interact and how work is being carried out in their warehouses. Furthermore, some interviewees<sup>(2/7)</sup> indicated that the number of client visits arose because of the clients' growing annoyance at having to continuously scan documents for auditors, with Interviewee M7 claiming that some clients expressed that more work was being done by them than by auditors. Finally, respondents<sup>(2/7)</sup> noted that visits increased as a result of how easier it is to pose the appropriate inquiries in person as opposed to calling.

Nonetheless, some respondents<sup>(3/15)</sup> claimed that visits to clients have not reached the level of pre-COVID times with interviewee B1 stating that *“whereas pre COVID-19 we used to spend five days at a client, now we spend three.”* Interviewee M5 explained that they no longer visit clients at risk assessment stage unless they have a list of queries, need to conduct specific client interviews, or need to obtain specific physical documentation.

On the other hand, most respondents<sup>(9/15)</sup> claimed that when it comes to physical inspection of assets such as PPE and inventory, they have gone back to the pre COVID-19 procedures as they felt nothing could replace physical presence to obtain the same level of assurance. Some of these respondents<sup>(3/9)</sup> also highlighted that even though they went back to physical inventory counts they did so in conjunction with other procedures which were emphasised during COVID-19 such as AP and roll forward procedures.

#### **4.6.4 The Utilisation of Advanced Technological Tools in a post-COVID world**

Respondents were subsequently asked to explain how the advancements in technologies continue to be useful in supporting auditors in a post-COVID world as they carry out their audit procedures.

The majority of the interviewees<sup>(10/15)</sup> mentioned that they have continued to use electronic file sharing platforms such as SharePoint for their risk assessments as

it allows information to be more accessible. Some respondents<sub>(7/10)</sub> claimed that cloud-based accounting software continue to help auditors as one can keep track of the data being delivered and the data still pending from clients' ends. Interviewee M5 described how *CaseWare* (a cloud-based accounting tool), makes it easier to conduct internal risk assessment meetings and client meetings online, where discussions can be recorded and added to electronic audit files, thus improving the documentation of the risk assessment process.

Interviewee M4 also commented that *"we as a firm of 150 companies worldwide are using the same audit tool where cross border engagements can be done jointly having access to the same audit file."* A few interviewees<sub>(4/15)</sub> also mentioned the ongoing use of *'DocuSign'* for electronic document signing, which is also being improved by implementing an even more reliable system. Interviewee B1 emphasised that *"COVID-19 made us use our digital tools more effectively. These lessons learnt will definitely stay."*

In addition, some interviewees<sub>(4/15)</sub> highlighted that as the pandemic pushed the utilisation of technology, they are encountering a big shift in AI and blockchain based apps. Interviewee M5 argued that in the near future, AI will be imperative to auditing and the performance of risk assessments; perhaps eliminating the need to be physically present at clients.

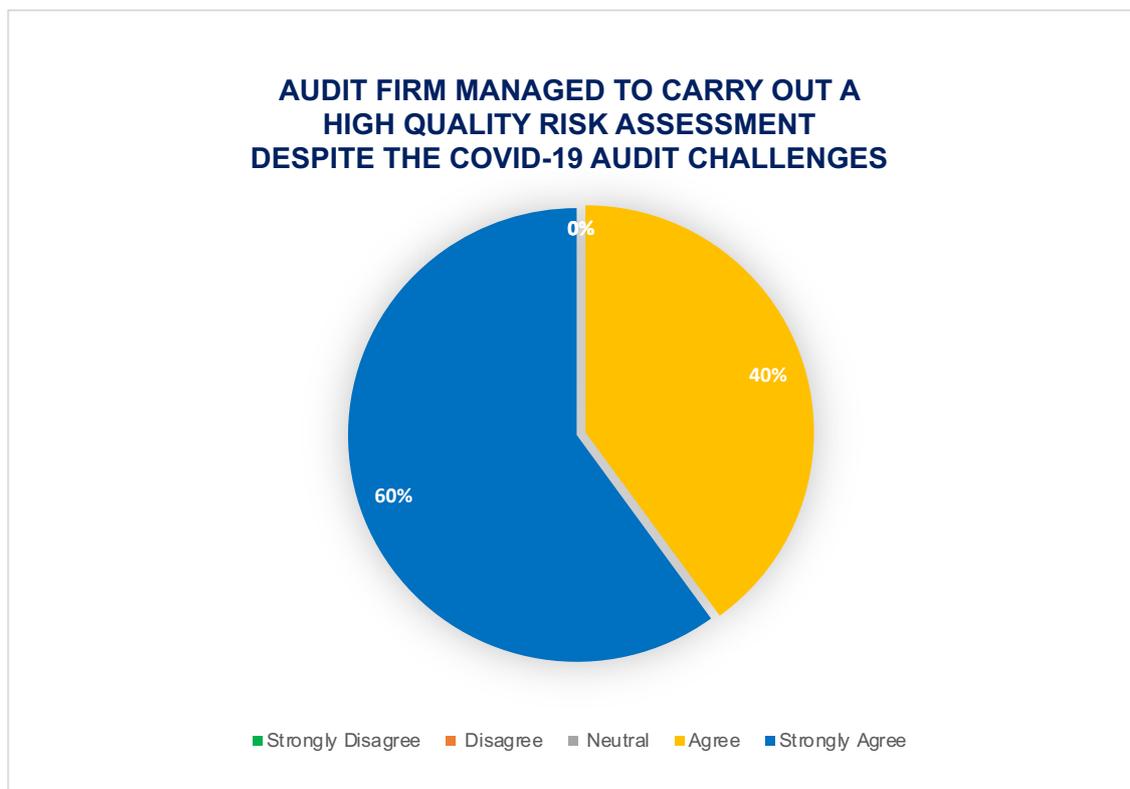
### **4.6.5 Concluding Remarks**

The closing question asked participants to rate their extent of agreement that their firm managed to carry out high-quality audits and risk assessments despite the challenges posed by COVID-19.

As can be observed in Figure 4.6, most participants<sub>(9/15)</sub> affirmed that the quality of risk assessments was still of a high level and thus they strongly agreed with the statement. Interviewee B2 mentioned that following practice reviews from its international network firm, risk assessments carried out during COVID-19 were deemed to be of high quality whereas Interviewee B4 claimed that to ensure

quality is not compromised, during the audit risk assessment they held more consultations, and occasionally a second partner was approached to contest certain conclusions and provide further guidance to employees.

The remaining participants<sub>(6/15)</sub> just agreed with the statement since they believe there was a minimal decrease in risk assessments' quality. Interviewee M2 adds that if one were to review the details of the COVID-19 risk assessments, there would undoubtedly be some situations whereby one would have turned a blind eye because there was no practical way how to tackle a particular instance.



*Figure 4.6: High Quality Risk Assessments during COVID-19 (Q.16)*

In addition, utilising the **Mann Whitney Test**, an analysis was conducted on whether there is a significant difference in the rating scores provided between Big Four and Mid-Tier audit firms. Table 4.4 shows that Mid-Tier provided lower rating scores in this regard, hence having a lower mean. However, the difference among rating scores is not significant as the *p*-value exceeds the 0.05 level of significance.

**Mann Whitney Test (Q.16)**

	Audit Firm	Sample Size	Mean	Std. Dev.	P-value
<i>To what extent do you agree that your firm managed to carry out high quality audits and high-quality risk assessments despite the added complexities brought about by COVID-19?</i>	Big Four	4	4.75	0.500	0.571
	Mid-Tier	11	4.55	0.522	

*Table 4.4: High Quality Risk Assessments during COVID-19 - Big 4 vs Mid-Tier Audit Firms (Q.16)*

## 4.7 Conclusion

This chapter presented the research findings from the interviews conducted. The following chapter provides a thorough discussion of these findings in light of the study's research objectives.

# **Chapter 5**

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## ***DISCUSSION OF FINDINGS***

## 5.1 Introduction

This chapter discusses the findings presented in Chapter Four in view of the literature review in Chapter Two. As outlined in Figure 5.1, Sections 5.2 and 5.3 focuses on the first research objective by discussing how COVID-19 altered auditors' identification and assessment of risks and by assessing the determinants for a high-quality risk assessment. Section 5.4 then focuses on the second research objective, discussing any changes in the timing, nature and extent of the risk assessment procedures (RAPS) performed. Subsequently, Section 5.5 considers the modified ways of collecting sufficient and appropriate audit evidence related to the identified risks, tackling the third research objective. Section 5.6 addresses the final research objective where the impact of COVID-19 on the audit risk assessment in a post-COVID world is discussed. Lastly, Section 5.7 concludes the Chapter.

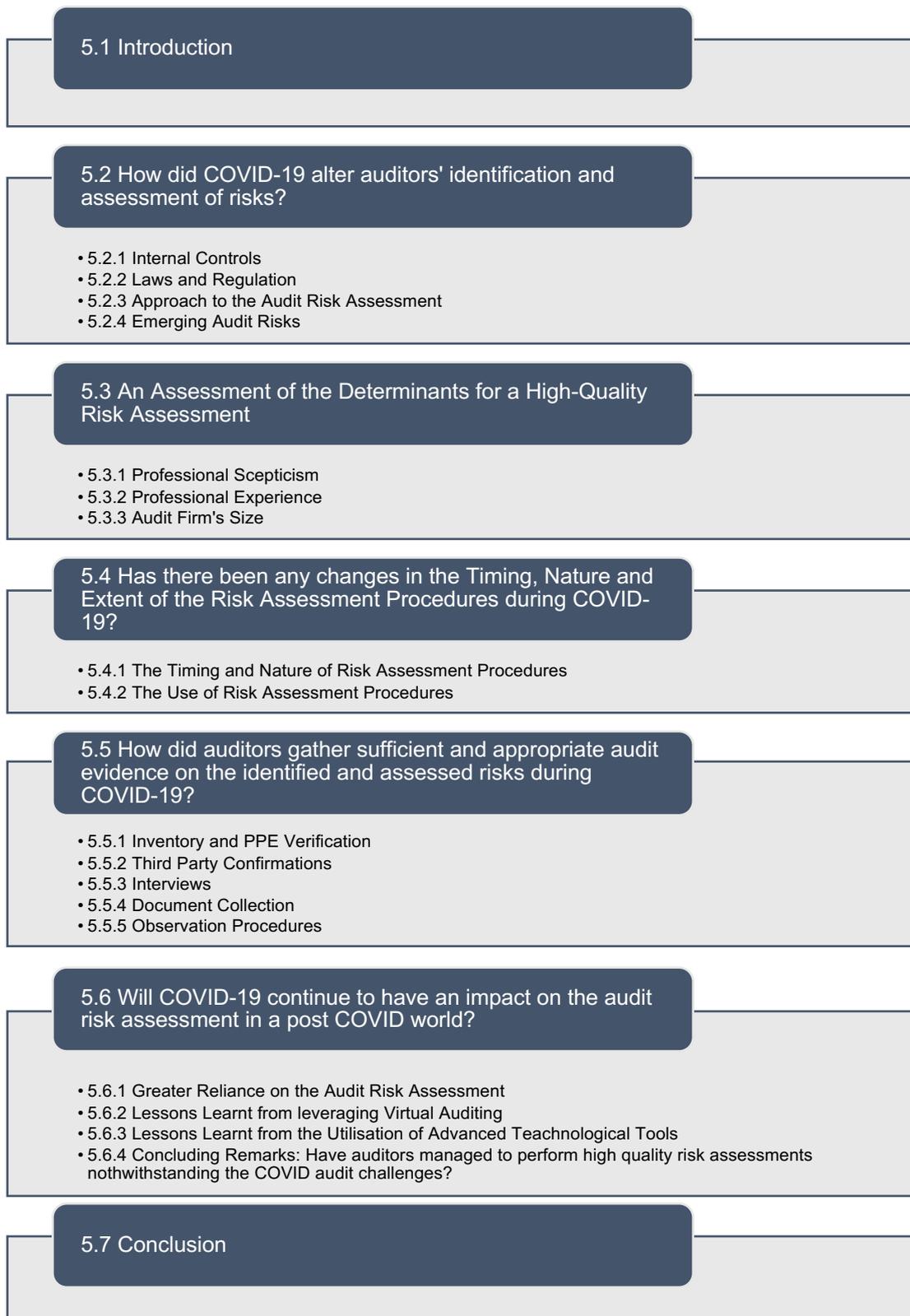


Figure 5.1: Outline of Chapter 5

## **5.2 How did COVID-19 alter auditors' identification and assessment of risks?**

As outlined by EY (2021a) and Alao and Timilehin (2021), the unprecedented state of emergency brought on by COVID-19 has significantly influenced the operational environment of entities, requiring audit firms to consider how this impacts their risk assessments. This is in line with Section 4.2.1 highlighting auditors' view, that gathering an understanding of an entity and its environment at risk assessment stage required a greater degree of effort due to substantial changes to entities' operations. This is also supported by literature where Arnold (2020) expressed that the COVID-19 uncertainties presented alarming changes to entities' organisational structure, business models and their business risks.

In addition, most interviewees expressed that the impact of COVID 19 varied from client to client where those which were highly affected, required a more thorough risk assessment. This is consistent with literature as Kend and Nguyen's (2022) study revealed that audit risks were more predominant in the insurance, banking and transportation industries, resulting in more COVID-19 related RAPS performed than in other sectors.

### **5.2.1 Internal Controls**

As shown in section 4.2.1.1, interviewees explained that the push to remote working during COVID-19 heightened the risk of breakdown in internal controls. As a result, internal controls were recognized as an area of focus in their audit risk assessment. This is in line with CPA (2021) and ACCA (2023c)'s research which highlighted that auditors must consider any modifications to clients' internal control systems subsequent to the outbreak of COVID-19 and whether planned reliance on controls should be reassessed. In line with PCAOB (2020), interviewees highlighted that audit risk related to internal controls increased as businesses encountered staff shortages leading to lack of segregation of duties.

## 5.2.2 Laws and Regulation

Dohrer (2020) and Diab (2021) emphasised that during COVID-19, it was also necessary to understand how changes in laws and regulations have affected clients' businesses. This is substantiated by the research findings, where interviewees envisaged an increased audit risk in relation to NOCLAR due to changes in both general and specific regulations, such as those issued by the gaming industry.

FRC (2020) also asserted that NOCLAR might have increased consequent to erroneous financial assistance claims made during COVID-19. Similarly, interviewees highlighted higher audit risk in relation to the wage supplements provided by the government. According to interviewees and KPMG (2020), many businesses may have never received grants before, hence lacked an accounting policy for them.

## 5.2.3 Approach to the Audit Risk Assessment

Murphy (2020) suggested that taking *"a same as last year approach to audit planning and risk assessment"* (p.1) was not an effective strategy during COVID-19 whilst Cohen & Co (2021) emphasised that risks identified during the COVID period were distinct from those identified in previous years' audits. In parallel, this study's findings showed that interviewees agreed with this notion stating that with change comes an increase in risk, hence requiring a reassessment of risks to reflect the altered environment as a result of COVID-19.

## 5.2.4 Emerging Audit Risks

As indicated by KPMG (2020), the shift in economic circumstances created significant uncertainty for the future of many businesses, where the previously generated forecasts became ineffective. In agreement to this, respondents mentioned **GC** as the biggest risk that came about because of COVID-19. As

expressed by both some interviewees and FRC (2020), this shift may have led auditors to report *material uncertainties related to GC*.

Interviewees also highlighted increased audit work in relation to certain FS line items, mainly **receivables, payables, revenue, and inventory**. This is supported by Kaka's research (2021) which referred to debt collection taking longer to complete, the fall in revenue generation by most companies due to business closures, and inventories becoming obsolete due to a reduction in sales, concerns which were also highlighted by the interviewees. In addition, Kaka (2021) also refers to bank and cash concerns as well as capital degrade. However, these were not mentioned as heightened risk areas by interviewees in the local scenario.

Contract modifications as a result of COVID-19 may have also impacted accounting for leases and revenue (EY 2020). This is consistent with the findings where respondents mentioned increased audit risk related to **leases** due to changes in rental amounts. In addition, both ICAP (2021) and some interviewees highlighted the need to lower **materiality** levels at risk assessment stage, including performance materiality and the benchmarks used to establish it.

The research findings suggest that audit work was also heightened in relation to **subsequent events** as it was more challenging to determine whether the consequences of COVID-19 were adjusting or non-adjusting events, most especially in 2020. This is consistent to Diab (2021), ACCA (2023c) and FRC (2020) which highlighted the doubts to adjust or non-adjust, most particularly for January/February 2020 reporting dates.

Auditors participating in this study also highlighted elevated audit risks in relation to **fraud, impairment of assets** and **valuation of assets**. These findings corroborate the conclusions of Deloitte (2020b), EY (2020), KPMG (2020) and Diab (2021). Diab (2021) emphasised that the implications of COVID-19 may create specific risk factors such as the increased pressure to enhance the company's performance, requiring auditors to be vigilant when assessing fraud.

In addition, EY (2020) explained how it was more challenging for auditors to assess whether future estimated cashflows would be supported by subsequent performance; hence auditing impairment of assets became more challenging. Interviewees also increased audit risk in relation to the ECL calculation. This conforms with Deloitte (2020b) which argued that firms found it challenging to factor in forward-looking data associated with the economic impact of the crisis into the calculation of ECL. In addition, both interviewees and PWC (2020a) emphasised that key inputs to the valuation models like discount rates had to be raised to reflect the elevated risk.

These findings suggest that audit effort in the risk assessment process has drastically increased not solely in the local scenario but also worldwide, given the numerous journals and studies referring to various emerging risks as discussed above.

## **5.3 An Assessment of the Determinants for High-Quality Risk Assessment**

### **5.3.1 Professional Scepticism**

According to ICAP (2020), the presence of fraud indicators, complex judgements and higher risks of material misstatement during COVID-19, required auditors to demonstrate heightened professional scepticism. This is consistent with the findings of the study where auditors claimed that they had to be more sceptical to challenge the increased audit risks brought about by COVID-19, particularly when assessing businesses' future outlook. This is also in line with Al-Khasaweneh (2021) who found that the impact of COVID-19 on professional scepticism when performing risk assessments is statistically significant as the pandemic heightened auditors' sceptical mindset.

Most respondents also claimed that they believe auditors' level of professional scepticism varies by grade as they elevated the involvement of higher-grade staff

in the audit risk assessment. This is consistent with CAQ (2020) who suggested increased involvement of senior or experienced audit team members especially in performing procedures related to complex issues.

### **5.3.2 Professional Experience**

All interviewees agreed that a high level of professional experience tends to help auditors to come to reliable conclusions faster and hence their risk assessments will be more accurate. This substantiates Zahmatkesh and Rezazadeh's (2017) findings which deduced that professional experience has a positive impact on how risks are identified and addressed. Nonetheless, Klasson and Knutsson (2021) argued that since COVID-19 is a circumstance no one has encountered before, it was ambiguous whether experience would be favourably represented in risk assessments during COVID-19. In contrast, the majority of auditors in this study expressed that professional experience is still vital during COVID-19, as the wider the experience the better the risk assessment capabilities. Experience helps in dealing with different scenarios, leading auditors to be better equipped to handle the COVID-19 audit challenges and perform high quality risk assessments.

### **5.3.3 Audit Firm's Size**

In a study carried out by Sawan and Alsaqqa (2013), interviewees believe that the Big Four have technical expertise, economic resources and global reach. In line with this, Klasson and Knutsson (2021) expressed that the Big Four would perform more accurate risk assessments in uncertain environments like COVID-19. This is partially consistent with the findings of this study as although most respondents agreed that the bigger the audit firm's size the greater the resources available to perform risk assessments, including the higher availability of internal experts and guidance received from the network firms, a number of respondents disagreed or expressed neutrality in this regard stating that as long as the firm has enough resources for the clients it has accepted, firm size does not matter.

In a study carried out by Beechem (2021), it was revealed that the Big Four are more inclined to employ advanced technological tools and significantly higher usage of video conferencing, hence better able to handle the COVID-19 audit challenges. This is consistent with the findings from the Mann Whitney test in Table 4.2 as one could observe a higher mean for the Big Four as compared with mid-tier audit firms, in terms of how well-prepared audit firms were to handle the COVID-19 audit challenges. In fact, qualitatively, some interviewees highlighted that larger firms have more funds to invest in technological techniques.

## **5.4 Has there been any changes in the Timing, Nature and Extent of the Risk Assessment Procedures during the Global Pandemic?**

### **5.4.1 The Timing and Nature of Risk Assessment Procedures**

PCAOB (2020) claimed that auditors may have faced time constraints in completing the audit engagement due to challenges in performing RAPS. For this reason, some interviewees expressed that they started performing RAPS at an earlier stage to still be able to meet the audit timeframes. In line with ICPAC (2020), findings also indicate that the RAPS had to be continuously re-examined and calibrated to consider new developments as the COVID-19 situation evolved.

Findings also highlighted auditors' views that RAPS were performed more extensively as more questioning had to be done to delve deeper in clients' risks. This is consistent with Kend and Nguyen (2022) and GCS (2021) stating that the regular RAPS have grown more complex and time consuming to understand any changes to clients' businesses due to the pandemic's unpredictability. This study's interviewees further described how managements' forecasts and budgets were in fact challenged even more during COVID-19.

## 5.4.2 The Extent of Risk Assessment Procedures

According to Cohen & Co (2021) and Kaka (2021), as a result of heightened audit risks, management **inquiries** required additional focus during the pandemic, particularly inquiries on fraud, NOCLAR and any modifications to the internal control systems. This is in line with interviewees' views as the majority claimed that they performed more inquiries during COVID-19 (hence showing a higher mean in Table 4.3) as to develop a better understanding of how businesses were changing and how COVID-19 was impacting them.

However, Arnold (2020) claimed that inquiries alone are not sufficient but need to be coupled with other RAPS such as observations. In line with this, some interviewees in this study claimed that **observation and inspection** as RAPS remained very important during COVID-19 as relying solely on management replies is not sufficient as auditors had to observe how things were operated. However, as outlined by Luo and Malsch (2020), onsite inspections and physical observations became impossible as a result of mandatory social distancing and travel restrictions. In fact, an equivalent number of interviewees claimed that observations and inspections were used less during COVID-19 (hence showing a lower mean in Table 4.3) since conducting these procedures remotely was not ideal.

According to Hazaea et al. (2022), during COVID-19, auditors also increased the usage of **analytical procedures (AP)**, having the lowest cost and being the most straightforward to calculate. This is partially consistent with this study's findings because some interviewees claimed that they increased the use of AP during COVID-19, but for other reasons, namely because they elevated all RAPS due to higher risks or because inquiries and observations were more challenging to conduct. However, in line with ICAP (2020), the majority of respondents claimed that during COVID-19, AP provided less useful information and for this reason some reduced the extent of AP used because of the increased uncertainty around the data used leading to a potential lack of comparability affecting ratio analysis.

## **5.5 How did auditors gather sufficient and appropriate audit evidence on the identified and assessed risks during COVID-19?**

### **5.5.1 Inventory and PPE Verification**

As a result of COVID restrictions, auditors interviewed argued that the conventional methods used for examining inventory and PPE could not be used and had to resort to video conferencing tools as opposed to onsite visits. The research findings also suggest that with regards to inventory, roll forward and roll back procedures were also performed. This is very consistent with literature as numerous studies mentioned how auditors had to observe inventory counts virtually via live video streams and that roll forward and roll back procedures were performed if earlier observations were made during interim periods and if there was certainty that restrictions would lift in the near future (ACCA 2023c, Arnold 2020, Diab 2021, ICAP 2021). Interviewees also highlighted that for PPE examination, greater focus was placed on supporting documentation such as proof of payments and a more thorough inspection of the fixed asset register, however, this was not highlighted by literature.

Nonetheless, literature refers to other procedures which were not highlighted by auditors in this research, such as recording of live video streams, allowing auditors to review as often as desired, counting of inventory through snapshots/videos using AI picture recognition software and the use of drones especially for PPE inspections in places difficult to reach (Appelbaum et al. 2020).

### **5.5.2 Third Party Confirmations**

COVID-19 also heightened the use of external evidence attained from third parties such as customers and banks, which according to Akrimi (2021) is more reliable than evidence obtained directly from audit clients. Similar conclusions were drawn from the research findings as several interviewees expressed an

increased push on obtaining confirmations from third parties owing to difficulties in conducting physical procedures. Interviewees further emphasised the shift to *confirmation.com* which enabled them to perform audit confirmations with clients' constituents more effectively. This contradicts with Dang Huy (2022), stating that during COVID-19, confirmation letters were sent to third parties through email, where time needed for receiving and replying was frequently lengthy.

### **5.5.3 Interviews**

In line with Luo and Malsch (2020), the research findings reveal that COVID-19 has hampered face-to-face communication as auditors were forced to inquire with their clients and the audit team using digital means of communication. However, the findings of Mugabe et al. (2022), a study executed in South Africa, revealed that the inability to hold in-person meetings had no discernible effect on the risk assessment. This is congruent with the findings of this study where respondents stated that the shift to virtual meetings during COVID-19 resulted in improved communication as more meetings were being held with clients. In addition, both interviewees and Johnsson and Persson (2021) claimed that meetings became more time efficient as they were more structured.

Nonetheless, the findings of this research, Appelbaum et al. (2020) and Sian (2022) emphasised that in certain instances, communication was harder as non-verbal communication was lost in online meetings, hence addressing certain sensitive topics might have been more difficult.

### **5.5.4 Document Collection**

In line with Sharma et al. (2022) all respondents in this study emphasised the introduction of file sharing electronic solutions during COVID-19 such as SharePoint and cloud-based accounting software, where the quality of risk assessments was not compromised as documents could still be shared digitally. Nonetheless, participants in Sian's (2022) study commented that problems emerged when audit clients did not make use of fully digitised systems or simply

did not want to grant auditors unrestricted access. This is congruent with the findings of this study as some interviewees claimed that some of their clients did not have documentation digitally stored and had to be granted special authorisation to visit client premises or have documents delivered in sealed boxes. Consequently, both Litzenberg et al. (2020) and research findings highlighted delays in receiving required information from clients.

As stated by PCAOB (2020) when evidence is obtained digitally, there would be a greater need for procedures to support its validity due to an increased risk relating to the authenticity of digitalised documents. In fact, both this study's interviewees and Sian (2022) mentioned that in certain instances they would watch clients extract the data such as in relation to bank statements.

### **5.5.5 Observation Procedures**

As outlined in section 4.5.6, interviewees highly emphasised that given visits to clients' premises were decreased substantially, they lost information gathered through essential conversations at clients' locations and physical observation procedures of clients' operations, opening up to higher risks. Similar conclusions were reached by Johnsson and Persson (2021), where respondents claimed that it is only through clients' visits where one could get an overall feel of clients' operations and connect with other people such as salespersons, providing valuable information of revenue streams.

## **5.6 Will COVID-19 continue to have an impact on the audit risk assessment in a post-COVID world?**

As noted in section 4.6.1, most auditors interviewed believe that the audit risk assessment will still be impacted by the COVID-19 experience post pandemic. Thus, understanding the lessons learnt and adaptations that auditors and audit firms will embrace within their audit risk assessment is crucial.

### **5.6.1 Greater Reliance on the Audit Risk Assessment**

Interviewees had mixed feedback as to whether greater reliance should be placed on risk assessments in the future, with most auditors claiming that it should remain at the same level of importance, whilst others emphasised that in a post-COVID world it should be even more fundamental as COVID-19 reiterated its importance, highlighting how one external event could have significant effects on the audit risk assessment. Similarly, respondents in Klasson and Knuttson (2021)'s study highlighted that risk assessments will be even more crucial in the future, emphasising its continued importance throughout the audit, where according to Hay et al. (2021) the emphasis on GC and fraud will surely uphold their status after the crisis. This is consistent with the research findings as although most auditors expressed that the reliance on risk assessment will still be somewhat similar regardless of COVID-19, they emphasised that the increased focus on risks such as GC will undoubtedly remain in the future, a case in point in relation to the Russia-Ukraine War.

### **5.6.2 Lessons Learnt from leveraging Virtual Auditing**

From the replies gathered during the interviews, the researcher confirms that an element of virtual auditing for RAPS will surely be part of the future as COVID-related measures served as a catalyst to expand the use of remote RAPS. This is consistent with the research by Serag and Daoud (2021) who suggested that performing remote risk assessments will remain popular in years to come, due to time and cost savings that arose. However, interviewees emphasised the importance of face-to-face communication to sustain client relationships and to conduct inquiries with management, signalling a move to a hybrid approach.

Research findings highlighted that despite the growing use of remote working, visits to clients arose from the peak times of COVID-19. Most interviewees claimed that one can truly comprehend how the company operates and how employees interact when visiting the client onsite, whilst other respondents stated that some clients showed frustration in having to convert documents into soft

copies and would thus rather have auditors visit their premises. This contradicts Wilson in Ovaska and Murphy (2022) who opined that whilst appreciating the importance of maintaining good client relationships by working at clients' premises, during fieldwork this is rather a hinderance as clients do not like auditors working in their offices for weeks. Nonetheless, some interviewees pointed out that visits to clients have not reached the level of pre-COVID times.

With regards to the inspection of assets such as PPE and inventory, interviewees stressed that carrying out these checks onsite rather than remotely is much more effective and provides a higher level of assurance. This is consistent with Miller Kaplan (2023) who emphasised that live feeds from drones and security cameras have limitations when utilised to verify physical inventory counts and onsite in-person procedures are vital post-pandemic.

### **5.6.3 Lessons Learnt from the Utilisation of Advanced Technological Tools**

Emphasising digitisation within the audit risk assessment is crucial, according to Deloitte (2023) as converting documents to soft copies allow for real-time access to clients' documentation. This seems to be aligned with the interviewees' views, as the majority commented about the continued use of the electronic file sharing platform for their risk assessment, allowing a higher degree of accessibility, with some multinational companies finding it convenient to utilise the same audit tools across their network, whilst other companies mentioned the use of cloud-based accounting techniques such as CaseWare. Furthermore, some participants also mentioned the continued use of digital signature technological tools such as *'DocuSign'*.

Interviewees further argued that as the pandemic pushed the utilisation of technology, in the near future AI and blockchain based apps will play a crucial role in the audit risk assessment. This is also consistent with Sharma et al. (2022) who affirmed that the innovative technologies like blockchain and AI enhanced a more effective data review at unreachable speed. This exemplifies how the

technological developments made during COVID-19 had such a profound effect that they are still used today, supporting the RAPS.

#### **5.6.4 Concluding Remarks: Have auditors managed to perform high quality risk assessments notwithstanding the COVID audit challenges?**

Lastly, from the findings of this study, it was confirmed that all auditors interviewed managed to carry out high quality audits and high-quality risk assessments despite the heightened audit risks, alternative audit procedures performed, and the added complexities brought by COVID-19.

According to a study by Gong et al. (2022), while the Big Four successfully adapted to virtual auditing and maintained high quality audits during COVID-19, non-Big 4 firms struggled to navigate the virtual audit challenges, possibly as a result of having lesser resources available, resulting in a decline in audit quality. This seems to contradict the findings of this research as the Mann Whitney Test revealed that there is no statistical difference between the Big Four and mid-tier audit firms, as all respondents agreed that they managed to perform high quality audits and high-quality risk assessments during COVID-19.

### **5.7 Conclusion**

This chapter provided a thorough discussion of the research findings. The subsequent chapter will conclude this dissertation by summarising the main findings, proposing recommendations, and highlighting areas for further research

# Chapter 6

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## *SUMMARY, CONCLUSIONS & RECOMMENDATIONS*

## 6.1 Introduction

This chapter concludes the research study. As illustrated in Figure 6.1, Section 6.2 summarises the scope of the research whilst the key conclusions are outlined in Section 6.3. Subsequently, Section 6.4 presents various recommendations while Section 6.5 highlights areas for further research. Finally, a concluding remark is provided in Section 6.6.



*Figure 6.1: Outline of Chapter 6*

## 6.2 Summary

The purpose of the study was to explore the impact of COVID-19 on the auditor's risk assessment process. For this to be achieved, the study focused on four key research objectives as outlined in Section 1.4. These objectives were addressed by focusing on how COVID-19 altered auditors' identification and assessment of risks and exploring any changes in the nature, timing and extent of the risk assessment procedures (RAPS) involved. An evaluation of any emerging risks was carried out, together with an assessment of the determinants for high quality risk assessment. Any modifications in the way sufficient and appropriate audit

evidence on the identified risks is gathered was also gauged, and the impact of COVID-19 in a post-COVID world was also explored, assessing how the risk assessment is anticipated to evolve post pandemic.

In addressing these objectives, a mixed-methods approach was adopted, with higher emphasis being placed on qualitative research. Semi-structured interviews were conducted with fifteen audit partners/senior managers from the Big Four and mid-tier audit firms. Quantitative data was gathered from the interview schedule's close-ended questions, subsequently analysed using IBM SPSS software. Open-ended questions were also used as a hallmark of qualitative research, allowing the researcher to comprehend the opinions and experiences of participants. Research findings were then compared to prior literature on the research topic to highlight any differences and similarities. The conclusions drawn, in line with the research objectives, are explained in the following section.

## 6.3 Conclusions

In addressing the **first research objective**, the study concludes that obtaining an understanding of clients' businesses and their operating environment required heightened audit effort as COVID-19 brought significant changes to entities' operations. Thus, embracing "*a same as last year approach to audit planning and risk assessment*" (Murphy 2020, p.1) was not a viable approach as auditors had to consider emerging audit risks. GC was commonly the biggest risk identified because of COVID-19, followed by impairment of assets, including PPE, trade receivables and inventory. Increased audit work in relation to subsequent events and heightened fraud risk was also highlighted. This research also found that auditors had to adopt a stricter approach to review control procedures as the danger of breakdowns in internal controls was heightened.

The research concludes that exercising professional scepticism was crucial to challenge the heightened audit risks emanating from COVID-19. A link between professional scepticism and professional experience was also found, such that the more experienced the auditor, the more professionally sceptic and the quicker

to pick up crucial risks and challenge assertions. The research also observed mixed views regarding the importance of audit firm's size in assessing risks and handling COVID-19 audit challenges as although a large part of interviewees agreed that firm size would make a difference, linking size to resources and technological advancements, others disagreed with this notion suggesting that big audit firms were just in the dark as smaller firms during COVID-19.

Addressing the **second research objective**, the study concludes that the pandemic has in fact resulted in adjustments in the performance of RAPS. The research found that auditors either started performing RAPS earlier due to increased audit work, delayed the process to allow time for clients to understand the COVID impact on their businesses, or continuously revisited the RAPS as the COVID situation evolved. The study highlighted that RAPS were performed more extensively as auditors had to delve deeper into clients' risks, making reference to additional information such as clients' correspondence with regulators and including qualitative aspects to their analytical procedures (AP). The research also found that inquiries and AP were used more widely by auditors during COVID-19, as opposed to observation and inspection. Although AP provided less comparable useful information, they were still consistently used to highlight particular risks. Also, as observation procedures became quite challenging to perform, more inquiries were made to obtain a thorough understanding of how clients' businesses were changing.

In addressing the **third research objective**, the findings suggest that the implementation of innovative IT tools resulted in a significant modification in the way evidence is gathered. The research concluded that additional procedures were introduced including inventory roll forward/back procedures, increased reliance on supporting documentation for PPE, increased use of third-party confirmations and increased sample sizes. Additional procedures to verify the authenticity of documents were also carried out as inspection of documents moved digitally through file sharing platforms. Nonetheless, the findings concluded that reduced clients' visits and virtual inquiries with clients, resulted in

a lack of non-verbal cues and an absence of informal inspections which continued to open up to increased audit risks, negatively affecting the RAPS and the audit engagement.

Finally, in line with the **last research objective**, the study discovered that COVID-19 will leave its influence on the audit risk assessment in a post-COVID world. The study concludes that the focus on GC, NOCLAR and fraud during COVID-19, will undoubtedly remain post pandemic, highlighting the lessons learnt for auditors to obtain a more comprehensive understanding of material risks besides being more vigilant about how external events could affect companies. As the pandemic hastened the move to virtual auditing, the findings suggest that post pandemic, video conferencing tools and electronic file sharing platforms will continue to be used, supporting the RAPS and the collection of evidence. Nonetheless, auditors still reverted to traditional physical procedures as they believe fully remote risk assessments can never match the feel of performing procedures physically. Face-to-face inquiries, physical examination of PPE and inventory, visiting clients' premises and physical inspection of sensitive documents are necessary for a high-quality risk assessment.

## **6.4 Recommendations to Audit Firms**

In light of the aforementioned findings, the researcher suggests the below recommendations:

### ***A. A sharpened focus on 'black swan' risks***

Black swan events could be detrimental for a company regardless of the industry it operates in, thus signifying their importance within the risk assessment. Whilst not forgetting other traditional risks such as financial and liquidity risks, it is recommended that specific attention and a thorough investigation of black swan risks is performed in the audit risk assessment.

***B. Enhanced use of cloud-based accounting platforms***

The researcher recommends that all audit firms should implement cloud-based technology platforms, as has already been done by a few of the audit firms interviewed. This tool enables audit teams to work seamlessly together as data is single sourced, centralised and can be viewed from anywhere. In addition, security is improved, and the risk of data loss is minimised.

***C. Investment in next-generation software to enhance the risk assessment process***

As the study's findings demonstrate the importance of risk assessments in audit, an investment in cutting-edge software that enables a faultless risk assessment process is undoubtedly worth the value added. Applications already exist in the technological sphere that can accomplish this by using trend and regression analysis together with customisable peer benchmarking as opposed to pre-defined industry-specific comparisons, resulting in a better identification of risk factors.

***D. Recruitment of tech-savvy auditors***

As companies' business models and RAPS become more complex as they undergo digital transformation, audit firms should seek recruiting auditors with a higher level of technological understanding instead of solely employing individuals based on their business backgrounds. To efficiently leverage technology for auditing, it is advised that audit firms also hire individuals with strong knowledge in STEM fields (Science, Technology, Engineering, and Mathematics). This will help broaden diversity within audit teams, bringing in ideas of how to replace or enhance auditing procedures rooted in human judgment.

### ***E. Heightened focus on professional scepticism and judgement through intensive training***

This study has highlighted the importance of challenging assertions through heightened professional scepticism and judgement. This is indeed required in situations that necessitate additional audit work, such as the COVID-19 pandemic, the current war in Ukraine, possible future pandemics as well as the use of videoconferencing is likely to undermine auditors' sceptical traits. Hence, intensive training in this regard is highly recommended ensuring audit staff develop a sceptical mindset in assessing companies' risks.

## **6.5 Areas for Further Research**

The researcher acknowledged the following areas that can be perused for further research:

### ***A. Implications of the Russia-Ukraine War on the Audit Risk Assessment***

This study has shed light on how auditors are currently dealing with the ramifications of the Russia-Ukraine War. The sanctions in place will pose significant challenges for auditors; hence, a study could be conducted analysing these implications. Although audit clients may not have direct associations with Ukraine or with sanctions against Russia/Belarus, there could be relations through clients' supply chains, clients' customer bases and clients' overseas subcontracts, leaving businesses vulnerable to potential negative effects. Hence, the auditor's risk assessment must consider new risk factors such as currency valuations and any modifications to laws and regulations related to the sanctions placed.

### ***B. The Future of the Audit Risk Assessment: Risks and Opportunities of AI***

This study has explored the utilisation of cutting-edge technological tools in the audit risk assessment as a ramification of COVID-19. However, a study exploring specifically the risks and opportunities of incorporating AI techniques including ChatGPT, new computer assisted audit techniques, search optimisation tools and robotic process automation will be helpful for future audits. AI is expected to improve fraud detection, analyse unstructured data, and accurately extract information from contracts, enabling an analysis of more complete sets of data.

### ***C. An Investigation of Organisational and Individual Aspects on the Quality of the Audit Risk Assessment.***

This research sought to provide insights on how professional scepticism, experience and audit firm's size has influenced the COVID implications on the audit risk assessment. However, thorough research could be conducted specifically on how individual aspects, such as professional experience and professional judgement, and organisational aspects, such as firms' culture, organisational structure and firms' size, influence the quality of the audit risk assessment. Differences and similarities between these aspects can be attained together with a conclusion on which aspect provides to be mostly influential. This can be beneficial to both organisations and auditors in directing their focus on key attributes.

Finally, the researcher hopes and believes that this study has shed new light on this area and will inspire additional research to fill in remaining gaps in this research.

## 6.6 Concluding Remarks

COVID-19 has resulted in renewed concern on the audit risk assessment, leading to more extensive RAPS and modified ways of collecting evidence on identified risks. Nonetheless, all auditors in this study emphasised how they still managed to perform high quality risk assessments despite added complexities. The study has outlined auditors' increased efforts, heightened audit work, increased guidance and consultations together with the involvement of additional audit staff, making the risk assessment more onerous; all this to ensure audit quality is not sacrificed.

It can be concluded that although in Malta, such a pandemic was a game changer for auditors and for the procedures performed, ultimately positive aspects also emanated from COVID-19. This study revealed that the new ways of working that emerged during the pandemic shall continue to be useful in a post-COVID world, leading to a more efficient and effective risk assessment, resulting in a more purposeful profession, better serving the public interest. Indeed, as deduced by ISACA:

*“The future of audit is no longer hypothetical. The future is here, and change is being accelerated by the COVID-19 pandemic.”*

(ISACA 2022, p.6)

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## Regulatory

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# APPENDICES

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## Appendix 1 – Interview Schedule

### *Introduction to the Study*

The scope of this study is to investigate the implications of COVID-19 on the process of identifying and assessing risks within auditing and whether any modifications were made to the timing, nature and extent of the risk assessment procedures and the various methods used to collect audit evidence. This study also aims to examine the impact of COVID-19 on the audit risk assessment in a post-COVID world, focusing on any adaptations and improvements towards the future.

### **Section A: Auditors' Identification and Assessment of Risks**

1. During the process of identifying and assessing the risks of material misstatement, the auditor obtains an understanding of the entity and its environment, the applicable financial reporting framework, any relevant industry specific regulations and the entity's internal control system. During COVID-19, did you notice a higher audit risk because of changes to the above? In what ways? (*Example: heightened non-compliance risk, risk that government grants are not appropriately accounted for, risk of a breakdown in internal controls*)
2. ***Taking a same as last year approach to audit risk assessment is never a good strategy, particularly during COVID times.*** To what extent do you agree with this statement? Why? Kindly rate from 1 to 5 with 1 being strongly disagree and 5 being strongly agree.

<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>

3. Can you describe in detail any new audit risks that emerged during audit execution or audit risks that became more significant as a result of the COVID-19 uncertainties? (*Example: heightened risks in impairment of assets, valuation of assets, estimations, fraud, subsequent events, materiality etc*)
  - a) When it comes to clients' financial statements items (such as revenue, receivables, cash etc), can you explain in detail which items required more audit work during COVID-19 and hence made the risk assessment more demanding?

### **Section B: Determinants for a High-Quality Risk Assessment**

Previous literature has pointed out that there are individual and organisational aspects which stimulate the quality of the audit risk assessment and the extent to which COVID-19 impacts this vital process, such as professional scepticism, professional experience and audit firm's size.

4. In your firm, do you believe that audit staff have the appropriate level of professional scepticism to perform a high-quality risk assessment during uncertain times?
5. Lack of professional scepticism is found to be the cause to most audit failures. In the COVID environment, how important do you think exercising professional scepticism was to overcome the problems encountered? In what ways? Kindly rate from 1 to 5 with 1 being not at all important and 5 being extremely important.

<b>Not Important</b>	<b>Slightly Important</b>	<b>Moderately Important</b>	<b>Very Important</b>	<b>Extremely Important</b>

6. From a scale from 1 to 5 with 1 being strongly disagree and 5 being strongly agree, from your experience at your firm, to what extent do you agree that high level of professional experience tends to help auditors to come to reliable conclusions faster, are less likely to be implicated in audit failure and hence their risk assessment will be more accurate?

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

- a) On a similar note, is this in any way different under environmental uncertainty conditions like COVID-19? *To what extent do you agree that high level of professional experience tends to help auditors **even under environmental uncertainty conditions** to come to reliable conclusions faster, are less likely to be implicated in audit failure and hence their risk assessment is more accurate?* Kindly rate from 1 to 5 with 1 being strongly disagree and 5 being strongly agree.

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

7. On a scale from 1 to 5 with 1 being strongly disagree and 5 being strongly agree, to what extent do you agree that audit firm's size has an influence on the quality of the audit risk assessment and on how well-prepared the firm is to handle the COVID-19 audit challenges? Why?

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

**Section C: Risk Assessment Procedures**

8. As COVID-19 brought with it new risks, did you have to adjust the time when certain risk assessment procedures are performed? (*Ex: analytical procedures, inquiries, observations etc*)
9. Apart from the timing of the risk assessment procedures, did you encounter any modifications in the nature/format of the risk assessment procedures, i.e. whether alternative risk assessment procedures were used to identify the high risk areas?
10. From a scale from 1 to 5, with 1 being not important and 5 being extremely important, how important were the following risk assessment procedures, in terms of their usage both before the pandemic and during COVID-19?

*Pre-COVID-19*

	<b>Not Important</b>	<b>Slightly Important</b>	<b>Moderately Important</b>	<b>Very Important</b>	<b>Extremely Important</b>
<b>Making Inquires of management and of others within the entity</b>					
<b>Analytical Procedures</b>					
<b>Observation &amp; Inspection</b>					

## During COVID-19

	Not Important	Slightly Important	Moderately Important	Very Important	Extremely Important
<b>Making Inquires of management and of others within the entity</b>					
<b>Analytical Procedures</b>					
<b>Observation &amp; Inspection</b>					

**Section D: Sufficient & Appropriate Audit Evidence**

11. Can you explain in detail how COVID-19 may have modified the methods used to obtain reliable audit evidence, in respect to the following in person procedures?

- a) Inventory Verification: ISA 501 requires auditors to attend inventory counts where inventory is material. In cases where attendance was not permitted what alternative procedures were performed?
- b) PPE Evaluation: If traditional methods could not be used what alternative methods were used?
- c) Third Party Confirmations: Did you place greater reliance on obtaining confirmations from third parties?
- d) Document Collection: During COVID-19, has there been a change in the process of obtaining information from your clients and in obtaining confirmations from external sources? Did you perform additional procedures to test the reliability of the data sources?
- e) Observation Procedures: Has the number of visits to clients decreased during COVID-19? In what ways?
- f) Interviews: Have you encountered any problems in this respect?

**Section E: Way Forward: Lessons Learnt from COVID-19**

12. On a scale from 1 to 5 with 1 being strongly disagree and 5 being strongly agree, to what extent do you agree that COVID-19 will continue to impact the audit risk assessment even in the long run, in a post-COVID world? Give reasons for your answer.

<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>

13. To avoid the problems encountered during COVID-19, do you think that in a post-COVID world there shall be greater reliance on the audit risk assessment?
14. One form of audit adaptation during COVID-19 was the conduct of virtual audits. Now that government restrictions have been lifted do you still make use of remote working when conducting risk assessment procedures and gathering audit evidence? What are the plans for the future?
15. The pandemic has accelerated the utilisation of advanced technological tools (such as secure file exchange portals or cloud-based accounting software). In a post-COVID reality, in what ways do you think the advancement in technologies will continue to be useful in supporting auditors in conducting their audit procedures?

16. From a scale from 1 to 5, with 1 being strongly disagree and 5 being strongly agree, to what extent do you agree that your firm managed to carry out high quality audits and high-quality risk assessments despite the added complexities brought about by COVID-19? Explain.

<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>

## Appendix 2 – Frequency Tables

For some of the Likert Scale questions included in the interview schedule, frequency tables were used, generalised through IBM SPSS software, to show the distribution of observations based on the options provided in the interview schedule. Data in the below frequency tables was then extrapolated into pie-charts as shown in Chapter 4 of the dissertation.

**Table 1: Frequency Table (Q2)**

		Frequency	Percentage
<i>Taking a same as last year approach to audit risk assessment is never a good strategy, particularly during COVID times. To what extent do you agree with this statement?</i>	Strongly Disagree	0	0.0%
	Disagree	1	6.7%
	Neutral	0	0.0%
	Agree	5	33.3%
	Strongly Agree	9	60%

**Table 2: Frequency Table (Q5)**

		Frequency	Percentage
<i>Lack of professional scepticism is found to be the cause to most audit failures. In the COVID environment, how important do you think exercising professional scepticism was to overcome the problems encountered?</i>	Not Important	0	0%
	Slightly Important	0	0%
	Moderately Important	0	0%
	Very Important	5	33.3%
	Extremely Important	10	66.7%

**Table 3: Frequency Table (Q7)**

		Frequency	Percentage
<i>To what extent do you agree that audit firm's size has an influence on the quality of the audit risk assessment and on how well-prepared the firm is to handle the COVID audit challenges?</i>	Strongly Disagree	3	20%
	Disagree	1	6.67%
	Neutral	4	26.7%
	Agree	3	20%
	Strongly Agree	4	26.7%

**Table 4: Frequency Table (Q12)**

		Frequency	Percentage
<i>To what extent do you agree that COVID-19 will continue to impact the audit risk assessment even in the long run, in a post-COVID world?</i>	Strongly Disagree	0	0%
	Disagree	3	20%
	Neutral	0	0%
	Agree	9	60%
	Strongly Agree	3	20%

**Table 5: Frequency Table (Q16)**

		Frequency	Percentage
<i>To what extent do you agree that your firm managed to carry out high quality audits and high-quality risk assessments despite the added complexities brought about by COVID-19?</i>	Strongly Disagree	0	0%
	Disagree	0	0%
	Neutral	0	0%
	Agree	6	40%
	Strongly Agree	9	60%