

## The Accounting Profession during COVID-19 Pandemic A Study on the Corona Pandemic Effect on Audit Quality: Perceptions of Iraqi Accounting Auditors

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### Abstract

The primary purpose of this research is to study the effect Corona-Virus Pandemic (CVP) on quality of auditing reports and auditors from the point of view of Iraqi auditors. A quantitative research method had been adopted through a questionnaire form to achieve its aims. Auditors were asked to state their opinions regarding audit quality statements based on a five-point Likert scale. An electronic questionnaire link was distributed due to the current pandemic instead of a regular (paper-based) form, 200 questionnaires were received, of which 89 answers were valid for analysis. Our research examined some important findings, the most important of which is that CVP surely has a noteworthy effect on audit quality based on the research sample's opinions.

**Keywords:** The Accounting Profession, Coronavirus Pandemic, Audit Quality, Auditors, Accounting Information

### مهنة المحاسبة وسط جائحة COVID-19

#### دراسة عن تأثير جائحة كورونا على جودة التدقيق: تصورات مدققي الحسابات العراقيين

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### الخلاصة

الهدف الرئيسي من هذه الدراسة هو دراسة تأثير جائحة فيروس كورونا على جودة التدقيق من وجهة نظر المدققين العراقيين. استخدم البحث المنهج الكمي من خلال الاستبيان. طلب من المدققين إبداء موافقتهم على البيانات المتعلقة بجودة التدقيق بناء على مقياس ليكرت المكون من خمس نقاط. تم توزيع رابط استبانة الكترونية و استلام 200 استبانة منها 89 إجابة قابلة للاستخدام. بحثت دراستنا في بعض النتائج المهمة ، وأهمها أن جائحة فيروس كورونا كانت لها تأثير كبير على جودة التدقيق وفقاً لآراء المدققين العراقيين.

**الكلمات المفتاحية:** مهنة المحاسبة، جائحة فيروس كورونا، جودة التدقيق، المدققون، المعلومات المحاسبية.

### **Introduction**

Ever since days of yore, human kind has witnessed numerous epidemics, which had a negative impression on a great fragment of the social levels and economic in the world. In this day and age, outbursts of “Respiratory Diseases” have been detected all over the world as a consequence of the new Corona-Virus (CV) or as widely known as (Covid-19). The epidemic began in China, specifically the city of Wuhan, where it swiftly spreaded to more than 200 countries around the world, which led to the decline of the global economy. Corona-Virus Pandemic (CVP) has triggered instant negative impacts on many non-manufacturing goods and businesses entities, particularly Entertainment, Transportation, Retail, School Education, and Tourism . For several companies, the earliest three months of 2020 was recorded as the utmost crucial time encountered in many years [11]. Yet some economies have been able to attain a modest pattern of growth in late 2020, this growth has stalled with the CVP emergence globally.

### **Research problem**

Several governments and economics have witnessed activity restrictions that unprecedented in recent times as a result of the newly emerged CVP, governments faced day-to-day business activity interruption and an obstruction of certain industrial activities [2]. As emphasized by [9], these disruptions can affect the confidence of investors in the company’s financial performance resulting in voluminous fiscal hardships. The actions taken by governments in order to insure the containment of the CV effected economic activities globally, this in turn triggered negative effects on accounting information and quality of audit reports. In March 2020, a notice was circulated by the “Financial Reporting Council (FRC) relating to the

impact of CVP on audit quality, the notice provided guidance to auditors about issues to be inspected concerning the impact of Social-Distancing measures [19]. On the other hand, companies are at stake in fulfilling their social obligations to compensate workers for the period of activity suspension due to the health ban. Therefore, as suggested by [2] various research and studies must be conducted to find an accounting treatment for these effects, specifically after the end or receding of the pandemic, as there is hard work for accountants, professionals, and academics to consider and address the financial implications of the pandemic.

Moreover, there is limited empirical research regarding the economic and social impact of COVID-19, and fewer empirical research have been conducted investigating the effect CVP has quality of audit [9]. Iraq especially faces lack of conducted research due to the poor infrastructure in the country [18]. Our research aims to evaluate the effect CVP on audit quality from the perspective of Iraqi auditors, in an attempt of finding an answer to the following research question: Does CVP affect quality of audit?

### **Literary review**

Generally institutions, whether academic or professional, aim to improve their work performance to achieve high quality. Among these professions in the economic and political community is the auditing profession [7]. It was seen along the years that due to the failures of the internal control and auditing major companies had collapsed. What has been observed recently is that the levels of corruption have increased in society in all forms, such as administrative corruption and financial corruption, accordingly the need to work in a way that achieves quality and excellence

levels in performance has increased [3]. The quality standards or measures differ depending on the activity nature. Many studies have been concerned with determining the quality specifications of the audit process, relying on inquires or field survey to show the most prominent points that can realistically reflect the audit process quality. In particular, audit quality was associated with five main features: "Audit Fees, Going-Concern Provisions, Audit Staff, Audit Procedures and Audit Staff Salaries" [20]. Therefore, this research aims to inspect the effect CVP on audit quality and their job performance ability based on the perceptions of Iraqi auditors using these five features.

• **Audit fee**

According to [4] changing economic an environmental condition affects the company's general performance and liquidity that may pose an effect on audit fees. A research conducted in Australia by [17] reported a rise in auditing fees throughout the monetary crisis, the researchers elucidate this by increasing business risks for clients, which has led to more auditing efforts.

However, other explorations has reported that throughout the monetary crisis, companies accommodate a lower price for these services, it appears that social distancing due to CVP boosts working hours and audit efforts, yet along with the financial crisis firms are likely to start asking for lower fees [1]. Such a case, auditors lean towards reducing their efforts to evade delay on appointment. Consequently, auditors might be under restrictions from establishments to decrease audit fees throughout the CVP. The expected decrease in the service fees appears to be mostly affecting reports quality during the CVP

crisis. Accordingly, the first hypothesis of this research states the following:

H1: CVP effects auditing fees.

• **Going-Concern Provisions**

A study by [17] refers that auditors took "Conservative Measures" through the global monetary crisis not solely by limiting their responsibility to make ongoing judgments, but as well by aggregating their efforts to protect themselves from exposure through the monetary crisis. Nevertheless, a study results conducted by [12] disclose that the percentage the qualifications of issued reports with Going Concern provisions previously and during the crisis is alike.

It is essential that auditors spend adequate time in judgment and recognitions they provide that it can require longer time than usual for larger firms. The auditing task may be more complex throughout the CVP as the level of insecurity is higher, and this implies the greater obligation to employ an appropriate staff level and provide adequate support to auditing staff [9]. As an outcome of the prompt crisis development, it is also important that audit staff verify the continuity of additional scrutiny events by signing the reports they provide [14].

Since the emergence of CVP, the main objective for issuing audit reports doubt regarding the viability of the corporation. These doubts are related to the limited liquidity and the declining economic expansion of customer activities in addition to the crisis we are currently experiencing as a result of CVP in most sectors [9]. These conditions have led companies to be exposed to significant commercial risks. Thus, we assume that it has a significant impact on firm's stability judgments, which appears to be correlated to audit quality [17]. Therefore, the second hypothesis of the research states the following:

H2: CVP effects Going-Concern Provisions

- **Audit Staff**

The individual capabilities and instructions of employees and auditors are critical components of audit quality, auditor's instructions are considered the cornerstone of the audit profession [3]. Previous human resource researches suggest that funding and training to develop staff capabilities can significantly enhance work quality. Professional competence and qualifications can be gained on unforeseen skills "such as training and workshops" and direct skills "such as enhanced engagements with clients in certain industries" [10]. In a study conducted by [5] it is revealed that specialized skills obtained in practical training can enhance auditing reports quality by enhancing auditor's efficiency.

Audit firms frequently plan for training sessions, however, the wide spread of CVP has obligated firms to call off these sessions [8]. This can affect auditors' competency negatively, consequently, the quality of provided report. Also, the CVP hinder audit staff as they are subject for infection, also the quarantine (lockdown) may negatively affect auditors' efficiency and thus audit quality [6]. Thus, the third research hypothesis was established and states:

H3: CVP effects Audit Staff Provisions.

- **Audit procedures**

Auditing procedures are used to plan audits such as, fieldwork, audit conclusions, and judgment up to reporting stages. During the CVP, many companies are subject to increased risk level of either bankruptcy or manipulation of their reported profits [11]. Therefore, auditors should enhance the employed analytical measures in evaluation. These analytical procedures regularly refer to a diagnosis's process that identifies the cause of companies' unexpected balance fluctuating or the risk of fraud significantly arising from these irregularities [1].

The increased corruption rates represents a potential threat to quality of auditing related to the production of several interpretations in the risk review of fraud [15]. In the same time, as firms are aiming to lower the audit costs, auditors can aim to depend on the analysis procedures that assist them in obtaining an inclusive understanding regarding the financial condition of the company more, they aim to reduce the amount of tests that are time-consuming and expensive simultaneously. Moreover, these tests and procedures are nowadays being conducted via the Internet during the CVP [9].

During CVP, auditors are likely to rely on information obtained from external stakeholders "such as Service Providers, Or Financial Institutions" instead of the information obtained from companies undergoing audit supervision. Concurrently, the CVP has limited the employment of original samples, and thus the communications via Internet work plan can affect the performance and credibility of audit information which may affect audit quality [16]. Thus, the forth hypothesis of the research was developed and states:

H4: CVP affects Audit procedures.

- **Auditors' salaries and reward**

According to [13], along with the development in accountancy that has caused an increase in responsibilities and load on auditors, auditors' high salaries and reward has become a critical issue during the CVP. Countless researchers aimed to study the relationship amongst audit quality and auditor salaries, these studies suggest that they are highly related, as with increased risks auditors demand higher salary and reward to aid them in detecting the manipulation and fraud [15]. Since the beginning of CVP various firms faced financial struggles, this in turn effected audit

staff and increased the risk of having their salaries cut or unpaid leave [6].

According to wage efficiency theory, salary increases or rewards should boost the staff performance by encouraging them for putting additional efforts in their work [10]. Thus, the CVP is expected to affect the salaries of auditors, which in turn, negatively affects audit staff efficiency. As the crisis rises and auditors are subject to greater risk by the day, this may lead to breaking their incentive to take responsibilities and work in a more efficient way. Therefore, this research anticipates that un-efficient audit reports are a result of salary reduction, thus the fifth research hypothesis was developed:

H5: CVP affects Auditors' salaries and reward

#### **Research Approach**

The main research aim can be summarized in responding to the following question: Do Iraqi auditors see that the CVP has a significant impact on audit quality? Based on this question, the following hypotheses are developed to be proved or disproved:

- H1: COVID-19 will affect audit fees.
- H2: COVID-19 will affect Going-Concern Provisions
- H3: COVID-19 will affect Audit Staff Provisions
- H4: COVID-19 will affect Audit procedures
- H5: COVID-19 will affect Auditors' salaries and reward.

The study used the descriptive analytical method. A five-point questionnaire was constructed using the Likert scale as a research tool. The questionnaire was distributed electronically to randomly selected sample from the community of auditors in Iraq. The research population comprises Iraqi auditors, the sample is chosen randomly from the practitioners. An online survey was distributed using google form link, 200 responses were received within ten days starting from April 15 to April 25, year of 2021. All the questionnaires were checked before analysis, of which 89 forms were valid for testing and analysis. The remaining 111 forms were discarded either due to some neglected questions response, or the participant isn't currently employed (retired). The responses are shown in table (1) below. The research used previous researches and a questionnaire form with a Likert scale "five-point scale" to measure the respondent's perception on the research hypotheses. The scale range is as follow:

1. Strongly disagree
2. I do not agree
3. Neutral
4. I agree
5. Strongly agree

The results of the analysis reveal Cronbach's alpha (internal consistency scale) satisfactory level of reliability with a 0.7 score.

#### **Results**

Background scrutiny was performed for the respondents and the results are presented in table (1).

**Table (1)** Personal Information

<b>Expertise Percentage Redundancy</b>	More than 5 years %31.46 28	Less than 5 years %68.54 61
<b>Qualification Percentage Redundancy</b>	Member in IACA %69.66 62	Not a member in IACA %30.34 27
<b>Gender Percentage Redundancy</b>	Male %95.51 85	Female %4.49 4

\* IACA refers to the Iraqi Association of Certified Accountants

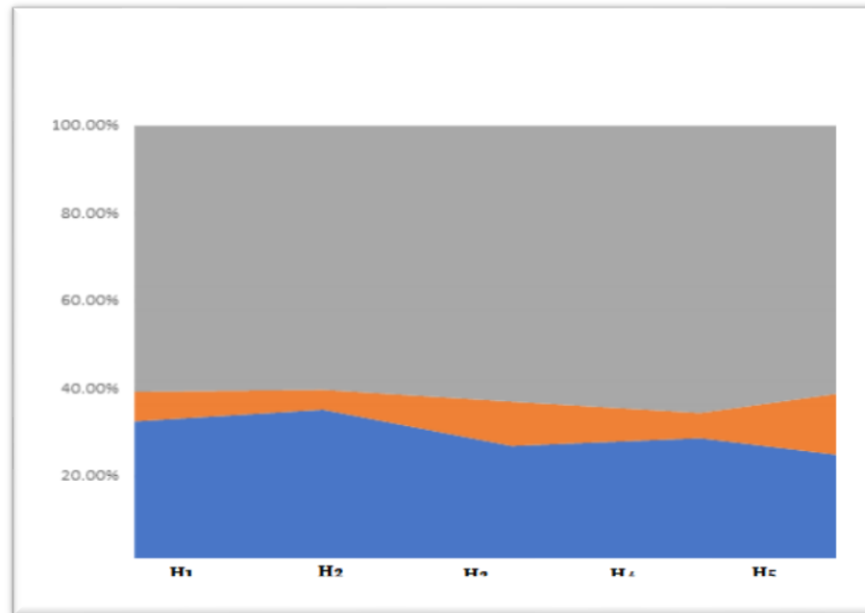
From Table (1) above it is evident that the majority of the sample are IACA members, and the remaining are not IACA members. Secondly, (68.54%) of the sample which represent the majority have less than 5 years of field experience. Lastly, the majority of the sample were Male with a percentage of (%95.51), and only (%4.49) percent were Female.

**Table (2)** Hypothesis Testing

Hypothesis	Strongly disagree	I do not agree	Neutral	I agree	Strongly agree	Significance level
<b>H1: COVID-19 will affect audit fees</b>	10.5%	3.14%	6.80%	29.05%	50.51%	0.009*
<b>H2: COVID-19 will affect Going-Concern Provisions</b>	5.72%	11.4%	4.55%	29.33%	49.0%	0.03*
<b>H3: COVID-19 will affect Audit Staff Provisions</b>	2.09%	5.01%	5.1%	24.88%	62.92%	0.000*
<b>H4: COVID-19 will affect Audit procedures</b>	7.20%	2.88%	5.60%	21.20%	63.12%	0.000*
<b>H5: COVID-19 will affect Auditors' salaries and reward</b>	9.05%	2.60%	16.55%	21.30%	50.50%	0.043*

\* Sig. acceptable below 0.05

Table (2) and Figure (1) reveal the significance level regarding the research hypothesis. The hypothesis is tested using Boost-Strapping test, outcomes below 0.05 are considered to be significant. Thus, as shown in table 2 below the five hypothesis are considered to be significant. This in turn reveal that CVP had a significant impact on auditors.



**Figure (1)** Participants' perceptions of the CVP impact on audit quality

### Conclusions

This study provided important outcomes regarding the impact of CVP on audit quality from the Iraqi auditor's perception. The results presented a high level of agreement regarding the CVP impact on the studied aspects of auditing quality. According to Iraqi auditors, CVP has a noteworthy influence on ““Audit Fees, Going-Concern Provisions, Audit Staff, Audit Procedures, and Audit Staff Salaries”, hence this epidemic has a significant impact on the quality of auditing. Thus, this research can provide an overview for researchers, auditors and future managers regarding the significant impact that CVP had. This research suggests that it is important to have future studies concerning the impact of this epidemic on audit quality to explore the perceptions of other groups concerned with the quality of accounting information, such as investors and managers.

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