

## **Financial Audit Key Audit Issues and COVID-19**

**By**

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### **Abstract**

In the international arena, the world experienced the pandemic called COVID -19, causing cross-border closures between countries and cessation of commercial operations, affecting companies, for which the International Accounting Standards Board (IASB) took the necessary measures to issue the guidelines in the presentation of the financial statements against the panorama, the auditors met in this health emergency process challenges in the work in the execution of the assignments in accordance with the International Auditing Standards, to issue the reports. The study addresses the role played by auditors and the challenges of the profession. The research was developed through a study of phenomenology,

**Keywords:** Audit, Audit Report, Key Issues, report

### **Introduction**

According to AEX and AMX PwC, (2014) found that half of the annual reports published in the year were prepared according to the new opinion model, involving companies listed in the Netherlands. Consequently, in the countries of South America, as of 2018, they began to present reports for companies listed on the Stock Exchange called group number one, some of the significant changes are the reporting of key audit matters. (KAM) are matters that, in the professional judgment of the auditor, were the most important in the audit of the financial statements of the audited period,

that its importance is gaining more and more strength despite the financial scandals that financial auditors have been involved at the international level. Information was obtained on the emphasis on the development of functions in the audit strategy. Understanding the experiences of the auditors in COVID-19 is important given the circumstances that were determined in the business field, and of the International Financial Reporting Standards, where the auditor had to analyze the new requirements of the IFRS, and in the process to determine the key issues for compliance with the International Auditing Standards, one of the factors that had the greatest positive impact were the key audit issues in the auditor's report.

The key audit matters and the treatment given by the auditor to give answers to the questions, the auditor's opinion regarding the financial statements of the companies gives

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confidence to the users of the financial information as partners and external parties, despite that the work is carried out remotely from the offices of the audit firms, or from the workplaces of each auditor, the coordination work of the work teams by the partners and audit managers where most of the cases personnel management in the review process by the Quality Control Standards (NICC 1), most of the non-conformities in the adequate and supported evidence of the work papers of the engagement were presented in the execution of the audit to your approval, taking into account that the working papers constitute the evidence of the work carried out by the auditor of the financial statements.

Due to not having the information that was normally provided by email to the companies' management assignments, the risk of error or fraud of the information provided by the clients was present in the magnifying glass of the audit team's discussions in the firm assignments. The data from the surveys of the 40 audit partners of the audit firms, allowed us to know the challenges they faced in the work of the assignments in COVID -19 and the different independent reports delivered to the organizations,

### ***I. Previous Research And Theoretical Foundations***

The financial audit allows ruling on the financial information of the companies, for this purpose the procedures determined in the International Auditing Standards must be complied with, which contains the planning, execution and closing of the audit, each of the stages to be developed requires professional expertise of the audit team, both academically and in the business field, of the auditing standards NIA 200, establishes the responsibility of the auditor regarding the financial statements, which is to give an opinion on the financial statements that they are free from material errors and fraud. The audit planning and emphasis is determined from the understanding of the client and the control risks that are observed in the client's operating cycles,

The changes in the report of the auditor's opinion, had been previously debated by international regulators and professionals, the debates focused on the structure and content that should be immersed in the report, taking into account the added value on the reports and reports of the auditors Conscientiously, the International Federation of Accountants identified the need to change the focus of audit reports and adopted an international standard that includes significant changes in the information in those reports IFAC, (2013), in many years, the value reported by the external auditors Asare & Wright, (2012) has been questioned; Carson and others (2013). This concern is due to the fact that, despite the work of the auditors, the users of the aforementioned report do not consider it a reliable source of information,

The IASSB, as an agency responsible for issuing international auditing standards, has brought several updates to the international auditing standards, therefore the main changes were the obligation for companies to describe the main KAM audit issues and the work of audit in relation to these questions of KPMG (2016), with the aim of improving and increasing the information contained in the audit report, NIA 701, contains KAM, which are judgments that the auditor professional, were of great importance in the audit of the financial statements of the current audited period, to inform the KAM, the listener must determine in the execution from the audit of the list of problems that have been communicated to the government controls, the problems that, with their professional criteria, require greater attention when conducting and auditing.

The new auditor's report contains major audit issues, which are issues that, in the listener's professional judgment, were the most significant in our audit of the financial statements of the current period, the major audit issues being selected from the issues. communicated to the leaders of the entity's government in accordance with ISA 701.

## Methodology

### Research Issues

In the investigation, the importance of auditing financial statements has been discussed, with respect to the discussion above, it illustrates the growing importance of auditing and even more so in the advances that are expressed in the profession. The general objective is to investigate the current and future work of the audit function. Surveys were carried out with the interested parties associated with auditing firms, to obtain the factors that influenced the International Auditing Standards at work in times of COVID-19 and the challenges of the profession.

*Related specific research questions are listed below.*

RQ1 What role did the financial audit play in the time of COVID-19?

RQ2 What factors affected the application of International Auditing Standards in the audit work?

RQ3 Does the opinion of the auditor's report differ on COVID -19?

RQ4 What is the future role of financial auditors after covid-19?

### Research Methods

The research was developed through a phenomenology study, with the use of surveys to Smith et al. (2009), the applied methodology has evolved to analyze the perspectives of the participants in research studies on people and social interactions, Crotty (1998). The participants chosen for this study belong to the audit firms of the Big four auditing companies, participants were chosen as Partners of the firms and Audit managers, the respondents are members of the Quality Control audit committee and high-level accountants . The sample contains 40 participants, among whom were: 30 Audit Partners and 10 Senior Audit Managers, partners and accountants Senior Managers who have the designation. The board provides a list of the demographic characteristics and basic job information of the participants

**Table 1.** *Demographic characteristics surveyed*

<b>Pseudonym</b>	<b>First grade</b>	<b>Postgraduate</b>	<b>Industry</b>	<b>Year of degree</b>	<b>Gender</b>
Juan	Public accounting	Public Accounting Specialist	Accounting	1990	Male
Diana	Public accounting	Audit Specialization	Accounting	2000	Woman
Sebastian	Public accounting	Tax Specialization	Audit	2000	Male
Diego	Public accounting	MBA	Finance	nineteen ninety five	Male
Daniel	Public accounting	Tax Specialization	Accounting	2011	Male
Sonya	Public accounting	Tax Specialization	Accounting	2012	Woman
wilmar	Public accounting	Tax Specialization	Accounting	2013	Male
Alexandra	Public accounting	Comptroller Specialist	Finance	2014	Woman
Pablo	Public accounting	IFRS Specialist	Finance	2000	Male
Jairus	Public accounting	MBA	systems	2000	Male

<b>Pseudonym</b>	<b>First grade</b>	<b>Postgraduate</b>	<b>Industry</b>	<b>Year of degree</b>	<b>Gender</b>
Daniela	Public accounting	Master in Accounting	Accounting	2000	Male
Monica	Public accounting	IFRS Specialist	Accounting	nineteen ninety six	Male
Pablo	Public accounting	MBA	Accounting	2001	Male
Monica	Public accounting	Audit Specialization	Accounting	2000	Woman
Alex	Public accounting	Audit Specialization	Accounting	1999	Male
Ester	Public accounting	MBA	Accounting	1986	Woman
Camilo	Public accounting	Audit Specialization	systems	2000	Male
Carlos	Public accounting	None	Accounting	1994	Male
David	Public accounting	MBA	Accounting	2001	Male
Pedro	Public accounting	None	systems	2021	Male

**Source:** own elaboration

### *Development and content of the instrument*

The benefits of surveying 40 professionals to obtain in-depth information have been well documented in the accounting literature.. The data was collected through surveys. The questions for all participants were organized around the current role of auditors in Covid-19. They were asked about the role of the financial audit function within the organization. Next, they were asked about their role in the future. In addition, audit partners were asked about their own role in this area within their own organization. These questions were based on recent literature. The survey questions were reviewed by several experienced academics to ensure the validity of the instrument (Cohen et al. 2010) and were pilot tested with an audit manager.

### *Carrying out the survey*

All surveys were conducted during the first quarter of the year 2022 by the researchers. The time spent on these additional questions ranged from a few minutes to 20 minutes, the respondents to set aside an hour to answer the questionnaire. Each respondent began with measures to reduce participants' reluctance to provide information freely.

In the first place, we describe the general objective of the research, the interest in their experiences, the objective of the data collection and the use that would be made of them. Second, participants were assured that their responses would be anonymous, both to themselves and to their organizations.

## **Results**

In the analysis of the results of the surveys carried out on the partners of the audit firms, they are the following:

### *RQ1 What role did the financial audit play in the time of COVID-19?*

100% percent of the respondents agree in determining that the financial audit allowed in the covid-19, to increase confidence in the work of the auditor when expressing the opinion

of the financial statements and the due recommendations provided in the process. of audit, increased credibility to the administration of audited information, support for the detection of material risks that can affect the assets of organizations, evaluation of internal control, the work of the audit generated a state of calm about the figures of the financial statements for decision making, as well as for external users of the organizations.

***RQ2 What factors affected the application of International Auditing Standards in the audit work?***

In financial audit work, auditors face a number of problems when conducting an accounting examination that complies with the application of international auditing standards, such as ISA 200, which sets global objectives, and performance audits evaluations are always skeptical, but Taking into account Covid 19, the professional had to remain highly skeptical in critically evaluating the evidence, answering questions and information from the administration and those responsible for the effect of the audited entity on the financial statements. According to the terms of the audit contract, the auditors must verify that the management prepares the financial statements and that they reflect the impact of Covid-19 in a way that gives a true and fair view of the regulatory framework applicable to the company's financial information.

***RQ 3 Do the opinions of the auditor's report differ?***

Some audit procedures applied by the Big four audit firms in the following review procedures from which the key issues of the auditor's report were taken: Evaluation of the estimates of leases, rates and discount as their recognition of the accounts accounting of the balance sheet, verification of the reasonableness of the lease figures, verification of rents obtained as a result of the renegotiations of the lease contracts with the covid-19 pandemic, and evaluation of compliance with the memory of the financial statements.

The key audit matters in the opinions delivered, of which the relevance that the firms have given, the analysis of IFRS 16 of lease, mathematical calculations of leases, recognition in the financial statements and disclosures are highlighted. The reports in the section on key audit matters in the words most used by all, highlights aspects such as: IFRS, recognition, contracts, valuation, risks, taxes, impairment, models, reasonableness, 100% of the reports are with opinion not modified. It is highlighted that the communication of the results of the audits was developed online, changing the methodology of the socialization of the reports due to COVID-19. The identification of the most used KAM is classified into 4 risk groups. Rodriguez, Piñeiro, & De Llanos, (2013) expose the risk as an inherent aspect of the organizational activity and that it occurs at any time, they also state that in most cases its complete elimination is not possible. According to Fakhfakh, (2016), some investigations against the independent auditor's report have been analyzed with the specific criteria of length, linguistic consistency and legibility, demonstrating incomprehensibility of the audit report, generating problems in the interpretation of the report. In this order, when the Auditors attack the KAM, they must do so according to an identification of the specific risks of each company. For this study, the risks were classified under the following structure: They also state that in most cases its complete elimination is not possible. According to Fakhfakh, (2016), some investigations against the independent auditor's report have been analyzed with the specific criteria of length, linguistic consistency and legibility, demonstrating incomprehensibility of the audit report, generating problems in the interpretation of the report. In this order, when the Auditors attack the KAM, they must do so according to an identification of the specific risks of each company. For this study, the risks were classified under the following structure: They also state that in most cases its complete elimination is not possible. According to Fakhfakh, (2016), some investigations against the independent auditor's report have been analyzed with the specific criteria of length, linguistic consistency and legibility, demonstrating



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### ***Strategic Risks***

The analysis of this type of risk has been raised from the version of the COSO (2013) when it is stated that the risk is inherent in the formulation of the organizational strategy and that it is now much more difficult to face due to volatility and ambiguity. (Enterprise Risk Management, 2017) The following strategic risks are identified for listed companies

- a) Good Will Assessment: This concept reviewed by Montoya, (2009) is understood as the risk that is measured from factors such as responsibility, proper management of organizational resources, assistance and review of daily tasks, efficiency and timeliness of work. which results in a quality service.
- b) Objectivity of the people to be supervised: As auditors, it is essential that the audited organization demonstrate mental independence that reduces the risk of information manipulation and that directly results in economic losses for the company, it is in this order that it is identified as a KAM evidenced in the opinions of the companies.
- c) Administration development plan: It is a key factor in the audit of financial statements because it determines the objectives of the companies, it allows clarity regarding costs, efficiency in the processes. This section classifies other KAMs evidenced as the administrative and operational processes by senior management of the evaluation of business combinations and goodwill.
- d) Discounts in trading with clients: It is a KAM that allows identifying elements such as loss of profitability, efficiency in the use of resources received in advance and its effect on the liquidity of the business.

### ***financial risks***

They allow to identify the degree of instability with respect to the investment in the organization, it will be understood that, the higher the risk, the higher the profitability of the investment, within the financial risks are: liquidity, exchange rate, solvency, and interest rate between others. Olarte, (2006)

Integrity and accuracy of financial information: An essential aspect in any audit process, since it allows the reality of accounting data to be asserted. Although these types of companies have all their processes automated, it is necessary to guarantee that the data and processes comply with the standards. in force and that the calculations made at the time of registration were carried out appropriately.

Implementation of IFRS 16: This aspect is evaluated by the auditing firms in the sense

of what is stated by Vadillo (2019) supported by what is proposed by the IASB when interpreting the change that is generated in the standard as of the taxable period 2019 with the change in the management model of financial leases that must already be included in the balance sheet and not, as was allowed with the previous standard, that they could be left out of said financial statement. The standard leaves the financial lease as the only scheme, leaving aside the operating lease.

### ***Operational risks***

Accuracy of projections: like KAM, it allows the organization to identify business trends and make comparisons that identify the organization's productivity ratio compared to others, in concepts such as income, profit margin, and economic reality in relation to with the interests of the company.

Analysis of signs of impairment: In May 2013, IAS 36 was modified, a standard that speaks of fixed assets, the initial, subsequent measurement and impairment of assets, according to this standard applicable in Colombia, all assets other than inventories, instruments financial, and investment accounts. Rum, (2015). It is for this reason that for the 2019 period a representative KAM is considered from the need to identify the real value of the organization's assets that are affected by impairment.

### ***Information technology risks***

Tests on the environment and controls generated with information technologies: With technological changes, it is essential to review the way in which the organization operates with increasingly automated processes, aspects such as user controls, access, authorizations, hierarchy in It is necessary for the processes to be reviewed by the statutory auditor to guarantee that the financial information was not violated, addressing at the same time another of the KAMs: general controls on information technologies. that allow, in addition to identifying vulnerabilities, to determine if the processes in the company have the necessary requirements so that the information is not stolen or used for personal benefits by any of the members of the organization.

### ***RQ4 What is the future role of financial auditors after covid-19?***

Due to the covid-19 pandemic, a high jump was made in the acceptance of technologies for both companies and auditing firms, the analysis of Big Data company information, what is the ability of the auditor to analyze the information that is stored in the cloud or servers of the companies with data mining when extracting the data and co-investing it into valuable information for a predetermined objective, Artificial intelligence, used in the audit to carry out processes and crossings automatic information. However, auditors must be trained to plan and execute with the new information technology tools to determine the correct use of their work in companies, the use of online data mining, for the examination of the panorama of uncertainty and emerging risks facing the financial statements of the companies. Among the responses, the creation of awareness in the audit team, the security of information systems and cybersecurity, such as timely reporting in continuous audit reports to improve virtual and hybrid processes, was highlighted.

## **Discussion And Conclusions**

The requirements of the accounting reference frameworks and compliance with the International Auditing Standards, required the auditor to have an attentive professional skepticism in the accounting periods where the covid-19 pandemic originated, this has given rise to that confidence in the auditor, who was presumed to be lost in previous cases due to financial scandals arising in past decades, the audit reports have become more important due

to the modifications made by international organizations such as IFAC, in the content of the key issues of audit, the corresponding to the Covid-19 were reported and how the auditor gave them answers to these, this information being of greater importance for the investments for the decision making experienced in the pandemic. The factors that arise from the experiences of the audit firms in the provision of services is that the audit processes must play a role more than systems aligned in information technologies such as big data, 4.0 reports, the integration of financial information from clients, with data analytics software, estimates and review of items in the financial statements.

The key audit issues presented by auditors on financial statements, for companies shows a degree of responsibility by international regulators for the advancement in the accounting profession in the adoption of international information assurance standards, followed by the above the content of the report with the new structure of the independent financial auditor will help as an instrument to show an added value in the reports for partners of the organizations both in the presentation of the opinion in the first paragraph of the report and in the information of the key issues and of the answers that the auditor gave in the audit process in the engagement, so that investors can make decisions and generate confidence in the market for other users of the information.

Lastly, I draw attention to the greater number of KAM in the reports of key audit issues in terms of their descriptions in content and length in some cases in tables, all of this is due to the greater requirements in the regulation entities of the companies. The new challenges for auditors consist of training audit teams in the use of new technologies, adapting the auditor's work to the operational focus of the new environment, both face-to-face and virtual, such as communication approaches of the work team with clients and even greater in the identification of security systems and contingency plans in the face of new emerging risks.

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