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COVID-19 AND THE QUALITY OF AUDIT EVIDENCE: ASSESSING THE IMPACT ON AUDITING PRACTICES IN INDIA

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ABSTRACT

COVID-19 pandemic was truly the striking booster for the surgical empowerment of Digital era and marketing. It revolutionized and transformed the B2B to B2C era. Although the awareness of Digital Marketing was buzzing in air before COVID-19, the visibility was certainly low. Few Top-rated brand corporates were progressively alert about its gravity-based largescale markets, big-size revenue, ensured that digital marketing would create a consumer-driven importance in a way ahead of bridging effective communication between consumers and businesses. Remote-and Hybrid working was the ultimatum in bringing more Online Business to the Marketing Managers onboard. The global consumers were highly influenced by trending digital campaigns and contents popped out on popular social digital platforms. Due to insufficient budget, startups were the first-time game changing players in markets who incessantly fought against all odds facing while developing the software on-demand. Extreme programming and Kanban made things possible and finally experts built viable interface for supporting efficient online infra through consumer-friendly apps and websites. The business corpus was entirely into online campaigns and held onto "Everything's just ONLINE." The data shows that out of many challenges, during the phase of COVID-19, 59% of some listed companies fueled their efforts on solving problems in areas of digital marketing and 66% of them finished of the task waiting for an ONLINE world that never was before. POST-COVID was full of new wave excitement, unlimited opportunities piled up for skilled digital marketers and service providers. The hiring process of these skilled content creators, digital marketing managers and online advertisers was just a culture shock in the new age digital era, however, "everything's just Online" is the outstanding local to global trend in continuing.

Keywords: Digital Marketing, COVID-19, Marketing Managers, Online Business, Post - Pandemic Marketing, Marketing Trend

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1. INTRODUCTION

Achieving quality in auditing continues to be a focus area. Latest pronouncements like the International Standard on Auditing (220) Quality Management for an Audit of Financial Statements (International Auditing and Assurance Standards Board, 2020), International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (International Auditing and Assurance Standards Board, 2020), and the International Standard on Quality Management (ISQM) 2, Engagement Quality Reviews (International Auditing and Assurance Standards Board, 2020) stand testimony to the continuous efforts to improve quality of auditing. Quality of audit evidence is a fundamental requirement for effective

auditing. Audit evidence constitutes the basis for the formation of an audit opinion. Substandard quality audit evidence can adversely impact the accuracy of the audit opinion. This paper looks at the impact of COVID-19 on the quality of audit evidence. It aims at finding out if the changing audit environment has affected the quality of audit evidence. This investigation was done by way of a survey of 400 auditors from India who have audited organizations for the financial year starting 1st April 2020 and ending on 31st March 2021.

2. LITERATURE REVIEW

To validate and prove their point of view, auditors are required to substantiate their say based on support from audit evidence (Johnstone et al., 2013). Mautz (1958) states that the decision about the nature and reliability of audit evidence to be obtained is a difficult one. Windal (1961) opines that the materiality, consistency, and reliability of audit evidence depend largely on the auditor's intuition. Enofe et al. (2014) claim the quality of audit evidence impacts that audit quality. Zakari and Menacere (2012) conclude that the academic and professional qualifications of the auditor, the consistency of the audit evidence, and the amount of evidence are the factors that directly impact the quality of audit evidence. Bennett and Hatfield (2013) have presented an interesting fact that the audit staff may not like to interact much with the client, which can affect the audit evidence collection. Authors have stated that email communication helps avoid the audit staff and client interaction as much information can be exchanged through email. Such tendencies of the audit staff avoiding interactions with the client increases the risk for the auditor. *A study by Rahim et al. (2020) finds that the quality of audit staff, type of client, and type of communication has a positive and direct effect on collecting audit evidence. Additionally, it was found that the type of communication moderates the results. A friendly client helps the auditor in collecting more audit evidence. Xiao et al. (2020)* suggest that audit effort significantly improves audit quality by impacting the audit output and audit process. Hao et al. (2007) hypothesize that audit data extracted from electronic sources should lead to high-quality audit evidence at a relatively lower cost. Nugraha et al. (2020) show that the two variables, audit evidence, and ethics code enforcement, impact audit quality with an R-squared value of 24%. Interestingly, however, a partial test shows that while audit evidence impacts audit quality, enforcement of the code of ethics does not impact audit quality. Beasley et al. (2001), in their work "Top 10 Audit Deficiencies," point out that 90% of the problematic cases were related to the failure of the auditor to gather sufficient audit evidence. Niktaba and Aslani (2015) write that there are no objective measurements to assess the quality of audit evidence. Its quality is dependent on factors like the auditor's ethics, the professional judgment related to the auditing standards, and the accounting references. Yoon et al. (2015) have pitched for the usage of Big Data as complimentary audit evidence. Authors have evaluated the applicability of Big Data using the framework of audit evidence criteria and have also provided cost-benefit analysis for sufficiency, relevance, reliability, and considerations.

3. METHODOLOGY

There are around 125,000 Chartered Accountants in full-time practice in India (Banchariya 2018). At 95% confidence level and 5% confidence interval, the sample size for a population of 125,000 works out to 383. So, we rounded it off to 400. Our study aimed to find out the impact of COVID-19 on the quality of audit evidence related to audits performed for the financial year ending on 31st March 2021. We seek to strengthen, support, and analyze these theoretical generalizations through substantial empirical evidence, focusing on the quality impairment of audit evidence. We aim to lend some precision to the generalized discussion by looking at specifics of the quality impairment dimensions of audit evidence. The analysis expects to measure the levels of impairments to ascertain their scale. The ultimate audit opinion is based on a large amount of audit evidence from various sources, in different situations, and specific conditions. Our study, therefore, endeavors to touch on several such finer components of the audit evidence and evaluate the impairment more systematically. This information will be useful to policymakers while addressing this issue at their level to frame specific standards and policies to deal with different aspects of the audit evidence.

As the concept of quality of audit evidence is a bi-dimensional construct, we hypothesized as under:

Ho1: There was no significant impact of COVID-19 on the relevance dimension of the quality of audit evidence

Ha1: There was a significant impact of COVID-19 on the relevance dimension of the quality of audit evidence

Ho2: There was no significant impact of COVID-19 on the reliability dimension of the quality of audit evidence

Ha2: There was a significant impact of COVID-19 on the reliability dimension of the quality of audit evidence

Table 1: The survey questionnaire used for the study

SURVEY QUESTIONNAIRE		
A comparative study of the impact of COVID-19 on the quality of audit evidence		
PROFILE INFORMATION		
1	Age (<30 years, 30-40 years, 40-50 years, >50 years)	
2	Status (Proprietorship, Partnership)	
3	Standing of the firm (<5 years, 5-10 years, >10 years)	
4	Number of staff (<5, 5-10, 10-20, >20)	
Section I. Impact on Relevance		
For the following, how does the quality of audit evidence collected during the COVID-19 hit audits compare with earlier normal period audits in terms of its relevance? Rate your opinion on a scale of Highly improved, Improved, At par, Impaired, Highly Impaired		
No.	**Aspect**	**Response**
1	Performance of substantive audit procedures	
2	Performance of analytical audit procedures	
3	Testing the efficacy of the internal control system	
4	Testing the major assertions in the financial statements	
5	Verifying that there is no overstatement or understatement of the assertions	
6	Collecting information contained in the financial statements	
7	Collecting information other than contained in the financial statements	
8	Performance of audit procedures at specific periods like at the year end	
9	Collecting information in respect of abnormal items or deviations	
10	Collecting information related to major statutory compliances	
Section II. Impact on Reliability		
For the following, how does the quality of audit evidence collected during the COVID-19 hit audits compare with earlier normal period audits in terms of its reliability? Rate your opinion on a scale of Highly improved, Improved, At par, Impaired, Highly Impaired		
No.	**Aspect**	**Response**
1	Obtaining independent external evidence from third parties	
2	Ascertaining effectiveness of controls in case of internally generated evidence	
3	Obtaining evidence through direct observation by the auditor	
4	Obtaining evidence in a documentary form	
5	Getting original physical documentary evidence	
6	Ascertaining effectiveness of special controls that are used in case of computerized accounts	
7	Ascertaining the professional competence level of employees of the auditee in case of internally generated evidence	
8	Getting direct access to the IT systems to get an overall feel about its reliability	
9	Obtaining cross-verifications to corroborate primary evidences	
10	Competence of the audit staff to handle evidences that were largely in electronic form	

4. DATA ANALYSIS AND INTERPRETATION

Eight respondents were <30 years of age. While 125 belonged to the 30-40 years group, 131 belonged to the 40-50 years group, and another 136 were more than 50 years of age. Out of the 400 auditor respondents, only 16 were proprietor firms, whereas 384 were partnership firms. One hundred forty-two audit firms out of the 400 sampled had a standing of <5 years. While 128 audit firms had a standing of 5-10 years, 130 had a standing of >10 years. Out of the 400 audit firms sampled, 113 were operating with a staff size of <5, 107 were operating with a staff size in the range of 5-10, 85 in the range of 10-20, and 95 firms had a staff >20.

Tables 2 and 3 show the plain count of the 400 responses to the twenty elements spread over the two sections of relevance and reliability for the five response options.

Table 2: Plain count of responses to the ten elements from the 1st section of the questionnaire

Elements/Responses	Relevance									
	1#	2	3	4	5	6	7	8	9	10
Highly Improved	31	47	44	80	24	52	26	11	67	27
Improved	30	44	31	40	26	34	40	33	32	31
At par	3	16	3	16	3	29	4	1	43	5
Impaired	164	226	155	152	176	154	166	165	152	168
Highly Impaired	172	67	167	112	171	131	164	190	106	169
Total	400	400	400	400	400	400	400	400	400	400

For details, please refer Table 1, Section I of the questionnaire

Table 3: Plain count of responses to the ten elements from the 2nd section of the questionnaire

Elements/Responses	Reliability									
	1#	2	3	4	5	6	7	8	9	10
Highly Improved	64	20	13	71	14	44	20	14	28	81
Improved	29	20	22	41	49	23	27	27	23	31
At par	56	10	15	11	9	6	4	7	9	4
Impaired	153	172	167	162	146	162	187	178	180	170
Highly Impaired	98	178	183	115	182	165	162	174	160	114
Total	400	400	400	400	400	400	400	400	400	400

For details, please refer Table 1, Section II of the questionnaire

As shown in Tables 2 and 3, the two sets of responses were divided into two groups of Improved and Impaired by applying weights of 2 each to the Highly Improved and Highly Impaired responses, one each to the Improved and Impaired, and 0 to the At par responses. Thus, for each element, the division of responses was made over the Improved and Impaired category. Next, these weighted counts were converted into percentages. Tables 4 and 5 show the percentage division of the responses after applying the weights.

Table 4: Division of Section I responses

Elements/ Responses	Relevance										
	1	2	3	4	5	6	7	8	9	10	Average
Improved %	15%	28%	20%	35%	13%	25%	16%	9%	31%	14%	21%
Impaired %	85%	72%	80%	65%	88%	75%	84%	91%	69%	86%	79%

Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Table 5: Division of Section II responses

Elements/ Responses	Reliability										
	1	2	3	4	5	6	7	8	9	10	Average
Improved %	31%	10%	8%	32%	13%	18%	12%	9%	14%	33%	18%
Impaired %	69%	90%	92%	68%	87%	82%	88%	91%	86%	67%	82%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Table 6: Testing of Hypotheses 1 and 2

Parameter	H1 values	H2 values
Ho (Sample mean)	79%	82%
SD (Standard Deviation of sample)	1.278051	1.23808
H1 (Hypothesized mean of population)	50%	50%
n (Sample Size)	400	400
t-statistic #	4.61	5.17
p-value	<0.0001	<0.0001

t-statistic = ((Sample mean - Hypothesized population mean)/ (SD of sample)/ √Sample size))

The overall sectional average impaired % were compared with a hypothesized population mean of 50% impairment, taking it as an event as a matter of chance. As the standard deviations of the population were unknown, a t-test was applied at a 95% confidence level, and the two null hypotheses were put to the test. These calculations are shown in Table 6.

Going by the p-values, we reject both the null hypotheses that there was no significant impact of COVID-19 on the relevance and reliability dimension of the quality of audit evidence. In other words, the responses empathetically support the overall hypothesis that COVID-19 has impaired the quality of audit evidence as compared to what it used to be in the pre-pandemic period.

5. CONCLUSION

Tons of data, information, spreadsheets, pdfs, and other material supplied to the auditor does not necessarily translate into quality audit evidence. Unless these are relevant and can be relied upon, they are not of much use for the auditor to form an opinion. This is the summary of the survey responses. The respondent auditors recorded a high impairment of quality in terms of relevance and reliability. Findings lead us to conclude that there was a major deterioration in the quality of audit evidence obtained in the audits conducted during the pandemic, thereby substantially increasing the audit risk. It would be challenging to deal with financial statements audited based on the poor quality of audit evidence. Users of such statements shall be required to take extra precautions before taking any decision. The audit from Office is the new way of auditing running parallel to the concept of work from home amidst the COVID-19 pandemic. Both the auditors and their clients were caught off-guard by the pandemic. They could not have perhaps imagined a situation like this where the auditor will have little access to the premises and records of the auditee. Audits done during the pandemic were virtual audits marred by the poor quality of audit evidence lacking relevance and reliability. It was an unprecedented situation, and the auditor could not access even basic things like the accounting system, accounting records, original documents, internal control system, and tangible assets like cash. The pandemic year was a year of Audit from the Office, and on top of it, the auditor's staff also worked from their home. Inability to procure relevant information about the assertions and controls is a major blow to the quality of audit evidence. Reliability too took a major hit, and it eventually landed the auditors in a situation where they expressed their opinion

assuming large risks. A major thought process is required to deal with such a situation where just like work from home, concepts like audit from Office are becoming a reality. Perhaps, the time has come to think of alternative models of audit that would handle situations like the COVID-19 pandemic. Apex audit agencies need to develop guidelines and standards to deal with the changing audit environment that has threatened an important aspect in auditing – the quality of audit evidence. In doing so, both the dimensions of relevance and reliability should be given due consideration, as this paper has elaborately discussed.

CONFLICT OF INTERESTS

None.

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