

THE IMPACT OF COVID-19 ON THE EXECUTION OF AUDITS IN MALAYSIA

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ABSTRACT

Research aim: This study aims to investigate the impact of the Covid-19 pandemic on the execution of audits in Malaysia. This study also will examine the readiness of Malaysian auditors to work from home (WFH).

Design/ Methodology/ Approach: A questionnaire survey was employed with 171 Malaysian external auditors participating.

Research finding: This study found that all three audit areas – audit planning and fieldwork, group audit engagement and auditors' reports – were highly impacted due to Covid-19. As for readiness to WFH, results show that Malaysian auditors are not ready to implement the approach. Conversely, Malaysian audit firms were ready to implement WFH.

Theoretical contribution/ Originality: This study is among the few identifying the impact of Covid-19 on the execution of audits. It also contributes by identifying auditors' and audit firms' readiness to implement a WFH approach.

Practitioner/ Policy implication: This study will benefit audit firms especially in implementing a WFH approach.

Keywords: Covid-19 impact, Audit, Readiness, Work from home (WFH)

Type of article: Research paper

JEL Classification: M42

1. Introduction

Since the Covid-19 outbreak, Malaysia faced several phases of a movement control orders (MCO) starting from March 18 until December 31, 2020. This continued in 2021 for the second and third wave of the Covid-19 outbreaks until the end of the year. With the introduction of MCO, all activities were restricted and people were forced to work from home (WFH). This included almost all economic sectors, except for essential services (Bernama, 2020).

Audit services were also affected. Due to the MCO, all activities related to audits were suspended as audits do not fall under essential services. The closure of most industries affected the ability of audits to be completed within the stipulated period. Typical audit engagements and fieldwork were restricted, which adversely affected audit quality (Albitar et al., 2020). A study on audit quality during the pandemic in the United States reveal a pattern of decreasing audit quality. In this case, firms with high inventory, high R&D expenses and non-Big 4 auditors were found to be most affected by decreasing audit quality (Gong et al., 2022). This happened due to universal restriction for on-site audits, especially when it involves intensive accounts, such as inventory and R&D.

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Besides, non-Big 4 auditors were also unable to overcome online audit environment challenges. Due to these reasons, it is important to understand the impact of this unprecedented event on the execution of audits to reassure clients of the efficacy of audits and its ability to achieve its objectives. Therefore, understanding and identifying the impact of Covid-19 lockdowns on the execution of audits in Malaysia is essential.

This study examines the effects of MCO on normal auditing engagements due to WFH. This includes the effects on audit planning and fieldwork, group audit engagement and audit reports. This study will also discuss the readiness of Malaysian auditors to engage in WFH, especially during the MCO. This study is expected to contribute to the literature by identifying the impact of Covid-19 on the execution of audits in Malaysia. Also, this study is among the first to examine the relationship between the Covid-19 pandemic and audits. The findings can be used as a reference in the implementation of WFH for the execution of audits post-MCO or other circumstances that may affect existing work settings. Lastly, this study enriches the literature on the ability of the industry to transition and operate in a new audit working culture, namely WFH.

The remainder of this paper is organised as follows. Section 2 reviews and summarises the literature and publications in the field of public sector performance auditing that triggered the rise and the current need of follow-up practice. Section 3 describes the methodology of the study. Section 4 provides findings and discussions of this qualitative study. Section 5 concludes the paper with a summary, limitations, implications and avenues for future research.

2. Literature Review

2.1 Impact of Covid-19 on the execution of audits

Although the pandemic-induced lockdowns made it tough to conduct normal audit processes, Malaysian auditors were still required to do so according to both local auditing standards and International Standards on Auditing (ISAs). Therefore, Malaysian auditors needed to perform even for affected audit engagements. Malaysian auditors also needed to consider the impact of the Covid-19 pandemic on audit work, such as audit planning and fieldwork, group audit engagement and audit reports (MIA, 2020).

A number of ISAs were affected by Covid-19. For instance, the pandemic affected ISA 315: Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, by affecting the planned audit approach due to new or revised risks. Audit evidence was difficult to obtain when the client is effectively not operational during the MCO (IAASB, 2020). In this case, reliance on internal control understanding is affected due to Covid-19, with audit risk assessments and procedures needing to be revised and modified in accordance with ISA 330: The Auditor's Responses to Assessed Risks.

Another related standard, ISA 320: Materiality in Planning and Performing an Audit, highlights that if misstatements in the amounts or frequency are greater than the planned materiality level due to Covid-19, it shows that the risk assessment may not appropriately reflect true circumstances, and planned audit procedures may not be effective in detecting material misstatements. Therefore,

there was a need to revise the materiality levels for particular classes of transactions, account balances or disclosures.

Under ISA 500: Audit Evidence and ISA 501: Audit Evidence – Specific Considerations for Selected Items, another impact of Covid-19 is on obtaining sufficient audit evidence due to the physical restrictions on clients' premises. Malaysian auditors needed to consider alternative methods in gathering audit evidence. For example, external confirmation was obtained directly from the confirming party. Examinations of clients' records and documents could also be performed electronically (MIA, 2020). For inventory audit tests, Malaysian auditors considered which items were absolutely vital to be tested, or conducted the count at a later date. In this case, if a warehouse was closed for a period due to MCO, Malaysian auditors could decide to perform a physical inventory count before the warehouse reopened for production. To do this, Malaysian auditors needed to ensure there was sufficient evidence to demonstrate that no inventory was removed or added during the closure period, perhaps by referring to security systems and CCTV footage (Castka et al., 2021; ICAEW, 2020).

The consideration to revise or use alternative audit risks assessments and procedures will also lead to considerations on changing how auditors prepare audit documentation. According to ISA 230: Audit Documentation, audit documentation may be recorded on paper, electronic form or other media. However, maintaining audit documents is vital regardless of the changes in preparing audit documentation without degrading the quality of audits. In addition, any changes made to audit risks assessments and procedures due to Covid-19 must be taken into account when preparing audit documentation (Appelbaum, Budnik & Vasarhelyi, 2020).

For group audit engagements, several impacts due to the Covid-19 were identified based on ISA 600: Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors). First, the auditor team can relinquish access to component auditors due to restrictions faced by MCO. Second, due to the same restriction, the group auditor team may be unable to perform audits of financial information of the component using component materiality. In addition, there will be a challenge to audit procedures relating to the significant risks of material misstatement of the group financial statements for one or more account balances, classes of transactions or disclosures (MIA, 2020). Therefore, the group auditor team's planned procedures in relation to the work of component auditors need to be reassessed (IAASB, 2020). Besides, restrictions on access may lead the group auditor team to consider disclaiming an opinion made by the component auditor when there is a possible effect on the component financial statements of undetected misstatements that could be both material and pervasive (Bauer, Humphreys & Trotman, 2022).

Another impact on financial statements due to Covid-19 that needed to be addressed by Malaysian auditors is accounting estimation. Based on ISA 540: Auditing Accounting Estimates and Related Disclosures, several accounting estimations might be affected such as cash flow forecasts, discount rates, changing inherent risk factors, impairment of assets and fair value measurement (IAASB, 2020). Therefore, Malaysian auditors were required to re-evaluate the relevant

methods and whether the assumptions and reliability of data are appropriate (MIA, 2020).

The pandemic, which started in Wuhan, China in December 2019, spread to Malaysia in early February 2020 before the audit and authorisation of the financial statements. Most Malaysian companies close their accounts on December 31. Audits are carried out in the first quarter of each year. As such, Malaysian auditors need to determine whether Covid-19 had a significant impact on subsequent events according to ISA 560: Subsequent Events. In this case, all the Covid-19 impact expectations need to be covered in financial statements. Malaysian auditors also need to determine if management observes adequate disclosure considering the impact of the Covid-19 on their annual report, to ensure consistencies in both the annual report and financial statements in accordance with ISA 720: The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements. For this, several inquiries could be made by Malaysian auditors, such as on the existence of sales and acquisition of assets, commitments, guarantees, borrowings, capital issuance, contingencies and recoverable assets (MIA, 2020).

Apart from financial statements, Covid-19 may also affect the preparation of the auditor's report. One impact of the Covid-19 on the auditor's report is the evaluation of going concern. According to ISA 570: Going Concern, auditors are responsible for evaluating and concluding on the possibility of the existence of material uncertainty. Several industries and many business entities, especially small and medium enterprises, were particularly affected due to the Covid-19. Malaysian auditors were therefore required to perform additional assessments related to going concern. Besides, it is expected for auditors to deal with the going concern as a high risk and continuously monitor the risk as well as carefully express their opinion in the audit report (Dordevic & Dukic, 2021).

In addition, where applicable, matters that rise to the level of requiring significant auditor attention owing to the impact of Covid-19 may also be reported as new key audit matters in the auditor's report (IAASB, 2020). According to ISA 701: Communicating Key Audit Matters in the Independent Auditor's Report, key audit matters will be able to ensure that the communicative value of the auditor's report has a greater transparency on the audit that was performed apart from audit opinion. Meanwhile, if no key audit matters on Covid-19 are disclosed, Malaysian auditors may consider including an Emphasis of Matter paragraph in accordance with ISA 706: Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report, particularly if the pandemic had a significant effect on the firm's financial position (MIA, 2020). It was found that auditor size, frequency of the event and going concern uncertainty significantly correlate with key audit matters reporting due to Covid-19 (Hategan, Pitorac & Crucean, 2022).

Furthermore, Malaysian auditors may need to consider modifications to the audit opinion if they are unable to obtain sufficient appropriate audit evidence due to Covid-19. They may also need to limit the scope of audit opinions if alternative methods for gathering audit evidence cannot be performed. Besides, audit opinions need to be modified if the disclosures are inadequate or there are misstatements in the amount in accordance with ISA 705: Modifications to the

Opinion in the Independent Auditor's Report. This had been proved when there is a correlation between the Covid-19 effects presented in the directors' report with the type of auditors' opinion (Crucean & Hategan, 2021).

Covid-19 also extended reporting deadlines. The Malaysian government, through the Companies Commission of Malaysia (CCM), granted a three-month extension to submit financial statements and reports based on Section 259(2) of the Companies Act 2016 (CCM, 2020). The Inland Revenue Board of Malaysia (LHDN) also granted an extension of two months for the submission of tax returns due to Covid-19. These extensions were utilised by Malaysian auditors to extend the duration of their audit work.

Malaysian auditors need to be careful in revising their audit work, especially in audit planning, as additional hours are positively associated with increase in total audit effort (Davidson & Gist, 1996). Malaysian auditors also need to understand and properly manage potential audit risk that may occur due to changes arising due to Covid-19, such as employing the wrong audit approach, performing the wrong audit assessments and procedures, expressing an inappropriate opinion, breaching professional standards, and issuing the wrong audit reports (Hay, Shires & Van Dyk, 2021; Pickett, 2006). Moreover, risks from Covid-19 may also have pervasive effects throughout audit process starting from audit planning until audit test findings and justifications.

2.2 Readiness to WFH

Apart from identifying the impact of the Covid-19 on audits, the readiness of Malaysian auditors and audit firms to adapt to the 'new culture' by performing audits from a WFH environment is something new that needs investigation. In this case, converting on-site services to home-based services during MCO was deemed to help keep more businesses open and limit economic impact (WHO, 2020). Most private sector firms, including audit services with capable software systems, shifted their work routine to home-based work using technologies such as video conferencing, VPN systems and cloud-based filings (Gudi & Tiwari, 2020; Sharma et al., 2022).

Studies found that job satisfaction can be achieved through WFH by professional employees if there is sufficient technical support, human resource support and manager trust (Baker, Avery & Crawford, 2007). Studies also found that work style and household factors do not affect job satisfaction and perceived productivity for WFH. Moreover, many organisations started to implement WFH because it is more economic and productive (Sharma & Gupta, 2004). Furthermore, implementing WFH offers opportunities for individuals to have more work-life balance and non-work commitments (Dockery & Bawa, 2014; Felstead et al., 2002).

In this case, a study in the United Kingdom highlights that auditors are keen to WFH more often in the future, especially after being forced to during lockdown (Sian, 2022). Besides, the interest in WFH is not only limited to external auditors, but also internal auditors. Based on a study of Serbian certified internal auditors, it was found that the audit quality level as well as the audit client management trust level either increased or remained the same when audits were performed via

WFH, especially during the pandemic (Kljajic, Mizdrakovic & Hadrovic-Zekic, 2022).

However, there are also several disadvantages to WFH. For instance, some studies indicate that productivity decreases due to physical and emotional effects from excessive employer surveillance during WFH (Adams et al., 2000). Besides, WFH may result in detached individuals due to a sense of isolation and non-separation between work and home (Harpaz, 2002). WFH is also said to be an obesity risk (Kimbrow et al., 2017), create time-related conflicts for children (Peeters et al., 2005), and result in higher workload and a decline in work quality (Gewin, 2020). Besides, WFH does not work for all industries and all workers. Normally, WFH is more suitable for higher paid office-based workers with suitable space in their homes (Baxter et al., 2021). Furthermore, remote audits do not necessarily cut travel costs, as the time spent on audit preparation and review of documents increased dramatically (Castka & Searcy, 2021).

Some of the disadvantages of WFH can be overcome. For instance, a longitudinal study revealed that the discomfort and insecurity of using technology for WFH lowered after three years (Chang & Kannan, 2006). Adaptation to a new working environment like WFH can be managed if individuals get to fulfil self-presentation, interpersonal communication, work-life separation and self-reliance (Ranganathan, 2018). Another study on auditors found that work-family conflict does not have a significant effect on audit quality reduction behaviour (Amiruddin, 2019), which means WFH may not reduce audit quality. In addition, organisational readiness to implement WFH depends on the organisational culture and climate (Weeks et al., 2004). Moreover, although there is a disadvantage in terms of social life, this is compensated through programme flexibility or time saved for travel, especially for remote audit work during the pandemic (Farcane et al., 2023). Therefore, if employers set the organisational culture and climate properly, WFH can become a future working environment even for audit services.

3. Methodology

3.1 Sample and data collection

This study investigates the impact of Covid-19 on the execution of audits in Malaysia. For this purpose, it employed a survey questionnaire to collect data. The questionnaire was made on a Google form and distributed to Malaysian auditors using snowballing techniques. This procedure was adopted because of the absence of a Malaysian auditors' listing that can serve as a frame for drawing random samples (Sekaran & Bougie, 2016). In total, 171 Malaysian auditors accessed the online survey. Table 1 summaries the background information of the respondents.

Table 1. Respondent's Background Information

Details	Frequency	Percentage (%)
Gender		
Male	97	56.7
Female	74	43.3
Age		
20-30 years	88	51.5
31-40 years	28	16.4
41-50 years	24	14
51 years and above	31	18.1
Marital status		
Single	89	52
Married	82	48
Ethnicity		
Malay/Bumiputera	88	51.5
Chinese	66	38.6
Indian	14	8.1
Others	3	1.8
Education		
MCE/SPM	2	1.2
Diploma/STPM/ A Level	15	8.7
Degree	133	77.8
Master/PhD	21	12.3
Audit firm size		
Small	81	47.4
Medium	40	23.4
Big 4	50	29.2
Audit firm location		
Northern region	16	9.4
Southern region	22	122.8
Eastern region	2	1.2
Central region	114	66.7
Malaysian Borneo region	17	9.9
Position		
Associate/executive	46	26.9
Senior associate/executive	42	24.6
Manager	20	11.7
Senior manager	7	4.1
Director/partner	56	32.7
Audit experience		
Less than 3 years	57	33.3
3-5 years	28	16.4
6-10 years	24	14
More than 10 years	62	36.3
Professional certification		
ACCA	96	55.6
ICAEW	5	2.9
CPA	11	6.4
MICPA	18	10.5
CISA	6	3.5
Others	7	4.1
None	36	21.1

From Table 1, there is not much difference between the number of male and female respondents (13.4%). Almost half of respondents for this study are aged between 20 to 30 years (51.5%), which suggests that most Malaysian auditors are young. While, respondents' marital status is almost balanced between single (52%) and married (48%).

In terms of ethnic composition, the responses show that half of the Malaysian auditors are Malay/Bumiputera (51.5%), followed by Chinese (38.6%), Indian (8.1%) and others (1.8%). This generally reflects the composition of the Malaysian population. Meanwhile, in terms of education background, most respondents have at least a degree (90.1%).

Based on audit firm size, most respondents are from small audit firms (47.4%), followed by the Big 4 (29.2%) and medium audit firms (23.4%). This means that the responses are from all audit firms irrespective of their size. Similarly, responses show that respondents are scattered across Malaysia, including Sabah, Sarawak and Labuan (17 respondents). It is not surprising that the majority of respondents come from the central region (66.7%), as this is where most audit firm headquarters, especially the Big 4 and medium-sized firms, are located.

For position, responses show a mixed involvement, with the associate/executive level dominant (51.5%), followed by one-third as directors/partners (32.7%), and 15.8% in management. As for audit experience, responses vary and about 36.3% have more than 10 years, followed by less than three years (33.3%), three to five years (16.4%) and six to ten years (14%). These results show that responses for this study are comprehensive as respondents come from different positions and audit backgrounds.

Almost 80% of respondents have professional certifications for auditing. The majority of the respondents (95) are members of the Association of Chartered Certified Accountants (ACCA), followed by Malaysian Institute of Certified Public Accountants (MICPA) (18), Certified Public Accountants (CPA) (11), Certified Information System Auditor (CISA) (six), other professional certifications (six) and Institute of Chartered Accountants in England and Wales (ICAEW) (five). Seven respondents had more than one professional certification. This suggests that Malaysian auditors are highly professional.

3.2 Instrumentation and analytical procedure

Several possible impacts of Covid-19 on audits were identified (IAASB, 2020; ICAEW, 2020; MIA, 2020). These were divided into impact on audit planning and fieldwork; impact on group audit engagements; and impact on the auditor's report. To measure such impacts, this study used a five-point Likert-scale (1 = very low to 5 = very high).

To measure the readiness of Malaysian auditors to WFH, several additional items were tested under individual and firm readiness using a similar five-point Likert-scale (Baker, Avery & Crawford, 2007; Kljajic, Mizdrakovic, & Hadrovic-Zekic, 2022; Ranganathan, 2018; Weeks, 2004). Overall, 29 items comprising the impact of Covid-19 on the execution of audits and the readiness of Malaysian auditors to WFH were used in the study, as listed in Table 2.

Table 2. Measurement for the Impacts of Covid-19 on Audit & Readiness to Work from Home Approach

Aspects	Measurements
Impact on audit planning and fieldwork	Revise audit risk assessments Modify audit procedures Revise the materiality levels Use alternative audit evidence Preparation of audit documentation
Impact on the group audit engagements	Access to components auditors Perform audit of the financial information of the component auditors Perform audit of the group financial statements Specify audit procedures of the group financial statements Disclaim an opinion made by the component auditor
Impact on the auditor's Report	Re-evaluate the relevant methods, significance of assumptions and reliability of the source of data Set expectation on the communication of Covid-19 impact Review the adequate disclosure by management on Covid-19 impact Perform additional assessment on going concern Report Covid-19 impact as key audit matter Modify audit opinion Extend the reporting deadlines
Auditors' readiness to WFH	Perform audit work Communicate with related parties Obtain sufficient audit evidence Completing audit works Meet the audit deadlines Feel audit quality is downgraded
Audit firms' readiness to WFH	Safety in performing audit work Guideline to work from home Adequate facilities to work online Monitor audit working progress Assure audit quality Psychology and moral support

4. Results

This section deliberates the findings on the impact of Covid-19 on the execution of audits in Malaysia into three aspects, namely audit planning and fieldwork; group audit engagements; and audit reports. It also discusses the empirical findings on the readiness of Malaysian auditors to WFH from both individual and firm perspectives. All items were evaluated by viewing the mean. Comparison analysis on several audit attributes were also made, including gender (male versus female), audit firm size (small versus medium versus Big 4) and position (executive versus managerial versus director/partner) as suggested by Brown, Gissel and Gordon Neely (2016).

4.1 The impact of Covid-19 on audit planning and fieldwork

Table 3. Impact of Covid-19 on Audit Planning and Fieldwork

Statement	Full sample mean	Gender		Audit firm size			Position		
		Male (mean)	Female (mean)	Small (mean)	Medium (mean)	Big 4 (mean)	Executive (mean)	Managerial (mean)	Director/partner (mean)
Due to Covid-19, our current audit work is affected:									
To consider alternative methods of gathering audit evidence	3.807	3.711	3.932	3.815	3.725	3.860	3.916	3.761	3.607
To modify audit procedures	3.556	3.798	3.500	3.728	3.475	3.340	3.417	3.564	3.732
To revise audit risk assessments	3.515	3.567	3.446	3.753	3.525	3.120	3.217	3.639	3.857
To change preparation of audit documentation	3.484	3.351	3.662	3.679	3.500	3.160	3.444	3.518	3.464
To revise materiality levels	3.222	3.206	3.243	3.531	3.000	2.900	3.049	3.029	3.536
Overall mean	3.517	3.487	3.557	3.701	3.445	3.276	3.409	3.502	3.639

Note: Male (N = 97) versus female (N = 74); small audit firm (N = 81) versus medium audit firm (N = 40) versus Big 4 (N = 50); and executive level (N = 88) versus managerial level (N = 27) versus director/partner level (N = 56)

Table 3 presents the findings for items relating to the impact of the Covid-19 on audit planning and fieldwork. The results indicate that 70.34% (mean = 3.517) agreed that the Covid-19 affects audit planning and fieldwork. Among all five items under audit planning and fieldwork, the most affected due to the Covid-19 is alternative methods of gathering audit evidence (76.14%, mean = 3.807). This is followed by modifying audit procedures (71.12%, mean = 3.556), revising audit risk assessments (70.3%, mean = 3.515), changing the preparation of audit documentation (69.88%, mean = 3.494) and revising materiality levels (64.44%, mean = 3.222).

The findings also show that there is no significant difference between male and female auditors (1.4%, mean difference = 0.070) in terms of the impact of Covid-19 on audit planning and fieldwork. However, there is a statistically significant difference in audit firm size. In this case, the results show that small audit firms are likely to agree that the Covid-19 has a higher impact (5.12%, mean difference = 0.256 to medium audit firm; 8.5%, mean difference = 0.425 to Big 4 audit firm) on audit planning and fieldwork as compared to the medium and Big 4 audit firms. Likewise, there is a variance in terms of positions. Table 3 indicates that directors/partners tend to believe that Covid-19 has a higher impact (2.74%, mean difference = 0.137 to managerial auditors; 4.6%, mean difference = 0.230 to executive auditors) compared to managerial and executive auditors.

Overall, our results suggest that Malaysian auditors believe that Covid-19 affected audit planning and fieldwork. This is in line with Martinelli, Friedman and Lanz (2020) who state that due to extension in the financial statement

deadline, auditors reconsidered their annual audit plans and communicated with stakeholders to take any necessary triage actions. In this study, small audit firms in particular expressed higher levels of agreement on the impact of Covid-19, as do director/partner auditors. This is likely because small audit firms mostly rely on traditional methods in the execution of audit planning and fieldwork compared to medium and Big 4 audit firms. Director/partner auditors also have a higher level of agreement based on their experience and broader viewpoint compared to managerial and executive auditors.

4.2 The impact of Covid-19 on group audit engagements

Table 4. Impact of Covid-19 on Group Audit Engagements

Statement	Full sample mean	Gender		Audit firm size			Position		
		Male (mean)	Female (mean)	Small (mean)	Medium (mean)	Big 4 (mean)	Male (mean)	Female (mean)	Small (mean)
Due to Covid-19, our current audit work is affected:									
To obtain access to component auditors	3.924	3.918	3.932	4.025	4.050	3.660	3.736	4.029	4.125
To perform audit of the financial information of the component auditors	3.567	3.588	3.541	3.753	3.725	3.140	3.413	3.564	3.768
To specify audit procedures of the group financial statements	3.550	3.608	3.473	3.741	3.700	3.120	3.353	3.493	3.821
To audit the group financial statements	3.433	3.433	3.432	3.667	3.425	3.060	3.207	3.396	3.732
To disclaim an opinion made by component auditor	3.351	3.392	3.297	3.506	3.500	2.980	3.218	3.321	3.518
Overall mean	3.565	3.588	3.535	3.738	3.680	3.192	3.386	3.561	3.793

Note: Male (N = 97) versus female (N = 74); small audit firm (N = 81) versus medium audit firm (N = 40) versus Big 4 (N = 50); and executive level (N = 88) versus managerial level (N = 27) versus director/partner level (N = 56)

Table 4 shows the outcome for items relating to the impact of the Covid-19 on group audit engagements. In general, the survey identifies that 71.3% (mean = 3.565) of respondents believed that group audit engagements were impacted due to Covid-19. Among the five items in this category, the most important is obtaining access to component auditors (78.48%, mean = 3.924). This is followed by performing an audit of financial information of component auditors (71.34%, mean = 3.567), specifying audit procedures of the group financial statements (71%, mean = 3.550), performing an audit on the group financial statements (68.66%, mean = 3.433) and disclaiming an opinion made by component auditors (67.02%, mean = 3.351).

There is no significant difference between male and females (1.06%, mean difference = 0.053) regarding their belief that the Covid-19 affects group audit

engagements. However, there is a statistically significant difference in audit firm size. In this case, results show that small (10.92%, mean difference = 0.546 to Big 4) and medium (9.76%, mean difference = 0.488 to Big 4) audit firms tend to believe that Covid-19 has a higher impact on group audit engagements as compared to Big 4 audit firms. Again, there is a dissimilarity in term of the position. Table 4 indicates that director/partner auditors tend to believe that the Covid-19 has a stronger impact (4.64%, mean difference = 0.232) compared to managerial and executive auditors (8.14%, mean difference = 0.407 to executive auditors).

Overall, our results suggest that Malaysian auditors believe that Covid-19 affects group audit engagements. This finding is in line with previous research that normal audit engagements were upended due to the pandemic, which caused auditors to re-evaluate the way and manner they carry out their usual audit work (Kaka, 2021). Small and medium audit firms expressed a higher level of agreement on this impact, as did director/partner auditors. This is likely because small and medium audit firms mostly rely on traditional methods in the execution of group audit engagements as compared to Big 4 firms. Director/partner auditors have higher level of agreement on the impact based on their experience and broader viewpoint compared to managerial and executive auditors.

4.3 The impact of Covid-19 on audit reports

Table 5 displays the results for items relating to the impact of Covid-19 on auditors' reports. In general, the data indicates that 77.02% (mean = 3.851) of the respondents believed that preparation of the auditor's report is affected due to Covid-19. From all seven items under the auditor's report, the most important is to consider modifying the audit opinion (86.78%, mean = 4.339). This is followed by setting clear expectations on the communication of the impact of the Covid-19 on annual reports (80%, mean = 4.000), performing additional assessment of going concern (77.54%, mean = 3.877), reviewing the adequate disclosure by management on the Covid-19's impact (77.42%, mean = 3.871) and reporting on Covid-19's impact in delivering audits as a key audit matter (74.86%, mean = 3.743). The last two items are re-evaluating the relevant methods, significance of assumptions and reliability of data (74.38%, mean = 3.719) and extending reporting deadlines (68.18%, mean = 3.409).

There is no significant difference between male and females (0.24%, mean difference = 0.012) regarding their belief that the Covid-19 affects the auditor's report. However, there is a statistically significant difference in audit firm size. In this case, results show that small (5.32%, mean difference = 0.266 to Big 4 audit firm) and medium (3.72%, mean difference = 0.186 to medium audit firm) audit firms tend to believe that Covid-19 has a stronger impact on the auditor's report as compared to Big 4 firms. In the same way, there is a variance in terms of position. Table 5 indicates that both director/partner (7.24%, mean difference = 0.362 to executive auditors) and managerial (5.12%, mean difference = 0.256 to executive auditors) auditors tend to believe that the Covid-19 has a stronger impact compared to executive auditors.

Overall, our results suggest that Malaysian auditors believe that Covid-19 affects the auditor's report. This corresponds to a previous study on the sentiment

or tone of words used by different auditors in Australian statutory audit reports in 2020 being different from that used the year prior (Kend & Nguyen, 2022). In this study, small and medium audit firms expressed higher levels of agreement for such an impact, as did both director/partner and managerial auditors. This is likely because small and medium audit firms deal mostly with SMEs, which were most affected by lockdown closures, as compared to big companies which are usually audited by Big 4 firms. Besides, managerial and director/partner auditors have higher agreement on the impact based on their experience and broader viewpoint compared to executive auditors.

Table 5. Impact of Covid-19 on Audit Reports

Statement	Full sample mean	Gender		Audit firm size			Position		
		Male (mean)	Female (mean)	Small (mean)	Medium (mean)	Big 4 (mean)	Executive (mean)	Managerial (mean)	Director/partner (mean)
Due to Covid-19, our current audit work is affected:									
To modify audit opinion	4.339	4.278	4.419	4.407	4.275	4.280	4.218	4.586	4.411
To set expectation on communication of Covid-19 impact	4.000	4.093	3.878	4.148	3.925	3.820	3.715	4.175	4.324
To perform additional assessment on going concern	3.877	3.866	3.892	3.815	3.900	3.960	3.833	3.789	3.911
To review the adequate disclosure by management on Covid-19 impact	3.871	3.804	3.960	3.840	3.900	3.900	3.785	3.911	3.911
To report Covid-19 impact as a key audit matter	3.743	3.732	3.757	3.827	3.850	3.520	3.630	3.761	3.857
To re-evaluate relevant methods, significance of assumptions and reliability of source of data	3.719	3.835	3.568	3.901	3.725	3.420	3.370	3.811	4.161
To extend the reporting deadlines	3.409	3.392	3.432	3.654	3.575	2.880	3.179	3.489	3.696
Overall mean	3.851	3.857	3.845	3.949	3.869	3.683	3.676	3.932	4.038

Note: Male (N = 97) versus female (N = 74); small audit firm (N = 81) versus medium audit firm (N = 40) versus Big 4 (N = 50); and executive level (N = 88) versus managerial level (N = 27) versus director/partner level (N = 56)

4.4 Findings on auditors' readiness to WFH

Table 6. Auditors' Readiness to WFH

Statement	Full sample mean	Gender		Audit firm size			Position		
		Male (mean)	Female (mean)	Small (mean)	Medium (mean)	Big 4 (mean)	Executive (mean)	Managerial (mean)	Director/partner (mean)
Due to Covid-19, did WFH make you:									
Delay completion of audit work	4.328	4.309	4.351	4.494	4.225	4.140	4.186	4.439	4.500
Struggle to meet audit deadlines	4.281	4.258	4.311	4.469	4.050	4.160	4.131	4.343	4.482
Struggle to obtain sufficient audit evidence	4.146	4.062	4.257	4.247	4.100	4.020	4.048	4.246	4.232
Struggle to perform audit work	4.035	4.103	3.946	4.235	3.875	3.840	3.821	4.004	4.357
Struggle to communicate with related parties	3.918	3.907	3.932	4.086	3.800	3.740	3.908	3.732	4.018
Feel that audit quality was downgraded	3.509	3.454	3.581	3.728	3.550	3.120	3.437	3.275	3.661
Overall mean	4.036	4.016	4.063	4.210	3.933	3.837	3.922	4.007	4.208

Notes: Male (N = 97) versus female (N = 74); small audit firm (N = 81) versus medium audit firm (N = 40) versus Big 4 (N = 50); and executive level (N = 88) versus managerial level (N = 27) versus director/partner level (N = 56).

Table 6 illustrates the findings for items relating to the readiness of Malaysian auditors to implement WFH. In general, the survey identifies that 80.72% (mean = 4.036) of respondents believed that Malaysian auditors are not ready for WFH. Six items were adopted under this category and the most significant is expecting to delay the completion of audit works (86.56%, mean = 4.328). This is followed closely by an increased struggle to meet the audit deadlines (85.62%, mean = 4.281), to obtain sufficient audit evidence (82.92%, mean = 4.146), to perform audit work (80.7%, mean = 4.035), to communicate with related parties (78.36%, mean = 3.918) as well as decreasing audit quality (70.18%, mean = 3.509).

There is no difference (0.94%, mean difference = 0.047) between men and women about their belief in the auditors' readiness to WFH. However, audit firm size show some differences. In this case, results show that small audit firms tend to believe that auditors are not ready to WFH, compared to medium (5.54%, mean difference = 0.277) and Big 4 (7.46%, mean difference = 0.373) audit firms. Likewise, there is a variance in terms of position. Table 6 indicates that director/partner auditors tend to believe that auditors are not ready for WFH (4.02%, mean difference = 0.201 to managerial auditors; 5.72%, mean difference = 0.286 to executive auditors) compared to managerial auditors and executive auditors.

In addition, to ensure such a significant difference among these groups, a one-way ANOVA test was conducted. Based on the result in Table 7, it is confirmed

that there is only a statistically significant difference between the small, medium and Big 4 group under audit firm size. In this case, the results indicate that auditors from small, medium and Big 4 have a differences in terms of their readiness to WFH according to audit firm size ($F(2, 168) = 3.857, p = 0.023$). Other attributes such as gender and position does not affect auditors' readiness to WFH.

Table 7. Auditors' Readiness to WFH (One-Way ANOVA)

Attributes		df	F-value	p-value
Gender (male vs female)	Between groups	1	0.145	0.703
	Within groups	169		
	Total	170		
Audit firm size (small vs medium vs Big 4)	Between groups	2	3.857	0.023*
	Within groups	168		
	Total	170		
Position (executive vs managerial vs director/partner)	Between groups	2	2.220	0.112
	Within groups	168		
	Total	170		

Note: * $p < 0.001$

Overall, our results suggest that Malaysian auditors believe that they have low readiness to WFH. Small audit firms expressed higher levels of agreement to the low readiness to WFH. This is likely because small audit firms do not typically engage with a flexible working culture compared to medium and Big 4 audit firms. However, it is surprising to know that director/partner auditors also have low readiness to WFH, as they supposedly have the most flexible working culture compared to others. Perhaps this is due to the MCO restricting them from performing their typical engagements with clients.

Furthermore, the highest concern for auditors to WFH is the delay in completing audit work. Another important concern on auditors' readiness to WFH is struggling to meet audit deadlines. This is in line with a recent ACCA survey which found 53% of respondents experiencing pressure in completing client services work and another 36% facing an inability to meet reporting deadlines (Apelblat, 2020). This probably due to majority of reviewers and preparers preferring face-to-face communication when discussing review notes as it can reduce back-and-forth (Ater et al., 2019). In this case, MCO is a good reason for audit firms to implement online collaborative audit systems (Eni, 2016), so that this system will be able to gather a large number of auditors. Audits can be performed via WFH, and anywhere there is an internet connection.

4.5 Audit firms' readiness to WFH

Table 8 highlights the result for items relating to the Malaysian audit firms' readiness to WFH. The results indicate that 75.3% (mean = 3.765) agreed that Malaysian audit firms are ready to WFH. Among the six items, the most significant is Malaysian audit firms prioritising auditors' safety by adopting a WFH approach (81.28%, mean = 4.064). This is followed by audit firms preparing guidelines for WFH (76.02%, mean = 3.801), assuring audit quality (75.56%, mean = 3.778) and to

prepare adequate facilities to work online (74.5%, mean = 3.725). The last two items require efficient monitoring of the auditors' work progress (73.1%, mean = 3.655) and to extend psychological and moral support in performing WFH (71.34%, mean = 3.567).

For attribute comparison, there is a significant difference between men and women (3.52%, mean difference = 0.176) in terms of their belief in audit firms' readiness to WFH. In this case, female auditors tend to believe that audit firms are more ready to implement WFH compared to male auditors. In addition, there is a statistically significant difference in audit firm size. Results show that Big 4 audit firms are more prepared to WFH (13.22%, mean difference = 0.661 to medium audit firm; 10.02%, mean difference = 0.501 to small audit firm) compared to medium and small audit firms. However, in terms of position, there is a mixed difference on the level of agreement of audit firms' readiness to WFH. Table 8 shows that both director/partner and executive auditors believed that audit firms have low readiness to implement WFH compared to managerial auditors (2.72%, mean difference = 0.136 to director/partner auditors; 3.4%, mean difference = 0.170 to executive auditors).

Table 8. Audit Firms' Readiness to WFH

Statement	Full sample mean	Gender		Audit firm size			Position		
		Male (mean)	Female (mean)	Small (mean)	Medium (mean)	Big 4 (mean)	Executive (mean)	Managerial (mean)	Director/partner (mean)
Due to Covid-19, did your firm:									
Take care of your safety when performing audit work	4.064	4.041	4.095	4.025	3.775	4.360	3.965	4.125	4.161
Prepare a guideline to WFH	3.801	3.722	3.905	3.593	3.475	4.400	3.753	3.979	3.768
Assure your audit quality in an appropriate manner	3.778	3.701	3.878	3.728	3.600	4.000	3.754	3.782	3.786
Prepare adequate facilities to work online	3.725	3.598	3.892	3.531	3.350	4.340	3.709	3.954	3.625
Effectively monitor your audit working progress	3.655	3.557	3.784	3.580	3.475	3.920	3.669	3.707	3.589
Give psychological and moral support when working from home	3.567	3.516	3.635	3.482	3.300	3.920	3.499	3.821	3.625
Overall mean	3.765	3.689	3.865	3.656	3.496	4.157	3.725	3.895	3.759

Notes: Male (N = 97) versus female (N = 74); small audit firm (N = 81) versus medium audit firm (N = 40) versus Big 4 (N = 50); and executive level (N = 88) versus managerial level (N = 27) versus director/partner level (N = 56).

In addition, to ensure such a significant difference among these attributes' groups, a one-way ANOVA test was conducted. Based on the result in Table 9, it

is confirmed that there is only a statistically significant difference between small, medium and Big 4 group under audit firm size. In this case, the results indicate that audit firms from small, medium and Big 4 have a differences in terms of their readiness to WFH according to audit firm size ($F(2, 168) = 8.501, p = 0.000$). Other attributes such as gender and position does not affect audit firms' readiness to WFH.

Table 9. Audit Firms' Readiness to WFH (One-Way ANOVA)

Attributes		df	F-value	p-value
Gender (male vs female)	Between groups	1	1.682	0.196
	Within groups	169		
	Total	170		
Audit firm size (small vs medium vs Big 4)	Between groups	2	8.051	0.000*
	Within groups	168		
	Total	170		
Position (executive vs managerial vs director/partner)	Between groups	2	0.403	0.669
	Within groups	168		
	Total	170		

Note: * $p < 0.001$

Overall, our results suggest that Malaysian auditors believe that audit firms in Malaysia are ready to implement a WFH approach. Big 4 audit firms tend to express high readiness to WFH. This is not surprising as the Big 4 firms are equipped with sophisticated audit systems compared to medium and small audit firms (Alsmairat et al., 2019). However, it is surprising to know that especially director/partner auditors have low agreement on audit firm readiness to WFH as compared to managerial auditors. Perhaps director/partner auditors view audit firms' readiness to WFH from a broader viewpoint compared to managerial auditors.

Furthermore, the highest concern for audit firms to WFH is due to their lack of psychological and moral support for their auditors in performing WFH. This is likely because the Covid-19 outbreak was unprecedented, making them unprepared to adopt a WFH approach. Moreover, Big 4 audit firms seem to be most ready to WFH as they were already prepared with adequate facilities to assure audit quality and monitor audit working progress. This is in line with Bradford et al. (2020), who found that as the use of audit systems increase, auditor satisfaction goes up, especially in terms of audit quality. The present study also supports previous claims that audit firm size is an important factor in assessments of audit quality (Kilgore, Harrison & Radich, 2014).

In terms of the low agreement by director/partner auditors on audit firm readiness to WFH, this is probably due to most of director/partner auditors who responded to this study being from small audit firms. In this case, Vaserhelyi and Romero (2014) state that seniors tend to ignore electronic working and prefer traditional paper-based work, especially from small audit firms, even though they are informed of the benefits of working electronically. On the other hand, managerial auditors believed in audit firms' capabilities to implement WFH.

Perhaps in the future, all audit firms will eventually move to accept the WFH approach.

5. Conclusion

This study calibrates the impact of the Covid-19 on the execution of audits, specifically in terms of audit planning and fieldwork, group audit engagements and audit reports. This study also investigates the readiness of auditors and audit firms to implement WFH. Malaysian auditors agree that Covid-19 greatly impacted the execution of audits, especially in the preparation of the auditor's report. The results also show that Malaysian auditors are not ready to implement WFH, but that firms had fair preparation to implement WFH.

In comparing audit attributes in terms of the impact of Covid-19 on audit execution, gender does not play a significant role. However, audit firm size and auditors' position do have a significant effect. Small audit firms and director/partner auditors agree on the impact of Covid-19 on the execution of audits. Small audit firms and director/partner auditors also believed that Malaysian auditors are not ready to WFH. On the other hand, Big 4 audit firms tend to believe that they are prepared to WFH.

In summary, several practical implications were identified from the findings. For instance, several aspects can be improved by Malaysian audit firms, especially in implementing WFH, such as to extend psychological and moral support, and provide adequate facilities to Malaysian auditors. Difficulties and delays in completing audit work due to WFH can be overcome with good monitoring, especially on audit quality, through appropriate audit systems to facilitate the production, review, storage and transfer of documents. Meanwhile, for auditors' readiness to WFH, it is believed that this can be achieved, including by small and medium audit firms, if auditors are provided with adequate technological devices and equipment. On the whole, the present study contributes to the academic implications by corroborating related findings on the impact of the Covid-19 on audit practices.

Certain limitations must be acknowledged, including the small sample size of respondents. Nevertheless, it is considered acceptable as this study included a varied audit firm size, auditors' position, audit firm locations and audit experience. This study presents comprehensive viewpoints of Malaysian auditors that determine the impact of the Covid-19 on the execution of audits and the readiness of auditors and audit firms to WFH. Future research could include other parties' point of views, such as clients and regulators.

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