Application of Selected International Standards on Auditing in Different Institutional and Economic Environments

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Basil Abeifaa Der
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List of studies

This dissertation consists of the following three studies:

1. Mustikarini, A., Der, B.A., and Stuart, I. Applying ISA 240 for Fraud Detection and Resolution: Evidence from Indonesia and Ghana. Accepted for publication in the *Journal of International Accounting Research*

2. Stuart, I., Olsen, C., and Der, B.A. Auditing under COVID-19 in Ghana and Norway. Under review in the *Journal of International Accounting Research*

3. Der, B. A. Assessment of Going Concern Assumption during the COVID-19 Pandemic: Auditor Perspectives in Norway

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Overview of the dissertation: Application of Selected International Standards on Auditing in Different Institutional and Economic Environments

1. Introduction

The International Standards on Auditing (hereafter, ISAs) enhance the quality and uniformity of audit practice throughout the world and strengthen public confidence in the financial statements issued by companies (IAASB, 2017). However, institutional, and economic factors may affect the consistent applicability of these standards (Schipper, 2005). Auditing does not occur in a vacuum and the environment in which it takes place is part of the context that shapes the auditor's behavior with respect to the interpretation and application of the auditing standards (Sormunen, Jeppesen, Sundgren, & Svanström, 2013). The applicability of the standards may differ depending on whether they are applied in a developed or a developing country. Country variations with respect to the level of technological development may not permit the consistent application of the ISAs.

The auditor's application of ISA 500 "Audit Evidence", "International Standard on Quality Control 1" (ISQC1) among others in settings with different approaches to their digital infrastructure and development may not be the same. This difference might even be more pronounced when a crisis occurs such as the COVID-19 pandemic. During the COVID-19 pandemic, the digital infrastructure of countries became more important than ever in the auditing parlance as auditors relied on digital technologies to facilitate their audits.

Institutional factors such as the regulations of a country may also impact the applicability of the ISAs such as ISA 570 "Going Concern" especially during crisis such as the COVID-19 pandemic. Where the audit regulatory environment is characterized by high risk of bankruptcies and forced liquidations the auditors and their clients are under significant pressure to respond promptly to conditions and events that may cast significant doubt on the company's ability to continue as a going concern (Buttwill, 2004; Knechel & Vanstraelen, 2007; Sormunen et al., 2013). In addition to institutional factors that might affect the way auditors apply auditing standards, economic factors such as differing levels of government support provided to audit clients may also impact the applicability of the ISAs such as ISA 570 "Going Concern" especially during crisis such as the COVID-19 pandemic because they improve the cash flow position of the audit clients.

Experience with the use of a particular standard may also not permit its consistent applicability because prior research in psychology and auditing shows that the knowledge structures of individuals change and develop as they obtain relevant experience (Daudelin, 1996; Knapp & Knapp, 2001; Nokes, Schunn, & Chi, 2010). Thus, one might expect that

experience with the use of an auditing standard such as the fraud standard, ISA 240, may result in more effective application of the standard. There is also evidence that experience with the use of a particular auditing standard may also hinder its effective application because auditors may become more complacent. For example, with regards to the fraud standard, there is evidence that once fraud becomes a more expected occurrence, auditors might become more insensitive to it, and thus less responsive in detecting fraud.

There is substantial evidence that similarities in accounting and auditing standards does not imply their consistent application (Sormunen et al., 2013). This dissertation brings to light the variations in how some selected auditing standards such as ISA 240, ISA 500, ISQC 1 and ISA 570 are applied in different institutional and economic environments. The three studies that form this dissertation are briefly introduced in the following three paragraphs.

According to prior studies in developed countries auditors often fail to apply fraud-related audit procedures, which leads to fraud detection failure (Asare, Wright, & Zimbelman, 2015; Brasel, Hatfield, Nickell, & Parsons, 2019; Brazel, Carpenter, & Jenkins, 2010). They emphasize that detecting fraud is difficult because it is rare, so auditors often lack experience in responding to it. This enables an empirical investigation into how auditors in a setting where fraud is not rare apply ISA 240 for fraud detection, including how auditors identify, investigate, and resolve potential fraud issues. This is the subject of paper 1. Developing countries, especially Indonesia and Ghana, provide a unique setting because they are prone to fraud (Ernst & Young, 2018; Hail, Tahoun, & Wang, 2018; PwC 2018a; 2018b).

Because the application of the auditing standards may be influenced by economic and institutional factors, these standards may be difficult to implement during a crisis such as the COVID-19 pandemic. The significant impact of the COVID-19 pandemic on the audit profession may vary in its details, depending on whether auditors and the reporting entities functioned in either a developed or a developing country (United Nations Development Programme [UNDP], 2020). Country variations with respect to the level of digital development and the amount of government economic interventions received by companies are likely to influence the work of the auditor during the pandemic. This factor influences the ability of auditors to work remotely, an important element in completing audits during the pandemic. Ghana and Norway provide a unique setting for this research because of the differences in the economic fundamentals of each country (KPMG, 2020)

and their variations with respect to level of digital development (The Organisation for Economic Co-operation and Development (OECD), 2020). Because of the requirement to work remotely auditors may apply the auditing standards differently in these settings. Given this, an investigation of how auditors in Ghana and Norway responded to the COVID-19 crisis is warranted. This is the subject of paper 2.

Key to the conduct of audits during the COVID-19 pandemic is the assessment of the going concern assumption. The income streams and cash flows of many companies were hurt (International Federation of Accountants [IFAC], 2020b) and it proved a difficult task for clients in their assessment of going concern due to COVID-19. The uncertainties presented by the COVID-19 pandemic make it a herculean task for auditors to obtain sufficient appropriate audit evidence especially regarding going concern assessment. The increased risk presented by the COVID-19 pandemic translates into a greater uncertainty in the application of ISAs, especially ISA 570. The purpose of the third study is to investigate how the high level of uncertainty associated with COVID-19 has had an impact on the auditor's assessment of management's use of the going concern assumption in Norway. In doing this the study also investigates how COVID-19 impacted the client's assessment of the going concern assumption from the perspective of the auditor. Norway provides a unique setting for this research because its economy and financial environment were significantly impacted by the COVID-19 pandemic and its strict audit regulatory environment, which is characterized by high risk of bankruptcy. In this context, an investigation into how the COVID-19 pandemic impacted auditors and their clients' assessment of the going concern assumption is warranted.

The rest of this introductory chapter proceeds as follows. Section 2 provides an overview of key ISAs underpinning this dissertation. Section 3 presents the theories applied in the dissertation. Section 4 contains an overview of the research design, research context, and data sources as well as the research methodology. Section 5 provides a summary of the studies contained in the dissertation highlighting the implications of the key findings.

2. Overview of dominant ISAs underpinning the dissertation

This section presents an overview of the dominant ISAs applied in this dissertation.

2.1. ISA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements"

ISA 240 describes the auditors' responsibilities to detect potential fraud in every phase of an audit, from audit planning to audit completion. During the planning process, ISA 240 requires auditors to assess the risks of material misstatement due to fraud by performing several audit procedures, including inquiries to management and those charged with governance, preliminary analytical reviews of any unusual or unexpected relationships, and gaining an understanding of the client's internal controls and control activities (IAASB 2018a). Auditors respond to assessed fraud risks by designing fraud-related audit procedures and applying these procedures during the audit testing phase (IAASB 2018b). These procedures can include conducting internal control and substantive tests (e.g., analytical procedures, observation, inquiry, inspection, recalculation, reperformance), reviewing and testing manual journal entries, and evaluating the overall financial statements. At the final step, auditors communicate the proposed audit adjustments based on the material misstatements identified during the testing process (IAASB 2018c). This final step is critical to ensure that financial statements are not materially misstated.

2.2. ISQC 1 "International Standard on Quality Control and Related Standards"

The International Standard on Quality Control 1 (ISQC 1) identifies the responsibilities of an auditor regarding quality control procedures for audits and reviews of financial statements. This standard requires audit firms to establish and maintain a system of quality controls to comply with applicable professional standards and legal requirements (IAASB, 2020c, 2020d). The system of quality control includes procedures that address each of the following elements: leadership responsibility for quality within the firm, relevant ethical requirements, monitoring engagement performance among others. The policies and procedures should provide the firm with reasonable assurance that its personnel comply with relevant ethical requirements (International Auditing and Assurance Standards Board [IAASB], 2020d).

2.3. ISA 500 "Audit Evidence"

ISA 500 explains the auditor's responsibility with regards to the collection of audit evidence. According to this standard it is the auditor's responsibility to design and perform

audit procedures to obtain sufficient appropriate evidence to reduce audit risk to an acceptably low level. This provides the auditor with evidence to determine the audit opinion to issue (International Auditing and Assurance Standards Board [IAASB], 2020a). The reliability of audit evidence is influenced by its source and nature, and the circumstances under which it was obtained including the controls over its preparation and maintenance. Audit evidence obtained from original documents is more reliable than audit evidence provided by photocopies, or documents that have been digitized or transformed into an electronic format (IAASB, 2020a). COVID-19 increased the collection and use of digital audit evidence because of the requirement to work remotely. This standard was applied in the context of two countries with different institutional and economic environments – Norway and Ghana.

2.4. ISA 570 "Going Concern"

ISA 570 explains management's and auditor's responsibility related to going concern assessment. Management is responsible for assessing the ability of a company to continue as a going concern. The auditor's responsibility is to obtain sufficient appropriate evidence regarding the appropriateness of management's use of the going concern assumption (IAASB, 2020b). Management is required to prepare detailed analysis of the ability of its company to continue as a going concern by considering present conditions or future conditions that might cast significant doubt on the entity (IAASB, 2020b). In making the detailed analysis management is required to justify the assumptions on which the assessment were made, managements future plans and the feasibility of those plans. Management may not provide a detailed analysis whenever there is a history of profitable operations and a ready access to financial support. The auditor is required to evaluate management's plans for future actions and obtain written representations if managements assumptions include support by third parties(IAASB, 2020b). The client and the auditor's responsibility with regard to ISA 570 is particularly a herculean task during crisis (International Federation of Accountants [IFAC], 2020a).

3. Applicable theories: theory of adaptive governance

We adopt the theory of adaptive governance to provide meaning to the findings of papers 2 and 3 of this dissertation. Paper 1 is empirically driven so we used relevant literature to conceptualise it and discuss it.

We use the theory of adaptive governance to investigate how auditors responded to the COVID-19 pandemic in Ghana and Norway. We also use the theory to investigate the impact of the COVID-19 pandemic on the auditor's assessment of the going concern assumption in Norway due to COVID-19. The concept of adaptation comes from the field of evolution. Adaptivity suggests maintaining ones fit within the environment by adapting to fit the changing environment as a prerequisite to survival. Methods that contribute to adaptive governance include effective coordination, meaningful collaboration, capacity building, and engagement with clients (Sharma-Wallace, Velarde, & Wreford, 2018). In times of crisis, adaptive governance is needed.

4. Research Design

This section contains the philosophical foundation of the study, in addition to the analytical approaches applied in this dissertation. A doctoral dissertation is a scientific piece of writing, and the author adopts a philosophical approach in the writing process. The existence of things in the world (ontology) as well as the way the researcher views the creation of scientific knowledge (epistemology) influences the choice of the research design.

4.1. Philosophical position

There are different schools of thought concerning the philosophy of science. When considering the philosophical position that is aligned with the researcher's worldview, a careful evaluation of the different schools of thought was sought from the philosophical continuum. According to Saunders, Lewis, and Thornhill (2012) the philosophical traditions in social science include positivism, realism, interpretivism and pragmatism.

The dominant philosophy in the social sciences is positivism (Piekkari, Welch, & Paavilainen, 2009). The positivist philosophical stance contends that there is one truth (reality) independent of the observer (Järvensivu & Törnroos, 2010; Piekkari et al., 2009). The positivist approach is characterized by key elements including formal propositions, hypothesis testing, aggregation, precision, and quantifiable measures of variables (Eisenhardt, 1989; Ragin, 1992; Stiles, 2003).

Interpretivism is the direct opposite of positivism. The interpretivist view focuses on understanding phenomena as far as human experiences are concerned (Bisman, 2010; Piekkari et al., 2009). The interpretivist believes that the world is socially constructed and subjective. Because of this, the researcher needs to interact with the unit of analysis in the

processes of generating scientific knowledge. A major advantage of this view is that it allows the researcher to conduct an in-depth exploration of the phenomenon under investigation. A limitation of this view is that the findings are usually specific to the particular context (Piekkari et al., 2009).

Critical realism was introduced in the 1980's as a novel alternative philosophical view (Sayer, 1999). The objective of critical realism is to provide empirically verified statements of causation by asking how and why a given phenomenon occurred (Wynn Jr & Williams, 2012). Critical realism offers a broad range of methods suitable for the research process and it is commonly employed to create knowledge by combining a partly theory-driven and a partly data-driven approach (Järvensivu & Törnroos, 2010).

Pragmatism is the foundation of mixed methods research (Biesta, 2010). It supports the use of both qualitative and quantitative methods in the same study (Saunders et al., 2012). Pragmatism considers the research question to be the most important determinant of the research philosophy. It avoids the use of abstract concepts like 'truth' or 'reality' (Howe, 1988).

This dissertation adopts a pragmatist philosophical stance. Both qualitative and quantitative methods were used. Study 1 is a quantitative study. Study 2 is a qualitative study, while study 3 is a mixed method study. The choice of the method used was driven by the research questions.

4.2. Context and data sources

Studies in this dissertation are based on data from different jurisdictions. In the first study we used an archival based field technique to examine how auditors identify and investigate potential fraud as well as how they apply a negotiation strategy to arrive at an audit outcome. Seventy-one (71) responses were received from audit partners and managers from Indonesia and Ghana. Developing countries, especially Indonesia and Ghana, provide unique settings because fraud is not a relatively rare occurrence in these settings (Ernst & Young, 2018; Hail et al., 2018; PwC 2018a; 2018b). The second study is based on interviews and supplementary secondary data from audit managers and partners from Ghana and Norway. It focuses on how auditors responded to the COVID-19 pandemic in two countries: one developing country (Ghana) and one developed country (Norway). A total of thirteen interviews were conducted with audit partners and managers in Ghana and Norway. The two countries were selected because they reflect different approaches to

digital infrastructure development and the differing levels of government support provided to audit clients. The final study is based on interview and supplementary secondary data. The interview data was collected from interviews with audit partners and directors from Norway. A total of thirteen interviews were conducted with audit partners and directors from Norway. The study focuses on how COVID-19 impacted the client's assessment of the going concern assumption in Norway. It also focuses on how COVID-19 impacted the auditor's assessment of the appropriateness of management's use of the going concern assumption. Norway was selected not only because it was severely impacted by the pandemic but also because the Norwegian audit regulatory environment is characterized by high risk of bankruptcies and forced liquidations.

4.3. Analytical approaches

The analytical approaches for the first study are based on percentages, means, mean differences and regression analysis. To study how auditors identify and investigate potential fraud, we used percentages, means and mean differences in our analysis. These analytical approaches were suited to the questions considered in the study because of the exploratory nature of the study. To examine potential fraud resolution, we adopt the negotiation process model from Gibbins, Salterio, and Webb (2001) and Brown and Wright (2008). Specifically, we examine whether auditors use a contending negotiation strategy , that is, where they require the client to record potential fraud-related audit adjustments, or a conceding strategy , where they waive the adjustments. Because the negotiation strategy variable is a latent construct, we measure it using the measurement in Gibbins, McCracken, and Salterio (2010). After this, we run a cross sectional regression model.

For the second and third studies we analyzed the data using a two-step process of thematic analysis with first order themes and second order themes and thereafter grouping the themes into an aggregate dimension (Gioia, Corley, & Hamilton, 2013). The themes were defined according to our interview questions, existing documentation in the field, literature and interactions among those elements (Goretzki, Strauss, & Weber, 2013; Oppi & Vagnoni, 2020). Other data sources (e.g., company guidance, web resources) were subsequently matched with these themes (Nath, Othman, & Laswad, 2019; Tsamenyi, Cullen, & González, 2006).

5. Summary of studies and conclusion

This dissertation consists of three related empirical studies. In other to enhance the quality of the papers, the first two were presented at several academic conferences and seminars. Studies 1 and 2 have also benefited from blind peer review processes. At present study 1 has been accepted for publication in the Journal of International Accounting Research. Paper 2 is under review in the Journal of International Accounting Research, and paper 3 will soon be submitted to a leading journal.

Study 1 titled "**Applying ISA 240 for fraud detection and resolution: evidence from Indonesia and Ghana"** and accepted for publication in *Journal of International Accounting Research*, examines how auditors in two developing countries, Indonesia, and Ghana, apply ISA 240 for fraud detection, including how auditors identify, investigate, and resolve potential fraud issues. Given that the same set of auditing standards for fraud detection is applied by auditors worldwide (IFAC 2019), it is surprising that we do not have information about how auditors respond to fraud in the developing world. Prior research in psychology and auditing shows that the knowledge structures of individuals change and develop as they obtain relevant experience (Daudelin, 1996; Knapp & Knapp, 2001; Nokes et al., 2010). Experienced individuals have an ability to understand complex relationships and develop greater capacities to identify underlying problems in the evidence. Thus, one might expect that auditors' experience with fraud can be an important factor in helping auditors respond appropriately to fraud. This may be one explanation for why auditors in developed countries find it difficult to detect fraud. Developing countries, especially Indonesia and Ghana, provide a unique setting because fraud is not a relatively rare occurrence (Ernst & Young, 2018; Hail et al., 2018; PwC 2018a; 2018b). We argue that prior fraud experience can influence auditors in two possible ways. One possibility is that the more fraud experiences auditors are exposed to, the more likely they respond to fraud effectively. Another possibility is that once fraud becomes a more expected occurrence, auditors might become more insensitive to fraud, and thus less responsive in detecting fraud. We gather data from audit partners and managers about their firsthand experience when discovering a potential fraud in a recent audit engagement. We collect 71 responses from Indonesian and Ghanaian Big4 firms. Respondents are 14 audit partners and 57 audit managers, with an average audit experience of 9.7 years. We find that: (1) senior managers originate most asset misappropriation frauds; (2) auditors in Indonesia and Ghana do not use information technology or internal control assessment for fraud

investigation; (3) auditors modify the audit program once potential fraud is detected; and (4) auditors use a more contending than conceding negotiation strategy when resolving potential fraud issues, which often stop short of requiring audit clients to record all audit adjustments.

Study 2, titled "**Auditing under COVID-19: evidence from Ghana and Norway,"** investigates how auditors responded to the COVID-19 pandemic in two countries: one developing country (Ghana) and one developed country (Norway) recognizing that the significant implications of COVID-19 on the audit profession may vary depending on whether auditors and the reporting entities reside in developing countries or in developed countries (United Nations Development Programme [UNDP], 2020). We interviewed thirteen audit partners and managers in large audit firms in Ghana and Norway. Four areas of responses were identified in these two countries. These issues are: (1) the use of digital over hard copy audit evidence, (2) the questions of how to gather audit evidence when both the audit clients and the auditors are working from home through the use of remote auditing technologies, (3) the threat to the survival of the audit client along with the possibility of renegotiating audit fees due to increased audit hours or the likelihood of a decrease in financial resources of the client, and (4) how to modify the audit process to gather the evidence required by the auditing standards and maintain the quality control standards required in those standards. We find that auditors in both countries report difficulties in performing audits during the pandemic. The challenges faced by auditors in Ghana were more severe than the challenges faced by Norwegian auditors. Auditors in both countries expressed interest in maintaining audit quality by issuing technical guidance to staff and clients, providing additional training to staff, and developing alternative audit procedures to gather evidence. We draw on the theory of adaptive governance to provide explanations for the auditors' responses to the pandemic in these two countries.

Study 3, titled **"Assessment of Going Concern Assumption during the COVID-19 Pandemic: Auditor Perspectives in Norway,"** investigates how COVID-19 impacted the client's assessment of the going concern assumption during COVID-19 in Norway. It also investigates how COVID-19 impacted the auditor's assessment of the appropriateness of management's use of the going concern assumption. Norway was selected because its business environment was negatively and significantly impacted by COVID-19. We interviewed thirteen (13) audit partners and directors in large audit firms in Norway. Three areas of responses were identified. They are 1) Institutional factors, 2) Business survival,

3) Methods used by the client and the auditor to assess the going concern assumption. The findings indicate that the institutional factor of government economic interventions was crucial to the avoidance of going concern problems and thus allowed the companies to survive the pandemic. Management's ability to adapt to the pandemic by putting in place viable survival strategies including cost reduction, debt restructuring, changes in business models and conversion of debt to equity contributed to their companies' survival. The findings also indicate more proactive work from clients in terms of their assessment of the going concern assumption. Auditors exerted additional effort in their going concern assessment by designing templates for COVID-19, using extensive discussions and documentations, and focusing on the downside scenarios to respond to the risk posed by the COVID-19 pandemic. The findings are explained by adopting the theory of adaptive governance.

Overall, the findings of this study demonstrate that the characteristics of different environments have a significant impact on the application of the auditing standards. Differences in institutional settings among countries may not facilitate a consistent application of the international auditing standards. Regarding the application of ISA 240 for fraud detection and resolution this dissertation concludes that there are some differences in how the fraud standards are applied by our participants compared to auditors in the developed world. Study 2 concludes that there were differences in the conduct of auditing in Ghana and Norway under COVID-19. The study also concludes that adaptivity by audit firms under COVID-19 in Ghana and Norway differed largely because of the technological infrastructure and the amount of government grants received by companies in each country. Regarding the application of ISA 570 in Norway under COVID-19, this dissertation concludes that country specific factors such as the amount of government economic interventions were crucial to the survival of many companies and the applicability of ISA 570 due to increases in risk.

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Study 1: Applying ISA 240 for Fraud Detection and Resolution: Evidence from Indonesia and Ghana

Applying ISA 240 for Fraud Detection and Resolution: Evidence from Indonesia and Ghana

Abstract

Prior studies in developed countries investigate the auditor's fraud detection process. However, it is unclear whether the results from developed countries apply in developing countries because no fraud detection research has been performed in this setting. The current study examines how auditors in two developing countries, Indonesia and Ghana, apply ISA 240 for fraud detection, including how auditors identify, investigate, and resolve potential fraud issues. We find that: (1) senior managers originate most asset misappropriation frauds; (2) auditors in Indonesia and Ghana do not use information technology or internal control assessment for fraud investigation; (3) auditors modify the audit program once potential fraud is detected; and (4) auditors use a more contending than conceding negotiation strategy when resolving potential fraud issues, which often stop short of requiring audit clients to record all audit adjustments.

Keywords: ISA 240, fraud detection, auditor-client negotiation, developing countries, Big4

1. Introduction

This study examines whether auditors detect and respond to fraud in a financial statement audit according to International Standards on Auditing (ISA) requirements. ISAs state that the auditor's responsibility is to obtain reasonable assurance that financial statements are free from material misstatements, whether due to fraud or error (IAASB 2018c, 2018f). Specifically, ISA 240, *The Auditor's Responsibilities Related to Fraud in the Audit of Financial Statements* (hereinafter the fraud standard), emphasizes that material misstatements due to fraud (an intentional act) could be more difficult to discover than misstatements arising from errors (an unintended mistake) because of the concealment nature of fraud (Albrecht, Albrecht, Albrecht, and Zimbelman 2018; IAASB 2018c). To meet the ISA requirements, auditors gather evidence during an audit, beginning with the planning process and continuing until the audit report is issued.

During the planning process, auditors identify and assess the risks of material misstatements due to fraud and develop audit procedures to respond to these risks (IAASB 2018c). Auditors apply these procedures in the testing phase to evaluate whether the financial statements are materially misstated. At the end of the audit, they propose audit adjustments based on misstatements identified from the evidence gathered during the testing phase. Auditors review the proposed audit adjustments schedule with the client and discuss which audit adjustments must be recorded. We often think of discussions about proposed audit adjustments between management and the auditor as a form of negotiation where each party attempts to win (Cohen, Krishnamoorthy, and Wright 2010; Gibbins, McCracken, and Salterio 2010). The auditor wants the client to record audit adjustments so the financial statements are not materially misstated (IAASB 2018e). However, the client usually prefers not to record audit adjustments. This study examines how auditors identify and investigate potential fraud, and how they resolve any issues with their clients. Prior fraud research focuses on how auditors make these decisions in developed countries. This study investigates this issue in two developing countries: Indonesia and Ghana.

Prior studies investigate auditors' judgment on fraud detection during several stages of the audit.[1] These studies are motivated by an attempt to understand why auditors in developed countries rarely detect fraud. In general, they conclude that auditors often fail to

[1] See, for example, Asare, Wright, and Zimbelman (2015), Brasel, Hatfield, Nickell, and Parsons (2019), Brazel, Carpenter, and Jenkins (2010), Brazel, Jones, and Zimbelman (2009), Glover, Prawitt, Schultz Jr., and Zimbelman (2003), Hassink, Meuwissen, and Bollen (2010), Lee, Welker, and Wang (2013), Trotman and Wright (2012).

apply fraud-related audit procedures, which leads to fraud detection failure. They stress that detecting fraud is difficult because fraud is rare so auditors often lack experience in responding to fraud.

Prior research in psychology and auditing shows that the knowledge structures of individuals change and develop as they obtain relevant experience (Daudelin 1996; Knapp and Knapp 2001; Nokes, Schunn, and Chi 2010). Experienced individuals have an ability to understand complex relationships and develop greater capacities to identify underlying problems in the evidence. Thus, one might expect that auditors' experience with fraud can be an important factor in helping auditors respond appropriately to fraud. This may be one explanation for why auditors in developed countries find it difficult to detect fraud. That is, in this setting, fraud detection is difficult for auditors because fraud is a rare occurrence. Due to a lack of fraud experience, auditors may be unable to rely on their fraud knowledge obtained from previous fraud experiences to appropriately respond to fraud risk (Asare et al. 2015; Asare and Wright 2004; Glover et al. 2003; Hammersley, Johnstone, and Kadous 2011; Hassink et al. 2010; Mock, Srivastava, and Wright 2017).

We conduct this study in a setting where fraud is not a rare occurrence. Developing countries, especially Indonesia and Ghana, provide a unique setting because fraud is not a relatively rare occurrence (Ernst & Young 2018; Hail, Tahoun, and Wang 2018; PwC 2018a; 2018b). We argue that prior fraud experience can influence auditors in two possible ways. One possibility is that the more fraud experiences auditors are exposed to, the more likely they respond to fraud effectively. Another possibility is that once fraud becomes a more expected occurrence, auditors might become more insensitive to fraud, and thus less responsive in detecting fraud. Furthermore, research also suggests that auditor pressures and incentives play a role in encouraging or inhibiting auditors from effectively detecting fraud (Asare et al. 2015). In a low litigation risk environment, such as in Indonesia and Ghana, the auditors may feel less pressure for fraud detection because they will be less liable for undetected fraud if it eventually becomes publicly known (Michas 2011).

Given that the same set of auditing standards for fraud detection is applied by auditors worldwide (IFAC 2019), it is surprising that we do not have information about how auditors respond to fraud in the developing world.[2] Although standard-setters claim

[2] ISAs are issued by the International Auditing and Assurance Standards Board (IAASB) as part of the International Federation of Accountants (IFAC) and are widely used by auditors around the world. According to IFAC (2019), 127 countries have adopted ISAs, including Indonesia and Ghana.

that a set of international auditing standards "enhance the quality and uniformity of [auditing] practice throughout the world and strengthens public confidence…." (IAASB 2017), we do not know whether this claim is true relative to fraud detection practices in developing countries. Does more experience about fraud translate into better fraud detection practices, or do other environmental factors in a developing country prevent auditors from performing fraud detection effectively? Therefore, it is important to determine whether consistency in standards leads to consistency in the application of standards.

Indonesia and Ghana are ISA-adopter countries with different legal systems, which may lead to different applications of the ISAs (Assenso-Okofo, Ali, and Ahmed 2011; La Porta, Lopez-de-Silanes, Shleifer, and Vishny 1998; Simunic, Ye, and Zhang 2015). However, they have a comparable economic size relative to wealthy economic countries (World Bank 2021) and enforce similar law quality for auditor litigation risk. Along with a similar societal culture, such as collectivism, high-power distance, and a low-trust society (Hofstede 1984), a sufficiently similar setting for this research.

We gather data from audit partners and managers about their firsthand experience when discovering a potential fraud in a recent audit engagement. We collect 71 responses from Indonesian and Ghanaian Big4 firms.[3] Respondents are 14 audit partners and 57 audit managers, with an average audit experience of 9.7 years. Our findings contribute to auditing literature and provide practical implications for standard-setters and the auditing profession. Important takeaways of this study are as follows. First, unlike extant literature asserting the significant involvement of lower-level staff in asset misappropriation fraud (e.g., Albrecht et al. 2018; Hassink et al. 2010), we find that our participants identify potential asset misappropriation committed mainly by senior managers. Although policymakers and academics emphasize fraudulent financial reporting more than asset misappropriation due to fraud's severe impact on the overall financial statements (ACFE 2020; DeZoort and Harrison 2018; IAASB 2018c), our findings in Indonesia and Ghana

[3] Big4 firms in Indonesia and Ghana dominate the national audit market. The market share of Big4 firms in Indonesia is approximately 80 percent of the total listed entities (IFIAR 2021). Appiah, Awunyo-Vitor, Mireku, and Ahiagbah (2016) report that from 2008 to 2012, of the 31 out of the 36 Ghanaian listed firms, or about 79 percent of Ghanaian listed entities are audited by Big4 firms. Hence, collecting responses from Big4 auditors provide a more generalization inference on the findings. Furthermore, prior studies suggest that Big4 auditors provide higher quality audits than non-Big4 (e.g., Lennox and Pittman 2010), and therefore, we expect that Big4 auditors can detect more fraud, despite the possibility that Big4 auditors engage with relatively lower-fraud risk audit clients than non-Big4 (Hassink et al. 2010).

imply that asset misappropriation involving senior managers should also receive attention from auditors, regulators, and academics.

Second, among fraud detection techniques required by the fraud standard (IAASB 2018c), assessing clients' internal control concomitant with using information technology (IT) has become a dominant notion and an emerging trend in the developed world (Donelson, Ege, and McInnis 2017; Halbouni, Obeid, and Garbou 2016; Knechel 2015; Tang and Karim 2019). Specifically, using IT for fraud detection can aid auditors in developing a more efficient focus on higher fraud risk areas. Despite this, very few participants cite the benefits of internal control assessment, and none report using IT to detect potential fraud. This is one major difference in fraud detection procedures between developed and developing countries. Although international audit firms have a global IT audit methodology available, this finding implies that audit clients in our setting do not use extensive IT control for their day-to-day business and heavily rely on manual controls. This coupled with the significant involvement of high-level management in the commission of fraud makes auditors less likely to rely on internal control assessment instead, they respond to potential fraud issues by using more traditional approaches (e.g., substantive tests, analytical procedures). Furthermore, once potential fraud is detected, participants adequately address the issue by gathering more evidence, communicating the issue with top management, and modifying the audit program according to the fraud standards. The latter finding is important, especially because researchers often report that auditors assess fraud risk adequately but generally fail to modify audit procedures to respond to heightened fraud risk (Asare et al. 2015; Asare and Wright 2004; Glover et al. 2003; Hammersley et al. 2011; Mock et al. 2017).

Finally, responding to Asare et al.'s (2015) call for further research on fraud resolution, we examine the negotiation strategy used by our participants, as well as how this strategy leads to potential fraud resolution at the end of the audit.[4] Specifically, we investigate whether participants apply a contending negotiation strategy, requiring the client to post potential fraud adjustments, or a conceding strategy, where they waive the posting of adjustments. We find that participants are more likely to use a contending than a conceding negotiation strategy. However, even when applying a contending approach,

[4] Although there are a significant number of studies on auditor-client negotiation and the resolution of differences (e.g., Brown and Johnstone 2009; Fu, Tan, and Zhang 2011), to date, none of these studies examines auditor-client negotiation for fraud resolution. Therefore, we respond to Asare et al.'s (2015) call for research on this issue and expand the research agenda to developing countries.

they are less likely to require the client to record all of the proposed audit adjustments. Despite being the auditor's preferred negotiation outcome (e.g., Kulset and Stuart 2018; McCracken, Salterio, and Schmidt 2011), a contending strategy leads to client dissatisfaction (Kleinman, Palmon, and Yoon 2014; Perreault and Kida 2011) and may harm the auditor-client relationship. Our further analysis indicates that because contending behavior can be more problematic in collectivist and high-power distance societies like Indonesia and Ghana (Cai, Wilson, and Drake 2006), auditors can benefit from finding a balance between using a contending and conceding strategy.

The remainder of the paper is organized as follows. The second section discusses the research setting, reviews the literature, and proposes research questions. The third section presents our research design. The fourth section reports our field data and discusses the empirical results. The last section concludes.

2. Background

This section presents the background information including information about the research setting, reviews literature and proposes research questions.

2.1. Research Setting

Indonesia and Ghana represent developing countries that uphold similar auditing regulatory regimes as ISA-adopter countries (Boolaky and Soobaroyen 2017; IFAC 2019).[5] In addition, they have comparable economic status relative to wealthy economic countries (World Bank 2021).[6] Nonetheless, one can argue that Indonesia and Ghana's institutional backgrounds such as their legal systems, industry compositions, capital market size, investor protections, and culture and social norms remain incomparable. Indonesia inherits the French-civil-law legal system from the Dutch, whereas Ghana adopts an English-origin common-law system (Assenso-Okofo et al. 2011; La Porta et al. 1998). Common-law

[5] Although IFAC (2019) reports Indonesia and Ghana as ISAs adopter-countries, there is a slightly different adoption process across countries. Ghana fully adopts ISAs without modification (Adafula, Degraft-Hanson, Kocevski, and Mabheju 2014), but Indonesia adopts outdated versions of equivalents ISAs (Donna and Fabling 2018). Unlike Ghana, English is not the official language in Indonesia, and thus, the Indonesian auditing profession needs to translate ISAs into the national language so that the auditing standards can be widely understood by Indonesian auditors, especially those in non-internationally affiliated firms.

[6] World Bank (2021) classifies both Indonesia and Ghana in the middle-income category. Specifically, Indonesia is in the upper-middle-income status and Ghana in the lower-middle-income category, with Gross Domestic Product (GDP) per capita in 2021 of US$4,136 and US$2,202, respectively. Other studies identify Indonesia and Ghana as emerging and developing markets, respectively (Boolaky and Soobaroyen 2017; Michas 2011). Relative to other developed countries, such as the United States (U.S.), United Kingdom, and European Union with GDP per capita in 2021 of US$ 65,297, US$42,329, and US$34,913, respectively, Indonesia and Ghana are arguably similar economic.

countries generally have the strongest legal investor protection, whereas French-civil-law countries have the weakest (La Porta et al., 1998).[7] However, Indonesia has a more developed capital market system, which is approximately three times larger than Ghana's market capitalization per GDP ratio.[8] This increases pressure for higher audit quality relative to Ghana. Furthermore, Indonesian listed firms are dominated by manufacturing companies (Rusmin and Evans 2017), whereas mining, technology, and financial industries comprise approximately 97 percent of Ghana's market capitalization (GSE 2021).

Research suggests that wealthier countries enforce higher law quality and are negatively associated with earnings management (La Porta et al. 1998; Shen and Chih 2005). Less developed countries have lower auditor litigation risk (Michas 2011) and a lower degree of societal trust (Ho, Yen, Gu, and Shi 2020). Societal trust, along with other cultural dimensions (e.g., individualism-collectivism, power distance), can influence auditors' fraud detection process (Bik and Hooghiemstra 2018; Ho et al. 2020; Patel, Harrison, and McKinnon 2002). Because Indonesia and Ghana are collectivist, high-power distance, low-trust societies (Hofstede 1984), these cultural aspects may contribute to auditors' judgment and client interaction on fraud detection and resolution. Overall, relative to developed countries, Indonesia and Ghana offer a sufficiently similar setting for this research.

2.2. Applying ISA 240 in an Audit

The risk of material misstatements due to fraud has received much attention from policymakers (e.g., IAASB 2018c; PCAOB 2012) and academics (e.g., Brasel et al. 2019; Trotman and Wright 2012) in recent years. Fraud is difficult to detect (Albrecht et al. 2018; KPMG 2016), and it impacts the reliability of financial statements and results in damage to the auditing profession, harming public trust and financial market sustainability (ACFE 2020; Giannetti and Wang 2016; Karpoff, Lee, and Martin 2008). To avoid the negative consequences of financial statement fraud, ISA 240 is clear about managements' and auditors' responsibility for fraud detection. Management is responsible for designing control systems to prevent, detect, and correct fraud. The auditor is responsible for planning

[7] Despite the inclusion of four sub-Saharan African countries in the 18 common-law countries in La Porta et al.'s (1998) dataset, Ghana is not included. Thus, it is unknown where Ghana is placed on the legal investor protection continuum.

[8] Indonesia has 622 listed entities and a market capitalization of US$518 billion (OECD 2019), with the ratio of market capitalization per GDP of 0.51. Meanwhile, Ghana has 37 listed firms and a market capitalization equivalent to US$10.5 billion (Ghana Stock Exchange (GSE) 2021), with the ratio of market capitalization per GDP of 0.16. Thus, the Indonesian capital market is 3.2 times bigger than Ghana.

the audit to determine whether material misstatements caused by fraud or error are present in the financial statements (IAASB 2018c).

ISA 240 describes the auditors' responsibilities to detect potential fraud in every phase of an audit, from audit planning to audit completion. During the planning process, ISA 240 requires auditors to assess the risks of material misstatement due to fraud by performing several audit procedures, including inquiries to management and those charged with governance, preliminary analytical reviews of any unusual or unexpected relationships, and gaining an understanding of the client's internal controls and control activities (IAASB 2018b). Auditors respond to assessed fraud risks by designing fraud-related audit procedures and applying these procedures during the audit testing phase (IAASB 2018c).[9] These procedures can include conducting internal control and substantive tests (e.g., analytical procedures, observation, inquiry, inspection, recalculation, reperformance), reviewing and testing manual journal entries, and evaluating the overall financial statements. At the final step, auditors communicate the proposed audit adjustments based on the material misstatements identified during the testing process (IAASB 2018e). This final step is critical to ensure that financial statements are not materially misstated.

Extant research investigating auditors' judgments and the application of fraud-related procedures is extensive but is primarily in developed countries. For instance, Asare et al. (2015) report that auditors fail to detect fraud mainly due to failure to perform fraud risk assessments and modify the audit program to respond to fraud cues. Trotman and Wright (2012) conduct an experiment with Big4 auditors and find that auditors fail to exercise skeptical judgment when receiving evidence from management, even if evidence from external parties disconfirms this evidence. Lee et al. (2013) corroborate this failure in skeptical judgment and suggest that auditors in developed countries fail to exercise presumptive doubt skepticism when performing fraud inquiries; this occurs most because most auditors follow presumptive trust assumptions. Moreover, a survey of auditors in a developed country indicates that auditors fail to comply with some critical elements of fraud standards during an audit. Thus, they encounter corporate fraud by chance rather than because of a deliberate plan to identify fraud (Hassink et al. 2010). Research also suggests

[9] ISA 240 also asserts to respond to assessed fraud risks by assigning and supervising appropriate audit team members to perform fraud-related audit procedures, evaluating the client's accounting policies that may indicate fraud, and incorporating an element of unpredictability in performing the audit procedures.

that high-quality fraud brainstorming can help detect fraud (Trotman, Simnett, and Khalifa 2009). However, Brazel et al. (2010) survey internationally-affiliated auditors in a developed country and find that their fraud brainstorming quality is medium-to-low. In sum, these studies indicate that auditors in developed countries often fail to apply auditors' judgment and fraud-related procedures, leading to a failure in detecting fraud.

We extend this line of research by examining how auditors in two developing countries, Indonesia and Ghana, use a set of fraud standards to detect and respond to potential fraud. This is important because, to our knowledge, research on fraud detection has been conducted only in developed countries. Following the framework of effective fraud detection in Asare et al. (2015), we expect some differences in applying fraud detection and resolution processes in developing countries versus developed countries. We theorize that differences are attributable to fraud-related experiences in developing countries and the interplay of fraud detection with auditor incentives and pressures in this setting.

Internationally-affiliated audit firms (e.g., Big4) employ global firm policies and put firm-wide control systems in place to ensure the consistency of "seamless audit services," including a fraud-related audit methodology, across their branches worldwide (Barrett, Cooper, and Jamal 2005). Despite this similarity, the environments where these firms operate differ from country to country. Environmental factors, such as national litigation risk, regulations, and culture, can result in variation in the application of a uniform global audit methodology. Research suggests that Big4 firms' compliance with a global fraud risk assessment methodology differs at the country level (Bik and Hooghiemstra 2018), confirming our expectation that fraud detection and resolution may differ in developed and developing countries. Yet, developing countries are often overlooked, and previous fraud research lacks evidence addressing this issue. Therefore, this study provides exploratory answers to our research question: "*How do auditors in developing countries identify, investigate, and resolve potential fraud issues?*" The following sections elaborate on the research question in more detail.

2.3. Auditors' Identification and Investigation of Potential Fraud

Identifying the likelihood of fraud is the first and most critical step for auditors to detect fraud. However, this step can be challenging because fraud occurrences are rare and often hidden, and the signs of fraud can be very subtle. As a result, auditors may lack experience recognizing the signs of fraud (Asare et al. 2015). Research suggests that the

occurrence of fraud in developed countries is less common than in developing countries for several reasons. For example, the institutional environment in developed countries leads to effective regulation, with more effective law enforcement preventing future fraud (Berglöf and Claessens 2006; Hail et al. 2018; La Porta et al. 1998). As a result, auditors in developed countries may have less opportunity to experience fraud.

ISA 240 describes two types of fraud that might occur during an audit: fraudulent financial reporting and misappropriation of assets. Fraudulent reporting occurs when management intentionally misleads users of financial statements by failing to follow accounting standards when preparing the financial statements. Asset misappropriation fraud occurs when individuals take company assets for their use. Existing literature places more emphasis on fraudulent reporting due to the involvement of higher-level management. Management at this level has the ability to conceal fraud and override internal controls, which can allow fraud to occur in the financial statements. Meanwhile, asset misappropriation is often perceived as immaterial fraud associated with lower-level employees (Albrecht et al. 2018; ACFE 2020; IAASB 2018c). Regardless of its immateriality, however, research in developed countries (e.g., United States (US)., Finland, and The Netherlands) finds mixed results about the perceived importance of identifying asset misappropriation fraud (DeZoort and Harrison 2018; Gullkvist and Jokipii 2013; Hassink et al. 2010). In our study, we investigate how auditors respond to both types of fraud. We assess whether the assumption that asset misappropriation is immaterial fraud associated with lower-level employees holds in the developing countries we study.

ISA 240 requires auditors to perform several audit procedures for early fraud detection. These include fraud-related inquiries, analytical procedures, internal controls assessments, and fraud brainstorming within the audit team (IAASB 2018c). Once the risks of material misstatements due to fraud are identified, ISA 240 requires auditors to respond to potential fraud by gathering more audit evidence in terms of its nature, extent, and timing and, if necessary, assigning forensic specialists and IT experts to the audit. In recent years, audit firms have used IT procedures to improve the effectiveness of assessments of the risk of material misstatement due to fraud (Halbouni et al. 2016; Lowe, Bierstaker, Janvrin, and Jenkins 2018). Audit firms have stated that IT audit procedures are necessary because of extensive IT innovations used by their clients to manage more complex business processes. The need for IT to perform fraud risk assessments may differ between developed and developing countries because IT is more prevalent in developed countries. Prior research

in developed countries demonstrates that IT audit procedures can help auditors navigate high key fraud risk areas more effectively than traditional approaches (e.g., manual analytical procedures) by taking velocity, veracity, and volume to process clients' information into accounts (Tang and Karim 2019).[10] Furthermore, increased reliance on forensic specialists to improve the effectiveness of fraud investigation is an emerging theme in developed countries (Asare and Wright 2018; Boritz, Kochetova, Robinson, and Wong 2020; Jenkins, Negangard, and Oler 2018). Despite the benefit, however, other studies indicate that the use of forensic specialists is not more effective at detecting fraud than is modifying the audit program (Boritz, Kochetova-Kozloski, and Robinson 2015).

In developed countries, a failure to modify the audit program to respond to heightened fraud risks is perhaps one of the most common findings in fraud detection research (Asare and Wright 2004; Glover et al. 2003; Hammersley et al. 2011). Prior research suggests that this failure is attributed to auditors' lack of fraud-related experiences (Asare et al. 2015; Popova 2018). Because the auditors in developing countries that we study may have more fraud experiences than auditors in developed countries, they may be more able to identify fraud symptoms by integrating fraud risk factors from their prior fraud experiences into their planning process. Research also suggests that internationally-affiliated auditors operating in low trust societies are more likely to comply with a global fraud methodology because they tend to believe that their client management does not promote honesty, and thus, they are unlikely to rely on information provided by client management (Bik and Hooghiemstra 2018). Both factors –more fraud experience and a lack of trust in their audit clients– may cause auditors in the two developing countries in our study to modify their audit plans and respond to potential fraud more aggressively, compared to auditors in developed countries. In contrast, prior research finds that a low litigation risk environment may not provide adequate auditor incentives to investigate potential fraud symptoms (Michas 2011). A low litigation environment provides less pressure for fraud detection because auditors are less likely to be sued for undetected fraud, even if it eventually becomes known to the public. Based on this discussion, we ask the following research questions:

RQ1 *How do auditors in Indonesia and Ghana apply ISA 240 to identify potential fraud issues?*

[10] One emerging technology for fraud detection is the use of big data analytics (Appelbaum, Kogan, and Vasarhelyi 2017), which can be especially beneficial in fraud brainstorming sessions (Tang and Karim 2019).

RQ2 How do auditors in Indonesia and Ghana apply ISA 240 to investigate potential fraud issues?

2.4. Auditors' Resolution of Potential Fraud

Following ISA 240's requirements for potential fraud resolution, auditors review the proposed audit adjustment schedule, communicate their findings, and request that client management correct potential misstatements (IAASB 2018c, 2018e). This auditor-client negotiation usually occurs during the final phase of the audit process (Antle and Nalebuff 1991; Beattie, Fearnley, and Brandt 2000; Gibbins et al. 2010). To avoid material misstatements due to fraud in the financial statements, two actions must occur. The auditor must first identify the fraud, and then the auditor must require the client to correct material misstatements caused by the fraud. Failure to complete either of these actions will result in misstatements in the financial statements and a failure on the part of the auditor to follow the requirements of the fraud standard.

Research suggests that negotiations about audit adjustments can affect both the audit outcome and the future auditor-client relationship (Brown and Wright 2008; Gibbins, Salterio, and Webb 2001; McCracken, Salterio, and Gibbins 2008). In this regard, we argue that a potential fraud negotiation is a more complex situation than a negotiation involving audit adjustments without fraud. In a fraud situation, auditors accuse the client of not only misstating the financial statements, but also of intentionally misstating them.

When negotiating potential fraud adjustments, auditors can apply a contending or conceding negotiation strategy.[11] Research in developed countries indicates that auditors prefer a contending strategy. This includes convincing the client to accept the proposed audit adjustment, explaining the implications, or even threatening to qualify the audit report if the adjustment is not made (Beattie, Fearnley, and Brandt 2004; Church, Dai, Kuang, and Liu 2020; Gibbins et al. 2010; Kulset and Stuart 2018). Auditors usually approach the client with a contending strategy to ensure the client records the auditor's proposed audit adjustments. Nevertheless, applying a contending approach in collectivist-high-power-distance societies can be problematic (Cai et al. 2006). Unfavorable impacts may be more

[11] Generic negotiation literature finds that a distributive negotiation strategy (contending and conceding) is most commonly used in a negotiation, where only one party "wins" the negotiation and the other party "losses," or neither party "wins." We call the result of this negotiation a "distributive" outcome. Prior studies in auditor-client negotiation find a similar use of the distributive negotiation strategy (Bennett, Hatfield, and Stefaniak 2015; Brown-Liburd and Wright 2011; Gibbins et al. 2010; Gibbins et al. 2001; Kulset and Stuart 2018; McCracken et al. 2011).

prominent in this context, including audit delay and client dissatisfaction that leads to detrimental auditor-client relationships (Kleinman et al. 2014; Perreault and Kida 2011).

If results from prior research on the negotiation strategy used in developed countries also apply in developing countries, auditors in Indonesia and Ghana will use a contending strategy to negotiate potential fraud adjustments, which will lead to the client accepting all of the proposed audit adjustments. Conversely, if auditors do not use a contending strategy in this setting, the client will not accept the proposed adjustments. Thus, the following research question is proposed:

RQ3 *What is the negotiation strategy used by auditors in Indonesia and Ghana when negotiating potential fraud issues, and how does this negotiation strategy impact the outcome of the audit?*

3. Research design

3.1. Data Collection

We use an archival-based field study technique to examine how auditors identify and investigate potential fraud, as well as how they apply a negotiation strategy to arrive at an audit outcome.[12] Because we cannot directly observe auditors' working papers related to specific fraud experiences and fraud detection practices in their recent audits, we asked our participants to complete a questionnaire involving a potential fraud that they had recently experienced in their work. This recency minimizes retrospective bias. We gathered data from Big4 auditors in Indonesia and Ghana. Our participants are partners and managers because they are the ultimate decision-makers when applying fraud standards and they are responsible for communicating and resolving potential fraud issues with client management (IAASB 2018c).

We developed the questionnaire based on the fraud standard in ISA 240 and related ISAs (IAASB 2018b, 2018c; 2018d, 2018e, 2019), as well as previous fraud detection and auditor-client negotiation studies (Gibbins et al. 2010; Gibbins et al. 2001; Kulset and Stuart 2018). The questionnaire was designed to gather specific information about auditors' experience with potential fraud and consists of four sections. First, we asked our participants about a potential fraud in their recent audit and how they discovered it. Second, we asked about their agreement (or disagreement) with various statements pertinent to their

[12] The archival field study method is utilized in prior studies including Brazel et al. (2010), Jenkins et al. (2018), and Nelson, Elliott, and Tarpley (2002).

contending and conceding negotiation tactics. We did not use the word "negotiation" in the questionnaire because some participants might have viewed that term disparagingly. The third section asked questions pertinent to the outcome of the negotiation. Lastly, we sought information about the client, the engagement, and information about the auditors.

The questionnaire was pretested in three stages—the first pilot test was conducted with two Big4 audit managers in Indonesia and Ghana. The second pilot test was done with an audit partner in Indonesia and an audit manager in Ghana after revising the questionnaire based on the comments from the first pilot test. The final pilot test was with two audit partners in Ghana. This allowed us to ensure that the questionnaire was suitable for all partners and managers in both countries. The questionnaire was written in English because our participants have sufficient English literacy to complete the survey.

After these preliminary tests, the questionnaire was completed and sent to participants using a web-based survey platform (SurveyXact).[13] The questionnaire link was sent to our contacts in Big4 firms and we asked them to circulate the link to all colleagues in partner and manager positions at their offices. The link was distributed to all four Big4 firms in Indonesia and three of the Big4 firms in Ghana.[14] Unlike in some countries where Big4 firms have several offices in different cities, Big4 firms in Indonesia and Ghana have only one office located in the capital city. In addition to web-based questionnaires, some Ghanaian participants were sent a paper-based version for their convenience. The participants' anonymity was fully guaranteed to improve the response rate and minimize response bias due to the topic's sensitive nature.[15] We did not request specific identifying information (e.g. names, e-mail, or mailing addresses). The responses were collected over approximately five months.

[13] This study received Institutional Review Board approval. The survey questions were administered with other questions not reported in this study.

[14] Big4 firms in Indonesia and Ghana provide three types of services: audit and assurances, tax, and advisory or consulting. The size of each Big4 firm office providing these services, according to their website, is as follows: 1) PwC Indonesia has more than 2,200 employees with 66 partners and advisors, whereas PwC Ghana has more than 300 employees with 13 partners and directors; 2) KPMG Indonesia has more than 700 employees with 70 partners and directors, whereas KPMG Ghana has about 400 employees with 12 partners; 3) Deloitte Indonesia has over 1,000 staff with about 70 partners and directors; whereas Deloitte Ghana has about 250 employees; 4) Ernst & Young Indonesia has 1,900 staff with about 30 partners (audit and assurance only) whereas Ernst & Young Ghana has about 200 staff and 10 partners. As such, the number of available participants is smaller than would be available in most developed countries.

[15] In the anonymity mode, SurveyXact cannot track the number of questionnaires sent to respondents so we cannot calculate the response rate.

We received 71 complete responses, 44 (62%) from Indonesia and 27 (38%) from Ghana. Some of the responses are descriptive in nature (e.g., potential fraud issues), and thus, we coded them as illustrated in the Appendix. Table 1 presents demographic information for our participants. Twenty percent are partners, and 80 percent are managers. Their average auditing experience is 9.7 years, with audit partners and managers having an average of 14.8 and 8.4 years, respectively. The majority of participants experience potential fraud in at least one audit client every year (64%). Several of them experience potential fraud more frequently.

Table 1. Demographic Information for Participants

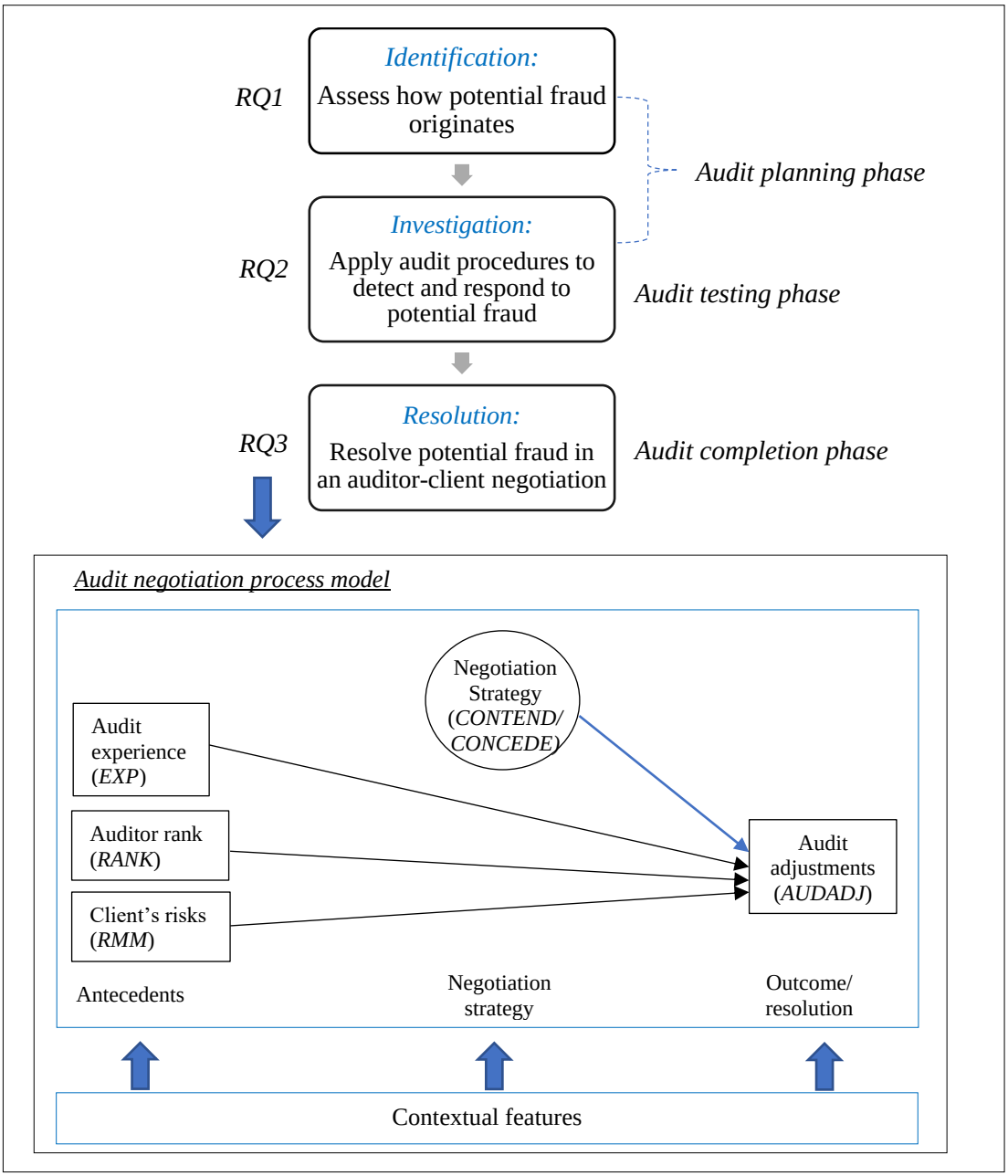
Audit experience[a]	**Partner[b] (n = 14, 20%)**	**Manager[c] (n = 57, 80%)**	**Total (n = 71)**
0-9 years	0 (0%)	39 (68%)	39 (55%)
10-14 years	11 (79%)	16 (28%)	27 (38%)
15-19 years	1 (7%)	1 (2%)	2 (3%)
> 20 years	2 (14%)	1 (2%)	3 (4%)
Total	14 (100%)	57 (100%)	71 (100%)
Fraud experience[d]	**Partner**	**Manager**	**Total**
Very rare	1 (7%)	1 (2%)	2 (3%)
At least one client	10 (72%)	36 (63%)	46 (64%)
2-3 clients	1 (7%)	14 (24%)	15 (21%)
3-4 clients	0 (0%)	4 (7%)	4 (6%)
More than 5 clients	2 (14%)	2 (4%)	4 (6%)
Total	14 (100%)	57 (100%)	71 (100%)

[a]Mean = 9.7 years. [b]Mean = 14.8 years. [c]Mean = 8.4 years. [d]We asked participants how often they usually experience potential fraud issues in their audit clients every year.

3.2. Conceptual Framework and Measurement

Figure 1 depicts this study's conceptual framework, which examines how auditors identify, investigate, and resolve potential fraud throughout the audit process. To examine potential fraud resolution, we adopt the negotiation process model from Gibbins et al. (2001) and Brown and Wright (2008). Specifically, we examine whether auditors use a contending negotiation strategy (*CONTEND*), where they require the client to record potential fraud-related audit adjustments, or a conceding strategy (*CONCEDE*), where they waive the adjustments. Because the negotiation strategy variable is a latent construct, we measure it using the measurement in Gibbins et al. (2010) with some necessary modifications. We operationalize the negotiation outcome as whether the client accepted all audit adjustments proposed by the auditor (*AUDADJ*).

Figure 1. Conceptual Framework of Identification, Investigation, and Resolution of Potential Fraud



We include audit experience (*EXP*) and rank (*RANK*) to control for alternative explanations (Kulset and Stuart 2018; McCracken et al. 2011; Trotman, A. Wright, and S. Wright 2009). We control for the client's risk of material misstatement (*RMM*)

(Kleinman et al. 2014; Sahnoun and Zarai 2009) following the auditing standards' requirement to assess *RMM* and adjust the detection risk to perform appropriate audit procedures (IAASB 2018c, 2019). We also include other contextual features as control variables. These include potential fraud types (e.g., fraudulent financial reporting and misappropriation of assets) (*FRAUD*), the auditor's perceived relationship with the client (*REL*), and precision of accounting regulations (*REG*) (Gibbins et al. 2010; Gibbins, McCracken, and Salterio 2005; Ittonen, Johnstone, and Myllymäki 2015; Kulset and Stuart 2018; McCracken et al. 2008).[16]

4. Results

This section presents and discusses the descriptive statistics and the results of our field data structured according to our research questions.

4.1. Descriptive Statistics

Table 2 reports descriptive statistics about the audit clients as reported by our participants. Participants recalled a potential fraud from a recent audit, primarily in manufacturing companies (38%) and retail, trading, and service organizations (23.9%).[17] The most common potential fraud issues include 1) revenue and receivables recognition (43.7%), 2) cash and inventory theft (21.1%), and 3) unrecorded liabilities (15.5%), suggesting the vulnerability of these areas to fraud. Most of our participants' potential fraud cases come from audit clients that are private-owned (45.1%), followed by multinational companies (28.2%), and then listed or regulated firms (16.9%).[18]

[16] Gibbins et al. (2005) argue that both audit partners and chief financial officers consider the auditor-client relationship an important accounting negotiation aspect. Additionally, Gibbins et al. (2010) find a positive relation between the quality of this relationship and the use of a conceding strategy by audit partners. Similarly, Kulset and Stuart (2018) assert that audit partners are likely to use a contending strategy when they perceive a less positive auditor-client relationship.

[17] Prior studies in developed countries find that most fraud instances are in manufacturing and merchandising companies (Kulset and Stuart 2018; Loebbecke, Eining, and Willingham 1989). We do a Pearson's chi-squared test to examine whether there are discrepancies in industry composition for fraudulent audit clients between Indonesia and Ghana (Craig and Diga 1998; GSE 2021; Rusmin and Evans 2017). We find no significant differences across industries, except for manufacturing, where Indonesia is higher than Ghana ($p < 0.05$, untabulated).

[18] We conduct Pearson's chi-squared and Fisher's exact tests for types of company ownership and find that listed/regulated companies are significantly involved in financial reporting fraud than asset misappropriation fraud ($p < 0.05$, untabulated).

Table 2. Information about audit clients in the sample

Industry classification	Responses (% of 71)	Ownership	Responses (% of 71)
Manufacturing	27 (38.0)	Private	32 (45.1)
Retail, trading, and service	17 (23.9)	Multinationals	20 (28.2)
Financing sector	8 (11.3)	Listed/regulated	12 (16.9)
Food and agriculture	7 (09.9)	Non-traded	4 (05.6)
Mining, utilities, and construction	6 (08.5)	State-owned enterprises	3 (04.2)
Information technology	4 (05.6)	Total	71 (100.0)
Others	2 (02.8)		
Total	71 (100.0)		

Type of potential fraud issues in the sample	Responses (% of 71)
Revenue and receivables recognition	31 (43.7)
Cash and inventory thefts	15 (21.1)
Unrecorded liabilities	11 (15.5)
Asset impairment and estimation	3 (04.2)
Overstated expenses	2 (02.8)
Inventory valuations	2 (02.8)
Taxation	2 (02.8)
Others	5 (07.1)
Total	**71 (100.0)**

4.2. Results and Discussions

The results are presented and discussed according to our research questions.

4.2.1. RQ1 How do auditors in Indonesia and Ghana apply ISA 240 to identify potential fraud issues?

Accounting fraud literature indicates that fraud can be committed by management or lower-level employees (Hassink et al. 2010; IAASB 2018c). Table 3 provides information about who originates fraud and what type of fraud occurs based on participants' recent fraud experiences. It also shows how the fraud was identified. Participants identify more financial reporting fraud (77%) than asset misappropriation fraud (23%). Upper management (90% versus 10%) and senior managers (75% versus 25%) commit significantly more financial reporting fraud than asset misappropriation fraud ($p < 0.05$, see Table 3). Middle managers participate in fraudulent financial reporting at a higher rate than asset misappropriation fraud (68% versus 32%), whereas lower-level employees commit fraudulent reporting at the same rate as asset misappropriation.

In aggregate, participants identify top and senior management employees as fraud originators at 44% and 51%, respectively. ISA 240 acknowledges that management fraud

is more difficult to detect than employee fraud, especially when the fraud involves collusion (IAASB 2018c). We find that some potential frauds, whether fraudulent financial reporting or misappropriation of assets, reported by the participants involve collusion across employment levels (28%). Of those involving collusion, participants report that fraudulent financial reporting requires more cooperation across employment levels than asset misappropriation fraud (65% versus 35%, $p < 0.1$). In addition, participants mainly discovered the fraud issue in the testing phase of the audit instead of in the planning stage (79% versus 21%, $p < 0.05$).

Prior research in developed countries finds that top management is often involved in financial reporting fraud (Albrecht et al. 2018; Hassink et al. 2010). Most of the fraud research focuses on this type of fraud because of its severe impact on the financial statements. Our participants report a similar experience for the originators of fraudulent financial reporting (top and senior management levels at 51% and 49%, respectively). A small number of potential financial reporting frauds involve lower-level personnel (11%). Among these, only one participant reports that the potential fraudulent financial reporting involving lower-level personnel also involved senior-level management, suggesting the role of coercive power in the commission of few frauds. This instance, therefore, provides field evidence from participants' firsthand experience supporting previous research in which collectivist and high-power distance cultures increase the likelihood of managers encouraging subordinates to collude in manipulating accounting information (Cieslewicz 2015).

Table 3. Type of Potential Fraud

	FFR[a]	MOA[b]	Total		FFR[a]	MOA[b]	Total
Fraud type	77%*	23%	100%	*Audit stage of potential fraud identification*			
				% of audit stage			
Suspected fraud personnel				Fieldwork	84%*	16%	100%
% of fraud personnel				Planning	62.5%	37.5%	100%
Top management	90%*	10%	100%				
Senior manager	75%*	25%	100%	*% fraud type*			
Middle manager	68%	32%	100%	Fieldwork	82%*	60%	79%*
Lower-level staff	50%	50%	100%	Planning	18%	40%	21%
				Total	100%	100%	100%
% of fraud type[c]							
Top management	51%	19%	44%	*Audit procedures to detect potential fraud for the first time*			
Senior manager	49%	56%	51%	*% of audit procedures*			
Middle manager	24%	38%	27%	Substantive tests	82%*	18%	100%
Lower-level staff	11%	38%	17%	Client inquiries	59%	41%	100%
				Analytical procedures	80%*	20%	100%
Involving collusion across managerial levels[d]				Review of manual journal	100%	0%	100%
% of collusion				Internal control assessments	100%	0%	100%
Collusion	65%	35%	100%	Results from IT analysis	0%	0%	0%
Alone	82%*	18%	100%				
				% of fraud type			
% of fraud type				Substantive tests	49%	37%	46%
Collusion	24%	44%	28%	Client inquiries	18%	44%	24%
Alone	76%*	56%	72%	Analytical procedures	22%	19%	21%
Total	100%	100%	100%	Review of manual journal	7%	0%	6%
				Internal control assessments	4%	0%	3%
				Results from IT analysis	0%	0%	0%
				Total	100%	100%	100%

[a]FFR: Fraudulent financial reporting. [b]MOA: Misappropriation of assets. [c]Participants can select more than one option from the alternatives. We report the results as a percentage of the total number of responses for each fraud type. [d]We classify a potential fraud involves collusion if participants identified more than one level of employment that involved collusion; otherwise, we code it as "alone." *two-sample t-test $p < 0.05$.

Despite the association between asset misappropriation and lower-level employees suggested by previous researchers in developed countries (Albrecht et al. 2018; Hassink et al. 2010; IAASB 2018c), participants report different experience. The majority of asset misappropriation involves senior managers and middle managers (56% and 38%, respectively) instead of lower-level staff. Managers in higher-level positions mainly commit cash and inventory theft in their companies through various transactions (e.g., cash receivables collection larceny, miscellaneous expenses billing, and reimbursement schemes), and sometimes, even involve top management in the fraud. For instance, one participant reports that top-level, senior-level, and middle-level managers at an audit client cooperated in cash larceny of tax overpayment refunds from the government. The refunds were not returned to the company but were divided amongst the various managers involved

in the fraud. This asset misappropriation could not occur if senior management lacked the ability to override internal controls. In addition to this, participants with more fraud experience (at least two fraudulent audit clients or more every year) report senior managers as fraud perpetrators more than participants with fewer fraud experiences ($p < 0.1$, untabulated). Together, our findings suggest that asset misappropriation involving senior management should receive attention from standard-setters and the auditing profession because of senior management's ability to override internal control. In this sense, our participants can better identify fraud involving higher executive positions due to richer fraud knowledge from prior fraud experiences.

4.2.2. RQ2 How do auditors in Indonesia and Ghana apply ISA 240 to investigate potential fraud issues?

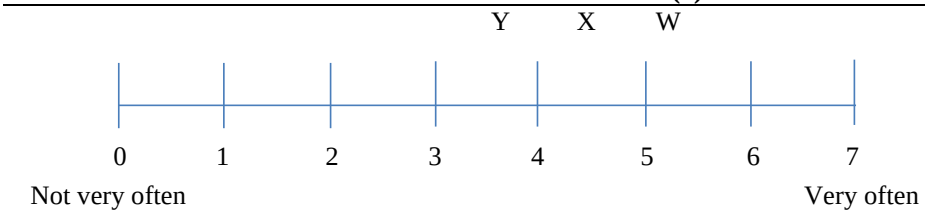
Table 3 shows a significant difference ($p < 0.05$) between fraud detection procedures (e.g., substantive tests, analytical procedures) and fraud type reported by our participants in their recent audits. Column (1) of Table 4 Panel A reports that the majority of participants discover potential fraud *for the first time* by performing substantive tests (46.5%), followed by client inquiries (24%) and analytical procedures (21.1%). Participants apply substantive tests and analytical procedures more frequently to detect financial reporting fraud than asset misappropriation fraud ($p < 0.05$). In contrast, participants report that client inquiries are used equally to detect both types of fraud.

Table 4. Audit Procedures to Detect Potential Fraud

Panel A: Actual responses, planned responses, and means differences

Audit procedure for detecting potential fraud	(1) Actual Responses (% of 71)[a]	(2) Planned Responses Mean (SD)[b]	(3) One-sample t-test[c]	(4) Significant difference[d]
(1) Results from substantive tests	33 (46.5)	5.08 (1.63)	8.02***	W
(2) Inquiry with clients	17 (24.0)	3.70 (1.78)	0.96	Y
(3) Unusual or unexpected relationship from analytical procedures	15 (21.1)	4.20 (1.70)	3.45***	X
(4) Evidence from a review of manual journal entries	4 (5.6)	4.54 (1.82)	4.79***	X
(5) Results from assessing client's internal control	2 (2.8)	4.20 (1.63)	3.61***	X
(6) Results from IT analysis	0 (0.0)	3.52 (1.88)	0.09	Y
Total	71 (100.0)			

Panel B: Illustration of difference on the scale in Column (4) Panel A[e]



[a]We asked participants to indicate how they became aware of the potential fraud issue *for the first time*. They were required to choose one option from the alternatives. We report the results in the number of responses and as a percentage of the total number of responses.

[b]We also asked participants to rate how they *usually* become aware of potential fraud issues on an eight-point Likert scale from 0 (not very often) to 7 (very often).

[c]We determine whether the sample mean is significantly above or below the mid-point value of the scale (3.5 on a 0-7 scale) using a one-sample t-test. *** indicates $p < 0.01$.

[d]A difference in a letter between two rows in Column (4) Panel A shows a significant difference between that row's mean audit procedure likelihood of use and the audit procedure in the row immediately below it. The significant difference is $p < 0.05$.

[e]Each letter on the scale corresponds to the audit procedure denoted by the letter in Column (4) Panel A. The scale corresponds to the question: "How do you usually become aware of potential fraud issues?"

We then asked our participants how they *usually* become aware of potential fraud issues. The results presented in Column (2) of Table 4 Panel A are participants' likelihood to use specific fraud detection procedures (in descending order based on the mean value): substantive tests, manual journal entry tests, internal control assessment and analytical procedures ($p < 0.05$ above midpoint, see Column (3)). Surprisingly, participants state that inquiries of client management are the fraud detection procedure they are least likely to use, despite reporting that fraud inquiries are predominantly used to detect fraud in their recent audits. Although an inquiry itself is insufficient audit evidence and provides the least assurance to corroborate management assertions (IAASB 2018a), our findings indicate that

fraud inquiries should not be overlooked and are pivotal contributors to the likelihood of fraud discovery. Together, these findings are similar to those in developed countries (Brasel et al. 2019; Commerford, Hermanson, Houston, and Peters 2016; Kaplan, Pope, and Samuels 2011; Rose, Rose, Suh, and Thibodeau 2019), where fraud detection benefits from substantive tests, analytical procedures, and client inquiries.

ISA 240 mandates that auditors assess fraud risks by obtaining "an understanding of the entity and its environment, including the entity's internal control" (IAASB 2018c, 160, para. 16). The effectiveness of internal control is a dominant theme in the literature on fraud detection in developed countries (Donelson et al. 2017; IAASB 2018c) because weak internal controls are an issue in high-profile fraud scandals in the developed world. Through the Sarbanes-Oxley Act of 2002, which affects global auditing practices, regulators in developed countries require auditors to evaluate internal controls, and specifically, U.S. regulators require auditors to issue an audit opinion on the effectiveness of internal controls over financial reporting (Knechel 2015; U.S. House of Representatives 2002). Although ISAs do not require the auditor to issue an opinion on the effectiveness of internal controls, the importance of internal controls is also part of the international auditing standards. Participants agree with the importance of internal controls and report that their theoretical assessment of clients' internal control is likely to inform them about fraud ($p < 0.05$ above midpoint; see Column (3) of Table 4 Panel A). Nevertheless, Column (1) shows that participants state that internal control assessments not an effective procedure to detect potential frauds for the first time in their recent audits. Very few participants (2.8%) report a benefit from internal control assessment in detecting fraud, and this benefit applies only to fraudulent financial reporting, not misappropriation of assets (see Table 3 and Table 4).[19] There is a longstanding debate about whether effective internal controls can lessen the incidence of fraud (Chang, Chen, Cheng, and Chi 2021; Donelson et al. 2017; Hogan, Rezaee, Riley Jr., and Velury 2008; Kinney Jr. 2005; Smith, Tiras, and Vichitlekarn 2000). We find support for the idea that internal controls are not as effective as some researchers have suggested because management can override controls. In

[19] In addition, very few actual responses are related to the benefits of reviewing manual journal entries that inform participants about potential fraud (5.6%, Column (1) of Table 4 Panel A). However, similar to the theoretical importance of conducting internal control assessment, participants are likely to agree that the review of manual journal entries as required by the fraud standard (IAASB 2018c) helps them detect fraud ($p < 0.05$ above midpoint; Column (3)).

addition, participants experience fewer benefits from internal control assessment and respond to weak controls by relying more on substantive tests.

Assessing clients' internal controls include assessing manual and automated IT control systems (IAASB 2018c, 2019). Despite the recent development of IT for fraud detection in developed countries (Halbouni et al. 2016; Lowe et al. 2018; Tang and Karim 2019) and global fraud detection methodologies used by internationally-affiliated audit firms (Barrett et al. 2005; Bik and Hooghiemstra 2018), none of our participants use IT for fraud detection (see Table 3 and Table 4 Panel A). Using IT for fraud detection would require that the client has an adequate automated control environment. If clients are more likely to rely on manual controls, benefits from IT-related fraud detection might be lacking, and traditional approaches (e.g., substantive tests, analytical procedures) might be more effective. Although this may change because businesses worldwide are rapidly developing extensive and innovative IT systems, present evidence from Indonesia and Ghana indicates that IT fraud detection cannot be used in these developing countries, due to the lack of automated accounting systems in their clients. This is one important way in which developing countries differs from fraud detection in developed countries.

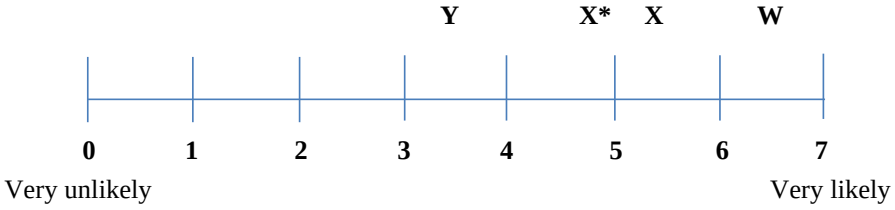
Once potential fraud is detected, ISA 240 requires auditors to respond appropriately. We present auditors' responses to fraud symptoms in Column (1) of Table 5 Panel A. Most of our participants gather more evidence (87.3%), communicate the potential fraud to top management (66.2%), and most importantly, modify the audit program to control the risk of material misstatement due to fraud (45.1%). Prior research in developed countries often finds that auditors fail to modify their audit programs when potential fraud is identified (Asare and Wright 2004; Glover et al. 2003; Hammersley et al. 2011). However, our field evidence suggests that auditors modify their audit programs to respond to the heightened fraud risk.

Table 5. Audit Procedures to Respond to Potential Fraud

Panel A: Responses, means, and means differences

Audit procedures for responding to potential fraud	(1) Responses (% of 71)[a]	(2) Mean (SD)	(3) One-sample t-test[b]	(4) Significant difference[c]
(1) Gather more evidence	62 (87.3)	6.24 (1.24)	18.68***	W
(2) Communicate with top management	47 (66.2)	5.46 (1.61)	10.22***	X
(3) Modify the audit program	32 (45.1)	5.46 (1.72)	9.61***	X
(4) Communicate with the audit committee	25 (35.2)	5.21 (1.78)	8.10***	X
(5) Consult with risk management and legal division of audit firm	25 (35.2)	4.87 (2.02)	5.73***	X*
(6) Consult with forensic specialists	8 (11.3)	3.35 (2.02)	-0.62	Y
(7) Communicate with regulatory and enforcement authorities	8 (11.3)	3.08 (2.07)	-1.69	Y

Panel B: Illustration of difference on the scale in Column (4) Panel A[d]



[a]We asked participants to indicate their actions to investigate the potential fraud issue. They are able to select more than one option from the alternatives. We report the results in the number of responses and as a percentage of the total number of responses.

[b]We asked participants to rate how they usually become aware of potential fraud issues on an eight-point Likert scale from 0 (very unlikely) to 7 (very likely). We determine whether the sample mean is significantly above or below the mid-point value of the scale (3.5 on a 0-7 scale) using a one-sample t-test. *** indicates $p < 0.01$.

[c]A difference in a letter between two rows in Column (4) Panel A shows a significant difference between that row's mean audit procedure likelihood of use and the audit procedure in the row immediately below it. The significant difference is $p < 0.05$.

[d]Each letter on the scale corresponds to the audit procedure denoted by the letter in Column (4) Panel A. The scale corresponds to the question: "What actions do you usually take to investigate potential fraud issues?"

Additionally, participants state that they respond to potential fraud by communicating with the audit committee and consulting with the audit firm's risk management and legal division, when necessary (35.2% each, Table 5 Panel A), indicating that they conform to the provisions of the fraud standards. In contrast, communicating with higher enforcement authorities and consulting with forensic specialists are procedures that participants seldom used to detect fraud (11.3% each). Despite the increased reliance on forensic specialists in the developed world (Asare and Wright 2004; Boritz et al. 2020; Jenkins et al. 2018), participants do not benefit from using these experts. Prior research shows that using forensic experts to detect fraud is not more effective than modifying the

audit program to respond to increased risk of fraud (Boritz et al. 2015), assuming that auditors modify audit plans as needed. Participants report that modifying audit programs to respond to heightened fraud risks is one of the first steps they take when potential fraud is identified. This suggests they may receive lower benefits from using forensic specialists.

4.2.3. RQ3 What is the negotiation strategy used by auditors in Indonesia and Ghana when negotiating potential fraud issues, and how does this negotiation strategy impact the outcome of the audit?

At the end of the audit, the auditor negotiates with the client about recording the proposed fraud-related audit adjustments. Although auditors may detect fraud effectively, this last step is critical because it determines the audit outcome (Antle and Nalebuff 1991; Gibbins et al. 2001). Table 6 Panel A lists the ten statements related to contending and conceding negotiation strategies in descending order of the mean values of the participants' scores. The means of *CONTEND* and *CONCEDE* are 5.07 and 1.72, respectively (Panel B). The difference between the strategies is 3.35 ($p < 0.001$), suggesting that our participants used significantly more of the contending negotiation strategy than the conceding strategy to resolve the audit adjustments associated with the potential fraud.

Table 6. Negotiation Strategies Used by Audit Partners and Managers

Panel A

Statements[a]	**N**	**Min.**	**Max.**	**Mean**	***SD***	**Strategy**
I was firm in pursuing my position to adjust the financial statements. (S9)	71	0	7	5.61	1.63	Contending
I used my authority to convince the client to correct the material misstatements. (S2)	71	0	7	5.13	1.96	Contending
I argued with the client to show them the benefit of correcting the material misstatements. (S3)	71	0	7	5.11	1.70	Contending
I used my expertise in accounting to influence the adjustments of the material misstatements. (S7)	71	0	7	4.76	2.17	Contending
I used my influence to get my position that the misstatements should be corrected to be accepted by the client. (S5)	71	0	7	4.73	1.85	Contending
I made concessions from my position to adjust the financial statements. (S8)	71	0	7	3.54	2.21	Conceding
I tried to satisfy the needs of the client. (S6)	71	0	7	1.96	2.17	Conceding
I gave into the wishes of the client. (S10)	71	0	6	1.11	1.55	Conceding
I attempted to accommodate the wishes of the client. (S4)	71	0	6	1.08	1.61	Conceding
I tried to satisfy the expectations of the client to avoid adjustments to the financial statements. (S1)	71	0	5	0.90	1.41	Conceding

[a]We asked the participants to rate their level of agreement with ten statements presented in random order (the same order was used in all the questionnaires). We used an eight-point scale from 0 (very unlikely with the statement) to 7 (very likely with the statement).

Panel B[b]	**Mean**	**Diff**	***SD***	**t-stat**
CONTEND	5.067	3.349***	0.179	18.7
CONCEDE	1.718			

[b]two-sample t-test, *** $p < 0.001$, n = 71.

To understand how the preferred negotiation strategy for resolving potential fraud, *CONTEND*, leads to the negotiation outcome (*AUDADJ*), we use logistic regression. Table 7 presents operational definitions and descriptive statistics for the variables in Equation (1).

$$AUDADJ = \alpha + \beta_1 CONTEND + \beta_2 EXP + \beta_3 RANK + \beta_4 RMM + \beta_5 FRAUD + \beta_6 REL + \beta_7 REG + \varepsilon \quad (1)$$

Table 7. Definitions of Variables and Descriptive Statistics

Variables	Description (Reference(s))	N	Min.	Max.	Mean	*SD*
CONTEND	A factor score of a latent variable of contending negotiation strategy, see Table 6 (Gibbins et al., 2010).	71	-1.96	1.58	0.00	0.87
AUDADJ	Potential fraud resolution, coded 1 if the client accepted all the proposed audit adjustments from the auditor, 0 if the client either accepted more than half, less than half, or rejected all of the proposed audit adjustments (Gibbins et al., 2001).	70	0	1	0.79	0.41
EXP	Years of audit experience (Brown & Johnstone, 2009; Kulset & Stuart, 2018; McCracken et al., 2011; Trotman, Wright, et al., 2009).	71	4	22	9.67	4.08
RANK	Current auditors' position; coded 1 if partners or directors' position, 0 if assistant manager, manager, or senior manager position.	71	0	1	0.20	0.40
RMM	Participants rate their client's risks of material misstatements relative to the rest of their clients, using an eight-point scale from 0 (very low) to 7 (very high) (IAASB, 2018c; 2018f).	71	1	7	4.58	1.41
FRAUD	A fraud type dummy variable to control systematic differences, coded 1 if the potential fraud is fraudulent financial reporting, 0 if assets misappropriation (IAASB, 2018c).	71	0	1	0.76	0.43
REL	Participants rate their perceived relationship with the client relative to the rest of their clients, using an eight-point scale from 0 (the worst) to 7 (the best) (Gibbins et al., 2010; Gibbins et al., 2005; Kulset & Stuart, 2018; McCracken et al., 2008).	71	0	7	4.37	1.10
REG	Proxy for accounting regulation accuracy, coded 1 if the audit client is a listed or a regulated company, 0 otherwise (Ittonen et al., 2015; Kulset & Stuart, 2018).	71	0	1	0.17	0.38

Because *CONTEND* is a latent construct, we use confirmatory factor analysis. Accordingly, the contending scale is unidimensional, with Cronbach's Alpha of 0.7022, untabulated (Cronbach 1951; Hair, Black, Babin, and Anderson 2010). This supports the reliability of the measurement. After establishing the *CONTEND* construct, we predict the factor score and use it in our logistic regression. We begin our analysis by including *CONTEND* as our independent variable of interest and we include *EXP*, *RANK*, and *RMM* because they are usually included in similar models to control for alternative explanations for the negotiation outcome. Results are presented in Table 8 Column A. We find that *CONTEND* is negatively related to *AUDADJ* (b = -1.16, *SE* = 0.52, z = -2.24, p = 0.025). We then sequentially add additional contextual features (*FRAUD, REL,* and *REG*) as control variables. Column D reports the results after including all control variables (Pseudo R^2 = 0.214, $p < 0.05$, reported as a two-tailed test). Based on the full model, we find a significant and negative association between *CONTEND* and *AUDADJ* (b= -1.19, *SE* =

0.53, z = -2.23, p = 0.026). Contrary to prior research in developed countries, where the use of a contending negotiation strategy leads to auditors' preferred negotiation outcome (Kulset and Stuart 2018), our logistic regression shows that even when participants use the contending strategy to negotiate potential fraud issues, the client does not record all of the proposed audit adjustments.

Table 8. Hierarchical Logistic Regression Result in Equation (1): Dependent Variable *AUDADJ*

	Column A *AUDADJ* Coeff. (z-stat)	Column B *AUDADJ* Coeff. (z-stat)	Column C *AUDADJ* Coeff. (z-stat)	Column D *AUDADJ* Full Model Coeff. (z-stat)
Constant	-0.514	-0.447	-0.269	-0.235
	(-0.28)	(-0.24)	(-0.11)	(-0.09)
CONTEND	-1.155**	-1.172**	-1.177**	-1.187**
	(-2.24)	(-2.24)	(-2.23)	(-2.23)
EXP	0.364**	0.367**	0.369**	0.366**
	(2.37)	(2.38)	(2.38)	(2.35)
RANK	-3.106**	-3.092**	-3.117**	-3.135**
	(-2.46)	(-2.45)	(-2.43)	(-2.42)
RMM	-0.124	-0.119	-0.119	-0.122
	(-0.43)	(-0.42)	(-0.41)	(-0.42)
FRAUD		-0.157	-0.188	-0.154
		(-0.20)	(-0.23)	(-0.18)
REL			-0.039	-0.037
			(-0.11)	(-0.14)
REG				-0.147
				(-0.14)
Pseudo R^2	0.2129	0.2135	0.2136	0.2139
Observations	70	70	70	70
Prob > chi^2	0.0038	0.0083	0.0164	0.0295

*, **, *** indicate $p < 0.10$, $p < 0.05$, and $p < 0.01$, respectively.
Variable definitions are in Table 7.

We asked participants how the potential fraud negotiation ended. Specifically, the client (1) accepted all the proposed adjustments, (2) accepted the majority of the adjustments, (3) accepted less than half of the proposed adjustments, or (4) rejected all of the adjustments. Table 9 Panel A presents descriptive statistics for the negotiation resolution. Most participants report that the client accepted all of the proposed potential fraud adjustments (78.57%). 15.71 percent of participants report that the client accepted the majority of the adjustments, and 2.86 percent of participants report that the client accepted less than half of the adjustments or rejected all of the proposed adjustments.

We then conduct a one-way ANOVA to determine whether auditors' contending strategy differs between these four possible negotiation outcomes. Our analysis shows a statistically

significant difference (F = 3.65, p = 0.017, R^2 = 0.14, Panel B). Pairwise comparisons of means using a post-hoc test reveal that the use of the contending negotiation strategy by auditors is significantly lower in the group where the client accepted all of the proposed potential fraud adjustments than in the group where the client accepted the majority of adjustments ($\Delta M_{\text{all-major}}$ = -0.690, SD = 0.275, t = -2.51, p = 0.014). We further examine the future audit firm-client relationship by classifying whether participants were appointed as the auditor in the next engagement. Panel C reveals that the majority were reappointed for the next engagement (80.28%, n = 57), although six participants (8.45%) report not being reappointed, five participants (7.04%) resigned, and three participants (4.23%) did not continue due to mandatory rotation.

Table 9. Negotiation Outcome

Panel A: Descriptive Statistics

Resolution[a]	n	%
Accepted all	55	78.57
Majority	11	15.71
Less than 50%	2	2.86
Rejected all	2	2.86
Total	70	100.00

[a]Participants report one of four resolution conditions related to potential fraud issues, either the client (1) accepted all of the proposed audit adjustments, (2) accepted the majority of the adjustments, (3) accepted less than 50% of the proposed adjustments, or (4) rejected all of the adjustments.

Panel B: One-way ANOVA – Dependent Variable: *CONTEND*

Source	*df*	*MS*	F	*p*-value
Resolution[b]	3	2.519	3.65	0.0170

[b]R^2 = 0.1422.

Pairwise comparisons of "the client accepted all of the proposed potential adjustments" and "the client accepted the majority of adjustments" groups have a mean difference of -0.690, SD = 0.275, t = -2.51, p = 0.014.

Panel C: Audit Firm-Clients Future Relationship

Future relationship[c]	n	%
Reappointed	57	80.28
Not reappointed	6	8.45
Resigned	5	7.04
Mandatory rotation	3	4.23
Total	71	100.00

[c]We examine audit firms-clients future relationship by classifying whether the audit firm was *reappointed* as the auditor of the client for the next engagement, the audit firm was *not reappointed* by the client for the next engagement, the audit firm did not accept (was *resigned* from) the next engagement, or the audit firm did not continue to the next engagement due to *mandatory rotation*.

Results from prior research in developed countries show that auditors apply a contending negotiation strategy in accounting dispute resolution to ensure the client agrees to make the proposed adjustments to their financial statements (Beattie et al. 2004; Gibbins et al. 2010; Kulset and Stuart 2018). Our results extend prior research by providing a more rigorous understanding of to what extent the contending negotiation strategy leads to preferred auditors' negotiation outcomes, particularly in developing countries like Indonesia and Ghana. Although auditors in our setting are likely to use a contending strategy to resolve potential fraud issues with their clients, this strategy does not necessarily lead to a resolution where the client accepts all of the proposed adjustments. Applying a contending approach can be problematic in a collectivist-with-high-power-distance culture (Cai et al. 2006). Auditors' contending strategy can have unfavorable effects such as audit delays, client dissatisfaction, and attenuating future relationships (Kleinman et al. 2014; Perreault and Kida 2011), and research suggests that auditors are concerned with maintaining client relationships in an audit negotiation (Gibbins et al. 2010; Goodwin 2002; McCracken et al. 2008). We argue that this concern is more prominent in our setting, especially when resolving delicate issues such as potential fraud. Our post-hoc test reveals that when auditors apply a more contending strategy in negotiating potential fraud adjustments, the client accepts only the majority of adjustments. However, using a less contending approach can lead to a more favorable outcome because the client agrees to accept all of the proposed adjustments. In addition to the cultural aspects, our results suggest that auditors in our setting have incentives to maintain future audit firm-client relationships. The termination of an audit firm-client relationship may be more critical in this setting because audit clients cannot be replaced as easily (Adafula et al. 2014; Situmorang, Fitriany, and Indriani 2020) as in developed countries. Therefore, our results provide practical implications in that auditors can benefit from finding a balance between using a contending negotiation strategy and a conceding negotiation strategy because this can lead to the resolution of potential fraud issues as well as the maintenance of future auditor-client relationships.

5. Conclusion

This study provides empirical evidence from two developing countries, Indonesia and Ghana, regarding how auditors identify, investigate, and resolve potential fraud issues with their audit clients. The fraud standards issued by international standard-setters are

required in both developed and developing countries (IFAC 2019) but we know little about how this happens in developing countries. This study is a first step in providing this information. In addition, it informs policymakers about fraud standard implementation in developing countries, where fraud may not be as rare as in developed countries.

Our results suggest that there are some differences in how the fraud standards are applied by our participants. Following the framework of effective fraud detection in Asare et al. (2015), these differences can be attributed to auditors' fraud experience and auditor incentives. First, participants identify that senior-level management originates most asset misappropriation fraud. Second, participants use more traditional fraud detection approaches (e.g., substantive tests, fraud inquiries, and analytical procedures) to adjust to clients' internal control environments. This differs from developed countries, where IT fraud detection procedures can be used by auditors because their clients have appropriate accounting systems to permit IT investigation. Although prior research in developed countries indicates that auditors often fail to modify their audit programs when potential fraud is identified, we do not find that result. Auditors in our setting modify their audit programs, supporting the notion that auditors respond appropriately to increased fraud risk when they experience fraud more often and have experience in investigating potential fraud. Finally, although auditors apply a contending strategy when negotiating potential fraud adjustments with their clients, we find that this strategy does not result in the adoption of all proposed fraud adjustments. Further analysis reveals that auditors can benefit from finding a balance between using a contending negotiation strategy and a conceding negotiation strategy to lead to the resolution of potential fraud issues as well as maintaining future auditor-client relationships.

Although our participants have a high level of experience, the sample size is relatively small. Therefore, any generalization of the results should be made with care. Furthermore, due to the sample limitations, we cannot draw inferences to all developing countries. Future research can investigate fraud detection in other developing countries.

Appendix

We asked our participants to describe a potential fraud issue at an audit client in a recent audit. The fraud issue should fall under the definition in ISA 240. Based on their description, we coded the issue as fraudulent financial reporting or misappropriation of assets. Below are several samples of how we coded the potential fraud issues.

Participant A:

"*There was [an] indication of the accounting manager of [the] client, [which he] tried to smooth the profit and loss amount. He would like to avoid any high volatility in their [profit and loss] PL, so he tried to minimize some expenses by not booking a proper accrual amount. [The reason was] the accounting manager [was] very cautious with the PL performance. He tried to manage the PL as normal as possible. Any high fluctuation would raise any further question from his bosses or would keep his number varied from the budget*."

We coded this issue as potential fraudulent financial reporting.

Participant B:

"[There were] long outstanding trade receivables. One of [the] top management had a close relationship with one of [the] customers, which in the end, made the receivables related to that customer uncollectible. There was collusion between one of top management and [the] customer to use the inventory sold to this customer for their interest."

We coded this issue as potential fraudulent financial reporting.

Participant C:

"*Unexplainable movement out of petty cash which mostly related with the claim of advance payment from [the] driver (trucking company). The claim of advance payment was not supported with sufficient supporting documents*."

We coded this issue as potential misappropriation of assets.

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Study 2: Auditing under COVID-19: Evidence from Ghana and Norway

Auditing under COVID-19: Evidence from Ghana and Norway

Abstract

This study investigates how auditors responded to the COVID-19 pandemic in two countries, one a developed country and the second a developing country. The two countries were selected because they reflect different approaches to digital infrastructure development and differing levels of government support provided to audit clients. In 2020, the International Federation of Accountants published a guidance letter that addressed the conducting of audits and the performance of auditors in the wake of the Covid-19 pandemic. Anticipating that auditors in Norway, a developed country, and Ghana, a developing country face comparable challenges, this study considered several implications noted in the guidance letter, reviewed secondary data, and conducted in-depth interviews of audit partners and managers in the two countries. The study's analysis of these responses and their comparison draws upon the theory of adaptive governance.

The interview respondents identified four problem areas as key facets of the challenges they faced: (1) the use of digital over hard copy audit evidence, (2) questions of how to gather audit evidence when both the audit client and the auditors are working from home, (3) the possible threats to the survival of the audit client considering the possibility of renegotiating audit fees due to increased audit hours or the likelihood of a decrease in the financial resources of the client, and (4) modifications needed in the audit process to allow auditors to gather the evidence required by the auditing standards and to maintain the quality control standards required in those standards. Facing these problems, auditors in both countries demonstrated their interest in maintaining audit quality by (a) issuing technical guidance to staff and clients, (b) providing additional training and supervision to staff, and (c) developing alternative and sometimes innovative, audit procedures to gather evidence and to fulfill their task of conducting audits according to the standards and regulations of their profession.

In addition, the interviews indicated that auditors in Ghana perceived the pandemic to be more severe in its impact on conducting audits and fulfilling the practical tasks of auditors than did their Norwegian counterparts. The study elaborates on the four problem areas identified by the interviewees of both countries. The study also treats the variations within the common responses used by auditors in both countries.

Keywords: COVID-19, digital audit evidence, electronic-auditing, quality control, audit fees, remote auditing

1. Introduction

In 2020, the International Federation of Accountants (IFAC) issued a guidance letter indicating that the COVID-19[20] pandemic would have important implications for the audit profession (IFAC, 2020a). This study investigates several of the implications noted in the guidance letter and how the profession responded to them in Ghana and Norway (a developing country and a developed country.) The focus on the two countries anticipated that the significant impact of the COVID-19 pandemic on the audit profession might vary in its details, depending on whether auditors and the reporting entities functioned in either a developed or a developing country (United Nations Development Programme [UNDP], 2020). One factor influencing the decision to distinguish between a developed and a developing nation involves country variations with respect to the levels of digital development (The Organisation for Economic Co-operation and Development (OECD), 2020). Because auditors are dependent on the digital infrastructure of the companies being audited, this factor influences the ability of auditors to work remotely, an important element in conducting audits during the pandemic.

Given that the IFAC predicted implications for the auditing profession due to the pandemic, the purpose of this paper is to study how auditors responded to the COVID-19 crisis. We consider this question from the perspective of auditors working in two countries: the developing country of Ghana compared to the developed country of Norway. We expect such a comparison to enhance our understanding of the challenges that confronted the auditing profession within two different institutional and social-economic environments.[21] We expect differences in response to the pandemic between Ghana and Norway, with these responses linked to important differences in the institutional and economic environments of the two countries. We know that the institutions that govern auditing in the developing and in the developed markets differ from one another, but the digital tools available to support the work of the big four auditors (e.g., Shaikh, 2005) are similar from country to country. However, these tools and analytical techniques cannot be used if particular clients do not have computerized accounting systems.

[20] COVID-19 is a health crisis that resulted in a financial crisis or recession (International Monetary Fund [IMF], 2020a). Economic history suggests that the Spanish flu of 1918-19 resulted in a global decline of GDP of about 6% in 1919 (Salterio, 2020). Most recently, the 2008 global financial crisis impacted auditing by making auditors report conservatively due to increased risk (Carson, Fargher, & Zhang, 2019).

[21] Norway and Ghana were selected for this study because the authors of the study had contacts in both countries and were able to conduct interviews with high level professionals in the audit firms.

In a second consideration: from an economic perspective, we consider the impact of COVID-19 on fee discussions, sometimes important to the survival of the client, and quality assurance measures between the two countries because of differences in the economic fundamentals of each country (KPMG, 2020a). We expected that Norway has the resources to provide more financial support to businesses during a pandemic than does Ghana.

Through interviews with audit partners from large audit firms in Ghana and Norway, we investigate how professionals in a developing country and a developed country responded to the pandemic. We interviewed thirteen (13) audit partners and managers, seven from Ghana and six from Norway. Based on these interviews, we identify four issues that provided challenges to auditing during the pandemic. These issues are: (1) the use of digital over hard copy audit evidence, (2) the questions of how to gather audit evidence when both the audit clients and the auditors are working from home through the use of remote auditing technologies, (3) the threat to the survival of the audit client along with the possibility of renegotiating audit fees due to increased audit hours or the likelihood of a decrease in financial resources of the client, and (4) how to modify the audit process to gather the evidence required by the auditing standards and maintain the quality control standards required in those standards.

We find that auditors in Norway are more likely to use digital audit evidence than auditors in Ghana. This difference occurs because many audit clients in Norway have digital accounting systems while in Ghana, apart from multinational and a few large companies, many audit clients do not use digitalized accounting systems. The use of digital accounting systems in Norway made it easier for auditors to perform audits remotely, allowing auditors to work from home during the pandemic. This option was not available on all audits done in Ghana because some clients do not currently use digital accounting systems.

We also find differences between Norway and Ghana with respect to client survival issues and negotiations related to audit fees. Audit clients in Ghana asked for audit fee reductions during the pandemic; however, in Norway there was no pressure on audit fees. When we consider the bailout packages offered by governments in Norway and Ghana, we find explanations for these differences. Audit clients in Norway were offered better bailout packages from their government than were offered to clients in Ghana; as a result, audit clients were able to pay their audit fees. Interestingly, while Norwegian audit clients could

pay their audit fees due to the bailout payments, this did not eliminate the concerns expressed by Norwegian auditors about whether audit clients would survive the economic crisis. The bailout packages offered in Ghana were not commensurate with the scale of the crisis in Ghana; so, when business slowed down, audit clients had less cash to pay audit fees and expressions of heightened concern with the survival of the business were often present.

Auditors in both countries expressed concern about the challenge of gathering the audit evidence needed to issue an audit opinion and their own efforts to maintain audit quality during the pandemic. To respond to this issue, the audit firms issued technical guidance to staff and clients, provided additional training to staff, and developed alternative, sometimes innovative, audit procedures to gather evidence. One example of an alternative audit procedure was related to the audit of inventory in compliance with ISA 501. Alternative audit procedures were necessary due to the difficulties of being physically present when inventory was counted. These difficulties were related to the restraints on social contacts during the pandemic, gathering in public places and workplace restrictions.

We draw on the theory of adaptive governance to provide explanations for the auditors' responses to the pandemic in the two countries. The ability to adapt is essential when facing a major, quick and disruptive change in the business environment such as that prompted by the COVID-19 pandemic (Janssen & van der Voort, 2020). Our study notes the importance of adapting to the factors of digital infrastructure and the level of government support for firms during the pandemic. We observe that country-specific factors such as the digital infrastructure in the country and the level of government support for businesses during the pandemic were major factors that determined how auditors in each of the countries adapted to the pandemic. Although auditors in both countries report difficulties in performing audits during the pandemic, the problems faced by auditors in Ghana were more severe than the problems faced by Norwegian auditors. The severity of the challenges in Ghana was largely due to the lack of automated accounting systems in the country and a lower level of financial support for businesses in Ghana.

This study makes several important contributions. First, there is scant literature on the impact of the COVID-19 pandemic on auditing (Albitar, Gerged, Kikhia, & Hussainey, 2020). Our study bridges the gap between auditing during a world-wide economic crisis and the scholarly literature that reports on this situation. Second, this study addresses and adds new knowledge to the crisis literature in auditing by using insights from the theory of

adaptive governance, revealing how audit firms in Ghana and Norway responded to the pandemic. Successful adaptive governance approaches used by audit firms include meaningful collaboration, training of auditors and cooperation between stakeholders. The findings of this study have practical implications for practitioners and policymakers because they provide an improved understanding of the issues that became important to the audit profession during the pandemic amidst the distinctive contexts of a developed and a developing country and because they focus attention on the varying levels of digital infrastructure as a developed country is compared to a developing counterpart. We bring awareness that differences in institutional settings among countries have significant impact on the possibilities for remote auditing (i.e., electronic-auditing), and we find that the challenges to remote auditing in a developing country may pose real obstacles for a consistent implementation of the international auditing standards from one country to the next during an economic crisis like COVID-19. Because pandemics such as the one generated by COVID-19 may not be passing phenomena, the results reported here have implications if future pandemics arise.

The rest of the paper is organized as follows. Section 2 presents background information including the institutional background and the theoretical background of the study. Section 3 discusses the research methodology. Sections 4 and 5 present and discuss the findings respectively. In Section 8, we present our conclusions and comment on the implications of our results.

2. Background

Regulators anticipated several changes in the audit profession in the face of the COVID-19 economic crisis. The International Federation of Accountants [IFAC] (2020b) identified that audit issues under COVID–19 included risk identification and assessment, professional skepticism, auditor reporting, and processes of gathering audit evidence. The Financial Reporting Council in the UK (FRC2020a) highlighted that auditors would need to consider the effect of COVID–19 on audit risk assessment and whether risk assessment procedures needed to be revised, including the procedures used to gather audit evidence, the review of work of component auditors in group audits, procedures for making the going concern assessment and evaluating the adequacy of audit disclosures, as well as the need for the auditor to reassess key aspects of the audit. These aspects include the rise of remote

auditing, digitalization[22], challenges with risk assessment, risk response, the gathering of digital audit evidence, audit fees, and quality assurance (AICPA, 2020; FRC, 2020a; IFAC, 2020b). While regulators have issued numerous press releases that identify problems that may be present when auditing is done during an economic crisis, research in this area is sparse (because the COVID-19 pandemic is a relatively recent crisis). Among the few studies that have been published, Albitar et al. (2020) investigated the effect of COVID-19 in the UK. They found that the COVID-19 pandemic influenced audit fees, going concern assessment, audit of human capital, audit procedures, audit of personnel salaries and audit efforts. Of the various issues highlighted by regulators in their publications, we identify four issues that have arisen in audits done during the pandemic. This has been done through interviews with audit partners in Norway and Ghana. These issues are: (1) the use of digital over hard copy audit evidence, (2) how to gather audit evidence when both the audit client and the auditors are working from home and using remote auditing, (3) the survival of the audit client including the possibility of renegotiating audit fees due to increased audit hours or because of a decrease in financial resources of the client and, (4) how to modify the audit process to gather evidence required by the auditing standards while maintaining the quality control standards required in those standards. We discuss each of these issues in the sections below.[23] This section also treats the institutional and theoretical background of the study.

2.1. Digital audit evidence[24]

According to ISA 500, it is the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate evidence to reduce audit risk to an acceptably low level. This procedures are intended to provide the auditor with evidence to determine which audit opinion to issue (International Auditing and Assurance Standards Board [IAASB], 2020a). The reliability of audit evidence is influenced by its source and nature and the circumstances under which it was obtained including the controls over its preparation and maintenance. Audit evidence obtained from original documents is more reliable than audit evidence provided by photocopies or from documents that have been

[22] Digitalization initiatives and other improvement initiatives relevant to the accounting and reporting processes.
[23] Four the sake of brevity and conciseness, we use the following terms to describe the four themes: digital audit evidence, remote auditing, audit fees and the issue of survival and quality assurance.
[24] Digital audit evidence refers to audit evidence in an electronic format obtained from disparate digital devices and sources(Turner, 2005). Both digital audit evidence collection and remote auditing are categorized as e-auditing as shown in Figure 1 of this study.

digitized or transformed into an electronic format (IAASB, 2020a). Despite the awareness of these concerns of the reliability of evidence gained from these sources, due to constraints influenced by COVID-19 auditors are more likely to rely on documents in an electronic format. The conditions imposed by the pandemic have reduced the use of the original forms such as original invoices that are used to support the payment of transactions. This reduction is largely due to the necessity that auditors work from home to offset the threat of infection and disease symptoms.(Albitar et al., 2020).

In the recent past, large audit firms had invested heavily in audit technology and often relied on it to perform their audits (Bloomberg Tax, 2020; Tarek, Mohamed, Hussain, & Basuony, 2017). According to the International Federation of Accountants [IFAC] (2020b), the arrival of the pandemic has accelerated such use of technology by audit firms (Bloomberg Tax, 2020; Tarek et al., 2017) because it made their work easier to perform. Despite its availability, audit firm technology cannot be used during a pandemic if audit clients do not have computerized accounting systems.

There are a number of analytical tools available for such use, but there are some concerns to consider before they are used. For example Eilifsen, Kinserdal, Messier Jr, and McKee (2019) found that more audit data analytic tools were used for firms with Enterprise Resource Planning (ERP) systems. Software security and data integrity is a risk to the successful implementation of IT (Enofe, Amaria, & Anekwu, 2012; Hayale & Abu Khadra, 2006; Tarek et al., 2017). The Association of Certified Fraud Examiners (ACFE) (2020) reports that cyberfraud schemes were the top fraud scheme observed during the economic crisis caused by the COVID-19 pandemic. Auditors and clients are therefore required to put in place stringent measures to ensure the reliability of audit evidence received in digital format. In other words, digitalization and effective security measures are not only crucial for the audit firms but also for their clients so that the audit firms might gather audit evidence using digital auditing techniques. This is the first issue that emerged from our discussions with the audit partners and managers.

2.2. Remote auditing

Remote auditing is the second issue that emerged in our study from our interviews with audit partners and managers of audit firms. We define remote auditing as using internet technology to interact with the audit client instead of employing face-to-face interaction. This interaction is used to gather audit evidence. Litzenberg and Ramirez

(2020) reported that the ability of the auditor to plan the audit remotely, to perform remote document reviews, to perform a walk-through, or to do remote interviews are important considerations if an auditor needs to use remote auditing to gather audit evidence during an economic crisis when most businesses are shut down. According to Tysiac (2020), such remote auditing requires the availability of a digital infrastructure for the client's accounting system. Performing audit procedures remotely is a relatively new concept (Dohrer & Mayes, 2020) and has undeniably been accelerated by the pandemic crisis.

Important remote auditing procedures including the use of technological tools for video conferencing, interactions, big data and analytics have been adopted to complete audits while adhering to quality and time guidelines (Albitar et al., 2020). Auditors relied on remote audits through online platforms to perform procedures such as inventory counts, verification of property, plant and equipment, and client interviews during the COVID-19-induced lockdown phase (Sharma, Sharma, Joshi, & Sharma, 2022).

2.3. Audit fees and the issue of client survival

A third area where auditors report changes in the audit process is the area of audit fees. Audit fees were in most cases determined before the economic crisis occurred. Two things happened during the economic crisis to affect audit fees in virtually every audit. Auditors had to gather more evidence to reduce risk to an acceptably low level given the large degree of uncertainty during the economic crisis. The increase in audit hours from this process should have resulted in an increase in audit fees. In addition, at the same time the number of hours used to gather audit evidence increased, audit clients may have experienced problems with cash flow due to the pandemic, even to the point of threatening the survival of their businesses. This often led the clients to request a reduction in audit fees. Given this context, auditors needed to perform additional audit work at a time when clients may have been hard-pressed to pay for the increased hours. These circumstances have some precedence. Prior research has shown that a decrease in audit fees often occurs during a recession, due to downward fee pressure from clients (Chen, Krishnan, & Yu, 2018; Ettredge, Fuerherm, & Li, 2014; Ferguson, Pinnuck, & Skinner, 2020; Krishnan & Zhang, 2014). This prior research showed that clients were able to negotiate lower audit fees from auditors because audit firms were price takers in a situation of a recession (Ferguson et al., 2020). Research also show that audit quality may be lowered when audit fees are reduced (Yang, Liu, & Mai, 2018).

Additional research examining fee discussions during past global financial crises found that despite the crisis there was, in fact, an increase in audit fees (Alexeyeva & Svanström, 2015; Xu, Carson, Fargher, & Jiang, 2011; Zhang & Huang, 2013). The authors attributed the higher fees to the level of competition and to an increase in client business risk, which necessitated additional audit effort. Both increasing audit hours and financial problems threatening the survival of businesses may be an issue in the current economic crisis. It is also possible that the issue of audit fees and client survival may differ in developed and developing countries, so we discussed the issue in our interviews with the audit partners and managers in both settings to see how the economic crisis had impacted audit work during the pandemic.

2.4. Quality assurance

The final issue that arises from our interviews is how to modify the audit process during a world-wide economic crisis to gather the evidence that is required by the auditing standards and also to maintain the quality control standards required in the standards. The quality assurance process in audit firms is designed by the firm to provide reasonable assurance that audits are performed in accordance with professional standards and the audit reports are appropriate (IAASB, 2020c, 2020d). Such quality control policies and procedures are the responsibility of the audit firm (IAASB, 2020c, 2020d).

ISQC 1[25] identifies the responsibilities of an auditor regarding quality control procedures for audits and reviews of financial statements. This standard requires audit firms to establish and maintain a system of quality controls that complies with applicable professional standards and legal requirements (IAASB, 2020c, 2020d). For instance, ISA 501[26] specifically identifies the quality assurance procedures for gathering audit evidence when attendance at inventory counting is impracticable (IAASB, 2020b). According to ISA 501 paragraph 7, the auditor should perform alternative audit procedures whenever attendance to the physical inventory counting is impracticable. In the absence of an effective system of quality control, audit firms may not be able to provide quality audits (especially pertinent in a widespread crisis situation). For example, contemporary literature

[25] The International Standard on Quality Control 1 (ISQC 1) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* indicates a firm's responsibility for its system of quality control.

[26] The International Standard on Auditing 501 (ISA 501) *Audit Evidence—Specific Considerations for Selected Items* deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with ISA 330, ISA 500, and other relevant ISAs, in auditing inventory during an audit of financial statements.

addressing during the recent global financial crisis offered evidence that auditors did not pay attention to signals that indicated imminent financial problems faced by a number of firms (Gros & Micossi, 2008). According to Leone, Rice, Weber, and Willenborg (2013), audit quality decreases during crises because auditors may relax their skepticism because of the market euphoria that precedes the financial downturn. The proportion of firms in Germany, Spain, Italy and France having lower audit quality increased during the global financial crisis (Kyriakou, 2022). This led to the collapse of some companies after they had received unqualified audit opinions while other companies filed for bankruptcy without receiving a modified going concern report (Shahzad, Pouw, Rubbaniy, & El-Temtamy, 2018). Albitar et al. (2020) investigated the effect of COVID-19 on auditing in the UK. They found that the COVID–19 pandemic influenced audit quality especially in the areas of audit fees negotiation, going concern assessment, audit procedures, audit personnel salaries and audit efforts. This issue also emerged during from our data collection process in our conversation with partners and managers as they expressed concern for audit quality during the pandemic.

2.5. Institutional background of Ghana and Norway

Ghana is a developing country located on the Gulf of Guinea and the Atlantic Ocean in West Africa. The Ghanaian population is 30.8 million, and Accra is the capital town (Ghana Statistical Service [GSS], 2021). COVID-19 has negatively affected the economic growth of many developing countries, including Ghana. Two large exports for Ghana, cocoa and oil, dropped in volume and value during the crisis because of the decrease in global demand and the disruption of international trade (Focuseconomics, 2020). In the past, the Ghanaian government has failed to control spending, repeatedly recording yearly fiscal deficits. Even though the service, industrial, and agricultural sectors of the economy accounts for 46.3%, 34% and 19.7% respectively of the country's GDP (GSS, 2019), a large percentage of the workforce is employed in the informal sector[27]. Commenting on the economic impact of the COVID-19 pandemic, Ghana's finance minister wrote:

> *When you look at what happened during the lockdown, it was quite clear after a point that given the 90% of our population is informal and they go*

[27] The informal sector is part of the economy that is not taxed and is not monitored by any form of government activity. It is characterized by small scale and labor intensive companies and largely unregulated industries (Wilson, Velis, & Cheeseman, 2006).

> *out each day to earn wages, it became increasingly impossible to continue with such a policy. (Nettey, 2020)*

This comment suggests that a high number of Ghanaians have little economic protection and are economically marginalized even in non-pandemic times. This fact made them especially vulnerable when government mandated a lockdown to deal with the COVID-19 pandemic. The need for ordinary people to earn money each day to eat was severely restricted when businesses shut down during the pandemic.

To revamp the economy, the government has committed $100 million to support measures to increase the level of response to the economic crisis and $210 million under the corona virus alleviation program to support key sectors of the nation's economy (IMF, 2020b). This, along with several other interventions, may not suffice because the size of the interventions in Ghana are not commensurate to the scale of the crisis. In this context, companies may lack capital, and in the extended crisis, liquidity problems for a given company may turn into going concern problems for the company.

The COVID-19 pandemic shows that the digital infrastructure of a country is critical for sustaining the continuity of business activity in times of crisis (Strusani & Houngbonon, 2020). The presence of a robust digital infrastructure supports the capacity for a rapid and effective response in a time of crisis. Ghana, like other developing countries, lags behind developed countries in the adoption of digital technology (Ayakwah, Damoah, & Osabutey, 2021). Responding to this deficiency, in recent times Ghana has witnessed significant government policies aimed at improving the digital infrastructure of the country. This includes government programs in ports and harbours, national health insurance services, utility bill payment services, financial services, and digital locator systems using the global positioning system (GPS) (Ayakwah et al., 2021). Although these new programs improve access to digital access for government programs, access to the internet remains out of reach for many people and companies. Few Ghanaians have the requisite digital skills and businesses have been slow to adopt digital technologies and platforms to boost productivity and sales (The World Bank Group, 2019). The Ghanaian government together with the government of Norway and the International Telecommunications Union (ITU) has recently partnered with the multinational

technology company, Cisco, to equip the Ghanaian citizens with digital skills and capabilities (Ghana Investment Fund for Electronic Communications [GIFEC], 2019).

In contrast to developing countries, the economic growth in many developed countries such as Norway is robust. Norway is one of the Scandinavian countries located in Northern Europe. Norway is a monarchy, and the Norwegian population is 5.3 million (2018) (Visit Norway, 2019). The country has large oil reserves discovered in 1969 that provide wealth that is transferred to the Government Petroleum Fund (NBIM, 2020). The fund's market value was $1.087 trillion on October 25, 2019. This money reserve is normally used for long term investments, but it is possible to use this money when crises occur (Government.no, 2020). Given these reserves, the fund insulates Norway from severe crises such as when crude oil prices decline dramatically or when a global pandemic occurs.

The Norwegian government estimates that it will use $16 billion as a discretionary fiscal measure to respond to the pandemic (IMF, 2020b). Norway has provided financial aid to businesses suffering from the COVID-19 lockdown (NAV, 2020). According to the audit partners, the government interventions in Norway may be commensurate with the scale of the crisis. Companies [28] with at least a 30% decline in revenue are eligible for compensation (Deloitte, 2020). The main industries in Norway are petroleum and fishing, so changes that might occur during an economic crisis that affect these two industries may have an impact on other businesses and the general business environment in Norway.

Norway, together with other Scandinavian countries, reports a high level of digital infrastructure when compared to other European countries. This position is reflected in several international rankings. In the 2020 United Nations e-government survey[29], Norway ranked 'very high' worldwide and was in the highest category of technology ranking (United Nations Department of Economic and Social Affairs (UNDESA), 2020). In 2021, the European Commission's Digital Economy and Society Index (DESI)[30] also ranks Norway as one of the most digitized countries in Europe (European Commission, 2021). The country of Norway has a well-developed digital infrastructure and a knowledgeable population within both the public and the private sectors willing to invest in digital

[28] These enterprises include business that are required to close by a government order, those that have not been required to close, but which have nevertheless had a decline in turnover as a result of the infection control measures.
[29] The survey is a benchmarking tool that provides a comparative assessment of the e-government development of UN member countries.
[30] The Digital Economy and Society Index is published by the European Commission. It captures data for digitization and covers topics such as human capital, connectivity, integration of digital technology and digital public services (European Commission, 2021).

technology. The government of Norway has committed to building a world class digital infrastructure with digital friendly regulations, sufficient computing power and data sharing promoted across industries and sectors (Waaler, 2020). According to UNDESA (2020), the extent to which the business sector in Norway use digital technology is high.

Clearly, Ghana and Norway reflect different approaches to digital infrastructure development. In our study, we investigate how these differences led to different challenges for auditors as they gathered audit evidence during the pandemic.

2.6. Theoretical background - adaptive governance

We use adaptive governance to understand how the audit profession in Ghana and Norway changed during the COVID-19 pandemic. The concept of adaptation presupposes the concept of evolutionary development. Adaptive governance draws widely on economics and organizational theory to focus on how individuals or organizations respond to uncertainty and changes in the environment (Janssen & van der Voort, 2020). Adaptive governance has emerged as an intriguing avenue of theory and practice to respond to complex societal issues involving many stakeholders and uncertain situations (Janssen & van der Voort, 2020; Sharma-Wallace, Velarde, & Wreford, 2018). Adaptivity suggests maintaining one's fitness within the environment by adapting appropriately to the changing environment as a prerequisite to survival. Methods that contribute to adaptive governance (for accountants and auditors) include effective coordination, meaningful collaboration, training employees, and engagement with clients (Sharma-Wallace et al., 2018). In times of crisis, adaptive governance is necessary and crucial to an effective response to the crisis.

In this paper we used adaptive governance to consider how audit firms in Ghana and Norway responded to the COVID-19 pandemic. In recent years, research projects have employed adaptive governance theory and conceptual approaches to explain phenomena such as a government's response to the COVID-19 pandemic (Janssen & van der Voort, 2020; Khan, Roy, Matin, Rabbani, & Chowdhury, 2021; Pedroza-Gutiérrez, Vidal-Hernández, & Rivera-Arriaga, 2021).

3. Methodology

3.1. Participants

We began interviewing audit partners in Ghana and Norway five months after the crisis began, asking them about the challenges in the audit profession due to the COVID-

19 crisis. We emailed interview requests to the human resource managers of two of the audit firms in Ghana and contacted audit partners in big four audit firms and large audit firms in Norway. We explained our requirement to interview experts[31] in the audit and assurance divisions of their firms. These participants are considered 'experts' in relation to auditing because they are actively participating in audits and audit report reviews (Segal, 2019). In addition, audit partners are generally responsible for the audit team and ensuring that the audit is performed in accordance with the applicable auditing standards and the quality control standards.

We scheduled interviews with the participants via Zoom[32]. We conducted a total of eleven (11) interviews, including one group interview with three individuals. The interviews were conducted by at least two authors of the study, and the talks were recorded with the permission of the participants and transcribed by the third author. We used semi-structured interviews to investigate our research questions (Ferreira & Merchant, 1992; Gerwanski, 2020). The interview durations ranged from forty (40) to seventy-five (75) minutes with an average of sixty-four (64) minutes, leading to a total of seven hundred and two (702) minutes of interviews. We added participants to our interview schedule until repetitive arguments and viewpoints were received, indicating a saturation of findings. Consistent with Soh and Martinov-Bennie (2011) all key themes were present after the third interview in each country and these themes recurred in each of the subsequent interviews[33]. Details of the participants of this study are contained in Table 1.

[31] These experts may also include managers, directors, and partners in the assurance divisions of their firms.

[32] Due to the COVID-19 pandemic and the subsequent closure of the borders of both Ghana and Norway, we interviewed our respondents via Zoom.

[33] Respondents are a homogenous sample. The authors ensured that respondents were from four audit firms across two countries (two audit firms in each country). Responses from one audit firm did not differ much from those of the other firms in each country considering the nature of the topic and the quality of the data (Morse, 2000) indicating data sufficiency. Conclusions from these interviews were also supported by several secondary sources.

Table 1. Demographic information for participants

	Position	Audit Experience	Type of Clients	Date	Duration	Country
1	Partner	20 years	Financial services	18.08.2020	73 mins	Ghana
2	Senior manager	11 years	Financial services and ??	7.08.2020	70 mins	Ghana
3	Senior manager	14 years	Consumer and industrial markets and energy and natural resources.	21.08.2020	74 mins	Ghana
4	Partner	15 years	Energy, utility and natural resources and others	4.09.2020	63 mins	Ghana
5	Director	15 years	Energy, utility and natural resources and others	4.09.2020	63 mins	Ghana
6	Manager	7 years	Financial services and consumer and industrial markets	4.09.2020	63 mins	Ghana
7	Manager	7yrs	Consumer and industrial markets	27.10.2021	43 mins	Ghana
8	Partner	34 years	Wide range of industries E.g., Consumer markets	1.09.2020	76 mins	Norway
9	Partner	30 years	Wide range of industries, e.g., oil and gas, shipping	8.09.2020	65 mins	Norway
10	Partner	26 years	Listed Companies	19.03.2021	72 mins	Norway
11	Partner	31 years	Wide range of industries, e.g., shipping	24.03.2021	72 mins	Norway
12	Partner	30 years	Wide range of industries including multinational companies	5.11.2021	40 mins	Norway
13	Partner	16 years	Wide range of industries including real estate, shipping, and offshore etc.	17.11.2021	54 mins	Norway

The participants interviewed have experience in various industry sectors including financial services, energy and natural resources, and consumer products. In addition to interviews, we collected complementary data from secondary sources. These included publications on company websites, articles from the news and publications in magazines and journals. These documents are readily available, provide us with reliable data about auditing under COVID-19, and ensure that conclusions from the study are supported by several evidence sources (Yin, 2014).

3.2. Interview guide

As preliminary to the interviews, the authors prepared an information letter and the interview guide. The information letter gave participants a brief explanation of the

objective of the study and described the data protection guidelines our research project was expected to follow in Norway (see next section for more information). The questions from the interview guide provided us with relevant and contextual information about how auditing has evolved under COVID-19 in Ghana and Norway. The interview questions were open-ended questions. We also asked follow-up questions as needed during the interview. In preparation for each meeting, we reviewed publications from company websites, news articles and articles published in magazines and journals to help us put the interviews in proper context (Keenoy, Oswick, & Grant, 1997). No inconsistencies were found between these sources and the interviews.

3.3. Ethical considerations

Our research followed the national ethical requirements for research in Norway.[34] The study was reported to and approved by the Norwegian Centre for Research Data (NSD).[35] The NSD information letter was prepared in accordance with the NSD guidelines and recommendations. We emailed the information letter to respondents to keep them informed of their rights.

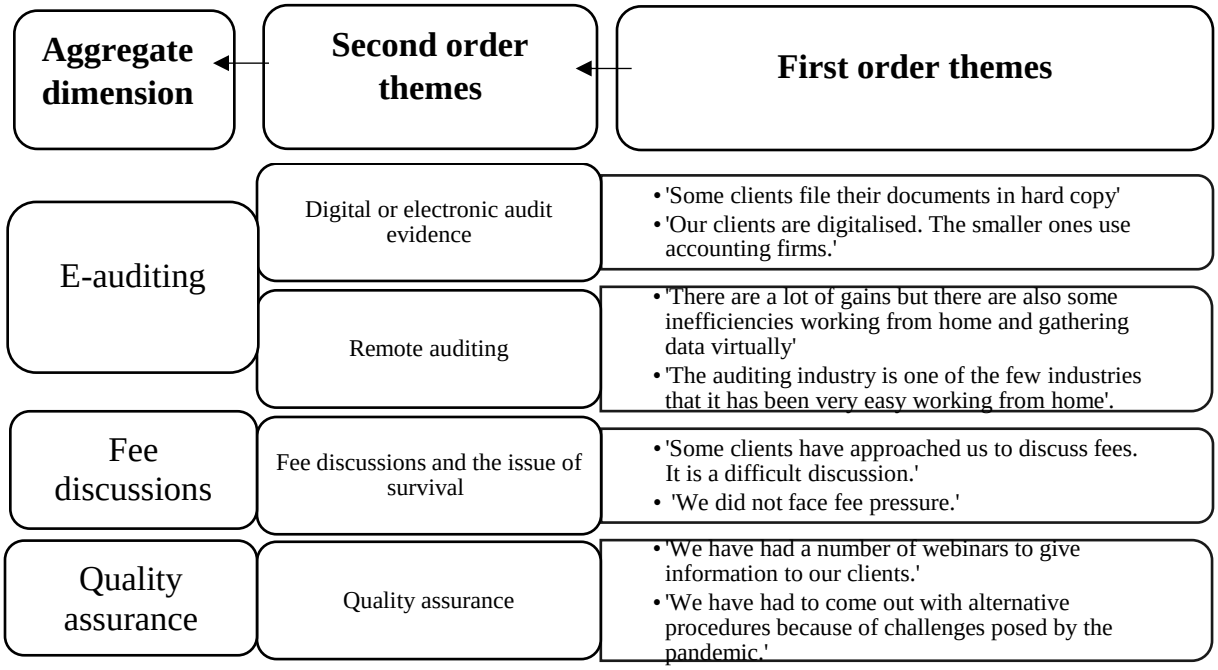
3.4. Data analysis

We analyzed the data using a two-step process of thematic analysis, with first order themes and second order themes; the themes were grouped into an aggregate dimension (Gioia, Corley, & Hamilton, 2013). The themes were defined according to our interview questions, existing documentation in the field, literature in academic journals and interactions among those elements (Goretzki, Strauss, & Weber, 2013; Oppi & Vagnoni, 2020). Other data sources (e.g., company guidance, web resources) were subsequently matched with these themes (Nath, Othman, & Laswad, 2019; Tsamenyi, Cullen, & González, 2006). Figure 1 illustrates a synthesis of the main findings that were established from the analysis.

[34] All research projects in universities in Norway must be registered at and approved by the Norwegian center for research data.

[35] The NSD is owned by the Norwegian Ministry of Education and Research. The NSD ensures that data is collected, stored and shared safely and legally (Norwegian Center for Research Data (NSD), 2020).

Figure 1. Data structure



We began data collection by interviewing respondents from Ghana and continued with interviews for the respondents from Norway. The coding of the interview data was conducted by the third author after reading the interview transcripts several times and taking note of the key points. The coding for the inputs was presented to and refined by the first and second authors. The first order themes were generated directly from the interview transcripts and categorized into the second order themes and the aggregate dimension. Below, we analyze our interview data under each of the four second order themes identified in our study: 1) Digital or electronic audit evidence, 2) Remote auditing, 3) Fee Discussions and the issue of survival and 4) Quality assurance measures.

4. Research findings

This section below contains the findings of the study categorized into the themes that emerged from the interview data.

4.1. Digital audit evidence

Our data indicate that auditors in both countries have identified the increased risk of the reliance on electronic information and responded appropriately to reduce this risk to a low level. We find that the extent of digitalization of audit clients in Ghana and Norway

is not the same because many audit clients in Ghana have not invested in technology to enable the auditor to deploy fully the auditors' digital tools. Except for some multinational companies and a few big local Ghanaian companies, many of the Ghanaian audit clients rely on paper hardcopies to process their accounting information. This posed a challenge for all Ghanaian auditors we interviewed during the current pandemic. One respondent in Ghana commented:

> *Even with the bigger clients, very few of them use enterprise support systems which keeps all the data inside the system such that any document that we need could be electronically generated.*

Another respondent from Ghana commented:

> *Some of the clients still file all their documents in hard copy. For some of those clients it is not possible to work from home. It is either you are there, or you go there once a week to pick up the information that you need, scan it, send it across and work on it. When you are done you go back for a different set of information.*

Another respondent from Ghana commented that:

> *We very much appreciate the fact that we have technology which supports information sharing but we have also had a challenge about the authenticity of information that clients will provide in terms of photocopies against originals, scan documents against originals. It is a matter we had to deal with. Some of the clients will even tell you that they lack the ability to scan documents and you have to arrange for them to bring the hardcopy information to the office.*

Ghanaian auditors reported to us that they put in place more stringent quality control measures for the authentication of electronic evidence because of the nature of electronic documents[36] that they have received from clients during the pandemic. These controls included: verifying proof of origin and the authority of the respondent, checking for possible alterations to documents and corroborating details of evidence received by inquiring directly with the respondent. Other control measures also included corroborating the received evidence with other possible alternative source, including specific matters of concern in written representations to be signed by management, if considered necessary. In addition, Ghanaian auditors also had to do more site visits to collect audit evidence

[36] Emails and scanned documents.

themselves, scan them and go back to the office or home to work on the collected audit evidence. According to one Ghanaian auditor:

> *We are required to cross check all uploads against their hard copies to ensure that authentic information is being uploaded by the client. We are doing more site visits, especially the new clients. It is important that we have direct access to certain information. If it is an old client and we request certain kinds of information that we have used in previous years, we should be able to tell whether it is authentic or not. For an entirely new client that might be a challenge.*

Auditors in Ghana recognize the importance of the review of internal controls when they rely on electronic audit evidence. This is encapsulated in the response of one Ghanaian auditor:

> *Our review of internal controls is quite key now especially that we are relying on electronic audit evidence.*

Additional control measures to authenticate the electronic evidence for clients with weak internal control include doing more substantive testing, disengaging clients that they cannot trust and requiring clients to work on the lapses in their internal controls to make them effective. This is reflected in the following statement.

> *Our small clients do not have effective internal controls and to a large extent we still have to perform substantive tests to get enough evidence to conclude.*

Another auditor commented:

> *We have resigned from auditing those clients (who do not have effective internal controls) because we cannot trust the information they provide to us. Others (who had weak internal controls) we had to send a strong message.*

The additional audit procedures are an attempt by the auditors to reduce the risk of material misstatement in the financial statement accounts. Gathering additional evidence allows us to comply with the audit evidence standards in ISA 500. In conclusion, an auditor in Ghana said:

> *It is a difficult time to be an auditor now.*

In Norway, the auditors' experience with digital auditing is much different. In Norway, the degree of digitalization among audit clients is high. Several auditors stated

that all their clients used digital tools, and this made it easier for audit firms to deploy their technology. All companies, especially big audit clients in Norway, have made the necessary investment in technology. Given this, Norwegian auditors were able to use digital tools and digital evidence and continue working on audits from their homes even when the country was shut down. They rarely visited the client's premises.

Even the smaller Norwegian companies use the services of accounting firms[37] to process and send their accounting information digitally to audit firms. Accounting firms have invested heavily in technology, and they use their technological platforms to exchange information with auditors on behalf of their clients. This is reflected in the statement by a Norwegian auditor:

> *Many of the small clients use accounting firms and the information that we get as auditors is sent by the accounting firms. These accounting firms are digitalized. The accounting firms use systems comparable to those that are used by bigger companies. The interface the audit firms have is very good due to the investment made by the accounting firms.*

Auditors in Norway have had less work to ensure the reliability of audit evidence[38] due to a robust IT infrastructure in Norway enabling them to conduct E-auditing. For instance, Norwegian auditors use the Bank ID[39] system to ensure the authenticity of the sources of electronic audit evidence. The Norwegian Bank ID system guarantees safety by identifying the person or company who sends in the electronic information. The auditors trusted the reliability of electronic information received during the current pandemic: this is apparent in what a Norwegian auditor stated:

> *We use our closed lines to request information from our clients. We know exactly who sends in information from the client. The clients even have a board of workflow regarding who is going to do what. The route is quite safe, and we know the source. We do not need major additional measures*

[37] In Norway, the accounting and auditing functions are prepared by different types of professionals that are called licensed accountants and licensed auditors.

[38] Auditors are to ensure that the electronic evidence that they receive during the pandemic is valid and authentic in compliance with ISA 500 ISA 500 paragraph A31: Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been filmed, digitized, or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance.

[39] BankID is an electronic identification that meets the stringent requirements that apply to identity verification and binding electronic signature. BankID is used by all the banks in Norway and can be used by all entities that are looking for secure identification online. BankID is used to conduct secure transactions, create and maintain safe customer relationships and sign binding agreements (BankID Company, 2020).

as long as we can trace who sent the information. The information is as good as if we got it by hand.

Another auditor mentioned their trust in digital systems when requesting information regarding bank confirmations and lender and customer confirmations that are received through the bank ID system. One auditor said:

We get all this information through a safe route when we use the Bank ID. So, we know that the bank confirmation came from the bank, but not through the client. We use the same platform for the lender and customer confirmations.

The reliability of digital audit evidence received by Norwegian auditors is therefore guaranteed because of the effective controls put in place to secure transactions. The use of the electronic forms of data has increased software security and data integration risk, which is integral to the successful implementation of IT (Enofe et al., 2012; Hayale & Abu Khadra, 2006; Tarek et al., 2017). This risk is low in Norway compared to Ghana. The stringent measures put in place by Ghanaian auditors are in compliance with the requirements of ISA 500. Clearly the results show that COVID-19 has accelerated the use of digital audit evidence especially in Ghana. This is consistent with the findings of previous research (Albitar et al., 2020) that show that the pandemic has decreased the use of the original forms of documents such as original invoices that are used to support the payment of transactions.

4.2. Remote auditing

The emergence of COVID-19 and the worldwide restrictions on contact between individuals, combined with the need to meet reporting deadlines, have forced auditors to consider remote auditing as an alternative to the traditional face-to-face method of auditing (Litzenberg & Ramirez, 2020). Auditors in both countries describe similar benefits of working remotely. They stated that they can better concentrate when they work remotely. One respondent from Norway when asked about the benefits of working remotely said:

The main advantage is that we do have a lot of work that needs people to concentrate.

By contrast, when quizzed about the benefits of working remotely, a respondent from Ghana commented:

Even before this pandemic, if I wanted to focus and get things done, I would rather work from the office. This is because the disruptions are minimal. It also depends on what you want to do. If you need that kind of attention and may not need to have a lot of discussions with the client, working from home is quite good.

Auditors in both Ghana and Norway remarked that they gained flexibility and have a more balanced work life when they work remotely. An auditor in Ghana commented:

Working from home helps us to plan our work the way that it meets our personal obligations. We can decide to wake up at dawn and work and probably use the first two hours of the day to attend to some personal issues. However, we have to keep our stakeholders abreast of what is happening so that they know that we would not be available during that period. There is flexibility in working from home. That is the biggest advantage.

An auditor in Norway commented that:

We hope that remote auditing never ends because, now we have a much more balanced work-life. We are able to plan very small pockets of time to get things done.

Because auditors in Norway were able to work entirely remotely during the ongoing COVID-19 pandemic, they saved on travel cost and time. An auditor in Norway commented that:

We have saved cost because we do not travel anymore. In the past I travelled to Oslo once or twice a week to attend meetings. I saved up to 200,000 kroner ($24,000 dollars) in travel cost.

Auditors in Ghana indicated that their leaders are now paying attention to outputs rather than inputs of number of hours spent on tasks. An auditor commented that:

One other benefit is that business leaders and managers are now appreciating output rather than input. In the pre-COVID era many managers were of the view that it was about seeing people to tell whether somebody is working or not. The focus is now about getting the work done (output) which is much better. Business leaders are now learning that it is about the output rather than the hours that employees work.

Auditors in Ghana and Norway encountered some challenges working remotely, and these challenges were different for the two countries. There were more challenges for auditors in Ghana than in Norway. For instance, auditors in Ghana experienced significant delays in remote audits. Remember: many clients in Ghana are not sufficiently digitalized to provide information in timely fashion. Auditors in Ghana have had to combine both traditional methods of auditing such as in-person visits to the client's office together with remote auditing procedures such as leveraging on technology to be able to complete their audits. Auditors in Norway do not experience these difficulties; therefore, they are able to perform the entire audit remotely.

Auditors in Ghana have to make many phone calls to coordinate teamwork and to discuss audit issues. One auditor commented:

> *Working from home increases the time spent on the phone. Every minute we are on a call. We can make calls from morning to evening just to discuss issues that we could have ordinarily walked into the client's office and sorted out. This interrupts the normal working day. These are some of the inefficiencies that we are currently facing.*

One common challenge of working from home for auditors in Ghana and Norway is that the synergy that audit teams gain working face-to-face is lost. Auditors are used to working in groups and sharing knowledge to complete audit engagements. The cohesiveness of the audit team is lost when this is not possible. Audit partners sometimes form large audit teams to enable them to meet certain tight deadlines, especially for banks and listed clients. In this era of COVID-19, it is difficult to form such teams to execute jobs. One auditor in Ghana commented:

> *From a staff perspective we have always been used to working in groups. You look for them and push them so that the work can be done timely. Now we do not see each other so we must encourage ourselves to get the work done timely. It is a mindset. It is attitudinal. We are getting used to working with people we cannot see. In the beginning it was quite slow and frustrating.*

An auditor in Norway commented:

> *The challenge is the knowledge sharing part. Supervisors have to motivate people and ensure that the team managers are responsible for knowledge sharing in the team. This has been a challenge.*

Auditors may miss some informal information due to the lack of physical and informal interaction with the client. When quizzed about the challenges auditors faced, one auditor in Norway commented:

> *It is the lack of informal communication. Based on the informal communication, we get a lot of information that helps us understand the client and client issues. For example, we have lunch with clients, and we pick up certain vital information which helps in performing our audit. Clients ask questions – not questions they would like to send by email but questions they are not sure about. Also, we have team meetings, and we follow the agenda and employees are careful about asking questions because they may be using other people's time.*

Auditors in Ghana faced other challenges working remotely. One challenge is that many clients did not provide information in a timely fashion. The delays were much more pronounced with the clients who did not have enterprise support systems to help them generate electronic information timely. These clients must scan hardcopy evidence and send them to the auditors for audit verification. Most audit clients in Ghana fall within this category; in some cases, auditors may have to scan the clients documents themselves and upload them into their audit software to be able to comfortably work from home. One auditor commented:

> *Even though our audit software is electronic and all the information that we work with is stored electronically, for a number of the clients we still have to scan documents to be able to store them in the electronic format. This causes unnecessary delays.*

From the narrative above, the challenges faced by the auditor are related to technological issues and the coordination of audit teams. Documentary evidence suggests that for the auditor to be able to work well remotely both the clients and the auditors will have to transition to a greater automation of practices. A good example is provided by a 2020 report by the Financial Reporting Council of the UK, "Updated Audit Guidance: Gathering Evidence through Remote Means." A review of this report suggests that auditors may be required to use procedures which are currently not typically used under the methodology of the audit firm--including the greater use of technology (Financial Reporting Council [FRC], 2020b). A report by Deloitte, "Three

Insights for Remote Auditing" suggests that it is easier for remote work when an organisation has effective and well-practiced project management, processes, and technological capabilities (Raphael, 2020). For remote auditing to be effective, both audit firms and their clients should use a cloud strategy to provide a secure, accessible source of information providing the stage for a muted disruptions of work (Raphael, 2020). Audit partners and managers may also focus on effective time management so that auditors are not overwhelmed with meetings. The focus should also be on auditors by putting in place measures to keep them motivated. This corroborates the findings from our interview data.

4.3. Audit fee discussions and the issue of survival

In our interviews, we asked respondents whether they had more negotiation of audit fees during the pandemic. Our data suggest differences between the audit fee discussions in Ghana and Norway. Due to the increased risk presented by the pandemic, auditors are spending more audit hours in completing their hours. This situation is more pronounced in Ghana because many of the clients did not use digital accounting systems, a key component that facilitates remote auditing. Even though auditors spent more audit hours in conducting their audits, they could not transfer the cost to their clients because some of these clients were badly hit by the pandemic and were struggling to survive. Companies in Norway who were severely affected by the pandemic received commensurate support from the government which offered them some relief. This is reflected in the following comment:

> *For the severely affected companies the grants were crucial to their survival.*

The grants contributed to improving the liquidity of the companies in Norway. By contrast, the stimulus packages provided by the government of Ghana to companies were generally inadequate, and some affected companies did not even apply for them. This is reflected in the following comment made by a Ghanaian auditor who had some of her clients impacted by COVID:

> *I do not know of any of my clients who has been a recipient of the stimulus package.*

In Ghana, one of the key challenges auditors are now facing is audit fee discussions. On one hand, clients are approaching audit firms to reduce or maintain their audit fees

because COVID-19 has hurt their income cash flow. On the other hand, Ghanaian auditors are discussing with clients for a modest increase in audit fees because they are spending more time to do the audits as they face the challenges associated with digitalization. This means that auditors are facing audit fee pressures. One Ghanaian auditor commented:

> *One of the big challenges we are having currently is fee discussions. In the past few months, some clients have approached us to discuss fees. Some have asked us to maintain the audit fee, others are even asking us to reduce it. We are spending more time to coordinate various aspects of the audit virtually and still be able to arrive at appropriate audit evidence at the end of the day. More time means more cost and ideally, we should transfer this cost to the client. However, the clients are not in good condition economically and they negotiate persistently to reduce the fee.*

In fact, audit firms may willingly perform essential non-audit services[40] for their clients at little or no cost to enable the clients to cope with the pandemic.

The situation differs in Norway where audit fee discussions have not occurred. There is no pressure on audit fees in Norway and clients are generally satisfied with the amounts that auditors are charging. According to a Norwegian auditor, the clients have far more important issues to deal with than audit fee discussions. The auditor commented:

> *Clients do not prioritize negotiating audit fees with auditors now. They have far more important things on their minds. We are not taking advantage of the situation, and we will not take advantage of it. We have clients where it would be difficult for them to get new auditors, and we are mindful about that. Maybe that is the reason we have not had negotiations as well.*

Another Norwegian auditor when asked whether there was pressure on audit fees commented that:

> *No, we can charge my clients the fee that we want to charge but we also did some services for them for free.*

Clearly the evidence presented by this study with regard to audit fees is mixed, depending on the institutional setting. In the case of Ghana, the results are consistent

[40] For example, an audit firm provided services pro bono to the Government of Ghana. It provided staff and services to help with the accounting, budgeting when the infectious disease center was being built. Audit firms are patient with clients when they do not pay their fees in timely fashion. This is to help clients improve their working capital situation.

with previous research which found that there was pressure on audit fee during the global financial crisis (Chen et al., 2018; Ettredge et al., 2014; Krishnan & Zhang, 2014). There was pressure because some of the clients were in economic distress. The support they received from the government, if any, was not sufficient to cope with their cash flow problems. The auditors empathized with their clients by accepting reduced audit fees and even provided some non-audit services to them pro bono. This is an opportunity for improving the auditor client relationship. In the case of Norway, the results were consistent with previous research which found that audit fees increased during the global financial crisis (Alexeyeva & Svanström, 2015; Xu et al., 2011; Zhang & Huang, 2013). There was no pressure on Norwegian entities because of the robust and commensurate support packages provided by government.

4.4. Quality assurance measures

The fourth theme we discussed with audit partners was the quality assurance measures that auditors have put in place to ensure quality audits under COVID-19. In the following two sections, we categorize the interview data on quality assurance measures into two subtopics relating to alternative audit procedures and general quality assurance measures.

4.4.1. Alternative audit procedures

Traditional methods of auditing rely on in-person procedures that are impracticable under COVID-19 and will persist for the near future due to requirements for social distancing. Audit firms have had to use alternative audit procedures to ensure quality audits. Data from our interviews show that auditors implemented alternative audit procedures to gather sufficient appropriate audit evidence. For instance, inventory has typically been audited by physical verification relating to the existence and valuation assertions (ICAEW, 2020). Under COVID-19, our data indicate that auditors relied on the internal audit department of the audit client to help in observing the inventory count. One auditor in Ghana commented:

> *On a few instances on our mining clients, we had to use technology to observe their inventory count. We liaised with the internal audit team who were on site to also observe while we used the video to observe the inventory count. We determine what we want to see, and they show us and count as well.*

Other alternative procedures were used for traditional inventory count. For instance, an auditor could do the inventory count and then roll back or forward to the period end as a Ghanaian auditor explained in the following quote:

> *If it not safe to go to the client's office for the stock take, there are alternative procedures that are allowed under the ISA's. It may also depend on how material inventory is to the entire financial statements. If it is material, we could observe the stock count before the financial statements are authorized. There is the possibility or opportunity to do the counts and to roll back to the period end. Alternatively, as well, it may be possible to also consider the last event accounts that they may have done and then roll forward to the reporting date. With all of this, the control environment should be taken into consideration.*

Finally, another Ghanaian auditor used an emphasis of matter paragraph if no appropriate alternative procedure was possible with respect to inventory count as following:

> *In situations where there is no appropriate alternative procedure, we in consultation with our technical team consider amending the audit opinion to add an emphasis of matter paragraph emphasizing that ordinarily this is what we would have done but due to the pandemic we have not been able to perform some clearly stated audit procedures so that investors out there would be aware of the limitations we had when performing the audit.*

This shows that in a situation where auditors are unable to obtain persuasive audit evidence by performing the alternative audit procedures, together with their risk management team they considered amending the audit opinion to give an emphasis of matter paragraph. This is consistent with ISA 501 requiring the auditor physically to attend inventory counts but where it is not practicable, the auditor should design alternative procedures (IAASB, 2020b).

According to another auditor, these alternative procedures are also applied to cash counts. In this case, the auditor suggested using videoconferencing to observe the end-year cash count of the client or rely on the internal audit department report on cash count. On this matter, a Ghanaian auditor quoted:

> *For us in the financial services sector, one key thing we do is cash counts at the end of the year. We are hopeful that restrictions will be eased by then but in a situation where we are unable to go and physically observe the*

cash count, we plan to use video conferencing to observe the cash count. The other alternative is that we could get the internal audit unit to observe the cash count and send us their report. We can then decide to do a test check of the balances at an appropriate date.

In Norway, auditors seem to have used some of these procedures even before the pandemic struck. An auditor in Norway commented:

We have had no problems performing alternative audit procedures. We were already used to such audits before the pandemic set in. We do not face much difficulty partly because of the digitalization.

Documentary evidence corroborates the use of alternative audit procedures. The International Federation of Accountants (IFAC) reports the importance of alternative audit procedures whenever traditional audit procedures are impracticable; for example, inspection of documentation inventory purchases of sale prior to inventory counting, reviewing and testing inventory roll forwards and obtaining assurance that inventory location was inaccessible for a period of time (International Federation of Accountants [IFAC], 2020b).

4.4.2. General quality control measures

The general quality control measures cut across firms in Ghana and Norway and are usually tailored to country-specific needs. Audit firms currently provide technical guidance and additional training to their staff to alert them about risky areas of the audit in the wake of the pandemic (Deloitte, 2020; KPMG, 2020b; PwC, 2020). One Ghanaian respondent reported:

We have had to issue a lot of communiques and alerts on what people should be looking for during an audit. There are going to be many triggers about going concern; there will be more people wanting to manipulate their numbers because times are hard. In the financial sector there have been several alerts on areas like impairment. We have provided guidance on some of these high-risk areas during this COVID period.

A Norwegian respondent commented:

> *We have trained our staff, especially the less experienced staff, about the computation of the compensation packages due our clients. This is to ensure that the right amounts are computed.*

As part of the general quality assurance measures implemented by audit firms, auditors are providing technical guidance for clients and monitoring all guidance and directions released by regulators, and they are advising their clients accordingly (Deloitte, 2020; KPMG, 2020b). A Ghanaian respondent reported:

> *Regulators have also been issuing a lot of directives regarding how companies should operate. For example, the Bank of Ghana has given a directive that companies should not pay out dividends until they approve it. They want to make sure that, at this point in time, funds are available to lend to businesses that are under pressure. We are monitoring all the guidance from regulators and keep issuing alerts on how people should go about doing the audits.*

A Norwegian auditor commented:

> *The government has put in place compensation packages for employees and business. We have done a lot of work in explaining what the compensation models are and who has the right to apply for the funds. We have also helped our clients with the application of the compensation models.*

Auditors are also with engaging their clients, seeking to understand the potential impact of COVID-19 on the audit process. A Ghanaian auditor commented:

> *From a risk management perspective, we have had to engage with our clients early on. We meet with those charged with governance to discuss the potential impact of COVID on the client, on the audit process—whether we will be able to meet our deadlines or not, what kind of risk and challenges we are looking at. We have had to document the information that we will communicate with those charged with governance both at the commencement of the audit and at the end of the audit when you are presenting the results of your audit.*

A Norwegian auditor commented:

> *We have engaged our clients more often this year on the potential impact of COVID-19 on their business. We engaged their boards and provided*

guidance to them concerning the treatment of some accounting transactions especially the grants.

Auditors have acknowledged the increased risk posed by the pandemic and have responded by putting in place the quality assurance measures. The downside is that these measures could be time consuming to implement for auditors in both settings especially in Ghana. This is because they would have to engage more with their clients because of the nature of audit evidence for which they provide services. The implementation of these quality assurance measures by audit firms is corroborated by information from documentary sources. For example, Deloitte in an article publication, "New Regulation: Enterprises with at Least 30 Percent Decline in Turnover are Eligible for Compensation," provided guidance to help clients who had a large decrease in turnover in their applications for government grants (Deloitte, 2020). PwC in a report, "The New Equation – Building Trust – Delivering Sustained Outcomes," indicated that they developed specific guidance on the impact of COVID-19 for their engagement teams around the world. This guidance covered critical aspects of audit quality, for example performing inventory counts, going concern assessment, and audit evidence collection in a COVID-19 environment (PwC, 2021). According to this report, the firm provided real-time learnings to its people and helped them to respond in real time to the emerging risk posed by the COVID-19 pandemic. This support was to ensure the capacity development of their auditors.

5. Discussion of findings

The following section discusses the major findings of this study. We discuss the pertinent challenges emerging from the COVID-19 pandemic in Ghana and Norway. We also discuss the 'new normal' and apply the theory of adaptive governance in our discussion.

5.1. Challenges emerging from the COVID-19 pandemic in Ghana and Norway

The emergence of the COVID-19 pandemic prompted audit firms to devise ways to complete audits in accordance with all the regulatory requirements and to fulfill the expectations of all stakeholders including government agencies, professional bodies, academic institutions, and shareholders. The strategies of adaptivity used by audit firms

in Ghana and Norway under the conditions of the pandemic were not the same. Due to the different level of digital infrastructure and the varied levels of government support in Ghana and Norway, it is not difficult to see that COVID-19 presented different challenges to the auditors in these countries. First, auditors in Ghana faced difficulties processing audit evidence especially when the evidence was on paper and not available electronically. Second, remote auditing procedures created challenges for auditors in both countries. Third, there was pressure on audit fees in Ghana. Fourth, the implementation of quality assurance measures was time consuming, but the situation was much more pronounced for the Ghanaian auditors.

In Norway, COVID-19 created an acceleration in the use of available technological infrastructures including: Bank ID identification, cloud-based exchange of audit files, and virtual meetings through Teams and Zoom. By comparison, auditors in Ghana have had to work with both hard and soft copy documents because many of their clients do not have digitalized accounting systems. They have had to visit their clients to scan and upload documents and also check for alterations on documents that were scanned and uploaded by the clients. Given these challenges, adaptivity intensified much more in Ghana than in Norway, and impressive talent for improvisation was exhibited by the Ghanaian auditors. The crisis and necessity to respond to its significant challenges created the opportunity for auditors (especially in Ghana) to use more technology and pressured their clients to invest in technology. Auditors' actions during the pandemic is consistent with the Sharma-Wallace et al. (2018) proposition that adaptive governance intensifies in circumstances where individuals in their organizations face unexpected situations. With respect to audit fee discussions, there was pressure on audit fees in Ghana but no pressure on audit fees in Norway. Because of the emergence of the pandemic, auditors in Ghana empathized with their clients by reducing audit fees. This creates the opportunity for brand building and also improves the relationship between auditor and client. This expression of empathy and fee reduction could be regarded as a form of cooperation between the two parties in accordance with (Sharma-Wallace et al., 2018) who remarked that cooperation is an effective method when responding to change. With respect to quality assurance measures, auditors in both countries responded to the COVID-19 pandemic by developing alternative audit procedures including videoconferencing, roll backs or roll forwards, relying on the internal auditor, issuing technical guidance to staff and clients, providing additional training to staff and increased supervision of audit staff. These methods of quality control are generally in

compliance with the provisions of ISQC 1 and ISA 501 which mandate audit firms to establish and maintain a system of quality controls ensuring that the firm and its personnel comply with applicable professional standards and legal requirements (International Auditing and Assurance Standards Board [IAASB], 2020b, 2020c, 2020d). Adaptivity also involves shifting away from the normal way of doing things while still complying with applicable rules and regulations (Janssen & van der Voort, 2020; Sharma-Wallace et al., 2018). Current literature on adaptivity emphasizes the importance of meaningful collaboration, capacity building and cooperation between stakeholders (Sharma-Wallace et al., 2018). Auditors clearly demonstrated capacity building by providing technical guidance to staff and engaging them on the performance of alternative audit procedures. Team collaboration was essential in getting the audit work done. Adapting the collaboration culture to a digital workplace contributed to the audit work at large.

5.2. The new normal

'New Normal' is a state to which a society or business settles in the aftermath of a major crisis with an implication of what was previously unusual might become a common practice (Loi, Lei, & Lourenço, 2021). With respect to remote auditing, the pandemic forced auditors to abruptly adapt and adjust the traditional methods of auditing. Our interview data suggests that remote auditing suddenly became a reality during the pandemic. This is consistent with the arguments made by Sharma-Wallace et al. (2018) and Janssen and van der Voort (2020) that individuals shift away from the normal way of doing things and adapt to changes when they face uncertainties. Albitar et al. (2020) remarked that remote auditing became a 'new normal' during COVID-19. For example due to the many advantages that accrue from remote auditing, PwC, KPMG and Deloitte are offering permanent work from home (DiNapoli, 2021). Audit firms have learned a great deal through the pandemic, and the evolution of flexibility in firm performance is a natural step (DiNapoli, 2021). Working from home and gathering data virtually and putting into place enhanced quality assurance measures suddenly became the 'new normal' that is likely to continue for the long term (Albitar et al., 2020; DiNapoli, 2021). This new institutional context was driven by the COVID-19 pandemic and marks a key consequence of the crisis for the audit profession.

In summary, the findings of the study suggest the dominance of the theoretical explanations of adaptive governance in addressing the four important areas that posed challenges for auditing under the conditions prompted by COVID-19. Adaptivity

intensified much more in audit firms in Ghana when compared to their counterparts in Norway. Ghanaian auditors had to devise innovative ways to collect audit evidence and work remotely. The enhanced digital infrastructure in Norway made adaptivity easier for Norwegian auditors.

6. Conclusion

We adopt the theory of adaptive governance and apply it to the important areas emerging to challenge audit firms in Ghana and Norway because of the COVID-19 crisis. The four areas of importance that emerged from our data include: 1) digital audit evidence, 2) remote auditing, 3) audit fee discussions and the issue of survival, and 4) quality assurance. The study shows how adaptivity by audit firms under COVID-19 conditions in Ghana and Norway differed largely because of the contrasting technological infrastructures in the two countries. Impressive improvisation talent was shown by audit firms in Ghana as they struggled to complete their audits. This study addresses and adds new knowledge to the crisis literature in auditing by using insights from the theory of adaptive governance. Successful adaptive governance approaches used by audit firms include meaningful collaboration, capacity building and cooperation between stakeholders. Our study has important implications for practitioners and standard setters. First, we bring awareness that differences in institutional settings among countries may not facilitate remote auditing (i.e., electronic-auditing) or permit the consistent implementation of the international auditing standards under COVID-19. Second, audit firms in Ghana may also benefit by putting requirements on their clients to ensure that clients use digital software for their financial reporting and in their exchange of digital evidence and documents with auditors. Finally, audit firms and practitioners may benefit from our evidence with respect to the opportunities reported in our study. Perhaps, auditors do not need to work continuously in an office.

As all research, our study has some limitations. Our research is based on data from only two countries. Future research could gather data from a number of other countries to provide a robustness test for this study. Future research should also investigate whether some of the changes reported in our paper will continue beyond COVID-19. To date, this is the only study to provide an improved understanding of the influence of the COVID-19 pandemic on auditing in the contexts of both a developed and a developing country. We

believe this is a first step toward research in understanding how the audit profession will change beyond COVID-19.

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Study 3: Assessment of the Going Concern Assumption during the COVID-19 Pandemic: Auditor Perspectives in Norway

Assessment of the Going Concern Assumption during the COVID-19 Pandemic: Auditor Perspectives in Norway

Abstract

This study investigates how the COVID-19 pandemic had an impact on Norwegian auditors' assessment of management's use of the going concern assumption while preparing financial statements. Norway was selected because it was significantly impacted by the COVID-19 pandemic even though it is a wealthy country. Its stock market fell by more than 34% of its value and although it has since recovered, the market value remains 10% below the level at the start of 2020, just prior to the outbreak of the pandemic (Ursin, Skjesol, & Tritter, 2020). Our selection took into account that the Norwegian audit regulatory environment is characterized by a high risk of bankruptcies and forced liquidations because the nation's bankruptcy laws call for the liquidation of the debtor's assets (Buttwill, 2004). We used a mixed approach by combining primary qualitative in-depth interviews with audit partners and directors in Norway with supplementary secondary data. We conducted 13 interviews with audit partners and directors in large audit firms in Norway. We followed the Gioia method in the analysis of our data, the method providing us with three areas where responses were grouped. These include: 1) Institutional factors, 2) Company survival, 3) Methods used by the client and the auditor to assess the going concern assumption. The findings indicate that the institutional factor of government economic interventions was crucial to the avoidance of going concern problems and thus allowed the companies to survive the pandemic. Management's ability to adapt to the pandemic by putting in place viable survival strategies including cost reduction, debt restructuring, changes in business models and conversion of debt to equity also contributed to their companies' survival. The findings also indicated more proactive work from clients in terms of their assessment of the going concern assumption compared to the years just prior to the pandemic. In addition, auditors exerted additional effort in their going concern assessment by designing templates for COVID-19, using extensive discussion and documentation, and focusing on the downside scenarios to respond to the risk posed by the COVID-19 pandemic. The findings can be analyzed and interpreted in accordance with the theory of adaptive governance.

Keywords: COVID-19, going concern assessment

1. Introduction

The going concern assumption is one of the most important concepts in accounting and auditing. The difficulties of making this assessment have received considerable attention by policy makers (International Auditing and Assurance Standards Board [IAASB], 2020b; International Federation of Accountants [IFAC], 2020b) and academics (Albitar, Gerged, Kikhia, & Hussainey, 2020; Xu, Jiang, Fargher, & Carson, 2011). The inability of an auditor to assess management's use of the going concern assumption could result in significant losses to the shareholder because a misstatement in evaluating the company as a going concern could lead to a decline in the value of stock to the point where it is worthless.

The level of uncertainty associated with the COVID-19 pandemic means that a company's ability to continue as a going concern may be in question (International Federation of Accountants [IFAC], 2020a). Each year before an audit, management assesses whether the company meets the criteria for preparing their financial statements according to the going concern assumption. The International Standard of Auditing (ISA) 570 requires the company's auditors to evaluate management's assessment of this assumption to continue as a going concern within a relevant time period, usually one year (International Auditing and Assurance Standards Board [IAASB], 2020b). Judging the appropriateness of management's use of the going concern assumption can be challenging for auditors in an environment where there are high levels of uncertainty (Xu, Carson, Fargher, & Jiang, 2011). This study investigates how the high level of uncertainty associated with COVID-19 in Norway has had an impact on the auditor's assessment of management's use of the going concern assumption.

Norway provides a unique setting for this research because the pandemic has had a significant impact on the Norwegian economy. The Norwegian stock market lost more than 34% of its value, and though it has recovered some of this loss, it still remains at a level 10% below the start of 2020 (Ursin et al., 2020). At the same time the pandemic has had an impact on Norway, the country, like other wealthy countries, has put in place various measures to reduce the impact of the pandemic on Norwegian businesses. A second factor that generated pressure on Norwegian business is the high risk of bankruptcies and forced liquidations that occur in Norway.[41] According to Hope and Langli (2010), about two thirds

[41] Bankruptcy laws traditionally focus on liquidation and selling the assets of the company to pay creditors. This is the situation in Norway. By contrast, countries such as the United States have friendly bankruptcy laws which allow for

of all court cases against auditors are preceded by bankruptcies and debt negotiations. Both auditors and businesses in Norway are under significant pressure to respond promptly to conditions and events that may cast significant doubt on the company's ability to continue as a going concern and to react before creditors force a liquidation on a given company.

The paper uses interviews with 13 audit partners and directors in Norway. This primary data was supplemented by public information available in Norway. We follow the Gioia method in the analysis of our data, identifying responses in three areas: (1) Institutional factors, (2) Business survival, and (3) Methods used by the client and the auditor to assess the going concern assumption.

We find that institutional factors that include government interventions are the most important factors supporting the survival of many companies. The financial interventions improved the solvency of the companies and this contributed to their ability to remain a going concern (Sætermo, 2022).[42]

We also find that management's ability to adapt to the COVID-19 pandemic by putting in place various survival strategies contributed to their company's ability to remain a going concern. These strategies included cost reduction, debt restructuring, changes in business models and conversion of debt to equity The strategies improved the cash flow position of the companies, contributing to their ability to remain a going concern.

We find that both management and the auditor changed their going concern evaluation methods as a result of the pandemic. Management developed a more proactive approach where the managers included uncertainty in their models to capture the effect of the pandemic on their business projections. Management also increased the level of documentation in the assessment of going concern especially when cashflows were negative. This documentation included bank guarantees and commitments by owners to inject more cash in the business if needed. Auditors also spent more time gathering audit evidence related to the going concern assumption. They reviewed client documentation, and engaged in client discussions that focused on the downside potential in management's assessment of potential business paths during the pandemic. These new tools and

a second option of reorganization which gives a company protection from its creditors while it reorganizes to be able to compete well (Peng, Yamakawa, & Lee, 2010). In Norway, companies do not have an option for reorganization bankruptcy, and they are even forced by the authorities to liquidate. According to Buttwill (2004), Norway, Sweden, and Finland have on average a significantly higher frequency of bankruptcies than many other countries.

[42] The scheme covered business that are subject to tax in Norway. Businesses that were subject by government order to stop operating were given priority concerning the processing of their applications (Deloitte, 2020).

approaches allowed management to assess the going concern assumption at the beginning of the audit and enabled the auditor to gather evidence to support this assumption as they conducted the audit process.

We use the theory of adaptive governance to understand the findings of this study. The auditing standards require the auditor to design and implement appropriate responses to reduce audit risk to an acceptably low level (International Auditing and Assurance Standards Board [IAASB], 2020a). In our interviews we can see how auditors implemented changes in their audit procedures to meet this requirement by increasing the number of audit procedures used to gather going concern evidence during this time of economic uncertainty. Clients also adapted the survival strategies they used to to improve their companies' cashflows. Both of these actions are consistent with the Sharma-Wallace, Velarde, and Wreford (2018) proposition that adaptivity increases in situations where individuals face unexpected situations.

This study contributes to literature on how companies in crisis can remain as going concern businesses as a result of government interventions and company survival strategies. Despite an extensive body of literature of company responses during previous crises (especially during the global financial crisis), there is very little research on the contribution of government interventions and company survival strategies under crisis conditions. This study bridges the gap in the company crisis literature by using insights from the theory of adaptive governance and revealing how Norwegian auditors and their clients changed their approaches to the assessment of the going concern assumption during the COVID-19 pandemic. Successful adaptive governance approaches used by the audit firms highlight the importance of meaningful collaboration and cooperation between the audit clients and the auditors.

This study has practical implications for auditors and their clients. The findings of the study provide concrete examples of the ways management and auditor adapt their methods of evaluating the going concern assumption during an economic crisis. The study provides various measures available to a company to improve the company's likelihood of meeting the going concern assumption in the context of crisis. The paper also reveals the importance of government interventions in increasing the likelihood that a company will meet the going concern assumption during a time of economic crisis.

The rest of the paper is organized as follows. Section 2 discusses prior research on going concern especially during periods of crisis and provides the background for the

study. Section 3 presents the research methodology. Sections 4 and 5 present and discuss the findings respectively. In section 6, we give our conclusion and discuss the implications of our results.

2. Background and Literature Review

This section discusses the literature on the assessment of going concern during economic crises and the models and tools for the assessment of the going concern. It also treats the institutional and theoretical background of the study.

2.1. ISA 570 Going Concern

ISA 570 explains both management and the auditor responsibility related to going concern assessment. According to this standard, management is responsible for assessing the ability of a company to continue as a going concern. The auditor's responsibility is to obtain sufficient appropriate evidence regarding the appropriateness of management's use of the going concern assumption (IAASB, 2020b). To make this assessment, management is required to prepare a detailed analysis of the ability of the company to continue as a going concern by considering present and future conditions that might cast significant doubt on this assumption (IAASB, 2020b). In making this detailed assessment, management is required to justify the assumptions on which the assessment is made, present management's future plans to continue as a going concern business and comment on the feasibility of those plans. The auditor is required to obtain written representations if managements' assumptions include support by third parties (IAASB, 2020b). [43] This detailed assessment may not be needed when there is a history of profitable operations and a ready access to financial support.

2.2. Assessing going concern during economic crises

When economic conditions are good and companies are operating profitably, assessing the going concern assumption is not a major concern for either the companies or their auditors. By contrast, assessing the going concern assumption can be challenging for both parties during periods of economic downturn. In response to the Covid-19 global pandemic, regulators and standard setters have identified financial reporting issues that auditors should focus on during the audit. The list of financial reporting issues that may be more difficult to evaluate during an economic crisis include: evaluating the going concern

[43] Support by third parties could include the subordination of loans and commitments to provide additional funding.

assumption, auditing fair value measurements, evaluating accounting estimates, measuring expected credit losses, and considering subsequent events (International Federation of Accountants [IFAC], 2020a). In this study, we consider the audit procedures important in evaluating the going concern assumption during the global Covid-19 pandemic. According to a statement from PwC, one of the big 4 auditors, during this time period, auditors will find it difficult to make this assessment because of the uncertainties presented by the current crisis (PwC, 2020). Current research (e.g. Albitar et al. (2020) has reported that misstatements related to the going concern assessment during the current crisis are likely to have an impact on audit quality.

Past research has reported that global financial crises have raised concerns over the quality of audits (Xu, Carson, et al., 2011; Xu, Jiang, et al., 2011). This research concluded that it is extremely difficult for companies in widespread conditions of economic crisis to assess their ability to continue as a going concern (Xu, Carson, et al., 2011; Xu, Jiang, et al., 2011). For example, Xu, Jiang, et al. (2011) reported that during a recession it is almost impossible for a company to provide cash projections, or supply evidence of expected refinancing which would allow the company to demonstrate its ability to meet obligations when they fall due. Xu, Jiang, et al. (2011) found that problems with the going concern assumption was the primary reason for audit report modifications in Australia. Cheffers, Whalen, and Thrun (2009) found that audit reports modified for uncertainty relating to the going concern assumption increased from a low of 14% for the financial year ending 2003 to a high of 21% for the financial year ending 2008. A review of going concern opinions during the global financial crisis of 2008 indicated that issues undermining the going concern assumption include: operating losses, working capital deficiency, young age of a company, liquidity concerns, negative cash flows from operations, default in debt payment, salary deferral among others (Cheffers et al., 2009).

2.3. Models and tools for going concern assessment

Prior research has identified insolvency models that might be used to predict companies with going concern problems where the assumptions of continuing as a going concern may not be met. The earliest models originate from the time of the Great Depression of 1929 (Provasi & Riva, 2016). Before this time, business stakeholders did not consider the risk of insolvency and liquidations while conducting their business operations; banks often gave loans to customers without adequately considering the ability of customers to pay off those loans (Provasi & Riva, 2016). Three types of going concern

models have been identified in previous research: theoretical models, empirical models, and models that determine a turnaround index (Madonna & Cestari, 2010). The use of these three models is discussed briefly in the sections below.

Theoretical models involve the formulation of hypotheses and the use of an algorithm to calculate the probability of insolvency. This method is not now commonly used, as a number of previous uses did not provide reliable results (Provasi & Riva, 2016). In comparison, empirical models have been shown to be more useful in evaluating the possibility a company might violate going concern assumptions (Provasi & Riva, 2016). Examples of empirical models include decision trees, case-based analysis, discriminant analysis (Z-score), and logistic regression among others. The use of empirical models requires the auditor to perform a financial statement analysis and then apply one of the empirical models to the analyze the financial statements.

The third type of model used to predict insolvency is a turnaround model. Using this model, the company identifies the cause of the crisis and then determines actions that would allow the company to recover (Provasi & Riva, 2016). In the case of the ongoing pandemic, a given company would identify the particular effects that the COVID-19 pandemic has on the company and then determine recovery measures, appropriate strategies, to return the company to profitability. For example, if COVID-19 pandemic hurt the revenue stream of a company to the extent that the going concern assumption is challenged, management would have to adopt solid measures to ensure that the company can generate sufficient revenues to reverse the decline in revenue. Prior research has itemized a variety of recovery strategies to return a company to profitability including reducing labour and operating costs and making changes in business models. (Alan, So, & Sin, 2006; Israeli & Reichel, 2003; Loi, Lei, & Lourenço, 2021; Mansfeld, 1999). Loi et al. (2021) states that the tourism and hospitality industry responded to the COVID-19 pandemic by reducing labour cost and operating cost. Alan et al. (2006) finds that restaurants in Hong Kong responded to SARS by reducing cost and enhancing revenue. Hotels in Israel responded to crisis by reducing labour and operating cost (Israeli & Reichel, 2003; Mansfeld, 1999). Banks and airlines adjusted their business models during the global recession in 2008-2009. Some airlines merged to increase market share and reduce competition (Jean & Lohmann, 2016).

2.4. Institutional Background of Norway

Prior research has shown that the audit market and regulation have an impact on the assessment of the going concern assessment (Carey, Geiger, & O'connell, 2008; Knechel

& Vanstraelen, 2007; Sormunen, Jeppesen, Sundgren, & Svanström, 2013). According to Knechel and Vanstraelen (2007), country specific factors such as audit practice and the general legal environment have impacts on the assessment of the going concern assumption.

Norway differs from other countries in terms of their audit and general regulatory environments. In contrast to the U.S., the Norwegian audit regulatory environment is characterized by high risk of bankruptcy and forced liquidation (Buttwill, 2004). The Norwegian bankruptcy system regularly/normally calls for the liquidation of the insolvent debtor's assets. Although there are possibilities of making an arrangement with the creditors[44], the Norwegian bankruptcy system does not aim at restructuring the insolvent company or group (Sætermo, 2022). The procedural aspects of a bankruptcy is largely regulated by the Norwegian Bankruptcy Act (Act 1984/58). The objectives for the bankruptcy system are to seek settlement of the outstanding obligations; ensure equal treatment of the creditors of an insolvent debtor; allow for an efficient liquidation of the debtor's business; (Sætermo, 2022). The COVID-19 pandemic affected the economy of Norway negatively to the extent that some companies experienced a substantial risk of bankruptcy[45]. Bankruptcy is declared by a district court. The bankruptcy proceedings may be initiated by an insolvent debtor or by creditors if one of the following conditions are met:

- The debtor is insolvent.[46]
- The debtor is in derelict of their duty repeatedly during the completion of a compulsory debt settlement.[47]

[44] First, An entity can acquire a viable business or part of it from a bankruptcy estate. This gives the opportunity for the continual existence of the viable parts of the business. Second, a bankruptcy debtor can also propose for a compulsory composition with its creditors. Compulsory composition is rarely experienced under a bankruptcy in Norway (Sætermo, 2022).

[45] Sixty-eight percent (68%) and 52% of companies experienced lower demand or cancellations in March 2020 and March 2021 respectively. Furthermore,14 percent of companies experienced a substantial risk of bankruptcy (Statista, 2021).

[46] Insolvency in the Norwegian bankruptcy law means that the debtor is both illiquid and insufficient. Illiquidity means that the debtor is unable to pay its obligations as and when they fall due. Insufficiency means that the liabilities of the debtor exceeds its assets (Sætermo, 2022).

[47] Debt settlement proceedings are opened when a debtor cannot meet its obligations as they fall due. Compulsory debt settlement may entail: postponement of payment of debt obligations, percentage reduction of debt, liquidation of the debtor's assets or a more limited part of those assets with the debtor being discharged of the part of the debt not being convered by the liquidation or a combination of these arrangements. Compulsory debt settlement must entail payment of at least 25% of the general creditors' outstanding claims (The Bankruptcy Act, Act 1984/58).

Limited liability companies may in certain cases be forcibly dissolved by judicial decree. This usually occurs if the company fails to submit its annual accounts by specified deadlines, when the Accounting Registrar cannot approve submitted materials such as annual accounts and auditor's report or when the company lacks the necessary board members or auditor (if required) (Sætermo, 2022).

Because the Norwegian bankruptcy law focuses on liquidation of the insolvent debtor's assets and does not aim at restructuring, many companies might have gone bankrupt if the government had not intervened during the COVID-19 crisis. The Norwegian mainland economy contracted by 2.5%, the greatest economic downturn since 1945 (Reuters, 2021). In response to the COVID-19 crisis, the government of Norway enacted the Reconstruction Act, (Act 2020/38) in an attempt to provide respite to companies severely affected by the COVID-19 crisis. The court can open bankruptcy proceedings if reconstruction arrangements have not been successful. The Norwegian government instituted some economic interventions in an attempt to improve the liquidity of the companies. Some of these economic interventions are as follows:

The Norwegian government established two state-backed loan and guarantee schemes with a total of NOK 100 billion (U.S. $10 billion) in an effort to provide liquidity for Norwegian enterprises[48]. The Norwegian government also created a grant scheme that entails that the state cover a proportion of the fixed cost of enterprises that have been significantly affected by the pandemic and the infection control measures. Enterprises[49] with at least 30% decline in turnover are eligible for compensation (Deloitte, 2020). The maximum amount of compensation is 90% of the unavoidable fixed costs for enterprises closed down due to government directives and 80% for other business (KPMG, 2020). Appropriation for fiscal measures (excluding loans and guarantees) amounts to NOK 162 billion[50]. Reduced tax revenue and higher expenses due to the pandemic amount to NOK 83 billion (Government.no, 2021). Additional measures aimed at businesses that have

[48] The government proposed to establish a state guarantee amounting to NOK 50 billion (approximately US $5 billion) targeted at bank loans targeted at bank loans to small and medium sized enterprises making losses as a result of the impact of the COVID-19 crisis. Government bond fund targeting large companies amounts to NOK 50 billion (approximately U.S. $5 billion) and will be increased if needed.

[49] These enterprises include business that are required to close by a government order, as well as those that have not been required to close, but which have nevertheless had a decline in turnover as a result of the infection control measures.

[50] These compensation schemes are not only aimed at businesses but also households. To compensate households' income loss due to the virus outbreak, the government has implemented extended income protection schemes estimated at NOK 27 billion (Government.no, 2021).

experienced a dramatic fall in revenue, young people, students and furloughed workers, among others, amount to NOK 16.3 billion (Government.no, 2021). The government of Norway instituted these economic stimulus measures in other to provide liquidity and access to finance for Norwegian enterprises. These measures helped companies absorb the shock caused by the crises. Table 1 below shows the key policy responses that were specific to the controls and relief measures that related to businesses in Norway.

Considering the strict bankruptcy laws, the frequency of bankruptcies and the government's responses to COVID-19 pandemic, Norway provides a unique and an important setting for addressing how going concern due to COVID was assessed. Norway is one of the wealthiest countries in the world and companies in Norway received government aid during COVID; if going concern assessment could be difficult under these conditions, then the issue could be more pronounced in other economies which have fewer resources.

Table 1 Key policy responses affecting the companies in Norway from March 2020 to December 2021

Date	Measure	Measure Implication
13.03.2020	Announcement about the outbreak of COVID-19	First wave
14.03.2020	Closure of boarders to incoming travelers except from Finland and Sweden	Escalation
16.03.2020	NOK 100 billion worth of guarantees and loans in crisis support for businesses	Relief
17.03.2020	14-days quarantine when returning to Norway from Abroad	Escalation
18.03.2020	Large compensation scheme for culture, voluntary sector and sport	Relief
19.03.2020	Loan guarantees for domestic aviation industry	Relief
20.03.2020	Furlough and unemployed benefits increased under new rules	Relief
27.03.2020	Loan guarantees for SMEs, innovative loans, postponement of payment of tax, interest payment support fund, grants for young companies, lowering of VAT rate among other	Relief
30.03.2020	Seasonal workers from EEA permitted travel to Norway	Relaxation
02.04.2020	Extension of loan guarantees to large companies	Relief
20.04.2020	Kindergartens, and providers of health service such as physiotherapist and psychologist allowed to reopen.	Relaxation
27.04.2020	Pupils aged 6-10 return to school. Hairdressers, massage studios among other allowed to reopen.	Relaxation
07.05.2020	Long term plans for handling COVID-19	Awareness
11.05.2020	All schools in Norway reopened	Relaxation
20.05.2020	Economic measures in response to COVID-19 announced. The government announce to inject about NOK 245 billion to spur economic growth.	Relief
01.06.2020	No quarantine for work related travel within the Nordic region	Relaxation
15.06.2020	Travel restrictions on regions with high levels of COVID-19 infection	Escalation
18.07.2020	Second wave of confirmed cases	Second wave
27.01.2021	Only travelers who reside in Norway are permitted to enter (strictest requirement since March 2020)	Relaxation
29.01.2021	Additional financial measures in the total of NOK 16 billion to tackle the pandemic	Relief
24.03.2021	Stricter measures to counter the spread of the pandemic	Escalation
10.04.2021	The Government's plan for a gradual reopening: Out of the crisis together	Relaxation
25.09.2021	Entry restrictions for the EEA/Schengen area and purple countries was lifted	Relaxation
26.10.2021	New national restrictions introduced	Escalation
26.11.2021	Stricter entry requirement – registration before arrival and the requirement to produce a negative test taken before arrival reintroduced	Escalation

Source:
(Government.no, 2021)
(Ursin et al., 2020)
Note: We summarise the government's key policy responses into five notable stages, namely "First Wave", "Escalation", "Relief", "Awareness" and "Second Wave". "First Wave" means when COVID-19 started, "Escalation" means strict measures taken by the government to contain COVID-19, "Relief" refers to the economic interventions put in place by the government, "Awareness" refers to awareness programs to contain COVID-19, and "Second Wave" means the surge in cases after the second wave. A study that summarised a government's key policy responses in a similar manner include Loi et al. (2021).

2.5. Theoretical background: theory of adaptive governance

We use adaptive governance to understand how the COVID-19 pandemic had an impact on the assessment of the going concern assessment in Norway. The concept of adaptation was founded in evolutionary theory and draws widely on economics and organizational theory to focus on how individuals or organizations respond to uncertainty and changes in the environment (Janssen & van der Voort, 2020). Adaptive governance has emerged as an intriguing feature of theory and practice and focuses on responding to complex societal issues involving many stakeholders and situations of uncertainty (Janssen & van der Voort, 2020; Sharma-Wallace et al., 2018). Adaptivity suggests maintaining one's fitness within the changing environment as a prerequisite to survival. Methods that contribute to adaptive governance (for accountants and auditors) include effective coordination, meaningful collaboration, training employees, and engagement with clients (Sharma-Wallace et al., 2018). In times of crisis, adaptive governance is necessary and important to an effective response to the crisis.

In this paper we used adaptive governance to understand how the COVID-19 pandemic had an impact on management's evaluation of the going concern assumption and the auditor's assessment of management's use of the going concern assumption in Norway. In using this approach, the study also investigates how COVID-19 impacted the client's assessment of the going concern assumption from the perspective of the auditor. In recent years, research projects have employed the theory of adaptive governance to explain phenomena such as a government's response to the COVID-19 pandemic (Janssen & van der Voort, 2020; Khan, Roy, Matin, Rabbani, & Chowdhury, 2021; Pedroza-Gutiérrez, Vidal-Hernández, & Rivera-Arriaga, 2021).

3. Methodology

3.1. Participants

We emailed interview requests to contact persons who are audit partners of large audit firms in Norway. We explained the research project to them including our requirement to interview audit partners and directors in their firms. Eleven (11) audit

partners and directors agreed to participate in the study[51]. Details of the list of participants are contained in Table 2. We used three criteria to select interviewees:

- An interviewee should be of the rank of the rank of an audit director, or partner.
- An interviewee should be a technical partner or have actively participated in audits during the COVID-19 crisis period.
- An interviewee should be willing to be interviewed.

We interviewed audit partners because they possess the ultimate responsibility when it comes to discussions involving assessing the appropriateness of management use of the going concern assumption. The participants we interviewed have clients in various industries including mining and the extractive industry, transport and the storage industry, accommodation and the food service industry, financial and insurance industry among others. Complementary quantitative information was collected from Experian Norway[52] and the Brønnøysund Register Center.[53] Data collected from Experian include the figures about bankruptcies and forced liquidation in Norway. Data collected from the Brønnøysund Register Center include figures about the amount of COVID-19 government grants companies received in Norway.

[51] This gives us a response rate of 79%.

[52] Experian Norway is a primary provider of credit data to companies. Through its unique combination of data, technology and analytics expertise, Experian helps companies around the world create growth.

[53] Brønnøysund Register Center is a Norwegian government institution that is responsible for the management of numerous public registers for Norway and governmental systems for digital exchange of information.

Table 2. Demographic information for participants

	Position	Audit Experience	Type of Clients	Date	Number of Interviews	Duration
1	Partner	34 years	Wide range of industries E.g., Consumer markets	1.09.2020	1	76 mins
2	Partner	30 years	Wide range of industries, e.g., oil and gas, shipping	8.09.2020	1	65 mins
3	Partner (Technical)	26 years	Listed Companies	19.03.2021/ 2.11.2021	(2)	72 mins 60 mins
4	Partner	31 years	Wide range of industries, e.g., shipping, consumer markets etc.	24.03.2021/ 16.10.2021	(2)	72 mins 62 mins
5	Partner	30 years	Wide range of industries, e.g., consumer markets	5.11.2021	1	50 mins
6	Partner (Technical)	30 years	Listed companies	5.11.2021	1	27 mins
7	Partner	16 years	Wide range of industries e.g., banks, shipping, oil, consumer markets	8.11.2021	1	62 mins
8	Partner (Head of professional practice)	14 years	Wide range of industries including consumer markets, oil, and gas etc.	8.11.2021	1	62 mins
9	Partner	16 years	Wide range of industries including real estate, shipping, and offshore etc.	17.11.2021	1	54 mins
10	Partner	20 years	Wide range of industries including banks, insurance, and consumer markets.	22.11.2021	1	56 mins
11	Director	20 years	Wide range of industries including consumer markets, oil and gas etc.	23.11.2021	1	49 mins

3.2. Interviews

After audit partners agreed to participate in the interview, we again contacted them by email to schedule an appointment. The interview protocol are contained in table 3. The interviews lasted between 27 minutes and 76 minutes for a total time of 11hrs. and 45 minutes. Two auditors were interviewed twice – the first interview in 2020 and second interviews in 2021[54]. The interviews took place via zoom between July 2020 and November 2021, were conducted in English, tape recorded and fully transcribed. Participants were

[54] The first set of interviews with the two auditors were to identify whether the issue of going concern was a major area of concern for the Norwegian auditors. We observed that at that point it was too soon to continue with the study, and we decided to wait for a year to conduct the next badge of interviews.

informed that all data would be anonymized to foster an open mindset. In addition, participants were also informed that the aim of the research was to understand their experiences with their clients under the conditions of the COVID-19 pandemic with regards to assessing the going concern assumption and as such the interviewers did not judge that there were right or wrong answers.

We prepared an interview guide and conducted semi structured interviews. Contained in the interview guide were relevant questions that we asked our respondents to obtain quality information for the purposes of this study. The interview questions were semi-structured and open-ended to avoid suggestive and biased answers. The participants were asked a few introductory questions at the start of the interview and the subsequent interview questions focused on the following areas:

- Government support schemes
- Clients' adaptation or survival strategies
- Clients' assessment of the going concern assumption
- Auditors' assessment of the appropriateness of management use of the going concern assumption

We asked follow up questions whenever needed during the interview. The thirteen (13) number of interviews were conducted until repetitive arguments and viewpoints indicated a saturation of findings. The respondents were also given the opportunity to raise issues concerning the assessment of going concern assumption that may not have been covered by the questions they were asked. This guaranteed a broad scope of the questions addressed and the procedure allowed for a good coverage of the topic (Segal, 2019). We reviewed relevant documents such as company websites and news articles to help us put the interviews in proper context (Keenoy, Oswick, & Grant, 1997). The interview data and the data from the secondary sources were consistent with each other. The study was reported to and approved by Norwegian Center for Research Data (NSD)[55]. We prepared an information letter in accordance with the NSD guidelines and recommendations and sent it to all participants so that they were informed of their rights. Further information about the interview protocol is contained in Table 3.

[55] The NSD is owned by the Norwegian Ministry of Education and Research and it ensures that data is collected, stored and shared safely and legally (Norwegian Center for Research Data (NSD), 2020). All research projects which requires the collection and processing of personal data must seek approval from the NSD (Norwegian Center for Research Data (NSD), 2020).

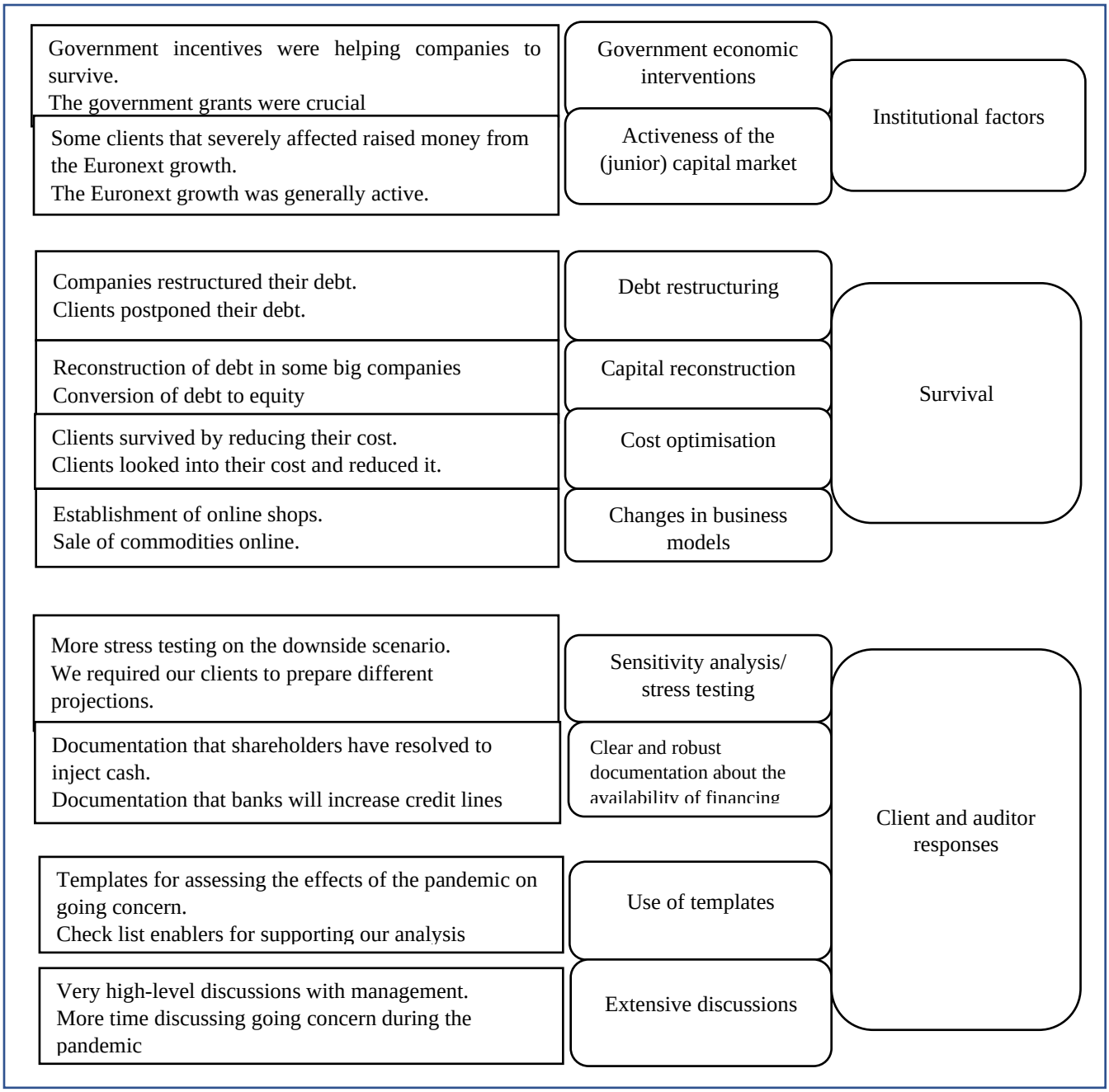
Table 3. Interview Protocol

Interview type	Semi structured interviews
Duration of Interviews	27mins to 76mins
Level of interviews	Audit partners and directors
Purpose and style	Information extraction and exploration
Interview place	Online
Language	English
Confidentiality	High
Morality and Ethics	The study was reported to and approved by the Norwegian Centre for Research Data (NSD).
Recording responses	Researchers sought the permission from the interviewees about recording the interviews at the commencement of the interviews. Researchers started the recording after the approval of the interviewees.
Information on exchange	Detailed information was provided about the research project and the data collection process.
Question type	Open-ended

3.3. Data analysis

With permission from the participants all interviews were recorded and thereafter transcribed. In line with Kamel and Elbanna (2010), we coded and analysed the data manually since this study consisted of only thirteen interviews and the amount of data was manageable. The researcher read the transcripts several times before making any attempt to analyse the data. The coding for the inputs was presented to and refined by two members of faculty who have significant accounting and auditing experience. The researcher followed the Gioia method in the analysis of our data. The Gioia method is a two-step process of thematic analysis with first order themes and second order themes; thereafter the themes are grouped into an aggregate dimension (Gioia, Corley, & Hamilton, 2013). The first order terms are taken directly from the interview transcripts. The second order themes are based on theoretical codes and existing literature. Secondary data from company websites were matched with these themes to provide more meaning to the results (Nath, Othman, & Laswad, 2019; Tsamenyi, Cullen, & González, 2006). In this way, triangulation was achieved by analyzing multiple sources of evidence(Yin, 2014). The data structure is shown in Figure 1 below.

Figure 1. Data structure: assessment of going concern due to COVID-19 in Norway



4. Findings

The section below contains the findings of this study categorized into the themes that emerged from our interview data. Table 5 provides additional comments on each theme.

4.1. Institutional factors

Two major institutional factors emerged from our interview data, government economic interventions and the activeness of the Euronext growth. These are discussed in more detail in the sections that follow.

4.1.1. Government economic interventions

For the first category, our findings indicate that the support provided by the government was crucial to the survival of many businesses. Our interview data revealed that the industries that were severely affected by the pandemic in Norway include the accommodation and food service industry and transport and storage industries. This is reflected in the following statement:

> *My clients in the hotel, real estate and shipping industries were severely affected by the pandemic.*

Another auditor commented:

> *The restaurants, hotels, cruise ships had a difficult time because of the effects of COVID-19.*

Another auditor also commented:

> *The effects of COVID-19 has obviously been negative for hotels.*

It is also reflected in the following comment:

> *The hotels, restaurants, transportation industries are in peril.*

Table 4 contains the information about the amount of grants that companies in the different industries received during the pandemic to cover their fixed cost and offset their loss of inventory.[56] The severely affected industries received the highest amounts of the grants from the government (Deloitte, 2020). As you can see from Table 4, the accommodation and food services sector was the most severely affected industry followed by the transport and storage sector. Other industries that were severely affected include arts and the wholesale and retail trade industries. This corroborates the findings from the interviews.

[56] Enterprises with at least 30% decline in turnover are eligible for this this category of compensation.

Many companies in the severely affected industries would not have survived if the government had not supported them. The support provided by the government helped companies to pay for their fixed costs. The government granted companies the option to defer their tax obligations, and the government also supported banks to lend at commercial rates to large companies. The government also reduced the financial liability for employers with laid off workers, increased the compensation to temporarily laid off employees and reduced employer financial liability for COVID-19 related sick leave (KPMG, 2020). All these relief packages instituted by the government contributed to the survival of these companies. One participant commented that:

> *The government support was crucial for the survival of the severely affected companies.*

Table 4. Government support to companies to cover their fixed cost and inventory losses in US dollars

Industry	Fixed cost ($)	Inventory ($)	Total ($)
Accommodation and food service activities	312,809,530	5,678,846	318,488,375
Agriculture	2,022,691	165	2,022,856
Arts	71,562,944	219,126	71,782,070
Construction	21,850,629	16,880	21,867,510
Business services (Administrative support services)	48,083,549	94,866	48,178,416
Financial and insurance activities	118,201	-	118,201
Human health and social work activities	2,842,566	729	2,843,295
Industry (manufacturing)	37,141,721	132,087	37,273,808
Information and communication	8,631,944	-	8,631,944
Mining and quarrying	20,171,223	-	20,171,223
Other service activities	5,279,524	2,035	5,281,559
Professional	43,460,800	8,448	43,469,248
Real estate activities	48,634,916	55,133	48,690,049
Teaching (Education)	4,789,954	401	4,790,355
Transportation and storage	146,255,599	3,467	146,259,066
Unknown industry	846,381	2,200	848,581
Water supply; sewerage	317,280	-	317,280
Wholesale and retail trade	66,560,398	143,882	66,704,280
Total	841,379,851	6,358,265	847,738,116

Source: (Brønnøysundregistrene, 2022)

4.1.2. Activity of the Euronext Growth Market[57]

Our findings also indicated that many companies were able to raise capital from the capital market in Norway. This was especially true in the Euronext Growth Market. The Euronext Growth Market was established in the year 2016. From the date of its establishment to March 2020 companies raised about $761.12 million. For comparison:, after the COVID-19 pandemic began, companies listed on Euronext raised about $2,337.87 million as of November 1, 2021 (Euronext, 2021). This represents a 207% increase in capital raised from the Euronext Growth Market since COVID struck. Companies opted to raise capital from the Euronext Growth Market because it has less stringent stock requirements than the Oslo Stock Exchange: it takes a period of two weeks to get listed on this market. This decision is refered to in the following quote:

> *'A number of our clients were listed on the Euronext Growth Market…... Some of our clients that really needed money went there to raise it. The investors were generally active.'*

The capital raised from the Euronext Growth Market improved the liquidity of companies whose income streams were hurt during the pandemic. Exemplary quotations are stated in Table 5 under the theme "Activity of the Euronext Growth Market".

4.2. Survival

With regards to the adaptations companies in Norway made in order to survive, four thematic areas emerged. These themes include debt restructuring, conversion of debt to equity, cost reductions and changes in business models. These areas are discussed in more detail in the sections that follow.

4.2.1. Debt restructuring

Comments from the participants reveal that some companies were under financial distress and could not meet their debt obligations. The distressed companies negotiated with their debt holders who agreed to extend debt repayment terms for the outstanding debt. Some of the companies were offered several months' debt payment holidays which

[57] The Euronext Growth Market formerly the Merkur Market is a market place for listing of and trading in equities and equity certificates. Small and medium-sized companies raise capital and substantial funds because it is easier to and quicker to access this market than that required for admission to trading on Euronext Expand or the main list on the Oslo Stock Exchange (Abrahamsen & Sveen, 2022). The listings on the Euronext Growth Market have significantly increased during COVID-19 because of the high market demand and the swift admission process (Abrahamsen & Sveen, 2022).

enabled them to free up cash for operations and encourage profitable investment that would bolster growth. This is expressed in the following quote:

> *Some clients were given a moratorium period on debt repayment after which they will start paying interest.*

The willingness of the banks in Norway to offer solutions contributed to the survival of some of the companies that were distressed by the conditions of the COVID-19 pandemic. This is reflected in the following statement:

> *Some companies discussed debt repayment with their bankers and the bankers agreed to reduce interest rates, and in some cases, creditors put the interest payments on hold.*

4.2.2. Conversion of debt to equity

The second theme revealed by our conversations with the participants is that some companies converted their debt to equity to ensure their survival. The income streams of many companies were hurt, and as such they were unable to meet their obligations to creditors when the payments became due. In an attempt to lower the debt on the financial statements, management of the heavily indebted companies proposed capital reconstruction schemes. The companies that converted their debt to equity were mostly business entities in the shipping and oil and gas sectors. This is reflected in the following statements:

> *A lot of companies converted their debts to equity This was prominent in the oil sector. Shipping clients also converted their debts to equity.*

After negotiation, banks and other creditors accepted the debt to equity conversion schemes because they will benefit more from the conversions in the long-term than if the alternative was to have forced the companies into liquidating their assets. Some of the banks are now in holding positions for some of the companies; this is especially the case in the drilling sector. This is articulated in the following statement:

> *In the drilling sector now, for example, many of those companies have not gone technically bankrupt, but there is a lot of conversion of debt to equity where the banks are now in holding positions and the former shareholders are wiped out.*

Some of the companies that engaged in converting their debt to equity were already in distress prior to the pandemic, and COVID-19 dramatically increased their struggles.

The pandemic may have pushed for these reconstructions, but some of these companies were struggling before the pandemic.

4.2.3. Cost reduction

The empirical findings reveal that many companies engaged in cost reduction strategies to reduce cost and other strategies to stimulate growth. Companies that were impacted by the effects of the pandemic had to reduce their labour cost by putting some of their workers on social benefits offered by the government when the pandemic started. There was no cost to these companies in this regard, and the workers could receive the social benefits for up to a year. Companies could return the employees to the workforce whenever the performance of the company improved. This is referred to in the following statement:

It was possible, without any cost to the companies to put employees on social benefits, as if they were unemployed. It was quite good because the employee got almost the same salary as when he was employed and the salary was paid by the government. You could put them on those kinds of arrangement for up to a year.

Companies also engaged in strategies to reduce their operating cost. One participant commented that:

'The clients that were affected by the pandemic focused on their operating costs, to cut these costs as much as possible'. Another participant commented that: 'Companies came in for such services as operating cost containment, including a reduction in labor costs among others'.

Business managers have observed the making the decisions to run the company are much more efficient when they do not need to engage in business travels but conduct meetings virtually. Business leaders also observed that number of employees could be reduced without affecting productivity because they reduced the number in their labor force and the business still functioned well.

4.2.4. Changes in business models

The fourth theme revealed by our empirical finding is that companies are changing their business models in other to adapt to the effects of the COVID-19 pandemic. The COVID-19 pandemic was a driver of innovation. It stimulated the adoption of new technologies, and the crisis gave opportunity for entrepreneurs who developed new ways

of doing things--particularly those who engaged in technological innovation to sell their products. According to one participant,

> *Some companies found ways of generating new revenue streams.*

One participant, when asked about the new revenue streams companies were generating, commented that:

> *I have a client called ABC[58] which is in the business of selling tickets. It started a new product which is TV over the Internet. For example, you could buy a ticket for sports arrangements or concerts and get them streamed online. This is to compensate for the shortfall of sales of ordinary tickets.*

Many businesses, especially in the retail sector, in addition to their physical shops, went online to sell their products to their customers. This is noted in the following:

> *Many companies in the retail sector have gone online to sell their products. They integrate the online shopping experience with the physical shops so that when you buy items you are practically buying from some of the local stores (not necessarily from a centralized warehouse), and they will ship it to wherever you are. Their products were delivered to their customers in their homes.*

4.3. Methods used by the client and the auditor to assess the going concern assumption during the COVID-19 pandemic

The third dimension identified in the data analysis contains two themes. These are the methods used by the client and the auditor to assess the going concern assumptions during the COVID.19 pandemic. These areas are discussed in more detail in the sections that follow.

4.3.1. Methods used by the client to assess the going concern assumption during the COVID-19 pandemic

The methods used by the client are (1) scenario analysis and stress testing, and (2) clear and robust documentation about the availability of financing that might be necessary for the company to remain a going concern. These areas are discussed in more detail in the sections that follow.

[58] ABC is a pseudo name. We opt not to disclose the name of the company.

4.3.1.1. Scenario analysis and stress testing

Companies relied on scenario analysis and stress testing to assess the going concern assumption during the pandemic. Scenario analysis helped management identify the assumptions that may have the most impact on the financial forecasts and to examine the metrics that need to be monitored closely (Koh & Low, 2004). The use of scenario analysis to assess the going concern assumption is not a new practice; it was used prior to the emergence of the COVID-19 pandemic. During the pandemic the inputs for the models were modified to address the extreme conditions. Companies increased the uncertainty in these models to accommodate for the effects of the pandemic. Companies prepared the models based on three scenarios: a best-case scenario, a base-case scenario, and a worst-case scenario.[59] This is articulated in the following statement by a participant:

> *They had one scenario: what if we need to close down; they have one scenario, what if nothing happened? And they had an optimistic scenario. But of course, they had that already before the pandemic. During the Covid-19 pandemic, the scenarios developed included a bit more uncertainty in the prognosis than before the pandemic.*

Another participant commented that:

> *They produced at least three different scenarios, we have the best case, the base case, and the low case. So that also continued under the current pandemic. But as I mentioned, uncertainty was included in all of the scenarios.*

The increased uncertainties in these models considered several factors including: what if the government interventions are canceled, and what if the company is unable to source raw materials or sell its products because of COVID-19 restrictions? Companies included several factors and inputs for the scenarios created during the pandemic to model more accurately the complexity of what might happen. To this extent, more stress testing was performed on the worst-case scenario. This is encapsulated in the following statement:

> *My clients have performed more stress testing on the worst-case scenario.*

4.3.1.2. Clear and robust documentation about the availability of financing

When assessing a company's ability to continue as a going concern during the COVID-19 period, our empirical evidence reveals that according to the auditor's judgment,

[59] The best-case scenario is also referred to as the optimistic scenario. The worst-case scenario is also referred to as the low-case scenario or the downside scenario.

management is providing clear and robust documentation about the availability of financing, especially when the cash flows are negative. These documentations are in the form of bank guarantees and commitments by owners to inject more cash in the business. This is reflected in the following statement:

> *If the cash flow is negative, the client needs to document that the owners or new shareholders were willing to inject money into the business. The companies should also be able to document that the banks gave waivers on debt repayment.*

The inability of the client to provide evidence of the availability of financing leads the auditor to qualify the auditor's report. This is reflected in the following statement:

> *Just a week ago our client said they were in discussions with banks, and lenders but they were unable to document an understanding with these parties. We were not able to verify this claim except for what they have told us, and we made a qualification in the audit opinion due to this issue.*

4.3.2. Auditors' responses

With regards to the auditors' responses, two thematic areas emerged. These are the use of templates to evaluate the going concern assumption for their audit clients and extensive discussions with management regarding their ability to remain in business in the near future. These areas are discussed in more detail in the sections that follow.

4.3.2.1. Use of templates

When COVID-19 struck, Big four audit firms and other international audit firms developed new templates to assess the impact of COVID-19 pandemic on the survival of the business. The auditors use the new templates in addition to the existing tools for the assessment of the going concern assumption. The set of new templates originated from both their global and local offices. The templates developed by the local office take into consideration the specific market conditions in that country. One audit partner commented,

> *The local templates contains things that we need to discuss with the professional director when certain issues arise. This provides for a more case-by-case discussion when different risks emerge during an audit.*

The checklists in the templates provide support for the auditors when making the going concern assessment. According to one audit partner, the checklist contain questions such as,

Has COVID-19 has a negative effect on the financial performance of the entity? If the answer is yes, then you need to provide more information. What is the impact? How have you handled it? Or how has the entity handled it? Is it likely to impact the going concern assumption? If the impact is not related to Covid-19, the going concern assumption could still be an issue, but then it's not COVID-19 driven, so it's handled by other procedures.

Other questions contained in the checklist include:

Could they continue their work during the pandemic? If no, was it due to COVID-19?

The new templates were not used if COVID-19 did not materially affect the operations of a client. The new templates were basically designed for the planning and the completion stages of the audit.

4.3.2.2. Extensive client discussions

Auditors used extensive discussions with their clients as a tool to assess the appropriateness of management's use of the going concern assumption. This is reflected in the following quotes:

At the height of the pandemic, we had a lot of discussions with management. We also had extensive discussions with the board and the board was required to describe the situation today and going forward.

Extensive discussions provided the auditor with information not previously known but necessary to assess the client's use of the going concern assumption in preparing the financial statements. The use of inquiries might also provide the auditor with corroborative audit evidence and helps them gain in-depth understanding about events and conditions. Areas of discussions with management were focused on budgets, forecasts, cash flows, financial covenants, and bank guarantees. This is reflected in the following quotes:

I think we used a lot more time discussing the going concern assumption, the forecasts, assumptions going into the forecast and understanding the market going forward.

We have spent more time on their liquidity forecasts, discussing their banking arrangements, whether they need extended credit lines, etc. And also looking at either their financial covenants that they are likely to breach and what the impact would that have and so forth.

Our discussions with management was focused on the cash flows, revenue forecast, bank guarantees among others.

4.4. Exemplary Quotes

In this section we provide additional quotations on each thematic area. This information is contained in Table 5.

Table 5. Exemplary Quotes

Dimensions	Themes	Exemplary quotes
Institutional factors	Government grants	We saw that government incentives were helping companies to survive. For the real estate companies the grants were crucial. Without government grants, they will not be able to survive or at least, they will need to shut down for at least one and a half years and may not be able to perform under the going concern assumption. I have some clients who were in tough times in 2020, but they received government support and are doing better in 2021.
	Activity of the Euronext growth	Some clients got listed on the Euronext Growth to obtain capital to improve on their liquidity during COVID-19.
Survival/adaptation	Debt financing	Several of the real estate clients were able to postpone payment of their debt. The banks assessed their security and found that it was quite good and as such accepted the companies proposition to postpone payment for a few months. A lot of companies restructured debt. This was prominent in the oil sector partly because of the downturn in oil prices. Shipping clients also restructured their debt.
	Capital reconstruction	We have seen reconstruction of debt in some big companies. It was necessary for them to do a capital reconstruction because of too many creditors and too many negotiations. Some clients were able to convert their loans into equity (it is not a general picture).
	Cost optimisation	They survived by reducing cost and focusing on the liquidity. Some of our clients that were very worried made cost savings and the year 2020 was the best year. Several of the companies seized the opportunity created by COVID to look into their cost and reduce it.
	Changes in business models	Some retailers have established online shops in addition to the physical shops that they had prior to the pandemic. Several of the companies seized the opportunity created by COVID to find new revenue streams. Some of them had Internet offerings even though they were shops.

Dimensions	Themes	Exemplary quotes
Clients' management assessment of the going concern due to COVID-19	Scenario analysis	We required our clients to make best case (optimistic) projections, base case (moderate) projections, and worst case (pessimistic) projections. All my clients that were affected by the COVID 19 had to do this.
	Clear and robust documentation about availability of financing	If the cash flow is negative, the client needed to document that the owners or new shareholders were willing to inject money into the business. The companies should be able to document that the banks gave waivers. The owners had to go inject more money in the companies. But I have had clients that when Norway shut down in March, they got scared so they quickly turned around to their banks and asked for Their credit limits increased. So, let us say they have the 20 million credit limit they turned around to the bank and quickly asked to increase that credit limit to let us say, 40 million to have more leeway. Then from the banking side they accepted a lot of those applications.
Auditor's responses.	Use of templates	We had a lot of internal communications about this. We had check list enablers for supporting our assessment. Our firm developed a checklist. E.g., of questions include, Could they continue their work? Was that due to COVID-19 etc.? We have we have our own templates here in PwC, regarding both the going concern assumption and the effects from the pandemic. So, there are there are templates within our audit tools regarding that. So basically, there were two new templates in the planning and the completion phases for the assessment of going concern under the pandemic.
	Extensive discussions	There was a lot of discussion regarding the potential issue. We had very high-level discussions with management, review of board minutes to assess what was being discussed at the board level and reviewing the company's budgets and forecasts; that's at least at the planning stage of the audit.

5. Discussion of findings

The following section discusses the major findings of this study. We discuss the importance of the survival strategies and government interventions on the company's

ability to continue as a going concern. We also discuss changes to the clients' and auditors' assessments of the going concern assumption that occurred as a result of the Covid-19 pandemic. We apply the theory of adaptive governance in our discussion.

5.1. Survival strategies and government economic interventions

The survival strategies put in place by management are expected to improve the cashflow position of these companies and increase their profitability to help them survive. Bruynseels and Willekens (2012) classify company survival strategies into two approaches to survival: strategic and operating turnaround approaches. The findings of this study indicates that during the COVID-19 pandemic companies used both operating and strategic turnaround approaches to reverse profit declines and decrease in cash flow. The operating turnaround approaches used by Norwegian companies include debt financing and cost reduction. Loi et al. (2021) studied the responses of the gaming concessionaires in Macao related to the effects of the COVID pandemic on business operations. They found that the survival strategies put in place by these companies during the pandemic were the reduction of labour and operating costs. Loi et al. (2021) findings are not different from the findings of Israeli and Reichel (2003) when they studied crises management practices within the context of the Israeli hospitality industry. Their findings align with the findings of this study. Bruynseels and Willekens (2012) remarked that operating turnaround approaches are mostly associated with successful company turnaround.

The strategic turnaround approaches used by Norwegian companies during the COVID-19 pandemic are conversion of debt to equity and changes in business models. These strategic approaches were not occasioned by the COVID-19 pandemic, but the pandemic accelerated management' operationalization of these plans. Strategic turnaround approaches are distress mitigating (Bruynseels & Willekens, 2012). Given the evidence from extant literature on the effectiveness of strategic approaches, we expect them to have a positive impact on Norwegian companies going forward, even beyond the pandemic and may make it easier for management and the auditors to assess the going concern assumption in the future.

We extend the contemporary company crisis literature by highlighting the importance of government interventions in helping companies survive during a crisis and making it easier for auditors to assess the going concern assumption. It is quite clear that the timing of the government of Norway in implementing various levels of controls was important as the controls were introduced before the situation worsened. The relief

measures put in place by the Norwegian government were quite robust and commensurate with the financial impact of the crisis on Norwegian businesses, thereby contributing to the survival of many companies. The role of government interventions is therefore crucial as it contributes to economic growth (Goel, Saunoris, & Goel, 2021; Makin & Layton, 2021).

Table 6 contains information about bankruptcies and forced liquidations for private limited liability companies in Norway from 2017 to 2021. The information shows that overall bankruptcies and forced liquidations in Norway decreased by 5% and 12% for the years 2020 and 2021. However, there was an increase in bankruptcies and forced liquidations in some sectors including the agriculture, electricity, water supply & sewage, education, and other service sectors. These increases were not remarkable when compared to the decreases in eight sectors of the economy which include: manufacturing, wholesale and retail trade, arts, human a health activities among others. In the year 2021, apart from increases in bankruptcies and forced liquidations in the following sectors: agriculture, electricity, water supply and sewage, transportation and storage, and arts, all other sectors recorded a decrease. This is quite remarkable, and we suggest that the support packages put in place by the government and survival strategies put in place by management could have probably accounted for the decrease. This is reflected in the following:

> *If you look at Norway in isolation, we have a wealthy national economy. The authorities have been pumping money into the economy or they have taken action to keep the society going, to keep businesses going. And of course, that has helped businesses survive, no doubt about that.*

Table 6: Bankruptcies and forced liquidations in Norway from 2017 to 2021

	2017 (A)	2018 (B)	(B-A)	%(B-A)	2019 (C)	(C-B)	%(C-B)	2020 (D)	(D-C)	%(D-C)	2021 (E)	(E-D)	%(E-D)
Industry	number	number	diff	% of diff	number	diff	% of diff	number	diff	% of diff	number	diff	
Agriculture	4	7	3	75%	19	12	171%	37	18	95%	57	20	54%
Mining and quarrying	3	1	-2	-67%	6	5	500%	7	1	17%	2	-5	-71%
Manufacturing	234	254	20	9%	235	-19	-7%	200	-35	-15%	183	-17	-9%
Electricity	2	2	0	0%	1	-1	-50%	5	4	400%	10	5	100%
Water supply; sewerage	12	5	-7	-58%	7	2	40%	10	3	43%	13	3	30%
Construction	1,058	1,136	78	7%	1201	65	6%	1079	-122	-10%	1073	-6	-1%
Wholesale, retail trade	1,084	1,237	153	14%	1238	1	0%	1047	-191	-15%	768	-279	-27%
Transportation and storage	213	223	10	5%	238	15	7%	228	-10	-4%	240	12	5%
Accommodation and food service activities	446	536	90	20%	542	6	1%	568	26	5%	349	-219	-39%
Information and communication	167	205	38	23%	206	1	0%	221	15	7%	191	-30	-14%
Financial and insurance activities	49	49	0	0%	53	4	8%	78	25	47%	44	-34	-44%
Real estate activities	260	274	14	5%	306	32	12%	256	-50	-16%	254	-2	-1%
Professional	408	450	42	10%	450	0	0%	430	-20	-4%	371	-59	-14%
Administrative and support service	319	335	16	5%	306	-29	-9%	324	18	6%	297	-27	-8%
Education	52	55	3	6%	49	-6	-11%	69	20	41%	43	-26	-38%
Human health and social work activities	47	73	26	55%	67	-6	-8%	54	-13	-19%	52	-2	-4%
Arts	52	73	21	40%	76	3	4%	62	-14	-18%	69	7	11%
Other service activities	103	123	20	19%	109	-14	-11%	143	34	31%	111	-32	-22%
Household as employers	1	0	-1	-100%	0	0		0	0		0	0	
Extraterritorial bodies	1	1	0	0%	0	-1	-100%	0	0		0	0	
Missing	368	52	-316	-86%	81	29	56%	90	9	11%	193	103	114%
Total	4,883	5,091	208	4%	5190	99	2%	4908	-282	-5%	4320	-588	-12%

5.2. Changes to the clients' and auditors' assessment of the going concern assumption

The volume and complexity of the work done by management in assessing the going concern assumption has increased for most businesses due to the uncertainty created during the crisis. Clients are doing more work in terms of incorporating the effect of COVID-19 in their assessment of the going concern assumption. Clients have increased the uncertainties in their models by applying a higher discount rate in their models to accommodate the effect of the COVID-19 pandemic. When management prepares a financial forecast based on a "worst case scenario," this helps the managers to better understand the solvency risks of their businesses. This is mentioned in the comments of one auditor who remarked that:

> *Clients have learnt how to document their going concern assessment procedures better during COVID-19.*

Considering the tools put in place by auditors to manage the increased risk presented by the COVID-19 pandemic, it is quite clear that the auditors have been quite proactive in their work. The implications of the effect of the COVID pandemic on the audit of going concern assumption are two-fold. First auditors are doing more work today when compared to the pre-COVID pandemic time period, and this is because of the increased risk presented by the pandemic. This is encapsulated in the comments of one respondent:

> *We are using more audit hours when we are auditing going concern after Covid-19 than before Covid-19. So, I think we do more work on the going concern assumptions these days than what we did before especially on businesses that we thought aren't going quite well and I think we are still digging a bit more into documentation from the clients.*

Second, auditors are focusing more on the 'worst-case scenario' when assessing the appropriateness of management's use of the going concern assumption. This means that auditors are being conservative in their risk assessment and are requiring clients to justify their inputs and assumptions used in their assessment--especially for the worst-case scenario. An auditor commented that:

> *We have been too comfortable with the clients presenting a base case. But I think what COVID-19 has told us is that, okay, there could be external factors, like a pandemic, that has a massive impact on the*

business. And maybe the company should expect that, every now and then, there will be some external factors affecting them that they don't see at the present, and consider how they are able to capture that in their valuation models. We need to concentrate more on the worst-case scenario.

This supports prior literature that auditors will put in more effort in a higher risk environment (Francis & Wang, 2008; Simunic, 1980; Xu, Carson, et al., 2011). This is also consistent with the findings of Xu, Carson, et al. (2011) that auditors will be more conservative in their client risk assessment procedures during crises.

5.3. Assessment of going concern due to COVID-19: the adaptive governance perspective

The increased risk presented by the COVID-19 pandemic translates into a greater uncertainty and a more difficult situation for the application of ISA 570. Auditors have an obligation to comply with the requirements of the ISAs, especially ISA 570, during the COVID-19 pandemic. The auditing standards mandate the auditor to develop appropriate audit procedures to reduce audit risk to an acceptably low level (International Auditing and Assurance Standards Board [IAASB], 2020a). In this context, auditors adapt their audit procedures to respond to this risk. One form of adaptation may be the audit evidence gathered by the auditors. As reflected in this study, the adaptations auditors are making to respond to the increased risk include developing additional audit procedures such as templates and being conservative in evaluating their clients risk assessment procedures. They are adapting their methods of determining whether the company has sufficient cash to meet its obligations to shareholders, and creditors.

The survival strategies and the government economic interventions were mainly aimed at ensuring financial stability (Loi et al., 2021). Since the start of the pandemic, audit firms have documented and published measures that clients may implement in their assessments of the going concern assumption. For example, Kegalj (2021) suggested several actions management could take in their going concern assessment. These actions include providing a clear and robust documentation about the going concern assessment, reviewing projected covenants in different scenarios, and updating forecast and sensitivities. This gives an opportunity for the companies to adapt their assessments of the going concern assumption.

Most evidently, both auditors and their clients have been collaborating to ensure appropriate responses to COVID-19 issues especially when they are related to the going concern assumption. Understandably clients collaborated with their auditors to develop the survival strategies including applying for the government economic interventions. Both client and auditor also concentrated on the downside scenarios as they evaluated these issues. This phenomenon could be regarded as a form of cooperation between the two parties in accordance with Sharma-Wallace et al. (2018), who remarked that cooperation is an effective method when responding to change. In addition, auditors have provided additional training to their staff in the area of auditing the going concern assumption. Understandably, clients have also learned how better to document their going concern procedures. This could be regarded as a form of capacity building for both auditor and client. Adaptivity also involves shifting away from the normal way of doing things while still complying with applicable rules and regulations (Janssen & van der Voort, 2020; Sharma-Wallace et al., 2018).

6. Conclusion

We adopted the theory of adaptive governance and applied it in the context of the auditor's assessment of the going concern assumption during the COVID-19 pandemic. Auditors changed the conduct of their audits by increasing the number of audit procedures used to gather going concern evidence during this time of economic uncertainty. Clients also adapted the survival strategies they used to improve their companies' cashflows. This study adds new knowledge to the crisis literature in auditing by using insights from the theory of adaptive governance. Successful adaptive governance approaches used by auditors in their assessment of the going concern assumption include meaningful collaboration, capacity building and cooperation between stakeholders. This study also has implications for practitioners and standard setters. First, this study informs regulators about auditor awareness of the increased risk presented by the COVID-19 pandemic and the strategies adopted by the auditor to respond to the increased risk. In this context, regulators can assess the appropriateness of auditor behavior in their assessment of the going concern assumption during the COVID-19 pandemic. The study also brings to light the strategies used by client managers with regards to how companies adapted to the COVID-19 pandemic regarding their ability to continue as a going concern. Taking

this into account, this study serves as a reference point on the turnaround strategies that have been put in place by companies during the crisis.

As in any research, this study is subject to some limitations. First, this study was conducted in a setting where the support from the government to companies during COVID-19 was robust and commensurate to the crisis. Given this, future research might be conducted in a setting where the economy was significantly impacted by COVID-19 but where the companies did not receive support from their government. Taking the research in this direction would contribute to the going concern and crisis literature and the generalizability of the findings by examining the characteristics of these settings. In addition, future research could also focus on the auditor's propensity to issue going concern opinions during COVID-19 and compare these decisions among the different national settings. Such inquiries would constitute an extension to the present study.

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