

The Impact of Covid-19 Pandemic on Audit Quality: The Perception of Indonesian Auditors

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ABSTRACT

The thick atmosphere of uncertainty at the macro and micro economic levels due to the Covid-19 pandemic can affect audit quality. The purpose of this study is to provide empirical evidence about the impact of the Covid-19 pandemic on audit quality from the perceptions of Indonesian auditors. The population of this research is all auditors who work in Public Accounting Firms in Indonesia. Samples were selected randomly from those who were willing to fill out a questionnaire. Dissemination of the questionnaire using google forms. The data was processed using Excel and SPSS software. Hypothesis testing using a non-parametric One Sample Wilcoxon Signed Ranks Test. The results of this study indicate that the Covid-19 pandemic has a significant effect on audit quality on all dimensions of audit quality (going concern, audit fees, auditor HR quality, audit procedures, and auditor salaries). Learning from the case of the Covid-19 pandemic, it is necessary to change the audit paradigm through increasing technological competence and digital transformation in training and audit practices going forward.

Keywords: *Covid-19 Pandemic, Audit Quality, Technological and Digital Transformation, Audit Paradigm*

1. INTRODUCTION

The case of the outbreak of the corona virus, better known as COVID-19, was first reported by government officials in the city of Wuhan, China, in December 2019 (World Health Organization, [1]). Inconceivably, and surprisingly, the COVID-19 corona virus has spread so quickly to various countries in the world that it has become a global pandemic. To deal with and limit the spread of the COVID-19 virus, governments in various countries, including Indonesia, have adopted a "lockdown" policy, or other forms of social restrictions. As a result of the "lockdown" policy, or other forms of social restrictions imposed by almost all countries in the world, global economic and business life has taken a major hit (PWC Indonesia, [2]). A more detailed report on the short-term impact of COVID-19 on businesses worldwide is provided by the World Bank Group [3] with a focus on developing countries, namely: first, lower sales; second, resulting in a reduction in working hours and termination of employment; third, small and medium-sized companies face disproportionate financial constraints; fourth, companies are increasingly relying on digital solutions in response to the shock of the pandemic, and fifth, there is great uncertainty about the future (World Bank Group, [3]).

The Coronavirus pandemic has also had a very severe impact on Indonesia's business and economy. Just three months into 2020, businesses in various sectors in the country have been hit hard due to the COVID-19 pandemic, disrupting national economic activities. Some types of businesses, offering healthcare products and services may benefit, while many others, from airlines and hotels to retail and food and beverage industries, have been hit hard (The Jakarta Post, [4]). In Indonesia, as of March 24, 2020, the economic impact of the spread of COVID-19 can be seen through the decline in the Composite Stock Price Index and the Rupiah, as well as in at least 500 people in 16 provinces (PWC Indonesia, [2]). Business life and the auditing profession are very closely correlated. If business life is shaken by uncertainty and high business risk, the auditor's professional life will be shaken and

at high risk. The importance of audit quality has been re-emphasized due to national and international financial scandals in the form of earnings manipulation involving auditors and their clients. Uncertainty and high business risk, especially during the COVID-19 pandemic, have the potential to foster profit manipulation which in turn will affect the quality of the audit process and results provided by the auditor profession (Albitar et al, [5]; Akrimi, [6]).

Research on the impact of Covid-19 on audit quality from auditor perceptions is still very limited. A study on the effect of the Covid-19 Pandemic on audit quality from the perceptions of Saudi Arabian Auditors was carried out by Akrimi [6] and the results showed that the Covid-19 pandemic had a significant impact on audit quality. A study conducted by Albitar et al, [5] also revealed that the restrictions and social distancing policies imposed during the Covid-19 pandemic had a severe impact on audit quality. Research on the impact of the Covid-19 pandemic on audit quality from the perceptions of Indonesian auditors, as far as is known, has not yet been available. Therefore, this research was conducted. This study uses a research model conducted by Akrimi [6] to determine the impact of the Covid-19 pandemic on audit quality from the perceptions of Indonesian auditors. The formulation of the problem in this study is: Does the Covid-19 Pandemic affect audit quality from the perception of Indonesian Auditors? The purpose of this study was to determine the effect of the Covid-19 pandemic on audit quality seen from the perception of the Indonesian Auditor. Furthermore, the implications of the Covid-19 pandemic are realizing the importance of mastering technology and digital transformation in future accounting and auditing training and practices.

2. THEORETICAL REVIEW

2.1. Audit Theory

Audit theory is the theory that underlies auditing practice. The main objective of audit theory is to identify audit objectives in the context of corporate financial reporting, as well as explore the beliefs, concepts, and reasoning underlying audit practice (Dennis, [7]). According to Hayes et al (Owolabi & Olagunju, [8]), the demand for audit services can be explained at least from four different theories, namely: police theory, inspired confidence theory, agency theory, and lending credibility theory. In police theory, the auditor's function is similar to that of the police, which functions to prevent and detect fraud. In lending credibility theory, auditors are needed to increase stakeholder trust in management. Inspired belief theory underlies the demand for audit services that is a direct result of the participation of external stakeholders in the company. Agency theory is seen as the result of more or less formal contracts between management (as agents) and various interest groups (as principals) as a result of the separation of management and ownership functions. In an agency theoretical context, the auditor's role is to bridge and align the interests of various groups (principals) with the interests of management (agents). The existence of auditors functions as part of a system of external control mechanisms in a good corporate governance system (Xiao, Geng, & Yuan, [9]; Ferreira, [10]).

2.2. Audit Quality

Various definitions of audit quality have been given by various authors, but the most widely used is the definition provided by De Angelo (AL-Qatamine & Salleh, [11]), which describes audit quality as a market-developed assumption that auditors will be able to spotlight and detect a material violation (misstatement) and he will then report to the relevant authorities. There are two important features of this definition, namely the ability to detect and the correctness of the intention to report it. Duff (Johnsson & Persson, [12]) sees audit quality from two underlying elements, namely technical quality and service quality. Technical quality includes competence, independence, and technical relationship between auditors and their auditees, while service quality implies dimensions of empathy and responsiveness.

More specifically, audit quality is related to five aspects: going concern, audit fees, auditor human resources, audit procedures, and audit personnel salaries (Albitar et al, [5]). Going concern is a basic assumption in accounting which assumes that a business entity can operate in the future and will

not be liquidated or forced to cease operations for any reason. Audit fees are fees charged by public accountants to clients in return for audit services that have been provided to their clients. Auditor human resources are audit staff who work in a Public Accounting Firm which implies skills, personal qualities, and trainings that have been undertaken by staff and leaders of a Public Accounting Firm. Audit procedures are steps taken by auditors to obtain all information regarding financial quality provided by the company that allows them to provide an opinion on the truth and fairness of the company's financial statements. Auditor personnel salary is the total compensation received by an auditor, which includes not only basic salary but also bonuses, commission payments, overtime pay, or other financial benefits given to him by the employer, which in this case is the head of the relevant Public Accounting Firm.

2.3. Covid-19

COVID-19 is an infectious disease caused by the newly discovered coronavirus. Most people infected with the COVID-19 virus will experience mild to moderate respiratory illness and recover without requiring special treatment. But older people, and those with underlying medical problems such as cardiovascular disease, diabetes, chronic respiratory disease, and cancer are more likely to develop serious illnesses that can lead to death. (World Health Organization,[1]). The COVID-19 pandemic, which has spread so quickly to almost all countries in the world, has not only caused problems in the world of health, but also has an impact on economic and business life. One report on the economic impact of the United States revealed that regions with economies that depend on the movement of people—such as Las Vegas for its tourism—had significantly higher unemployment by the end of 2020 than cities with core industries based on information movement (Klein & Smith, [13]).

2.4. Conceptual Framework and Hypothesis Development

The COVID-19 pandemic has created high uncertainty in macro and microeconomic conditions. Many companies have closed or reduced their business activities so that auditors have difficulty in assessing whether the financial statements of an audited client company entity can still be prepared based on the going concern assumption (KPMG, [14]). Economic conditions filled with uncertainty and high risk have a significant impact on the assessment of an entity's business sustainability related to audit quality (Salehi, Mahmoudi, & Gah, [15]). The threat of corporate failure as a result of the COVID-19 pandemic necessitates the need to reconsider the functioning of the current financial reporting ecosystem, in identifying business continuity issues of a corporate entity and equipped with mechanisms to deal with them (Accountancy Europe, [16]). On this basis, the first hypothesis can be formulated as follows: H1: Covid-19 has a significant effect on the Going Concern Assumption.

Changes in economic conditions are a challenge for audit firms and their clients because these changes will affect the company's liquidity, risk, and performance, which in turn will affect audit fees (Chen et al, [17]). A study conducted by (Xu et al, [18]) in Australia revealed an increase in audit fees during the financial crisis. However, other studies suggest that during the financial crisis, companies negotiated lower prices for audit services (Albitar et al, [5]). On this basis, the second hypothesis can be formulated as follows: H2: Covid-19 has a significant effect on audit fees.

Auditor HR competence is positively correlated with audit quality. Competence, which implies the quality of Auditor HR, includes experience, knowledge, skills and adherence to the professional code of ethics (Ramlah, Syah, & Dara, [19]). The quality of Auditor HR must always be improved through various education and training to maintain the reputation of the auditor profession itself (Puspitasari, Baridwan, & Rahman, [20]). Although it is recognized that education and training of HR auditors is the key to maintaining audit quality, the COVID-19 outbreak has forced audit service companies to cut, or cancel all forms of education and training, workshops, and other forms of HR development for all levels of auditors (Shaw, [21]). On this basis, the third hypothesis can be formulated as follows: H3: Covid-19 has a significant effect on HR auditors.

Uncertainty in the economic and business environment during the COVID-19 pandemic can increase new challenges for auditors in carrying out audit procedures in order to obtain sufficient and appropriate audit evidence as a basis for providing an opinion on the results of the examination.

Travel restrictions and the requirement to stay at home, will change the procedure/way of auditors in obtaining audit evidence, perhaps by relying more on the use of various available technological tools rather than observing physical evidence directly in the field (Arnold, [22]). Auditors will tend to rely more on the implementation of analytical procedures, not only because the costs are cheaper but also easier to implement (Rose et al, [23]). COVID-19 has accelerated the evolution of the audit experience towards virtual auditing. The COVID-19 pandemic has shifted the audit process from a traditional approach to a visual audit process approach, and the digital transformation of audit evidence and processes has become a necessity when physical distance and remote work have become the norm (KPMG, [24]). On this basis, the fourth hypothesis can be formulated as follows: H4: Covid-19 has a significant effect on audit procedures.

In recent years, the issue of auditor salaries has become an important issue due to major changes in the public accounting industry which have resulted in increasingly complex and increasing responsibilities and workloads on auditors (Persellin et al, [25]). Although auditor salary has become an important issue recently, the relationship between auditor salary and audit quality remains unclear. One theory - the efficiency wage theory - states that higher wages should increase the productivity of audit personnel by motivating greater effort or attracting more qualified audit personnel so that audit quality will increase (Hopes, Merkley, & Pacelli, [26]). However, in the difficult business conditions during the COVID-19 period, many companies are experiencing difficulties and even the threat of bankruptcy. Therefore, many companies began to renegotiate and request a reduction in the cost of audit services with their auditors. Which in turn, forces audit firms to reduce their audit staff salary levels (Albitar et al, [5]). On this basis, the fifth hypothesis can be formulated as follows: H5: Covid-19 has a significant effect on auditor salaries.

3. RESEARCH METHOD

3.1. Population and Samples

The population in this study were all auditors who worked in Public Accounting Firms in Indonesia and the sample was randomly selected from practitioners who were willing to fill out a questionnaire. Research data is primary data obtained through direct questionnaires to respondents (auditor practitioners) using the google form. Questionnaires were distributed in the period January to February 2022 where Indonesia was still experiencing the Covid-19 pandemic. The research variables consist of the COVID-19 pandemic and five dimensions of audit quality: going concern, audit fees, human resources (HR) auditors, audit procedures, and auditor salaries. The hypothesis testing technique uses a statistical model: one sample nonparametric Wilcoxon Sample Rank Test (WSRT) because the data is not normally distributed. Before testing the hypothesis, the normality test of the data is first carried out. The data was processed by using the Excel software and IBM SPSS version 20.

3.2. Variable Operations

There are 5 questions in the questionnaire related to the five dimensions of audit quality adopted from Akrimi [6] as follows: (1) COVID-19 may have an impact on the going concern of the audited company entity; (2) COVID-19 is likely to have an impact on audit fees of audited corporate entities; (3) COVID-19 is likely to have an impact on HR auditors in Public Accounting Firms; (4) COVID-19 is likely to have an impact on audit procedures performed by auditors; (5) COVID-19 is likely to have an impact on the salaries of auditors in Public Accounting Firms. Measurement of Indonesian auditors' perceptions of the impact of Covid-19 on five dimensions of audit quality using a five-point Likert scale. The scale range is determined as follows: 1. Strongly Disagree; 2. Disagree; 3. Neutral; 4. Agree; and 5. Strongly Agree.

The research model and hypothesis testing can be explained as follows: $H_0: M_o = M_i$ and $H_a: M_o \neq M_i$, whereas M_o is the median hypothesis of the audit quality population which is set constant at 3, calculated based on a Likert scale range of 1-5.

Mi is the median sample of five dimensions of audit quality consisting of: M1 = The median of going concern; M2 = The median audit fee; M3 = The median of HR auditor quality; M4 = The median of audit procedure; M5 = The median of auditor salary.

4. RESULTS AND DISCUSSIONS

4.1. The Profile of Research Subjects

The profile of the research subjects (auditors) who were used as samples for this study can be seen in Table 1. The total number of auditors who filled out the questionnaire was 102 people. The categories of respondents can be grouped based on gender, the classification of the public accounting firm where they work, and their experience, or the length of their profession as a public accountant.

Table 1. Research Subject Profile

Subject (Auditors)	Sample	% of Sample
<u>By Gender:</u>		
Man	59	57.8
Woman	43	42.2
Total	102	100.0
<u>By Firm Classification:</u>		
Big-Four	12	11,8
Non-Big-Four	90	88,2
Total	102	100,0
<u>By Working Experience:</u>		
< 1 year		
1- year	52	51.0
3- < 5 years	14	13.7
> 5 years	14	13.7
Total	22	21.6
	102	100.0

The composition of the sample based on gender consisted of 59 men, or 57.8% and 43 women or 42.2% of the total sample of 102 people. The composition based on the firm classification consists of 12 people, or 11.8% from the “Big four” group, and 90 people, or 88.2% from the “non-big four” group. The composition of auditors when viewed from their work experience as auditors consists of: less than 1 year as many as 52 people, or 51.0%; 1 year to less than 3 years as many as 14 people, or 13.7%; 3 years to less than 5 years as many as 14 people, or 13.7%; and 5 years and over as many as 22 people, or 21.6% of the total respondents as many as 102 people.

4.2. Testing the Reliability of Research Data

Testing the reliability of research data using Cronbach's Alpha test. Cronbach's Alpha value on 5 dimensions of audit quality (going concern, audit fees, Auditor HR, audit procedures, and auditor salary) shows the number 0.565. Generally, various references reveal that a data is said to be reliable if Cronbach's Alpha shows a minimum number of 0.6, but some references such as those expressed by Morera & Stokes (Setyowati, et al., [27]) say that Cronbach's Alpha numbers above 0.5 are still acceptable. Testing the normality of the data using the One-Sample Kolmogorov-Smirnov Test can be seen in Table 2. All asymp values. sig. (2-tailed) on 5 (five) audit quality indicators: going concern (GOC), cost of audit, or audit fees (COA), quality of human resource of auditors (HRQ), audit procedures (PRO), and auditor's salary (SAL) are less than 0.05, so it can be concluded that the data was not normally distributed.

Table 2. Normality Test

(One-Sample Kolmogorov-Smirnov Test)		GOC	COA	HRQ	PRO	SAL
N		102	102	102	102	102
Normal Parameters ^{a,b}	Mean	4.588	3.823	3.784	3.794	3.480
	Std. Deviation	.634	.916	.929	1.037	.9411
Most Extreme Differences	Absolute	.389	.204	.307	.209	.274
	Positive	.258	.188	.212	.209	.274
	Negative	-.389	-.204	-.307	-.201	-.207
Test Statistic		.389	.204	.307	.209	.274
Asymp. Sig. (2-tailed) ^c		<.001	<.001	<.001	<.001	<.001
Monte Carlo Sig. (2-tailed) ^d	Sig.	.000	.000	.000	.000	.000
	99% Confidence Interval					
	Lower Bound	.000	.000	.000	.000	.000
	Upper Bound	.000	.000	.000	.000	.000

a. Test distribution is Normal.
 b. Calculated from data.
 c. Lilliefors Significance Correction.
 d. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 2000000.

Furthermore, for hypothesis testing, the one sample non-parametric Wilcoxon Sample Rank Test (WSRT) was used.

4.3. Descriptive Statistics

Descriptive statistics that reveal the amount of auditor data as a sample (N), minimum value, maximum value, average (mean) and standard deviation of each audit quality indicator consisting of going concern (GOC); audit fees (COA); quality of human resources auditor (HRQ); audit procedures (PRO), and auditor salaries (SAL) can be seen in Table 3.

Table 3. Descriptive Statistics

	N	Min.	Max.	Mean	Std. Dev.
GOC	102	2.00	5.00	4.5882	.63485
COA	102	1.00	5.00	3.8235	.91643
HRQ	102	1.00	5.00	3.7843	.92947
PRO	102	1.00	5.00	3.7941	1.03731
SAL	102	1.00	5.00	3.4804	.94114
Valid N (listwise)	102				

The number of samples is 102 people. The business going concern indicator (GOC) has a minimum value of 2.00; maximum 5.00; mean 4.5882, and standard deviation 0.63485. The audit fee indicator (COA) has a minimum value of 1.00; maximum 5.00; mean 3.8235, and standard deviation 0.91643. The auditor's human resource quality indicator (HRQ) has a minimum value of 1.00; maximum 5.00; mean 3.7843, and standard deviation 0.92947. The audit procedure indicator (PRO) has a minimum value of 1.00; maximum 5.00; mean 3.7941, and standard deviation 1.03731. Auditor's salary indicator (SAL) has a minimum value of 1.00; maximum 5.00; mean 3.4804, and standard deviation 0.94114.

4.4. Wilcoxon Signed Ranks Test (WRST)

The WRST test can be seen in Table 4 as follow:

Table 4. Wilcoxon Signed Ranks Test

		N	Mean Rank	Sum of Ranks
Going Concern – Median	Negative Ranks	2 ^a	17.50	35.00
	Positive Ranks	98 ^b	51.17	5015.00
	Ties	2 ^c		
Audit Fee - Median	Negative Ranks	6 ^d	27.33	164.00
	Positive Ranks	64 ^e	36.27	2321.00
	Ties	32 ^f		
HRD - Median	Negative Ranks	11 ^g	39.14	430.50
	Positive Ranks	73 ^h	43.01	3139.50
	Ties	18 ⁱ		
Audit Procedur – Median	Negative Ranks	7 ^j	28.93	202.50
	Positive Ranks	58 ^k	33.49	1942.50
	Ties	37 ^l		
Auditor's Salary - Median	Negative Ranks	10 ^m	22.30	223.00
	Positive Ranks	43 ⁿ	28.09	1208.00
	Ties	49 ^o		

Based on Table 4, on the dimension of “going concern”, the number of negative ranks, or those stating no impact are 2 respondents; the number of positive ranks or those who claim to have an impact are 98 respondents; the number of "ties", or neutral - no opinion as many as 2 respondents out of a total of 102 respondents. On the dimension of "audit fee", the number of negative ranks, or those stating no impact, are 6 respondents; the number of positive ranks or stating an impact is 64 respondents; the number of "ties", or neutral - no opinion as many as 32 respondents out of a total of 102 respondents. On the dimension of "quality of HR auditor", the number of negative ranks, or those stating no impact were 11 respondents; the number of positive ranks or stating an impact is 73 respondents; the number of "ties", or neutral - no opinion as many as 18 respondents out of a total of 102 respondents. On the dimension of “audit procedures”, the number of negative ranks, or those stating no impact, are 7 respondents; the number of positive ranks or stating an impact is 58 respondents; the number of “ties”, or those who are neutral - do not have an opinion as many as 37 respondents out of a total of 102 respondents. On the dimension of “auditor’s salary”, the number of negative ranks, or those stating no impact are 10 respondents; the number of positive ranks or stating an impact is 43 respondents; the number of "ties", or neutral - no opinion as many as 49 respondents out of a total of 102 respondents.

4.5. Hypothesis Testing

From Table 5 it can be seen that the significance value of each of the five dimensions of audit quality is lower than 0.001. Thus, it can be concluded that Covid-19 has a significant impact on the five dimensions of audit quality.

Table 5. Test Statistics^a

	GOC - Median	COA - Median	HRQ - Median	PRO - Median	SAL - Median
Z	-8.928 ^b	-6.539 ^b	-6.379 ^b	-5.874 ^b	-4.525 ^b
Asymp. Sig. (2-tailed)	< .001	< .001	< .001	< .001	< .001
a. Wilcoxon Signed Ranks Test					
b. Based on negative ranks.					

4.6. Discussions

Indonesian auditors' perceptions of the impact of Covid-19 on audit quality can be seen as follow:

Table 6. Summary

Audit Quality Dimensions	Impact	No impact	Neutral	Total
Going Concern	98	2	2	102
Audit Fee	64	6	32	102
Quality of Human Resources of Auditors	73	11	18	102
Audit Procedur	58	7	37	102
Auditor's Salary	43	10	49	102

The perception of respondents (Indonesian auditors) who stated that the Covid-19 pandemic had an impact on audit quality, was far more than those who stated that the COVID-19 pandemic had no impact on audit quality. The significant impact of Covid-19 on audit quality occurs in all dimensions of audit quality. The significant impact here means heavy pressure which results in lowering the quality of audits faced by auditors, especially due to the uncertainty of the business environment and the "lockdown" policy imposed by the government during the Covid-19 pandemic. From audit theory, if the auditor is seen as a police officer, the COVID-19 pandemic can threaten, or weaken the auditor's ability to uncover material misstatements in financial statements. If viewed from audit theory, in terms of the existence of auditors associated with agency theory, the role of auditors as part of the external control mechanism may disappear or be no longer effective. The number of auditors who have a "neutral" view, especially on the dimensions of audit fees, audit procedures, and auditor's salaries may be due to the large number of respondents as novice auditors who do not have enough information or experience related to audit fees, audit procedures, and auditor's salaries. The results of the hypothesis test show that Covid-19 has a significant effect on the five dimensions of audit quality (going concern, audit fees, quality of human resources of auditors, audit procedures, and auditors' salaries). The results of this study are in line with the results of research by Akrimi [6]) and Arbitar, et al [5]), as well as the views of the Indonesian Institute of Certified Public Accountants [28]) which revealed that the thick atmosphere of uncertainty at the macro and micro economic levels due to the Covid-19 pandemic could affect the quality of audits. The perception of Indonesian auditors that the COVID-19 pandemic has a significant effect on audit quality may be because auditors and the business world in Indonesia feel that they are not fully ready to implement digital technology, especially in carrying out financial, accounting, and auditing functions in their activities. The results of research (Khetan & Sonchhatra, [29]) on the application of digital technology to financial functions (including auditing and accounting) in India may be used as the basis for an initial explanation similar to conditions in Indonesia. The results of the research by Khetan & Sonchhatra, [29] concluded that there was a delay or unpreparedness of the financial function (including auditing and accounting) in welcoming the fast-moving development of digital technology.

5. CONCLUSIONS

The results of the study based on the perceptions of Indonesian auditors showed that the Covid-19 pandemic had a significant impact on the overall dimensions of audit quality. Pressure on audit quality mainly occurs in audits that still use the traditional manual-based approach. Therefore, in order for the auditor profession to exist, and audit quality to be maintained, auditors must quickly adapt to the new normal, remote work environment, and mastery of digital technology to enable remote work and automation of basic tasks. This study uses a very limited sample, especially the limited number of auditor respondents from the big four accounting firms and from experienced auditors. With these limitations, it is suggested that further researchers can expand the number of research respondents, in particular by seeking more respondents from the big four accounting firms as well as from more experienced senior auditors.

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