

Auditors' response to regulators during COVID-19: disclosures of key audit matters

Auditors,
COVID-19 and
disclosures
of KAMs

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Abstract

Purpose – New Zealand regulatory bodies guided preparers and auditors of financial statements to deal with potential COVID-19 impacts on the financial statements and audit procedures. This study provides evidence of auditors' response to the impact of COVID-19 on the reporting of key audit matters (KAMs) in audit reports of listed companies in New Zealand. The purpose of this paper is to address this issue.

Design/methodology/approach – A sample of 50 New Zealand listed companies was selected to compare the KAMs in 2019 (pre-COVID-19) and 2020 (during COVID-19). The study uses content analysis to evaluate the KAMs' disclosures and descriptive analysis to examine the differences between 2019 and 2020 in terms of the auditor type, industry sector and accounting standards.

Findings – Auditors responded positively to the request from regulators to communicate the impacts of COVID-19. The findings show an increase in the amount and length of KAMs in 2020 compared to 2019, with 82% of companies and 61% of KAMs reporting the impact of COVID-19. The real estate and information technology sectors disclosed more on the impact than other sectors. In analysing the KAMs, accounting standards for inventories, property plant and equipment, impairment of assets, investment property, revenue from contracts with customers and leases were highly affected by COVID-19.

Practical implications – The findings support regulators to evaluate how well auditors communicated matters relating to COVID-19 in the audit report. Also, the findings will help standard setters to identify key accounting standards affected by COVID-19 of KAMs and provide insights to users on how the KAM reporting enhances communicative value during the pandemic.

Originality/value – The current study captures the impact of COVID-19 on the reporting of KAMs by comparing changes before and during the pandemic.

Keywords Key audit matters, COVID-19, Big 4 audit firms, New Zealand

Paper type Research paper

1. Introduction

The COVID-19 pandemic has had significant economic impacts on businesses worldwide, with government interventions, including the New Zealand government, to avoid a total collapse of economies [1]. Businesses had to respond to the various economic challenges of the pandemic, with the impact ultimately reflected in the financial statements. Internationally, standard setters, professional accounting bodies and public accounting firms provided additional guidance and resources to assist preparers and auditors of financial statements to deal with potential COVID-19 impacts to ensure the delivery of high-quality financial statements and audits.

However, the impacts of COVID-19 on audit procedures and processes were unavoidable. These included practical issues such as the inability to hold stocktake and access company sites, increased estimation uncertainty and going concern assessments (Fisher, 2020). As a result, the number of key audit matters (KAMs) and detailed disclosures was predicted

