

RESULTS OF COVID -19 ON SMALL AND MEDIUM PRACTICE AUDITING FIRMS**Manana MCHEDLISHVILI***Caucasus International University, 0141, Georgia
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nana.zazadze@ciu.edu.ge***Abstract:**

As a result and the influence of covid-19, many enterprises faced problems like they had never before. For many small businesses, it is important to have a trusted consultant in the form of small and medium-sized audit firms, who we can ask for help and advice during the current crisis. Although covid-19 has posed many challenges, it has also become a catalyst for both business and small and medium-sized firms, to undergo their digital transformation. Firms with small and medium practices should switch to automated auditing remotely, because it enables a more cost-effective, efficient and quality audit. They need to develop the ability to offer cloud-based consulting services. Experts adapt to the changing environment created in the field of business, properly change the processes of preparation and submission of financial statements, the information disclosed in the financial statements and re-evaluate the possibilities of maintaining the activities of enterprises in the near future.

Keywords: *Audit firms, Modification, Functional enterprise, Accounting estimates, Economic entity, Explanatory notes*

JEL Classification: *M4.*

I. INTRODUCTION

The effects of the pandemic will be felt in all aspects of public life for many years to come, although its negative impact on the development of the global economy is already evident due to the closure of borders, social distancing and the shift to online forms of activity. As a result of the influence of Covid-19, many enterprises faced problems like they had never had before. Many businesses have a long history of changing circumstances and need help and reasonable advice. It is very important for many small businesses to have a trusted consultant who we can ask for help and advice during the current crisis. Small and medium-sized audit firms are trusted advisors. They have the best opportunities in terms of customer service to diversify their business. Have a fairly thorough idea of the activities of their customers and at the same time, they have a lot of special skills that are necessary to help them in this difficult time. The nature and scope of the advice required depends on a number of factors, including the specifics of the field, cash reserves and the efficiency of the enterprise. In the early stages of the crisis, they needed guidance on receiving government grants and subsidies. Professional accountants can help companies create new revenue streams, transform their business models, effectively manage and reduce risks, and share best practices.

II. RESEARCH METHODOLOGY

Only companies that are properly registered are allowed to conduct auditing activities. When registering, companies also disclose revenue information along with shareholder and quality control results. 454 auditors and 252 audit firms are registered in the Unified Register of Auditors in Georgia. Of them, 13 audit firms have the authority to audit financial statements. These firms account for more than 70% of the sector's total revenue. (www.reportal.ge) The global events related to the Covid-19 pandemic have also affected the performance of auditors. Experts adapt to the changing environment created in the field of business, properly change the processes of preparation and submission of financial statements, the information disclosed in the financial statements and re-evaluate the possibilities of maintaining the activities of enterprises in the near future. The Covid-19 pandemic has to some extent "tested" the methods and means by which auditors obtained sufficient and appropriate audit evidence. Auditors have changed approaches, where and how to do their job in the current situation, how to obtain sufficient and appropriate audit evidence.

There were problems getting to the checkpoints (which, for example, is caused by travel restrictions and the introduction of online work), and access to information and direct contact with customer staff. For example, auditors may no longer be able to attend a physical inventory; auditors may have problems accessing working papers, or auditors may no longer be able to study the customer's internal control system and conducting control tests since the working style of economic entities has changed. (Rusiashvili, Gegeshidze et al 2019. pp. 11)

In the current environment, accounting policies and accounting estimates are one of the areas where additional expert knowledge is most needed. For example, before pandemic enterprise accountants could determine future cash flows or discount rates, now their balances are audited by auditors and verify that management has properly taken into account the current economic environment and conditions.

Audit assistance in preparing the financial statements of an enterprise should be recorded in the accounting estimates. The audit should assess whether, in the current circumstances, it is still appropriate to apply the principle of functionality when preparing the financial statements.

If the explanatory notes to the enterprise do not adequately explain and describe the effects of the Covid-19 pandemic: on agricultural operations and events, on the assumptions used for accounting estimates, on financial risk management, on the functionality of the enterprise, it is necessary for the auditor to reflect such circumstances in the report and to formulate modified opinions. (Rusiashvili, Gegeshidze et al 2019. pp. 15)

Timely and effective communication between the management of the enterprise and the auditor is essential for both parties to be able to fulfill their responsibilities for assessing of the economic entity in this uncertain situation.

The Covid-19 pandemic has had a significant impact on many economic entities, with them having difficulties in the matter of delivery-due to long-term disruption of the supply chain. If the supply chain is slowly restored the auditors will write in the report - how the management intends to solve the problems related to the supply chain, what alternative ways and deadlines may exist to address each potential problem. It may be necessary to update the management's conclusion and the auditor's assessment regularly, due to the progressive nature of the pandemic. (ww.saras.gov.ge)

Auditors check whether small businesses receive assistance during a pandemic and whether that assistance is sufficient to solve problems in the short term. Some businesses may need to rely heavily on borrowed or credited funds over others, because the Covid-19 pandemic has a financial impact on them in the short term. In order for the auditor to conclude, the conclusion should be written by small enterprises and existence of agreements between lenders.

Governments around the world have issued action packages to support businesses, which are mainly aimed at covering business expenses to ensure liquidity. For example, in some countries, grants are awarded to cover interim wage costs. The impact of the Covid-19 pandemic on economic entities is changing rapidly. Events are developing so rapidly that the discussions and conclusions reached may lose relevance in a very short time once they are taken into account in management or auditor evaluations.

The impact of a pandemic may increase the number of events or conditions that modify the auditor's opinion, the need for modification will depend on the specific facts and circumstances of each subject. The auditor should also provide timely information to supervisors, both on the conclusion and on other issues. Which are mandatory for those responsible for oversight.

III. RESEARCH RESULTS

Small and medium-sized audit and accounting firms to deal with the challenge of coronavirus, representation of the world bank in Georgia, together with the accounting, reporting and Auditing Supervision Service (SARAS) and professional organizations of accountants and auditors of Georgia, a survey of auditors and audit firms was conducted to assess the impact and possible outcomes of the new coronavirus (Covid-19) pandemic. The survey was conducted using the Survey Monkey, which includes 10 questions. The survey was emailed to Georgian auditors and audit firms, mostly small and medium practice firms (SMPs) and a total of 102 responses were obtained. The results of the survey are: (www.reportal.ge)

1. What impact did the coronavirus pandemic have on your current revenue as an audit firm?

Almost all respondents, 93.1%, experienced a decrease in revenues received in the form of audit service fees. About 53.9% said revenues were very low and 39.2% said they were slightly lower. Did not change by 5.88%, increased by 0.98%.

2. What is the reason for the decrease in income ?

The most commonly cited reasons for the decline in audit revenue were: reduction of remuneration 41.2%, refusal to audit deal 40.2% and refusal to pay for payment by customers in exchange for receiving services or their insolvency" 30.9% , other 6.19%. These results coincide with the results of similar surveys conducted in other countries.

3. Which sector of the enterprises mainly requested the termination of the audit transaction?

The companies that most often requested termination of audit services were: 51.0% of services, 36.7% of trade, 15.31% of industrial, 18.4% of construction, 2.04% of agriculture, companies. 26.53% did not request termination. These results coincide with the results of similar surveys conducted in other countries, according to which the pandemic had the most negative impact on the service sector.

4. During the current audit transaction, which sector enterprises had the most difficulty in operating?

The companies that had the most difficulty in the current audit transaction were: 44.8% of services, 32.3% of trade and 15.6% of construction, companies. These results are not surprising, as many service companies have had to close as part of measures taken by the government against the spread of coronavirus and are only now slowly starting to open.

5. If necessary, have additional meetings (virtually / online or face-to-face) have been held with customer management to review future action plans and hear assessments of current circumstances?

The majority of respondents, 72.3%, held additional meetings with audit clients to familiarize themselves with future action plans and to hear assessments of current circumstances. Not surprisingly, most of these additional meetings were virtual with 59.4% rather than face-to-face 12.9%. These results indicate that the majority of respondents fit to work online, at least in terms of communication with customers.

6. Did the coronavirus pandemic lead to a reduction in the audit firm's staff?

While most firms did not reduce the number of audit staff by 61.4%, approximately 10.9% significantly reduced the number of staff.

7. Did the coronavirus pandemic lead to a reduction in the remuneration of staff in the audit firm?

While most of the firms reduced the remuneration of the audit staff by 73%, the proportion of the firms by 45% reduced it only slightly. A relatively small number of firms 27% made no reductions. Revenues from auditing services have declined, so auditing firms are trying to cut costs. Employee costs, whether large or not, are one of the largest costs. It is reassuring that firms focused more on remunerating (slightly) of audit staff rather than reducing their numbers. These results coincide with the results of similar surveys conducted in other countries.

8. Did the coronavirus pandemic cause a change in the firm's policies and procedures ?

The vast majority of respondents, 88.1%, said that covid -19 did not lead to a change in the firm's policies and procedures, 11, 88% of respondents said yes it had an impact. This result is more or less surprising, as the ACCA certified survey - "covid-19, Global Survey: Inside Business - Impacts and React-reveals" that covid-19 has had a significant impact on the global audit profession and public practice leaders. The results of the follow-up survey, which are relevant for small and medium-sized firms, are summarized by the ACCA. „ I think the results of their poll will be taken into account for the reality of Georgia".According to these results, a large proportion of small and medium-sized firms have to deal with "limiting the scale of audit evidence" and "increased auditing risks related to the valuation of assets the performance of fulfillment of liabilities reflected in the financial statements or problems with the operation of the enterprise"

9. Have additional trainings or exercises been provided to audit staff to facilitate online work?

The inability of the client to be physically present in the facility led to the need to work online and conduct audits online. Most of the firms provided training to 66%, while 34% did not receive training.

10. What could be the main areas of assistance to small audit firms in the post-crisis period: 1) trainings in online audit, 2) trainings in practice management, for example, employee management, use of digital technology, marketing. 3) trainings about merger (how to improve operations and increase practice through mergers and acquisitions); 4) trainings on the provision of consulting services, for example, financial management issues.

The last question was about what kind of support training, small audit firms need in the post-crisis period. Respondents were asked to choose the two options that were best for them. Audit and accounting were not included in these options as support in these areas was already underway. Most often, two options were chosen: "Trainings on consulting services (eg financial management issues)" 47.5%, and then "trainings in practice management "(e.g. staff management, use of digital technologies, marketing and advertising) 44.4%. These results indicate that many small and medium-sized firms in Georgia are interested in learning how to better manage their practice and how to switch to consulting services. The most important thing for this is digital transformation, which will improve the efficiency of the activity and the quality and relevance of the professional services offered.

While Covid-19 has posed many challenges, it has also become a catalyst for both business and small and medium-sized firms for transformation. He expelled from their comfort zone many firms, so that they could use digital models and consider new business models to create business value for their clients. Nevertheless, painful issues remain. Small and medium-sized firms are often frustrated by the fact that they do not know exactly how to solve these problems when they do not have enough resources, competence, knowledge and there is uncertainty about creating a new service line. Also they do not yet have a certain number of customers who will use their services. For this purpose, we consider it necessary to take into account the experiences of foreign countries.

IV. CONCLUSIONS

We consider it expedient to carry out the following measures in the conditions of Covid-19:

1. We consider it expedient to take the following measures in the conditions of Covid-19, because they play a big role in the successful development of small and medium enterprises-in terms of effective business consulting.

2. In a pandemic, professional accountants and auditors should pay special attention to professional ethics and their responsibilities, to act in the public interest.

When auditors request assistance in managing Covid-19 related issues, for example, in calculating short-term forecasts, preparing prospective financial statements, performing audit services, audit firms are required to comply with the provisions of the Code. Before agreeing to provide such services, firms should make sure, that the requested service or action is not prohibited to perform.

3. Firms with small and medium practices should switch to automated remote auditing as it allows for more cost-effective, efficient and quality audits. This requires advance investment in technology and training.

4. Firms with small and medium-sized practices need to think about how to increase revenue, not only from auditing, but also from other services. In particular, they need to develop the ability to offer cloud-based consulting services.

5. Professional organizations, with the help of donors, firms with small and medium-sized internships, should facilitate internships, provide training for leaders, and provide internship management and consulting services. This will be the first step towards transforming practice.

6. Professional organizations, with the help of donors, should indicate to small and medium-sized firms the benefits that, they will obtain by cooperating with other firms and establishing close relationships, including through mergers and acquisitions., with the help of

7. We consider it necessary to set up mobile inventory groups during the pandemic, which will go to the place and assist enterprises in inventory, on the basis of which they will be able to regulate the inventory of goods for client companies.

Acknowledgment

This paper was based on the International Standards of Auditing.

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