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Do Auditors' Going Concern Assessments Differ as a Result of COVID-19?

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Abstract. The purpose of this paper is to identify which events and conditions used for assessing whether an entity may be able to continue as a going concern (GC) are the most important with the onset of the Coronavirus 2019 (COVID-19) pandemic. These events and conditions are those pursuant to the International Standards on Auditing (ISA) 570 Going Concern and Staff Audit Practice Alerts both issued by the International Auditing and Assurance Standards Board (IAASB), and the latter issued in response to the COVID-19 pandemic, this paper examines auditors' opinions regarding the most important events and conditions that may influence an entity's ability to continue as a GC by means of a questionnaire survey. The survey analysis allows a comparison between auditors' assessments of those events and conditions in normal circumstances and those during the pandemic, in general, auditors' assessments of the events and conditions that impact an entity's ability to continue as a GC differ during the COVID-19 period compared to assessments under normal circumstances. In particular, auditors have become more concerned regarding 'industry of operation' as a factor in their assessment of GC, this study is novel in that it is the first to investigate whether auditors' appraisals of events or conditions that influence their GC assessments change with prevailing circumstances such as the onset of the COVID-19 pandemic period..

Keywords: Going Concern, ISA 570, IAASB Staff Audit Practice Alert, Covid-19.

Introduction

The going concern (GC) principle is fundamental to financial reporting. Geiger *et al.* (2021) argues that GC reporting is one of the most challenging issues facing auditors. While GC issues are always important, their importance increases in times of financial crisis such as during the global financial crisis (GFC) that commenced in 2007. Carson *et al.* (2013, 2016) notes that the GFC resulted in an increasing number of GC decisions and therefore renewed interest in GC research. Sikka (2009) observes that auditors faced accusations during the GFC of inadequately assessing the GC assumption. Much empirical research examines auditor GC reports during the GFC focusing on a variety of contexts (e.g. Xu *et al.*, 2013; Geiger *et al.*, 2014; Carson *et al.*, 2017).

The onset of the COVID-19 pandemic brough with it a severe shock to both global business and society that bore some similarities to the GFC. There have been many calls for research projects to better understand the impact of the pandemic on the business world, and indeed on the important subject of GC in financial reporting. For example, Geiger *et al.* (2021) highlight the urgent need for more research into the impact of the COVID-19 pandemic on GC reporting.

While the COVID-19 pandemic did not bring with it a financial crisis at the outset, it may well ultimately contribute to both economic slowdowns and recessions developing across the globe. Many global economic commentators have recently produced reports comparing the pandemic period with the GFC. For example, a report published in June 2020 by the World Bank states that as a result of the pandemic, "the 2020 global recession would be about twice as deep as the 2009 global recession" (p.30). The economic conditions accompanying the COVID-19 pandemic period have resulted in a challenging environment for both companies and their auditors. Companies, particularly in industries such as hospitality, retail and travel, are facing a real challenge to survive the uncertainty for the business environment generated by the pandemic period gave rise to a particular challenge for auditors in their assessment of GC decisions.

Auditors are required by the International Standards on Auditing (ISAs), as issued by the International Auditing and Assurance Standards Board (IAASB), to assess the adequate use of the GC assumption when firms are preparing the financial statements. ISA 570 Going Concern requires auditors to consider events or conditions that may cast significant doubt on an entity's ability to continue as a going concern, and the standard lists examples of such events or conditions (IAASB, 2015). While ISA 570 notes that these examples are not exclusive, the IAASB typically highlights some examples that are considered more relevant during challenging periods. For example, in January 2009 and in response to the GFC, the IAASB issued a Staff Audit Practice Alert (IAASB, 2009) that listed five financial events that, while already listed in the old ISA 570[1] (IAASB, 2004), were more prevalent to the GFC environment. Cognizant of the importance of such illustrations, the IAASB published ISA 570 (revised) on 15 January 2015 with a wider range of examples.

Hategan *et al.* (2022) argue that the COVID-19 pandemic has had an important impact on auditors' responsibility, thus drawing greater attention by regulatory institutions. Consistent with this increased focus, and in order to raise greater awareness of GC issues in the more challenging pandemic environment, the IAASB recently issued a Staff Audit Practice Alert titled, "Going Concern in the Current Evolving Environment – Audit Considerations for the Impact of COVID-19" (hereafter, the "COVID-19 GC Alert"). In a similar approach to that taken during the GFC, the IAASB listed some examples in the Alert of events or conditions that may exist as a result of the COVID-19 pandemic. Although some of the examples already existed in ISA 570 (revised), new examples were also introduced. The introduction by the IAASB of these examples reflects its awareness, as a regulatory body for the audit profession, of the need for auditors to consider more events in the challenging and uncertain pandemic environment. because the rationale is that most companies are exposed due to the pandemic to a greater or lesser extent to events and conditions that may result in a significant doubt about their ability to continue as a GC. However, whether auditors use the events and conditions listed by IAASB in ISA 570 or the COVID-19 GC Alerts in their real-world assessment of the GC assumption remains an open question.

Importantly, the possibility that auditor assessments in the evaluation of firm GC ability differ between the pre- and post-COVID pandemic period has yet to be subject to empirical study. Further, while ISA 570 provides a list of events and conditions to guide auditors when they assess an entity's ability to continue as a GC, and expands this list in the pandemic era, it remains unclear whether auditors have a preference for particular listed events and how this preference differs as a result of the pandemic. Therefore, the aim of this study is to identify which indicators suggested by ISA 570 (revised) and the COVID-19 GC Alert are more relevant when assessing the GC decisions of auditors during the COVID-19 pandemic period. In so doing, this paper should contribute to the literature by examining auditors' opinions about the events listed by the IAASB. This research has some important implications as it provides auditing standards setters with some important feedback on the auditing standards they are

[1] The old ISA 570 refers to the ISA 570 that was effective for audits of financial statements for periods beginning on or after 15 December 2004.

required to adhere to. According to Bédard et al. (2016), academic research on auditing standards is of great importance to both standard setters and the academic research community.

In order to examine this research issue, an online survey questionnaire was administered to auditors in the Kingdom of Saudi Arabia (KSA). In the survey, auditors were asked to both identify and rank GC indicators relating to events and conditions listed in ISA 570 (revised) or the COVID-19 Alerts. In addition, auditors were given the opportunity to list any GC indicators that are not listed in either of these documents. Furthermore, by examining auditors' rankings in both normal circumstances and during the COVID-19 pandemic, changes in auditors' assessments of an entity's ability to continue as a GC are highlighted. Based on 166 survey responses, this study reveals that while auditors' rankings of financial and operational indicators were similar when comparing the pre-COVID and COVID periods, the situation differs for other indicators. More specifically, the industry of operations was identified by auditors as the most important indicator influencing their GC assessments during the pandemic regardless of audit firm size and respondent seniority, whereas it ranked far lower in normal circumstances. The identification of the most important indicators by auditors in GC assessments should contribute to the continuing global efforts of business institutions to mitigate the worst consequences of the pandemic. More specifically, audit practitioners' opinions highlight those events and conditions that require greater attention during the pandemic period. In addition, current and potential investors should be aware of the heightened risks presented by certain industries during the COVID-19 pandemic period.

Literature and Research Question

A fundamental theory underpinning accounting reporting is a GC theory. GC theory assumes that firms will continue their operations and generate future economic benefits without the intention to liquidate their assets in the foreseeable future (Agburuga, 2019). Auditors are required to assess firms' ability to operate under the GC assumption. In theory, as GC assessment relates to the future, it relies on forecast data. However, the managers of distressed firms tend to be optimistic in their business forecasts (Bava & di Trana, 2019). Game theory provides a theoretical framework that allows mangers to avoid a GC opinion and influence auditors' GC assessments (Matsumura, Subramanyam, & Tucker, 1997).

While auditors typically rely on their professional judgment in their assessment of the GC assumption, they commonly employ indicators to assist in reaching a more accurate judgment. The scope and efficacy of these indicators are subject to the attention of both regulators and academic researchers. The International Auditing and Assurance Standards Board (IAASB) is the regulatory body for the audit profession which classifies indicators into three categories for GC assessment: financial, operational, and other indicators. ISA570 lists 15 financial indicators, eight operational indicators, and seven other indicators.2 The financial indicators are typically derived from financial statement items, and include financial ratios and solvency. The operational indicators relate to an entity's management, suppliers, competitive environment, clients, or labor. Finally, other indicators encompass those that result from regulatory factors and include the industry to which a firm belongs and its area of operation.

In addition to the attention of the IAASB, many of these indicators have been investigated in previous GC academic studies. Mutchler (1984), LaSalle and Anandarajan (1996), and Bava and di

[2] Financial, operational, and other indicators are listed in Tables 2, 4 and 6, respectively.

Trana (2019a,b) conduct survey studies to identify the important indicators used by auditors when assessing the GC assumption. Mutchler (1984) identifies three ratios as the most important indicators for auditors in this assessment, ranked in the following order: cash flow from operations/total debt; current assets/current liabilities; and net worth/total debt. LaSalle and Anandarajan (1996) survey auditors to determine their views on the importance of 20 indicators used in assessing GC decisions. Their survey evidence reveals the following three indicators as being the most important, ranked in the following order: net worth / total liabilities; cash flow from operations / total liabilities; and the current ratio. Bava and di Trana (2019a, b) conduct a survey to evaluate which indicators influence auditors' GC decisions, drawing mainly on ISA 570 with the addition of some indicators from the previous literature. In the first of these studies, the authors report on the most important financial, operational, and other indicators from their survey. In the second of the studies, Bava and di Trana distinguish the responses of Big Four (Big 4) from non-Big Four (Non-Big 4) auditors in their assessment of the importance of the indicators used in GC decisions.

More recently, Awad, and Wathik (2022) base their study on a sample of Iraqi commercial banks using different algorithms and find that the ratio of debt to long term liabilities, the return on assets, and equity debt are the best ratios for the assessment of the going concern assumption.

However, a shortcoming of the existing literature is that none of the studies outlined above investigate whether auditors' assessments of the events or conditions that influence their GC decisions change due to specific circumstances. Studying the impact of the COVID-19 is particularly important given

the IAASB felt compelled to issue the Alert for the consideration of auditors. However, whether auditors' assessments or preferences for particular events or conditions changed due to the pandemic remains an open question which this study seeks to address with the following research question:

RQ: Do auditors' assessments of the importance of events or conditions, which may cast significant doubt on an entity's ability to continue as a going concern, differ as a result of the COVID-19 pandemic compared to normal circumstances?

The Survey

To conduct the empirical research, an online survey was designed and administered using the SurveyMonkey platform. The Saudi Organization for Chartered and Professional Accountants (SOCPA) website maintains a list of all CPA firms that are currently licensed in the Kingdom of Saudi Arabia (KSA).[3] The list has information on 235 CPA firms with email addresses for 228 of them. To conduct the survey, emails were sent to these email addresses in August 2020, providing a link to the questionnaire[4]. Further, a follow-up with external auditors employed by these firms was made through LinkedIn. Participants were able to respond to the questionnaire only once as the survey software monitors the Transmission Control Protocol (TCP) and the Internet Protocol (IP) of respondents. Further, the order of response choices was randomized for each respondent accessing the survey to control for potential order effects. The questionnaire consisted of 12 questions with an average respondent completion time of ten minutes.

To examine the impact of the COVID-19 pandemic on auditors' GC decisions, the survey sought their assessments of the indicators that influence their GC decisions both in normal

[3] ISA have been adopted in KSA for auditing financial statements ending on or after 1/1/2017 (SOCPA, 2018).
[4] All audit firms with an available email address are included.

circumstances and then during the pandemic environment. The questionnaire comprised two sections with six questions in each. In the first section, auditors were asked, based on previous experience, to evaluate important events or conditions that might cast significant doubt on an entity's ability to continue as a going concern under normal circumstances. The main source for the survey of examples of such events or conditions is the ISA 570 (revised) document, and in particular the paragraph headed 'Risk Assessment Procedures and Related Activities' which classifies them into three categories: financial, operational, and other. For each of these categories, auditors were asked to check the most important events and conditions and next they were asked to rank their choices in order of importance by means of a dropdown list.[5] The advantage of this technique was that respondents were only required to rank their chosen indicators in a hierarchy. Rather than assigning a score for each indicator, the dropdown list enables the survey to overcome the potential risk of scoring more than one indicator with the same score, thereby skewing the rankings (Bava and di Trana, 2019a).

The second section of the survey repeated the same six questions, but rather than considering their response in normal circumstances, auditors were instead asked to respond based on the current and expected impact of the COVID-19 pandemic. In addition to the examples of events or conditions drawn from ISA 570 (revised), both the first and second sections included additional examples listed in the COVID-19 Staff Audit Practice Alert. Further, in addition to the stated examples, auditors were given the opportunity to suggest any other indicators they felt to be important when assessing their GC decisions by means of an open textbox. The auditors who participated in this survey worked for both Big 4 and Non-Big 4 audit firms and hold a range of professional qualifications.

Results

Questionnaire Participants

The questionnaire link was sent to 228 audit firms and received 166 responses, of which 112 completed the whole questionnaire. The response rate of 72.8% may be considered high when focusing on total responses, and adequate when focusing on complete survey responses (49%). Neuman (2000) notes that response rates in survey research are an important issue as a low response rate can result in biasing the validity of the research and response rates ranging from 10–50% are common. Thus, the response rate to this survey is not considered low and thus should not compromise the validity of the research.

Table 1 provides information about the survey participants, that is audit firm respondents. It should be noted that a far higher proportion of males than females participated in the survey, with 80% of the participants being male and 20% female. The far smaller number of female auditors who participated in the survey is a reflection of the small number of female auditors in the KSA. Sian et al. (2020) notes that only 7% of auditors licensed as SOCPA accredited on its website are females. In addition, the sample is reasonably well balanced between participants who work for Big 4 and Non-Big 4 audit firms, representing 52% and 48% of the sample, respectively. Further, the table shows that 45% of the respondents have five or more years' experience and 36% had the seniority of manager or partner. In terms of professional **Financial Conditions or Events** Auditors were asked to select what they considered to be their most important financial indicators. Table 2 shows the frequencies with which the indicators were named as the most important. The first 11 indicators are taken from ISA 570 (revised) and the

[5] The answer choice with the largest average ranking is the most preferred. Average ranking is calculated as follows, where: w = weight of ranked position, x = response count for answer choice:
w1 + x2w2 + x3w3 ... xnwn/Total response count.

next four (12-15) are taken from the COVID-19 Staff Audit Practice Alert. The indicators most frequently selected as being among the most important in normal circumstances were ranked as numbers 6, 8, 4, 5 and 9. It is noted from the table that while indicator number 13, "the entity's solvency", is only newly illustrated in the Alert, 49% of the respondents identified this indicator as one of the most important in normal circumstances. Hristozov (2018) argues that an entity's solvency is a very important indicator as it gauges its ability to meet its obligations towards counterparties, creditors, and its budget. In comparing these results with Bava and di Trana (2019a), it may be noted that auditors in their study chose the following financial indicators more frequently as the top three most important: net liability or net current liability position; inability to pay creditors on due dates; and fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment.

qualifications, most of the participants (55%) had one or more professional qualification.

Table 1. Audit Firm Respondent Backgrounds.

Item		N	%
Gender	Male	132	80
	Female	34	20
Firm	Big 4	87	52
	Non-Big 4	79	48
Experience	Less than five years	91	55
	From five to ten years	39	24
	From ten to twenty years	30	18
	More than twenty years	6	3
Professional Qualifications	SOCPA	47	28
	Certified Public Accountant (CPA)	40	24
	Association of Chartered Certified Accountants (ACCA)	7	4
	Other [6]	20	12
	None	74	44
Seniority Rank	Partner	31	19
	Manager	29	17
	Auditor	73	44
	Assistance Auditor	33	20

When auditors were asked the same question in relation to the COVID-19 pandemic environment, their choices were ranked as events or conditions 6, 8, 4, 9, 2, 12 and 13. While the first three events or conditions (6, 8, 4) remained the most important ones compared to normal circumstances, the other four (9, 2, 12 and 13) became more relevant with the onset of the COVID-19 pandemic. It is noted that indicator number 12, "significant deterioration in the value of the current assets inventory", was only selected by 37% of respondents as being among the most important under normal circumstances while the response increased to 54% during the pandemic period. The survey also provided the auditors with an opportunity to list other financial indicators of their own choosing and these varied across respondents, and included bad debts and a decrease in sales in both normal circumstances and during the pandemic period.

[6] Other qualifications listed by auditors include International Public Sector Accounting Standards (IPSAS), Certified Internal Auditor (CIA), Certificate in International Financial Reporting (Cert IFR), Diploma in International Financial Reporting (DipIFR), and Certified Management Accountant (CMA).

The respondents were then asked to rank their chosen financial indicators in a hierarchy according to their importance, as shown in Table 3. It can be seen that "Substantial operating losses or significant deterioration in the value of assets used to generate cash flow" was ranked by auditors as the most important financial indicator that resulted in doubt over the GC assumption in both normal circumstances and during the pandemic. This is to be expected as substantial operating losses naturally result in auditor concern about profitability problems and in turn concern about the firm's future viability (Menon and Schwartz, 1987). Indeed, operating losses are more likely to result in capital deficiency, followed by both internal and external difficulties affecting an entity's ability to continue (Kurnia and Cellica, 2016).

Table 2. Frequency of Financial Events or Conditions.

		Normal circumstances		COVID-19 circumstances	
		N	%	N	%
1	Net liability or net current liability position.	54	33	37	31
2	Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.	68	41	64	53
3	Indications of withdrawal of financial support by creditors.	48	29	38	31
4	Negative operating cash flow indicated by historical or prospective financial statements.	97	58	71	59
5	Adverse key financial ratios.	82	49	51	42
6	Substantial operating losses or significant deterioration in the value of assets used to generate cash flow.	140	84	98	81
7	Arrears or discontinuance of dividends.	12	7	20	17
8	Inability to pay creditors on due dates.	111	67	77	64
9	Inability to comply with the terms of loan agreements.	82	49	68	56
10	Change from credit to cash-on-delivery transactions with suppliers	24	14	29	24
11	Inability to obtain financing for essential new product development or other essential investments.	28	17	29	24
12	Significant deterioration in the value of current assets inventory.	61	37	65	54
13	The entity's solvency.	81	49	62	51
14	Foreign exchange fluctuations.	11	6	13	11
15	Counterparty credit risk.	38	23	36	30
16	Others identified by auditors.	11	6	3	2

Note: The table shows the frequencies of financial indicators selected by auditors as being the most important. The first 11 indicators are taken from ISA 570 (revised) and the next four (12-15) from the COVID-19 Staff Audit Practice Alert.

Bava and di Trana (2019a, b) argue that Big 4 auditors might rank indicators in the assessment of the GC assumption differently from Non-Big 4 auditors. Table 4 thus distinguishes between Big 4 and Non-Big 4 auditor rankings of the financial indicators in both normal circumstances and during the pandemic. The table shows that operating losses are still ranked as the most important financial indicator by Big 4 auditors in normal circumstances. However, during the pandemic period, operating losses were ranked by them as

the second most important indicator as they instead ranked "Negative operating cash flows indicated by historical or prospective financial statements" as the most important. Nguyen and Nguyen (2020) argue that negative operating cash flow can help in distinguishing financially distressed firms from healthy firms and can predict a possible financial crisis in the following one or two years.

Table 3. Rankings of Financial Events or Condition.

Normal Circumstances			COVID-19 Circumstances Rankings			
Ranking	Average Ranking	N	Ranking	Average Ranking	N	
5	13.05	40	4	14.32	34	Net liability or net current liability position.
2	13.54	46	3	14.44	55	Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
9	12.33	39	5	13.47	34	Indications of withdrawal of financial support by creditors.
3	13.45	66	2	14.46	67	Negative operating cash flow indicated by historical or prospective financial statements.
7	12.45	62	6	13.45	47	Adverse key financial ratios.
1	13.55	69	1	14.47	88	Substantial operating losses or significant deterioration in the value of assets used to generate cash flow.
11	12.10	10	9	12.28	18	Arrears or discontinuance of dividends.
4	13.16	88	8	12.41	66	Inability to pay creditors on due dates.
8	12.39	68	7	12.60	62	Inability to comply with the terms of loan agreements.
12	11.79	19	12	11.85	27	Change from credit to cash-on-delivery transactions with suppliers
13	11.71	24	13	11.46	24	Inability to obtain financing for essential new product development or other essential investments.
6	12.63	48	10	12.23	60	Significant deterioration in the value of current assets inventory.
10	12.11	54	11	12.05	56	The entity's solvency
14	11.50	8	15	10.67	12	Foreign exchange fluctuations.
15	11.33	36	14	11.44	32	Counterparty credit risk.

In line with the extant literature (e.g. Trotman et al., 2009; Gul et al., 2013; Chi et al., 2017), a significant variation in audit quality independence may be expected between partner and non-partner auditors. Table 5 thus distinguishes between partner and non-partner auditor rankings of the indicators for assessing the GC assumption in both normal circumstances and during the pandemic. The table shows that both partner and non-partner auditors ranked operating losses as the most important financial indicator in normal circumstances. However, with the onset of the COVID-19 pandemic, while partners ranked "Net liability or net current liability position" as the most important financial indicator, non-partners still considered operating losses to be the most important indicator.

Operational Conditions or Events

Auditors were asked to select their most important operational indicators in normal circumstances and as a result of the COVID-19 pandemic, and the frequencies are reported in Table 6. The first six indicators listed are taken from IAS 570 (revised), while last indicator 7 is taken from the COVID-19 GC Alert.7 Indicator numbers 3, 1, 2, 5 and 6, in rank order, were most frequently chosen by auditors as the most important in normal circumstances. When comparing auditors' choices in the current study with auditors' choices in the Bava and di Trana (2019a) study, it is noted that auditors in the latter study rank operational indicators in the following order of importance: management intention to liquidate the entity or cease operations; loss of a major market, key customer(s), franchise(s), licence(s) or principal supplier(s); loss of key management without replacement; and shortages of important supplies.

[7] Indicators 3 and 4 in Table 6 are listed in both ISA 570 (revised) and the COVID-19 GC Alert.

Table 4. Rankings of Financial Events or Conditions by Audit Firm.

Normal Circumstances Ranking		COVID-19 Circumstances Ranking		
Big 4 Ranking	Non- Big 4 Ranking	Big 4 Ranking	Non- Big 4 Ranking	
4	6	4	3	Net liability or net current liability position.
6	1	5	2	Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
12	8	6	1	Indications of withdrawal of financial support by creditors.
2	3	1	5	Negative operating cash flow indicated by historical or prospective financial statements.
3	10	5	6	Adverse key financial ratios.
1	4	2	4	Substantial operating losses or significant deterioration in the value of assets used to generate cash flow.
11	14	10	9	Arrears or discontinuance of dividends.
7	5	9	8	Inability to pay creditors on due dates.
10	2	7	7	Inability to comply with the terms of loan agreements.
13	12	11	11	Change from credit to cash-on-delivery transactions with suppliers
14	7	15	13	Inability to obtain financing for essential new product development or other essential investments.
8	11	9	12	Significant deterioration in the value of current assets inventory.
9	9	12	10	The entity's solvency
5	15	15	15	Foreign exchange fluctuations.
15	13	13	14	Counterparty credit risk.

Note: The table shows auditors' importance ranking for the financial indicators that they identified in Table 2 according to their audit firm size.

However, auditor assessment of the same operational indicators in the pandemic environment differed slightly, with indicator numbers 3, 5, 1, 4 and 2 ranked as the most relevant.

Note: The table shows the frequencies of operational indicators chosen by auditors as the most important. The first six indicators are taken from IAS 570 (revised), while indicator 7 is taken from the COVID-19 GC Alert.

The greatest difference between the two different circumstances (normal versus pandemic) was for indicator number 6, "emergence of a highly successful competitor". According to the auditors' responses, this indicator was more relevant in a normal setting as it was selected by 64% of respondents, while it was only selected by 49% of auditors during the pandemic period. Auditors were also provided with the opportunity to list any important operational indicators that were listed neither by ISA 570 (revised) nor the COVID-19 GC Alert. These indicators for normal circumstances included: not coping with market development and digital transformation; relying on a sole source of income; inventory turnover; one-person management in family businesses; and sudden governmental decisions. Under the circumstances of the pandemic, the most prominent indicator listed by participants was the lack of risk reserve.

Table 7 shows the auditors' rankings of importance for their selected operational rankings. Interestingly, their rankings differ only slightly between normal circumstances and the pandemic period. The table shows that "Management intention to liquidate the entity or to cease operations" was chosen by auditors as the most important operational event or condition when assessing the GC assumption in both circumstances.

Table 5. Rankings of Financial Events or Conditions by Partners and Non-Partners.

Normal Circumstances Ranking		COVID-19 Circumstances Ranking		
Partners' Ranking	Non-Partners' Ranking	Partners' Ranking	Non-Partners' Ranking	
5	4	1	4	Net liability or net current liability position.
3	2	4	2	Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
8	10	8	5	Indications of withdrawal of financial support by creditors.
2	3	2	3	Negative operating cash flow indicated by historical or prospective financial statements.
7	9	5	6	Adverse key financial ratios.
1	1	3	1	Substantial operating losses or significant deterioration in the value of assets used to generate cash flow.
11	13	-	10	Arrears or discontinuance of dividends.
4	5	6	9	Inability to pay creditors on due dates.
6	6	8	7	Inability to comply with the terms of loan agreements.
10	12	11	12	Change from credit to cash-on-delivery transactions with suppliers.
14	11	14	13	Inability to obtain financing for essential new product development or other essential investments.
13	8	12	8	Significant deterioration in the value of current assets inventory.
9	7	10	11	The entity's solvency
-	14	9	15	Foreign exchange fluctuation.
12	15	13	14	Counterparty credit risk.

Note: The table shows auditors' ranking of importance for the financial indicators that they identified in Table 2 by partner status.

Table 6. Frequency of Operational Events or Conditions.

		Normal circumstances		COVID-19 circumstances	
		N	%	N	%
1	Management intention to liquidate the entity or cease operations.	126	86	97	84
2	Loss of key management without replacement.	112	77	77	67
3	Loss of a major market, key customer(s), franchise(s), licence(s) or principal supplier(s).	141	97	110	96
4	Labour difficulties or shortages.	88	60	87	76
5	Shortages of important supplies.	112	77	99	86
6	Emergence of a highly successful competitor.	94	64	57	49
7	Delay in the launch of new products or services.	67	46	58	50
8	Others identified by auditors	14	9	5	4

Table 7. Rankings of Operational Events or Conditions.

Normal circumstances			COVID-19 Circumstances			
Ranking	Average Ranking	N	Ranking	Average Ranking	N	
1	7.16	112	1	7.29	87	Management intention to liquidate the entity or cease operations.
3	5.95	96	3	6.37	68	Loss of key management without replacement.
2	6.74	125	2	6.58	99	Loss of a major market, key customer(s), franchise(s), licence(s) or principal supplier(s).
5	5.22	74	4	5.62	76	Labour difficulties or shortages.
4	5.45	100	5	5.54	87	Shortages of important supplies.
6	4.84	83	6	4.69	51	Emergence of a highly successful competitor.
7	4.54	59	7	4.17	54	Delay in the launch of new products or services.

Note: The table shows auditors' ranking of importance for the operational indicators that they identified in Table 6.

Table 8 reports rankings of operational events and conditions by firm size, that is, Big 4 versus Non-Big 4 audit firms in the normal versus pandemic setting, while Table 9 documents the same operational indicators by partner versus non-partner status. The two tables reveal "Management intention to liquidate the entity or to cease operations" as the most important operational event or condition when assessing the GC assumption in both normal and COVID-19 pandemic circumstances, regardless of Big 4 or Non-Big 4 firm status or partner or non-partner respondent status. This might be expected as auditors' assessments usually follow a client firm management's assessment of the GC assumption. Indeed, if management has the intention to liquidate the entity, auditors should document and communicate this intention to the users of their financial statements in their audit reports.

Table 8. Rankings of Operational Events or Conditions by Audit Firm.

Normal circumstances Ranking		COVID-19 Circumstances Ranking		
Big 4 Ranking	Non- Big 4 Ranking	Big 4 Ranking	Non- Big 4 Ranking	
1	1	1	1	Management intention to liquidate the entity or cease operations.
3	3	3	3	Loss of key management without replacement.
2	2	2	2	Loss of a major market, key customer(s), franchise(s), licence(s) or principal supplier(s).
6	4	5	4	Labour difficulties or shortages.
4	5	4	5	Shortages of important supplies.
5	6	6	6	Emergence of a highly successful competitor.
7	7	7	7	Delay in the launch of new products or services.

Note: The table shows auditors' ranking of importance for the operational indicators that they identified in Table 6 and how this varies by audit firm size.

Table 9. Rankings of Operational Events or Conditions by Partners and Non-Partners.

Normal circumstances Ranking		COVID-19 Circumstances Ranking		
Partners' Ranking	Non-Partners' Ranking	Partners' Ranking	Non-Partners' Ranking	
1	1	1	1	Management intention to liquidate the entity or cease operations.
5	3	3	3	Loss of key management without replacement.
2	2	2	2	Loss of a major market, key customer(s), franchise(s), licence(s) or principal supplier(s).
3	5	4	4	Labour difficulties or shortages.
4	4	5	5	Shortages of important supplies.
6	6	6	6	Emergence of a highly successful competitor.
7	7	7	7	Delay in the launch of new products or services.

Note: The table shows auditors' ranking of importance for their chosen financial indicators from Table 6 and how this varies by partner status.

Other Conditions or Events

Auditors were asked to select their most important "other" indicators, with the frequencies they reported as being among the most important in normal circumstances and during the COVID-19 pandemic shown in Table 10. The first five indicators are taken from IAS 570 (revised), while indicators 6 and 7 are taken from the COVID-19 GC Alert. The table shows that indicator numbers 2, 3, 1 and 5 were ranked as those most frequently selected by auditors as the most important in normal circumstances, while during the pandemic, indicator numbers 5, 2, 3 and 1 were ranked as the most important. Indicator number 5, "the industry of operation", which was recently stated in the COVID-19 GC Alert, was selected by auditors as being one of the most important indicators to influence their GC decisions in normal circumstances as well as during the pandemic. Importantly, however, while it was chosen by 70% of the respondents under normal circumstances, this increased to 93% during the pandemic. This high percentage reflects auditors' concerns regarding an entity's ability to continue as a GC in certain industries that were most affected by the COVID-19 pandemic.

When comparing these results with the Bava and Trana di (2019a) results, it may be noted that auditors in the latter study select the other indicators in the following order of importance: no concrete plans for ensuring the entity can continue as a GC; non-compliance with capital or other statutory requirements; and pending legal or regulatory proceedings against the entity.

Auditors' assessments during the COVID-19 pandemic period of the indicators that influence an entity's ability to continue as a GC evidently impact most markedly on the "other" indicators category, as observed in the rankings presented in Table 11. While indicator number 5, "the industry of operation", was chosen by auditors in both periods, as indicated earlier, its ranking differs between the two. This indicator was ranked as the most important other indicator during the pandemic compared to only fifth most important under normal circumstances. In addition, auditors whether from Big or Non-Big audit firms or of partner or non-partner status chose "the industry of operation" as the most important other indicator during the pandemic, as reported in Tables 12 and 13. Agreement on the vital importance of this particular indicator might be expected as the COVID-19 pandemic has clearly had a much stronger impact on some industries than others. For example, Crespí-Cladera et al. (2021) find that almost 25% of firms in the hospitality sector faced financial distress during the pandemic period. Further, Wieczorek-Kosmala (2021) observes that government implementation of COVID-19 intervention mechanisms, such as mandatory social distancing and travel restrictions, resulted in travel and leisure-related industries facing more severe financial difficulties.

Table 10. Frequency of Other Events or Conditions.

		Normal circumstances		COVID-19 circumstances	
		N	%	N	%
1	Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.	116	85	86	76
2	Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.	121	89	103	91
3	Changes in law or regulation or government policy expected to adversely affect the entity.	120	88	96	85
4	Uninsured or underinsured catastrophes when they occur.	65	48	51	45
5	The industry of operation.	95	70	105	93
6	The geographic area of operation.	66	48	63	56
7	Others identified by auditors	2	2	4	4

Note: The table shows the frequencies of other indicators selected by auditors as being the most important.
The first four indicators listed are taken from IAS 570 (revised), while indicators 5, 6, and 7 are taken from the COVID-19 GC.
Alert.

Table 11. Rankings of Other Events or Conditions.

Normal circumstances Rankings			COVID-19 Circumstances Rankings			
Ranking	Average Ranking	N	Ranking	Average Ranking	N	
2	6.02	97	2	5.44	80	Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
1	6.08	102	4	4.99	96	Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
3	5.48	103	5	4.51	89	Changes in law or regulation or government policy expected to adversely affect the entity.
5	4. 57	56	6	3.96	46	Uninsured or underinsured catastrophes when they occur.
4	4.76	79	1	6.36	97	The industry of operation.
6	4.02	57	3	5.41	58	The geographic area of operation.

Note: The table shows auditors' ranking of importance for the other indicators that they identified in Table 10.

Conclusion

Many events or conditions exist that can cast significant doubt on an entity's ability to continue as a going concern. The IAASB lists some examples of these key events or conditions in IAS 570 and more recently, in response to the COVID-19 pandemic, it issued further events or conditions in its COVID-19 GC Alert. In this alert, the IAASB states that the COVID-19 pandemic would "result in a significant increase in both the volume and severity of events and conditions that may in some instances cast doubt on an entity's ability to continue as a going concern" (IAASB, 2020, p.4), prompting it to list additional examples. As auditors are responsible for assessing the GC assumption of client firms' management, the purpose of this study was to seek their opinions on the most relevant indicators suggested by both ISA 570 and the later Alert. To investigate the impact of the pandemic on auditors' assessments and identify the most relevant indicators during this period, the study survey comprised two sections, the first section focusing on normal circumstances and the second focusing on the COVID-19 pandemic period.

Table 12. Rankings of Other Events or Conditions by Audit Firm Size.

Normal circumstances Ranking		COVID-19 Circumstances Ranking		
Big 4 Ranking	**Non- Big 4 Ranking**	**Big 4 Ranking**	**Non- Big 4 Ranking**	
1	2	2	4	Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
2	1	4	5	Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
3	3	5	2	Changes in law or regulation or government policy expected to adversely affect the entity.
5	5	6	6	Uninsured or underinsured catastrophes when they occur.
4	4	1	1	The industry of operation.
6	6	3	3	The geographic area of operation.

Note: The table shows auditors' ranking of importance for the other indicators that they identified in Table 10 and how it varies by audit firm size.

Table 13. Rankings of Other Events or Conditions by Partners and Non-Partners.

Normal circumstances Ranking		COVID-19 Circumstances Ranking		
Partners' Ranking	**Non-Partners 'Ranking**	**Partners' Ranking**	**Non-Partners' Ranking**	
3	1	3	2	Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
1	2	4	4	Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
2	3	5	5	Changes in law or regulation or government policy expected to adversely affect the entity.
5	5	6	6	Uninsured or underinsured catastrophes when they occur.
4	4	1	1	The industry of operation.
6	6	2	3	The geographic area of operation.

The survey reveals that while there are some differences in auditors' assessments between normal and pandemic settings in the frequency and ranking of indicators of financial and operational events and conditions, such differences are more pronounced in the case of "other" conditions and events. In particular, "the industry of operation" indicator was found to be significantly more important in the pandemic period compared to normal circumstances. This indicator was a recent addition by the IAASB that featured in their COVID-19 GC Alert and was expected to influence auditors' assessments of an entity's ability to continue as a going concern. Specific industries such as hospitality, retail, and travel have all been severely affected by the COVID-19 pandemic. The stay-at-home orders and other lockdown measures that many countries adopted as protective strategies to cope with the pandemic have had a profound impact on these industries. Therefore, government initiatives are recommended to support those entities in industries most threatened by the pandemic, in order to help them avoid financial distress and to enable their management to continue to report using the GC assumption. Such initiatives might take the form of tax exemptions or even direct financial support during the pandemic period. For example, in the United Kingdom, the government offered businesses the option to defer VAT payments (Business Wales, 2020), while also temporarily suspending the requirement for English firms in the retail, hospitality and leisure sectors to pay business rates (GOV.UK, 2020). In the KSA, the General Authority of Zakat & Tax (GAZT) also announced a VAT deferral initiative in early 2020 (GAZT, 2020).

While the example indicators listed in the COVID-19 GC Alert are supposed to be relevant to circumstances during the pandemic period, some of these examples have also been found to be relevant in normal circumstances. For example, "the entity's solvency" was recently included in the Alert as an event or condition that might arise as a result of the COVID-19 pandemic though this study found that it was relevant not only to the pandemic period but also to normal circumstances. Future research might investigate the critical indicators of solvency problems which in turn influence an entity's ability to continue as a going concern. In addition, such research might examine how the selection of indicators varies between auditors that are industry experts and those that are generalists. Finally, future research should investigate auditor risk choices and whether their choice of indicators differs for those firms subject to a higher risk of failure.

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هل اختلف تقييم المراجعين لفرضية الاستمرارية خلال جائحة كورونا

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المستخلص. تهدف هذه الدراسة على التعرف على أهم الأحداث والحالات المستخدمة في تقييم قدرة المنشاة في الاستمرار في عملياتها خلال فترة جائحة كورنا. هذه الأحداث مأخوذة من معيار المراجعة الدولي رقم ٥٧٠ وكذلك من التنبيه الخاص بمبدأ الاستمرارية خلال جائحة كورونا الصادر من المجلس الدولي لمعايير المراجعة والتأكيد. أعتمد هذا البحث على الاستبيان لاستطلاع أراء المراجعين على أهم الأحداث والحالات التي يمكن أن تؤثر في تقييمهم على استمرارية المنشآت من خلال مقارنة تقييمهم لهذه الأحداث والحالات في الظروف الطبيعية وفي ظروف جائحة كورونا. وجدت هذه الدراسة أن تقييم المراجعين للأحداث والحالات المؤثرة على تقيمهم لاستمرارية المنشآت قد اختلف خلال فترة جائحة كورنا عن تقيمهم لنفس هذه الأحداث والحالات خلال الظروف الطبيعية. على وجه الخصوص، المراجعين أصبحوا أكثر اهتمامًا بمجال عمل المنشآت عند تقييمهم لاستمرارية المنشآت خلال جائحة كورنا.

الكلمات المفتاحية: فرض الاستمرارية، المعيار الدولي للمراجعة ٥٧٠، جائحة كورونا.