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Covid-19 pandemic: Impacts on the accounting profession and practices

Waseem Idir[1], Hana Sulieman[2*]
[1] Department of Accounting and Finance, University of Edinburgh, Edinburgh, United Kingdom
[2] College of Arts and Sciences, American University of Sharjah, United Arab Emirates

Abstract
The emergence of COVID-19 has resulted in extensive economic and financial disruptions across many industries. This has been severely impacting global business activity and the long-term survival of many companies. This paper discusses the impacts of COVID-19 on the accounting industry and its practices by reviewing some of the recently published work on this topic and offering some further insights. General impacts that are common across all industries are first discussed. These include the mental, emotional and health well-being of employees, upper management's challenges to adapt to the sudden changes, and the economic and financial difficulties faced by many firms. Further, the paper elaborates on the impacts specific to the accounting practices, which involves variations in the traditional way of performing work commitments, disclosures in financial reporting and assessment of the "going concern" assumption.

Keywords: COVID-19 pandemic, auditing, consulting, financial reporting, going concern

Introduction
The recent outbreak of the pandemic known as the "coronavirus disease" (COVID-19) was a significant event that affected the world in many different ways by causing mass disruptions and major health concerns. COVID-19 first caught widespread attention when a news release by the World Health Organization's (WHO) declared its outbreak as a public health emergency of global concern (WHO, 2020) [10]. As COVID-19 continued to spread globally at an unusually fast pace resulting in a highly fluctuating number of infections and an incredibly large number of death cases within a short period of time, the WHO characterized COVID-19 as a pandemic on the 11th of March of 2020 (WHO, 2020) [10]. COVID-19 is the first pandemic to appear during the last decade since the global outbreak of the influenza virus known as "H1N1" in 2009.

Subsequently, all governments around the world took the necessary precautionary measures in order to keep their resident population as safe as possible while controlling its spread rate. The precautionary measures taken involved country wide lockdowns which restricted the movement of residents of the country to certain time periods or, in some countries, completely prohibiting residents to leave their homes, closing down ports which halted the country's international trade, and limiting economic activity within the country. As a result, these measures have caused great economic and financial disruptions across different industries around the world leading to companies encountering difficulties surviving in their respective market. For example, nearly a quarter of small and medium-sized businesses in the US closed due to disruptions caused by the Covid-19 pandemic as of December 2020 (Sharma, 2021) [9].

The objective of this paper is to discuss the issues and challenges faced by the accounting profession and practice due to COVID-19 based on recently published studies and providing some insights on their findings. The paper will firstly discuss the general issues and challenges impacting the accounting industry which include the health, mental and emotional aspect of accounting professionals during their daily course of work, upper management's challenges in adapting to the sudden changes resulting from the COVID-19 outbreak, and the difficulties faced by firms due to economic and financial disruptions across the country. The discussion will then be concentrated on the issues and challenges specific to the accounting practice. These include the changes in the traditional way of performing work commitments and the other related effects of COVID-19 on financial reporting and the "going concern" assumption.

General impacts on the accounting industry
During the COVID-19 pandemic, the following challenges have been confronting the accounting industry:

- **Mental, emotional and health concerns:** the pandemic imbedded a great health risk in the minds of people since it was a unique virus that even professionals in the health industry were initially not certain of its specific characteristics and treatment. As a result, this has rigorously affected the mental and emotional well-being of accounting professionals during their daily course of work due to being concerned over their health well-being. A survey study conducted by the New York State Society of CPAs (NYSSCPA) including more than 1,000 NYSSCPA members found that the number one concern of members was their own personal health and safety, followed by the health and well-being of others in their workplace (CPAJ, 2021) [3]. Daily interactions with colleagues at their own workplace could increase the risk of an employee being exposed to the virus because of not acknowledging their personal activities when they are not at the workplace, particularly with the virus's increasingly fast spreading rate. This has implanted a high concern on their health well-being, especially for people who suffer from specific health conditions that make them more vulnerable to contracting the virus. This major concern amongst NYSSCPA members is very common and would certainly be shared with other employees operating in different areas of a company or industry. Moreover, many accounting professionals who work in specialized accounting firms that offer a wide range of accounting services to clients requires them to conduct regular visits to the client's workplace. This could amplify concerns over their health well-being due to the uncertainty around the effectiveness of safety measures practiced in the client's workplace and the likelihood of infections amongst the client's employees whom an accounting professional may come in contact with on a regular basis. Consequently, this has collectively accumulated to excessive health concerns amongst accounting professionals causing a negative impact on their mental and emotional well-being when being physically present for work obligations.

- **Economic and financial difficulties:** the overall economic impact of COVID-19 was an overpowering concern for the majority of respondents in the NYSSCPA study conducted (CPAJ, 2021) [3]. The sudden outbreak of COVID-19 introduced complications to the governments of countries across the globe by demanding them to take necessary precautionary actions with immediate effect in order to keep their residents safe and prevent the widespread of the virus. One of the main precautionary actions was the complete suspension of national business activity and international trade, which in turn led to economic disruptions across various industries and eventually resulted in financial difficulties for many companies. This has placed a great risk on their survival and capability to continue operating productively within their respective industry market. The financial challenges faced by companies in different industries has indirectly affected the business and financial stability of many specialized accounting firms that provide diverse accounting services to such companies. In a study done by Rosenberg Associates with 61 specialized accounting firms, 69% of the firms' revenues were down in 2020 compared to those in 2019, and by the end of 2020, only one-third of the firms expect to catch up but not exceed their last year's revenues (Hylan & Rosenberg, 2021) [6]. The only driver of survival that specialized accounting firms rely on is the revenue generated from accounting services provided to their clients. With the financial difficulties experienced by clients, the demand for such accounting services decreases in an attempt to reduce costs in the short run. This has resulted in vastly lower revenues and massively provoked their financial health and survival.

Economic and financial difficulties faced by several firms forced crucial and instant decisions on the adoption of new strategies and approaches to be made, for the purpose of maintaining and gaining their desired market position. Given that a large portion of firms' operating expenses are traced to employee expenditures, they tend to initially target those expenses as a way to reduce total operating costs through employment downsizing, enforcing unpaid leaves or implementing salary reductions. This has thrusted accounting professionals to experience a low job security, impacting their mental and emotional well-being. It would result in demotivation, anxiousness and stress towards their occupations causing detrimental effects on their work performance and production of good quality output. Out of the NYSSCPA member surveyed, 80% had no change to their employment status, 11% experienced reduced work hours or transitioned from full-time to part-time, 6% lost their jobs and 3% were pressed into taking unpaid leaves (CPAJ, 2021) [3]. Even though the majority (80%) of members surveyed did not experience any change to their jobs, the remaining 20% who experienced changes to their occupation status make up a relatively significant portion considering the large population surveyed.

- **Upper management's challenges:** the sudden outbreak of COVID-19 has introduced new major difficulties for the upper management as it had to ensure that effective working schemes were applied under the unique circumstances without harming the normal operational business activity. The majority (75%) of NYSSCPA members surveyed were no longer working full-time in their offices while the remaining experienced no changes to their work arrangements due to COVID-19 (CPAJ, 2021) [3]. Part of the precautionary measures set was the shift from physical work presence to an entirely remote working system in order to keep people safe from any physical interactions at their workplace. As a result of the remote working arrangements, the utilization of office space was minimal which raised a major organizational concern to the upper management. Hylan and Rosenberg (2021) [6] showed that the lack of office space utilization was one of the most vital concerns that many specialized accounting firms were facing when adjusting to social distancing measures and a remote work environment. Therefore, all incurring expenditures associated with the unused office space become a financial burden on the company. This could result in adverse effects on profitability in the long run and correspond to an overall declined financial performance.

The upper management of specialized accounting firms also encountered the tough challenge of efficiently measuring productivity and providing training and mentoring on a remote basis (Hylan & Rosenberg, 2021) [6]. Measuring productivity and providing effective training procedures are essential aspects of upper management's responsibilities as they help assess employee performance and encourage important skill development. Previously, traditional methods were adopted to perform such duties which entirely involved the employees' physically presence at the workplace, however with the shift to a virtual working environment, upper management was challenged to innovate new advanced methods to assess productivity and set up appropriate tools to deliver virtual training procedures. An exclusive study conducted in the United Kingdom on job promotions and professional development showed that 28% of respondents claimed that their due promotion in 2020 has been deferred while 46% of UK adults reported that they have received no professional training from their employers during the pandemic (Godfrey, 2020) [5]. The study showed that complications around productivity assessments resulted in the upper management delaying promotions until a revised productivity assessment tool that accounts for the virtual working environment is adopted. A further challenge includes the absence of proper virtual training processes that has precluded sufficient training resources for employees to continue developing professionally; especially for the entry level employees who typically need continuous guidance and mentoring in order to grow in their profession.

Reporting on a panel event hosted by Carleton University's School of Business, that involved a discussion around the challenges and opportunities encountered by accountants due to COVID-19, Boddy (2020) [2] stated that GGFL (an accounting services firm based in Ottawa, Canada) recognized that their primary challenge was ensuring that they had all the technological necessities in place for their employees to be able to switch seamlessly to working from home. With a virtual working environment, upper management would be necessitated to offering sufficient technological resources and their effective training in order to accommodate accounting assignments traditionally performed in physical attendance. These range from simple paper based tasks to conducting important discussion meetings. It is also necessary to implement such technological resources at an extremely fast rate to guarantee that consistent or improved productivity levels are achieved.

Accounting practice specific impacts

The different complications caused by the pandemic have affected specific aspects of the accounting practice including the following:

- **Amendments to work commitments and client engagements:** COVID-19 has impacted the traditional way in which accounting professionals perform work commitments by instigating interruptions in many important aspects of their traditional work duties. For example, auditing is an area that has been largely affected since previously completed engagement planning and risk assessment procedures did not address COVID-19 or the risk of a pandemic in general (Ference, Rood, Sterna, & Wolfe, 2020) [4]. Audit is one of the key services provided by most specialized accounting firms that mandates physical presence, particularly the planning and risk assessment procedures. In these two procedures, auditors identify and assess the risks of material misstatement to be tested during their field work as well as understand their client's relevant environment. This is usually done through practical observations and discussions at their client's workplace to gain a clear idea and an accurate understanding of their implemented accounting processes. Hence, they require a significant amount of physical presence as compared to the later procedures of an audit process. With the shift to a virtual working environment, those procedures become more challenging to auditors who are urged to explore different ways of effectively approaching such procedures in order to achieve optimal coordination and cooperation from their clients.

Testing of the assessed risks has also been impacted by the virtual working environment. It includes several procedures such as verifying physical documents (revenue invoice, employee contract, etc.) or even conducting physical inventory counts at the client's inventory warehouse. Therefore, a remote working arrangement has caused complications in testing the assessed risks procedures since it is not possible to conduct virtual inventory counts or the clients may not feel comfortable sharing sensitive physical documents over online tools due to confidentiality reasons. To alleviate such unforeseen circumstances, auditors have begun to emphasize on analytical audit procedures, whenever applicable, as an alternative to test of details in order to support their conclusions, since it reduces the number of physical testing needed which have become so expensive and time-consuming to undergo virtually (Albitar, Gerged, Kikhia, & Hussainey, 2020) [1].

The outbreak has also largely affected accounting professionals working in the consulting sector since many of their clients encountered unexpected financial and economic difficulties. This has resulted in various consulting engagements, including tax consulting, to be modified, postponed, or even ceased. Consequently, consultants had to revise their client engagement letters to reflect those changes in order to guarantee that a formal understanding has been put in place and written proof exists of these changes, which will help avoid any conflicts that may occur during the course of conducting the required work (Ference, Rood, Sterna, & Wolfe, 2020) [4]. Revision of client engagement letters is also done in other accounting services including auditing, advisory and other related services. Engagement letter revisions could reflect modifications to various aspects of an engagement (including the scope of work, billing procedures etc...). Higher risk levels and growing concerns for clients due to COVID-19 may force different accounting service professionals to adopt broader procedures and invest more in their particular work to ensure comfort over conclusions reached (Albitar, Gerged, Kikhia, & Hussainey, 2020) [1]. Further, many specialized accounting firms have shown an understanding of the clients' financial difficulties so they would offer the clients alternative billing options tailored to their convenience (Ference, Rood, Sterna, & Wolfe, 2020) [4]. This helps to avoid the suspension of services executed due to prompt payment which helps in maintaining a great client relationship with existing clients, as well as build a good reputation amongst future clients.

- **Adjustments to financial reporting disclosures:** assessing a company's financial performance is founded on its financial statements which should be prepared in an accurate manner in order to depict the true image of the company's financial performance for the needs of important stakeholders. Since COVID-19 initiated mass disruptions across many platforms, major deviations in financial reporting have occurred to reflect their impact on financial performance. This was done in compliance with the International Financial Reporting Standards (IFRS), Generally Accepted Accounting Principles (GAAP) or other country specific accounting standards. A study conducted by Deloitte Touche indicated that the operating results reported under IFRS, US GAAP or Swiss GAAP FER are supposed to reflect a true and fair view of past performance. While additional information is also necessary to provide an understanding of the drivers of performance and to form a basis for future projections (Köster & Igoe, 2020) [8]. An accurate representation of financial performance is extremely crucial to many stakeholders because it allows them to perform their own financial assessments and evaluations to support a more precise outlook on the future of a company. This is especially the case with investors who base their critical investment decisions on their analysis of the issued financial statements. Severe financial disruptions caused by COVID-19 are unprecedented, therefore comprehensive disclosures on companies' financial statements are necessary in order to correctly portray their effects on financial performance. This has influenced the standard presentation of financial statements since new sections would need to be added and existing sections may need to be completely modified to properly incorporate those effects. For example, including a company's detailed sensitivity and impairment information to show the influence of high uncertainties on future performance (Köster & Igoe, 2020) [8].

Further, the study showed a major rising trend in the amount of quantitative and non-quantitative details presented in the second quarter review of financial information (Q2) for 2020 when compared to the first quarter review (Q1), while the details presented in the third quarter review remained stable (Köster & Igoe, 2020) [8]. Given that the gradual growth of economic and financial disruptions began during the second quarter of 2020, the significant trend observed was expected since many financial statements were greatly amended to reflect their effects on companies. The constant level of details reported in Q3 and Q2 is due to the need for sustaining up-to-date disclosures of those effects since COVID-19 is an ongoing factor which has to be continuously assessed and accurately disclosed in every reporting period.

- **Increased emphasis on the "Going concern" assessment and disclosure:** accounting assumptions and principles must be integrated into the foundation of the accounting practice and applied on a continuous basis when handling business transactions. One of the key accounting assumptions is known as the "going concern" which assumes that a business will continue functioning in the foreseeable future without an end date defined. Therefore, it is extremely critical for management to continuously assess the "going concern" assumption every reporting period in order to conclude that there is no material uncertainty on the ability to continue as a going concern (Köster & Igoe, 2020) [8]. Auditors then conduct their own assessments based on the financial information provided by a company while preparing their financial statements for a respective reporting period. They rely on accounting judgments and estimations to examine management's future forecasts and the company's liquidity risk to reach conclusions on the applicability of going concern. However, economic and financial complications resulting from COVID-19 have placed a significant doubt on many companies' ability to continue surviving in the current circumstances which correspondingly hindered the practicality of the going concern assumption. It is, therefore, essential to foster more emphasis on the assessment of going concern when preparing financial statements for reporting periods in 2020 than in previous years (Albitar, Gerged, Kikhia, & Hussainey, 2020) [1].

The going concern assumption is an important element that many stakeholders, such as investors, take into account when assessing financial performance. Hence, it is significantly important to provide users with accurate information when preparing disclosures related to the going concern assumption (Kegalj, 2020) [7]. With such transparency, stakeholders will be able to make important and more precise decisions. Given the increased focus on the going concern assumption due to the pandemic, alterations to the standard way of disclosing this assumption with the inclusion additional disclosures may be required to provide a better overview.

Conclusion

Overall, COVID-19 has severely impacted many industries around the world. It has caused various uncertainties and complications across many platforms, hindering many companies' business activity and operations. This has ultimately led to companies going into serious financial and economic difficulties which placed a significant doubt on their long-term survival. This paper focused specifically on the role that COVID-19 has played in the accounting industry and its practices. Based on recently relevant published work, the paper discussed general and accounting specific impacts of COVID-19 and provided some further insights. It is undoubtedly that the pandemic will continue to have long-term impacts on the accounting industry as it remains to mature globally at an inconstant rate. Hence, companies will be obliged to continue monitor and evaluate its effects to ensure that timely information is maintained to be utilized for immediate appropriate actions. This would potentially assist upper management in restructuring their business models and developing strategies in order to integrate COVID-19 in their practices. Further, it is noteworthy to mention that the impacts of COVID-19 on the accounting profession can have other aspects beyond what has been discussed in this paper.

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