



ევროკავშირი
საქართველოსთვის
The European Union for Georgia



2020

Survey of Auditors and Audit Firms on the Impact of the COVID-19 Pandemic

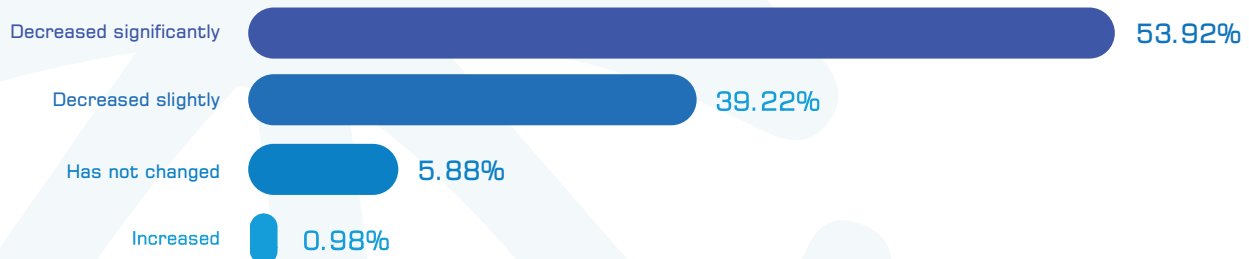
on the Market for Audit Services in Georgia

As a follow-up of to the webinar 'Small and Medium-Sized Accountancy Practices Rising to Coronavirus Challenge' on 29 May 2020, the World Bank Georgia office, in collaboration with the Accounting, Reporting and Auditing Supervision Service (SARAS) and the Georgian professional accountancy organizations (PAOs), conducted a survey of auditors and auditing firms to assess the impact and implications of the coronavirus (COVID-19) pandemic on the market for audit services in Georgia. The survey was launched on 16 June 2020 and conducted online using Survey Monkey. The survey, comprising just 10 questions, was estimated to take around 10 minutes to complete. It was emailed to Georgian auditors and audit firms, primarily small and medium-sized accountancy practices (SMPs), and elicited 102 responses. This report summarizes the key findings from the survey and concludes with some recommendations.



1: How has the coronavirus pandemic affected your current revenue as an audit firm?

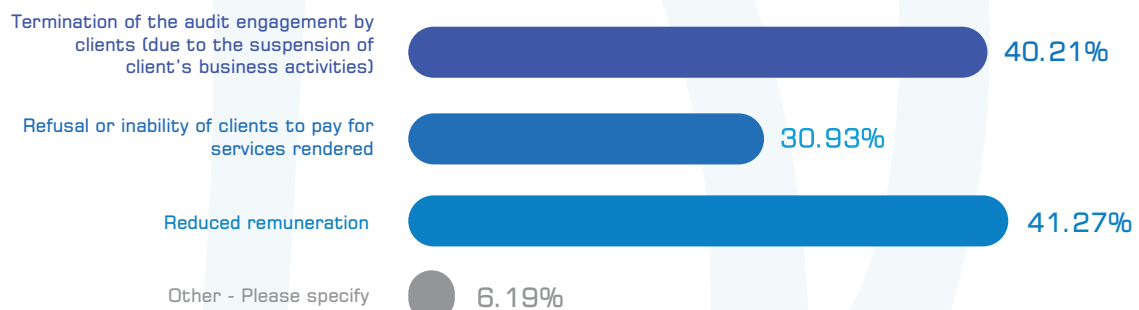
Responded: 102 | Missed: 0



Almost all respondents (**93.1%**) had experienced a decrease in revenue from audit fees. Some **53.9%** reported revenues had 'decreased a great deal' and **39.2%** 'decreased by a little'.

2: What is the reason for the decrease in revenue (if any):

Responded: 97 | Missed: 5

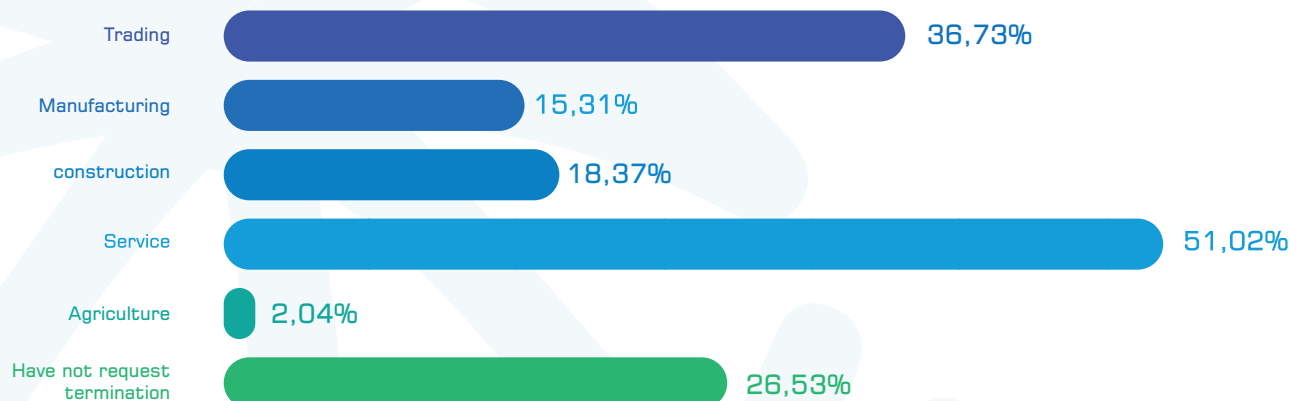


The most commonly cited reasons for a decrease in revenues from audit services were 'reduction of audit fee' (**41.2%**), 'termination of audit engagement' (**40.2%**) and 'refusal or inability of clients to pay for services' (**30.9%**). These findings concur with similar surveys in other jurisdictions.



3: What types of companies have most often requested the termination of the audit engagement?

Responded: 97 | Missed: 5

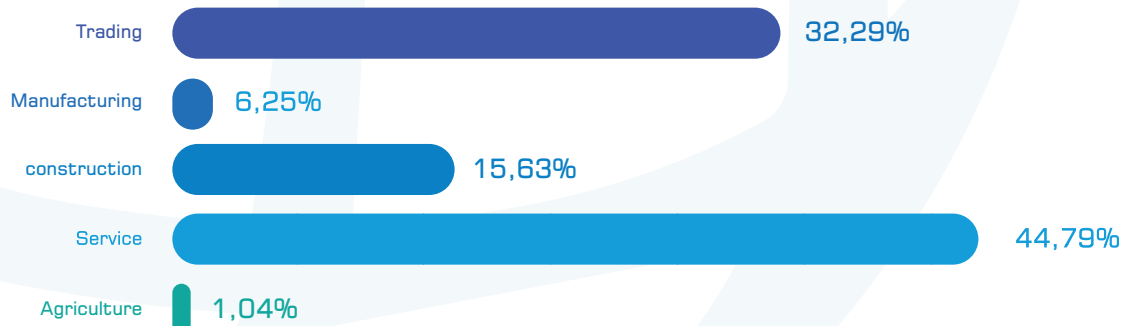


The types of companies that most often requested the termination of audit services were service (51.0%), trade (36.7%) and construction (18.4%). These findings mirror those of the **BAG Index I Quarter 2020**, and similar surveys in other countries, that found the service sector to be most adversely impacted by the pandemic.

Conduct of Audits

4: The current audit of all transactions of the enterprises of the sector which affect the activity?

Responded: 96 | Missed: 6

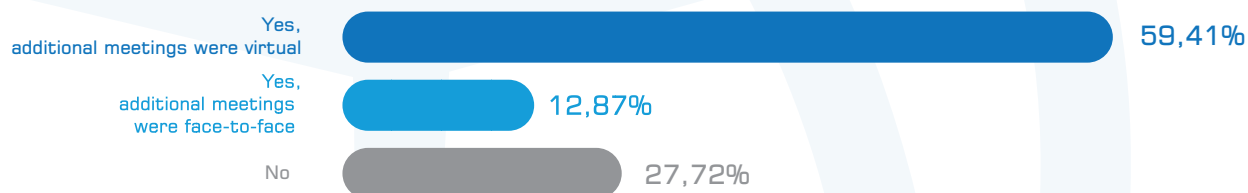




The types of companies that posed the most difficulty during the conduct of the current audit engagement were service (44.8%), trade (32.3%) and construction (15.6%). These findings come as no surprise since many, if not most, service companies were required to shut down as part of government measures to combat the spread of the coronavirus and are only slowly starting to reopen

5: If necessary, were any additional meetings (virtual/remote or face-to-face) held with the management of the client organizations to review future action plans and to hear the assessment of the current circumstances?

| Overall: 101

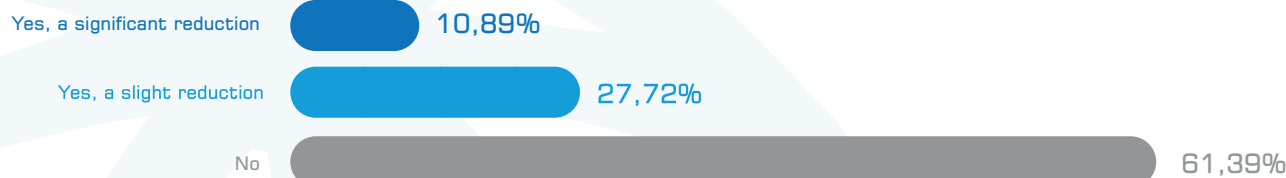


To get acquainted with future action plans and assess the current circumstances most respondents (72.3%) held additional meetings with their audit clients. Not surprisingly most of these additional meetings were virtual (59.4%) rather than face-to-face (12.9%). These results suggest that most respondents are adjusting to remote working, at least in so far as communicating with their clients.



6: Has the coronavirus pandemic led to a reduction of the audit staff at the audit firm?

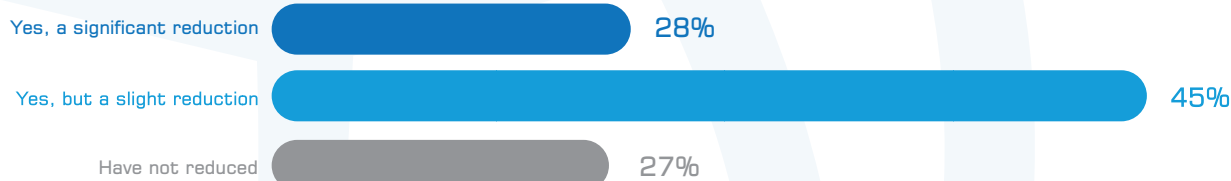
Responded: 101 | Missed: 1



While the majority (61.4%) of firms have made no reduction in the number of audit staff some 10.9% have made a significant reduction in headcount

7: Has the coronavirus pandemic led to salary reductions for the firm's audit staff?

responded: 100 | Missed: 2



While most firms (73%) have reduced the remuneration of their audit staff, most firms (45%) have made small reductions. A sizeable minority of firms (27%) have made no reductions. .

As revenues from audit services have decreased audit firms have sought to reduce costs. Staff costs are one of the largest, if not the largest, cost. Encouragingly firms have tended to focus on reducing the remuneration of audit staff rather than reducing their number. These findings echo those of similar surveys in other jurisdictions.



Operating Policies and Procedures

8: Has the coronavirus pandemic altered the company policies and procedures?

Responded: 101 | Missed: 1



A significant majority of respondents (88.1%) reported that COVID-19 has not prompted a change in the firm's operating policies and procedures. These changes are somewhat surprising given that research from ACCA 'Covid-19 global survey: inside business, impacts and responses' reveals the impact of COVID-19 has had a significant impact across the global audit profession and public practice leaders. **This ACCA article**, which summarizes the SMP relevant findings from a follow-up survey, finds significant numbers of SMPs having to cope with 'limitation of scope in gathering audit evidence' and 'increased audit risks relating to valuation of assets, completeness of liabilities or going concern issues'.

9: Did the audit staff receive any additional training to facilitate remote working?

Responded: 100 | Missed: 2

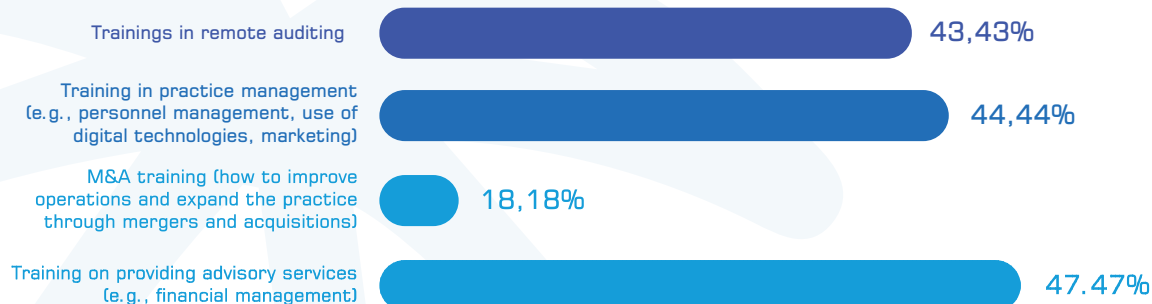


The inability to be physically present at the client's premises have necessitated remote working and remote auditing. Most firms (66%) are providing additional training for their audit staff to facilitate remote working.



10: What kind of assistance might be helpful to small audit firms in the post-crisis period (select 2 top choices):

| Overall: 99



The final question asked what type of training assistance small audit firms need in the post-crisis period. Respondents were asked to select their top 2 choices. Auditing and accounting were not among the choices on the basis assistance in these areas was ongoing. The two most frequently cited were 'training on providing advisory services (e.g., financial management)' (47.5%) followed by 'training in practice management (e.g., managing people, use of digital technologies, and marketing and promotion)' (44.4%). These results suggest that many SMPs in Georgia are interested in learning how they can best manage their practices and pivot towards advisory services. Digital transformation – to improve operational efficiency and to improve quality and relevance of professional service offerings – is central to this.



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Recommendations

- SMPs should embrace automated / remote auditing as this promises a more cost effective, efficient, and high-quality audits. This will demand an upfront investment in technology and training.
- SMPs should consider how to grow revenues from services other than audit, specifically build their capacity to offer advisory services that utilize cloud-based solutions.
- PAOs, with donor assistance, should promote the role of SMPs in helping SMEs prosper through the provision of affordable and effective business advice as in **this video**.
- PAOs, with donor assistance, should encourage SMPs to undergo practice transformation as envisaged by IFAC in its **Practice Transformation Action Plan**.
- PAOs, with donor assistance, to conduct training of leaders of SMPs on practice management and provision of advisory services as a first step in their **practice transformation**.
- PAOs, with donor assistance, need to encourage SMPs to consider how they might benefit from collaboration and networking with other SMPs, including merger and acquisition (M&A).

