

# The Changing Role of Audit Committee Responsibilities in the Light of COVID-19 Pandemic

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**Abstract-** The communication between internal auditor and audit committee is often questioned in the context of the acted upon of any findings. Many cases found that there is incompatibility with the regulatory, where these weaknesses have the potential to cause harm and difficulty to the Company. The responsibility of an internal auditor is to ensure that any weaknesses found must be reported and acted upon by the Audit Committee through Internal Audit report. This research attempts to understanding of what approach the internal audit should use to be received and acted upon by the audit committee so it could make advantage to Company during this pandemic. This study is a descriptive study in nature. The rationale for utilizing this approach is to explain the originality of the case, when the circumstance existed at the moment of the analysis, and to investigate the phenomena. The findings of the study shows that, there will be a shift in the execution of audit committee functions during this COVID-19 pandemic. The result of the study is expected to be useful to practitioners and audit committee members in making a solid and reliable decision in their business dealings.

**Index Terms-** Execution, Internal Auditor, Audit Committee, Internal Control, Adventegous

## I. INTRODUCTION

As companies confront the profound disruption of operations, finances and the workforce caused by the COVID-19 pandemic, there is no such thing as usual. For corporate boards, that is just as true as it is for frontline workers. In the coming months in particular, audit committees will have plenty on their plates to provide critical oversight of financial reporting in this environment about the same time, audit committees would need to keep working on their other key duties in areas such as risk management, internal and external audit management, and ethics and compliance. Given the current industry and market dynamics in the coronavirus pandemic, it is possible that businesses will face many accounting and reporting problems depending on where they are in the fiscal year. Such difficulties come in the form of realistic requirements, such as a company's ability to "close its books," apply complex accounting principles based on discretion, meet regulatory standards and reporting deadlines, and satisfy investors' expectations (PWC, 2020). Audit committee needs to take closer attention to impact of online through work. The first is the effect of corporate regulation, the second is adjustments to the organizational process and public management, such as the Act, Enforcement or Transparency, Human Resources, and the last thing to remember is whether and how relevant concerns are communicated to the Board of Directors Across other relevant areas of quality management, the audit committee will insure that there are no significant threats and that the procedure is carried out with great accuracy. The audit committee will monitor the environment to insure that staff will be requested for additional energy and money and guarantee that the procedure is operating efficiently (PWC, 2020).

This study attempts to understanding of what approach the internal audit should use to be received and acted upon by the audit committee so it could make advantage to Company during the covid-19 pandemic. The paper also sake to explore the impacts of COVID-19 on the execution of audit committee functions and to answer if the new pandemic changes the execution of audit committee responsible.

From the case of the failure of BUMN companies in Indonesia, such as PT Dok Kodja Bahari, PT Sang Hyang Seri, PT PAL, PT Dirgantara Indonesia, PT Pertani, Perum Bulog, and PT Krakatau Steel in maximizing profit in 2019 yesterday, the Company must learn to review and improve internal controls. Looking from the page [www.cnbcindonesia.com](http://www.cnbcindonesia.com), the loss was caused by excess revenue recognition from the distribution of RASTRA (Perum Bulog). PT Sang Hyang Seri and PT Pertani are caused by business inefficiencies, interest expenses, and changes in government policies in seed procurement mechanisms. PT Dirgantara lost because of the cancellation of contracts and orders that did not reach the target and at PT Dok Kodja Bahari suffered losses due to administrative and general expenses which were too high at 58% of revenue, PT Krakatau Steel due to financial burden during construction. At PT PAL lost due to increased other expenses up to three times due to exchange rate losses and losses from associates (PT GE Power Solution Indonesia). All of these BUMN includes in Penyertaan Modal Negara (PMN) in according President Jokowi's Program "Nawa Cita".

Effectiveness is the main business achievement goal within the scope of internal audit for the past four decades, in addition to efficiency and honesty. Mainly also harmonized with the definition of the business risk approach to auditing (Abdullah et al., 2019). The audit committee is the front and center, as the financial impact on companies is widespread and it is more critical than ever to

maintain market confidence in reported information on the impact of the pandemic. It is essential that the audit committees take into account their responsibilities and keep in mind.

So, the role of internal audit function and the role of audit committee must be recovered. Better internal control not only be the needed of a Company, but it should be compulsion of a Company. Also the ruined company must be follow the culture of People where their main Company operationalized. Legitimacy theory asserts that companies continue to try to ensure that they operate within the framework and norms that exist in the community or environment in which the company is located, where they try to ensure that their activities of the company are accepted by outsiders as a "legitimate". Roussy et al. (2020) states that the success of the Company depends on whether the Company has focused its attention on information and on the relationship between community, government, individuals, and certain professional groups.

Upper Echelon theory stated that the individual characteristic of top management define the strategic decision that they made. Hambrick & Mason (1984) revealed that Upper Echelon theory emphasizes both the visible Cognitive and the invisible Intelligence Knowledge from the Top Management level, which means that here is the Internal Auditor and the Audit Committee Board. In terms of intelligence, the Internal Auditor and the Audit Committee must be people who have experience, education, and qualified social life. While the cognitive aspects of the internal auditor and the Audit Committee can be judged by their speed in responding to the situation and their expertise in building strategies.

So that the findings of internal audit reporting give benefit to Company that should be reported and followed up by Committee Audit. If the Communication between Internal Auditor and Committee Audit is good enough, so the acted up by Board of Committee audit must be good too, and vice versa. It is stated in Internal Audit Charter by The Institute of Internal Auditors (IIA) (2019) that internal auditor and Board of Audit Committee have to held a Meeting at least once every 5 years.

The Internal Audit unit research in Azzali & Mazza (2018) states that there is an increase in audit committee management approval when the internal auditor uses the Participatory Approach. A decrease in Audit Committee Management approval occurs when the internal auditor uses the Traditional approach. This research resulted in the finding that although the internal auditor has shown a positive attitude, the audit committee management can still suspect manipulation if the internal auditor uses a traditional approach. The main gap of the study is the limited and lack of previous studies on audit committee and COVID-19, this area of study is still new and unexplored.

This study intend to fill this gap by taking a closer look at COVID-19 and its impacts on the execution of audit committee functions in deep. However, it is the first time a study is conducted on the execution of audit committee functions and COVID-19. The result of the study is expected to be useful to practitioners and audit committee members in making a solid and reliable decision in their business dealings. This findings from this study will also serve as a benchmark and reference for future and coming researcher are will be interested in the same stream.

The rest of the paper is structured as follows; a theoretical framework, followed by a detailed research methodology followed by results and discussions which discussed the main findings from academic literature in other to justify the findings of the study. The final section consists of the conclusion and limitations of the study.

## II. THEORITICAL FRAMEWORK

The study aims to explore the impact of covid-19 on the execution of audit committee functions. Specifically, the paper scrutinized previous literatures where intentions of external auditors, internal auditors and members of the audit committee make changes to the execution of their functions as a predictor of the future behaviors of audit committee members.

**Diffusion of Innovation (DOI) Theory-** The study make use of the diffusion of innovation (DOI) theory to give a detail explanation of the level of adoption of the new COVID-19 pandemic in the new business settings. The diffusion of innovation theory model was first brought to the world stage by Rogers in the year 1962, with the main concept evolving over later editions (Rogers, 1983). The diffusion of innovative theory posit that innovation diffusion is a general process not tied by the type of invention and innovation, by who the adopters are or by place or culture. Rogers (1983) defined diffusion as the process by which an innovation is communicated via various channels over time and among the members of a particular social system.

As explained above, Rogers et al. (2004) argued that pioneer of change are a crucial factor in the time of innovation being adopted, that uncertainty reduces the velocity of innovation adoption, adopters must be aware of all the benefits and threats they face. Rogers (1983) further suggested that diffusion of innovation theory require certain attributes, such as relative advantage, estimated complexity, and estimated compatibility which are vital for the adoption of an innovation. For companies in Indonesia to understand and share information regarding the effect of COVID-19 on the execution of audit committee, online conferences and seminars in the form of webinars need to be organized by interested bodies, such as the Komite Nasional Kebijakan Governance KNKG, prominent audit experts, and public relations offices of companies (Bananuka et al., 2020). The citizenry need to be aware of the gains and losses of change in functions of audit committee due to COVID-19.

### III. RESEARCH METHOD

This study used a descriptive type of research. The purpose of implementing this method is to explain the originality of the case, when the circumstance existed at the moment of the analysis, and to investigate the phenomena (Boswell & Cannon, 2014). This research is based on the qualitative research method. It permissible an investigation of crucial new issues and questions as they arose. They also study used this method of research since this research intends to find solutions that would explain the relationship of one variable with another variable through qualitative factors in research. These qualitative factors are behavior, attitudes, opinions, and beliefs. The study used this kind of research considering the goal of the study to obtain sound and reliable information to formulate rational conclusions and recommendations for the study. The paper deliberately chose a research methodology, which is consistent with the research interests. Query Phenomenon "is an attempt to dealing with unexplained internal experiences in daily life (Merriam, 2002). The study chose this method to help determine the meaning behind the human experiment because it is connected to Strauss & Corbin (1998) methodological methodology as "a way of thinking about Study of social reality ".Furthermore to help determine the meaning behind the human experience because it is associated with a phenomenon or a significant collective event (Creswell, 2009).

Data was gathered through a collection of published articles from reputable journals using keywords such as; audit committee, internal auditor, and COVID-19 that relates to the topic of interest. Secondary data collection data was mostly used considering the unavailability of data and the restrictions impose by the government for person to person meetings.

### IV. RESULT AND DISCUSSION

It is the responsibility of audit committees to oversee how the managerial monitors and controls the significant financial potential risk of the company, including fraud. Keeping the confidence in the market that financial reporting documentation is accurate is crucial, which means focusing on audit committees during a crisis, especially one of this magnitude, is even more important. The audit committee must be extra cautious and not overburdened with broader responsibilities, given the complexities of financial reporting right now.

Communication is the process of sending and receiving messages from two or more people. Intended to increase the effectiveness of understanding messages from sender to recipient Barata (2003). DeSimone et al. (2020) defines communication as a reaction to the behavior of the organism, both verbal and stimulus. The reactions that occur can occur anytime and anywhere. Although the communication between the internal audit and the audit committee has been more active since the SOX regulations, the audit committee also has other responsibilities of the board of directors. And usually not displayed in day-to-day operations. The most frequently communicated internal audit committee with the audit committee is an educated person. Although the audit committee does not usually take care of financial matters, the audit committee also knows a lot about financial reporting related to external auditors, and may perceive the internal auditor as a party that is not recognized (Khelil et al., 2016).

The audit committee has a unique role compared to the board of commissioners. The audit committee only has duties on the outsourced directors, independent from management. Responsible for understanding, supervising, coordinating, and interpreting with Internal Audit for financial stability (Khelil et al., 2016). Al-Ajmi (2009) emphasize. A multidisciplinary commitment to effective government, developing knowledge and collaborating alongside others is key. This provides a detailed picture of the various positions in government, namely board members, audit committee, executives, internal auditors and external auditors. It is necessary for board members not only to understand what the audit committee is doing and the nature of their partnership with the auditor, but also, ultimately, to recognize their own mutual responsibilities in terms of disclosing integrity and ethical behavior (Momeni & Nakhaee, 2018).

The vision of the internal audit profession is that the mission of the internal audit profession is to add and protect the organization's value by providing risk-based assurance, advice, and insight (Sarens et al., 2012). According to The Institute of Internal Auditors (IIA) (2019), there are 4 codes of ethics for internal audit, namely Integrity, Objectivity, Confidentiality, and Competency.

Abdullah et al. (2019) explain how efforts to uphold Good Corporate Governance have been initiated by several developed countries such as Britain and America. In 1992 in England, the Cadbury Committee was formed which provided several recommendations for implementing corporate governance. These recommendations are summarized in a report entitled The Financial Aspect of the Corporate Governance. Meanwhile in America, there were 10 recommendations regarding corporate governance made by the Blue Ribbon Committee in 1999 (BRC, 1999). In Indonesia, in 2001, the National Committee for Governance Policy developed a guideline for good corporate governance which was refined in 2006. These guidelines are intended to provide a basic reference for the concept and pattern of GCG implementation (KNKG, 2001). In these guidelines, there are guidelines for the formation of several committees that are formed by the board of commissioners, one of which is the audit committee.

The Audit Committee is part of the Board of Commissioners which is responsible for internal control and financial reporting but because of this broad responsibility, the Audit Committee may not have any relationship with the Company's Management. Usually, for a Board of Directors consisting of 12-16 people, Moeller (2016) must have an Audit Committee member of at least 3 or 4 people. The responsibility of an Audit Committee is that while the format varies from company to company, an audit committee charter generally includes:

- 1) The objectives and strengths of the audit committee;
- 2) Composition of the audit committee;
- 3) Meeting schedule
- 4) Audit committee procedures
- 5) Main activities of the audit committee: a) Corporate governance b) Public reporting c) Independent accountants
- d) Auditing and accounting e) Other activities;
6. Discretionary activities: a) Independent accountant b) Internal audit c) Accounting d)

Control and system e) Public reporting f) Responsibility for compliance monitoring g) Risk assessment h) Responsibility for financial oversight i) Responsibility for planning Employee benefits fiduciary investment 7) Limits of Moeller's audit committee (2016).

Finally, audit committees will need to ensure that they collaborate closely with their internal and external auditors. These are two tools which can be leveraged by the committee in its oversight obligations. As it contributes to internal audit, provided COVID-19, priorities may have shifted. The audit committee will understand what tasks are overdue and the internal audit should be relaxed COVID-19 is creating a structural change in their responsibilities for the audit committee, which is an essential component of successful governance, the job is tougher than ever. Throughout general, the audit committee plays a role in developing and sustaining a business culture and environment that encourages transparency and the exchange of information related to the decision-making of the organization and its shareholders and others. Transparency is required in times of uncertainty (Von Gaudecker et al., 2020). The role of audit committee is to track the effect of the pandemic on productivity, cash flow, capital management and a fresh emphasis on balance sheet efficiency, as well as to recognize early indicators of financial pressure, continuing negotiations and certain financial reporting consequences, such as asset revaluation and post-reporting incidents. (IFAC, 2020).

In reaction to COVID-19, audit committees should be alert to the increasing number of possible challenges and must evaluate their goals and targets. Around the same period, though, the Audit Committee should ensure that they will consistently reflect on their main duties with respect to oversight of financial statements and internal management, which would contribute to the uncertainty of the pandemic.

## V. CONCLUSION

From the discussion above, we can make conclusion that every personnel of audit committee must follow the Rule in executing their responsibilities, such as Blue Ribbon Committee BRC (1999) in America or Komite Nasional Kebijakan Governance KNKG (2001) in Indonesia. That Rules for example consists of many aspects that is not easy to follow by audit committee, like compulsion of act in Internal Control and contribute in employee compliance, etc., and give a percentage points in every aspects. So, that will be good to Board of Directors to monitoring the audit committee performances. As business continuity difficulties keep going, companies may encounter issues with the timely "closure of their books." Companies should apply "lessons learned" from the closing of their preceding quarter to help them develop this quarter. Audit committees should be aware of potential issues concerning the workforce, both domestic and international, and the ability of a company to meet reporting deadlines. A control system may be rendered irrelevant by individuals who are unavailable or unable to fulfill the responsibilities on which the system relies, or who fail to adapt controls to changes in the business environment and how those controls are performed remotely. Making sure that internal controls continue to function effectively should be a constant focus (Lord, 2020).

This paper followed by such limitations like difficulty to find any real practice of Internal Auditor work in Indonesia and difficulty to find the relationship between different division in one Firm. Future research expected to find the progress of audit committee profession in react to COVID-19.

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