

WORK-FROM-HOME SETUP AND AUDIT QUALITY AMONG EXTERNAL AUDITORS

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ABSTRACT

Research Purposes. Technological advancement and globalization increase demand for flexible work arrangements, particularly remote working, which pose limitations and challenges to auditors in maintaining audit quality. The study aims to determine which domain of work-from-home setup significantly influences the audit quality of external auditors.

Research Methods The study used quantitative research design and correlational techniques to test the relationship and significance of the variables. It was participated by CPAs in public practice who experienced remote auditing and employed the random sampling technique in selecting the respondents. The data were analyzed and interpreted using the mean, standard deviation, Pearson's correlation, and regression

Research Results and Findings. The results concluded that the effectiveness of work-from-home setup and audit quality have a moderately strong, positive correlation. Only the propensity to work remotely and work-life balance significantly influenced the audit quality of external auditors. The findings imply that despite the physical absence and changes in processes, working from home can be an effective work setup in attaining and maintaining high-quality audits and has the potential to address the demand for flexible work arrangements if appropriately administered. The study suggests strengthening remote audits by creating and utilizing online tools for managing audit activities, such as submission of evidence, planning, and audit preparation.

ABSTRAK

Tujuan Penelitian. Kemajuan teknologi dan globalisasi meningkatkan permintaan akan pengaturan kerja yang fleksibel, khususnya kerja jarak jauh, yang menimbulkan keterbatasan dan tantangan bagi auditor dalam menjaga kualitas audit. Penelitian ini bertujuan untuk mengetahui domain pengaturan kerja dari rumah mana yang berpengaruh signifikan terhadap kualitas audit auditor eksternal.

Metode Penelitian Penelitian ini menggunakan desain penelitian kuantitatif dan teknik korelasional untuk menguji hubungan dan signifikansi variabel. Survei ini diikuti oleh CPA di praktik publik yang berpengalaman dalam audit jarak jauh dan menggunakan teknik pengambilan sampel acak dalam memilih responden. Data dianalisis dan diinterpretasikan menggunakan mean, standar deviasi, korelasi Pearson, dan regresi

Hasil Penelitian dan Temuan Penelitian Hasilnya menyimpulkan bahwa efektivitas pengaturan kerja dari rumah dan kualitas audit memiliki korelasi positif yang cukup kuat. Hanya kecenderungan bekerja jarak jauh dan keseimbangan kehidupan kerja yang berpengaruh signifikan terhadap kualitas audit auditor eksternal. Temuan ini menyiratkan bahwa meskipun ada ketidakhadiran fisik dan adanya perubahan dalam proses, bekerja dari rumah dapat menjadi cara kerja yang efektif dalam mencapai dan mempertahankan audit berkualitas tinggi dan berpotensi memenuhi permintaan akan pengaturan kerja yang fleksibel jika dikelola dengan tepat. Studi ini menyarankan penguatan audit jarak jauh dengan membuat dan memanfaatkan alat online untuk mengelola aktivitas audit, seperti penyerahan bukti, perencanaan, dan persiapan audit.

INTRODUCTION

External auditing traditionally involves onsite procedures for independently examining and verifying a business's financial information (Appelbaum, 2020). However, with the advent of technology and globalization, remote working has become a renewed interest in innovation. There is an increased demand for flexible work arrangements as technology contributes convenience and speed in completing a job (Schall, 2019). Working from home paves the way for some to experience it on a trial basis, while most avoid implementing it due to uncertainty and risks in work quality (Clancy, 2020). In the same way, the shift from onsite to remote auditing constitutes changes in workstyle that limit the conduct of audits. This transition requires auditors to increase competence and training on the technology used to maintain the audit quality despite the physical absence. Herein, auditors must adapt to change and re-engineer audit processes to facilitate a more efficient approach and broader scope (Teeter et al., 2010).

Audit primarily aims to establish the credibility of a client's financial statement to protect the interests and trust of its shareholders and creditors. However, nowadays, external auditors face the challenge of remote working as it affects the workstyle and its outcomes (Wang et al., 2021). The new work setup increases the risk of accuracy and compliance as the auditors no longer conduct the audit procedures in a usual manner. Remote audit reduces physical interaction, consequently allowing fraud to occur since the submission of documents using digital technology could be easily manipulated and exclude relevant information (Satya & Shauki, 2021). With this, auditors' responsibility has increased in balancing professional skepticism with professional judgment to maintain or improve audit quality. Additionally, there could be delays in receiving information online due to intermittent internet connection, adversely affecting the operational capability of any professionals in executing their functions (Caduaya, 2022). The work-from-home setup has setbacks in internet connectivity, making it more difficult for auditors to attain timeliness and communicate with coworkers (Bongato, 2020).

The emergence of work-from-home arrangements has significantly affected the accounting and audit profession, forcing them to work entirely in a remote or skeletal workforce. A particular study states that the work-from-home setup negatively affected the quality of audits in

terms of audit processes; alternative procedures were insufficient in gathering relevant and reliable audit evidence, audit standards were not thoroughly followed, problems arose regarding audit fees and proper monitoring and guidance during the engagement were lacking (Hazaea et al., 2022). In contrast, in a qualitative study by Johnsson & Persson (2021), the work-from-home setup does not have a material effect on the audit quality regarding the auditor-client relationship and auditor's independence. Another qualitative study, however, revealed that work-from-home auditing is more efficient, cost-effective, highly preferred by some auditors, and regarded as the future of auditing (Putrevu, 2021). Due to the contradicting ideas of various studies, clarification regarding this matter is deemed urgent and necessary.

The social experiment on working from home viability of Americans conducted by Barrero et al. (2021) showed that there would be a significant shift in the work setup from traditional to work-from-home due to increased reliance on and usage of technology. This phenomenon calls for further examination of the extent and role of this setup as an alternative work arrangement in improving efficiency and considering the broader scope of auditing. This study aims to determine which domain of work-from-home setup significantly influences audit quality. This study is mainly concerned with assessing the level of effectiveness of work-from-home setup, the level of external audit quality, and the significant influence of work-from-home setup on external audit quality.

LITERATURE REVIEW

Theoretical Framework

This study is anchored on the Boundary Theory proposed by Christena Nippert-Eng in 1996. This theory states that people establish boundaries or "mental fences" to distinguish one life role from another and to simplify their environment (Ashforth et al., 2000). As individuals transition from work to personal life and vice versa, they can cross different boundaries such as physical (locations), temporal (time and schedules), and psychological (attitude and behaviors) boundaries. However, if these boundaries are absent, work and non-work roles will conflict, which is a boundary violation (Nida et al., 2022). Numerous challenges are present in personal life and work accomplishment (Greer & Payne, 2014). According to the study by Carvalho et al. (2021), employees have been exposed to many interruptions and stress since implementing a work-

from-home setup. As a result, this boundary violation negatively impacted the well-being and professional competency of the employee (Carvalho et al., 2021). Since the work-from-home setup has altered or removed the boundaries established between the auditor's workplace and the auditor's home, the auditor's performance (audit quality as a whole) is deemed adversely affected in the work-from-home setup.

Social Presence Theory, developed by John Short, Ederyn Williams, and Bruce Christie in 1976, further supports this study. This theory initially described the degree of salience or noticeability of a person and their presence in a communication process. Social presence refers to the sense or feeling of being there with another person (Oh et al., 2018). In this modern time, Social Presence Theory means the degree to which a person's presence is perceived or felt in a communication process, specifically in computer-mediated communication (Bickle et al., 2019). Relating the theory to communications technology, a study claims that virtual media platforms convey different levels of social presence. Video conferencing exhibits a higher level of social reality than telephone and e-mail because the ability of the former to transmit visual and verbal cues is better than the latter (Calefato & Lanubile, 2010). The differences in levels of social presence significantly affect the quality of interactions and the quality of their outcomes (Bickle et al., 2019). As stated by the study of Satya & Shauki (2021), which considered the implications of Social Presence Theory, conducting audits in a virtual setup has limitations, such as observing clients' premises and processes and understanding their culture and practices. Also, staff training was difficult, and the lack of physical inspection of clients' books caused auditors to doubt the credibility of electronic information given to them since there might be a chance of manipulation. These limitations imply that the social presence in a work-from-home setup is far from the level traditional audits provide. Hence, audit quality will be negatively affected.

Effectiveness of Work-from-Home Setup

Work from home is mainly done at home, consuming at least twenty hours per week (Rachmawati et al., 2021). According to Bick et al. (2023), working from home has drastically increased, and more workers are engaging in this setup. Putrevu (2021) regarded remote working as the future of auditing as it is deemed more efficient, cost-effective, and highly preferred by some auditors. Hence, the work-from-home arrangement

transition is consistent, affecting work and workers simultaneously. Most firms have been mandated to adopt this working mode due to the need for innovation, without providing staff with the requisite skills for remote work. Organizations have stated their intention to minimize office space and create blended home-office working arrangements, citing possible cost savings over the typical office and the desire to provide individuals more freedom in work (Ipsen et al., 2021). The productivity benefits that result from a more flexible work environment could be long-term benefits for companies. Companies are now more confident that employees will be as productive from home as in the office. Employers may benefit in the long run by allowing employees to modify their work habits to be more productive (Faulds & Raju, 2020).

Additionally, Vyas & Butakhie (2020) stated that employers and employees benefit from working from home. Reduced commuting time, avoidance of office politics, use of less office space, increased motivation, improved gender diversity (e.g., women and careers), healthier workforces with lower absenteeism and turnover, higher talent retention, job satisfaction, and productivity are just a few benefits. Additionally, people who work from home routinely report higher job motivation and satisfaction, likely owing to more work-life flexibility and control (Aczel et al., 2021). Even though most employees are satisfied with remote work, it must be remembered that the lack of physical interactions between employees threatens the pillars of organizational culture before the pandemic, such as conversations, meetings, and social contact. Remote working for a limited period may have a minimal impact; however, permanent remote working may result in a significant loss of talent and company culture (De Lucas Ancillo et al., 2020). In one of Gisbert & Huerta's (2022) discussions, individuals who have worked in the firm for a shorter period and have not assimilated the company's procedures and ways of working are less responsive to the functions they perform. Remote work has spread to clerical and low-skilled positions, making the working conditions linked with work-from-home setup relevant and significant.

External Audit Quality

Auditing is scientifically defined by the Chartered Institute of Internal Auditors (2020) as an independent examination and verification of the accuracy of financial information to enhance the degree of confidence of intended users and

strengthen accountability. The traditional external audit process usually begins with a document review. Onsite visits by a team of auditors for testing, visual inspection, and auditee interviews are followed by records or site measurements (Byrnes et al., 2018). According to Fischer (2020), creating an audit report uses the data acquired throughout this process, usually based on a binary judgment of whether the standards have been met.

Auditing standards, specifically International Standards on Auditing (ISAs), give a significant foundation to audit quality by providing minimum criteria and requirements for the fair presentation of financial statements free from material misstatements and fraud under the generally accepted principles (International Federation of Accountants, 2014). However, several definitions of audit quality make it difficult to have a basis for measuring audit quality, leading to the proposition of a few audit quality frameworks (Brown et al., 2016). ISA 220 defines audit quality as the probability of an external auditor's capability and competence to detect and report any violation in the client's accounting system, such as fraud, misstatements, and error. Further, Christensen et al. (2015) define audit quality in terms of audit inputs (professionals) and audit processes. Brown et al. (2016) support this and suggest that investors and upper-level auditors relate audit quality to audit input and process.

Hypothesis Development

External auditing traditionally conducts onsite procedures wherein physical interaction is present. However, remote audits have become rampant nowadays due to technological advances that transition the usual onsite audit procedures to operating in a work-from-home setup, affecting work efficiency and performance. Boundary Theory supports this phenomenon that tackles the effect of removing the boundaries between work and home due to the implementation of the work-from-home setup, compromising the work-life balance. It is further in line with the Social Presence Theory, which highlights the comparison of the effectiveness of communication and interaction in traditional work setup and remote working that affects work quality.

As stated by Vyas & Butakhie (2020) that both employers and employees will benefit from working from home. The benefits of remote working include increased productivity, flexibility, and collaboration despite geographical separation. On the other hand, there are contrasting notions from various studies

that remote working lacks physical interactions, which could result in a less responsive environment and unanticipated perception difference, more demand for communication tools and styles, heavy reliance on technology, and disruption of work-life balance. This research will test the effectiveness of the Work-from-home variable with audit quality, namely effective work-from-home will improve audit quality. The research hypothesis to be tested is as follows:

H₁: The effectiveness of Work-from-home setup will increase audit quality

RESEARCH METHODS

This study used the correlational research design to determine the significant influence of the work-from-home setup effectiveness as an alternative work arrangement to the external audit quality. According to Fraenkel et al. (2012), correlational research illustrates the degree of association between two quantitative variables. The research goal is to offer a more excellent knowledge about the dependent variable, the external audit quality, and explain how the effectiveness of work-from-home setup in terms of propensity to work remotely, supervision, reorganization, and work-life balance relates to the audit quality. The respondents of this study were 178 external auditors, specifically the audit associates, audit managers, and audit supervisors of the various audit firms who experienced the work-from-home arrangement. The study used random sampling, a probability sampling technique that gives an equal chance for each member of the population to be randomly selected (Amorado et al., 2017).

The study used a structured questionnaire to understand the effectiveness of work-from-home setup and external audit quality. The researchers adapted the questionnaire of Marasigan (2020) designed for the work-from-home setup effectiveness variable and by Rikkert (2020) in measuring the external audit quality. The questionnaire had Likert-scale questions with a 5-point scale indicating the strength of agreement or disagreement towards the statement. The data gathered was verified and validated by experts. The modified-adapted questionnaires have a Cronbach's Alpha of 0.764 for the work-from-home arrangement and 0.816 for the audit quality; both are above the test values of 0.700 as reliable.

Work-from-home setup – a flexible work arrangement or remote work of external auditors. It became more prominent during the COVID-19 pandemic, which prohibits residential or face-to-

face work. The indicators include the propensity to work remotely, supervision, reorganization, and work-life balance.

Audit quality – encompasses the key elements that create an environment for an audit team where there is support from and appropriate interactions among participants in the financial reporting supply chain. The indicators include knowledge and confidence, individual audit activity, audit firm environment, and audit firm activity.

Data analysis will use descriptive analysis, Pearson correlation test and t-test from regression analysis. Descriptive statistics will mainly explain the mean and standard deviation. Mean is the average score or the sum of all scores divided by the number of scores (Manikandan, 2011). It determines the level of effectiveness of work-from-home setup in terms of propensity to work remotely, supervision, reorganization, work-life balance, and external audit quality. Standard deviation. Measures how spread out the data is relative to the mean. A standard deviation of zero indicates that the data points are close to the mean.

Pearson Product-Moment correlation measures the degree of association or relationship between two quantitative variables (Creswell, 2012). This tool determines the relationship between work-from-home setup effectiveness and external audit quality. Finally regression analysis is a quantitative approach to test the theory in measuring the significance of the relationship among the variables (Creswell, 2012). It was used in determining which domain of the effectiveness of work-from-home setup significantly influences external audit quality.

RESULTS AND DISCUSSION

Result

Level of Effectiveness of Work-from-Home Setup

Table 1 shows the descriptive statistics of indicators on the effectiveness of work-from-home setup with an overall mean of 3.85 or high. It indicates that most external auditors found the work-from-home setup very satisfactory in performing their job. In this flexible work arrangement, auditors could experience better work conditions and benefits due to the greater work freedom and ability to modify work styles. Consequently, this implies auditors are productive in the work-from-home setup despite the physical absence. Also, auditors working from home achieve better flexibility in addressing personal and work needs and, at the same time, have more time to manage family activities. Moreover, the work-from-home setup allows the auditors to carry out tasks

efficiently with convenience and permits them to set up their workspace at their disposition. This setup also effectively monitors, supervises, and evaluates job performance.

Table 1. Level of Effectiveness of Work-from-Home Setup

Descriptive Statistics			
	Mean	Std. Deviation	Description
Propensity to Work Remotely	4.02	.62	High
Supervision	3.53	.81	High
Reorganization	3.96	.69	High
Work-Life-Balance	3.88	.81	High
OVERALL EFWH	3.85	.59	High

The propensity to work remotely yielded the highest mean among all the indicators of work-from-home setup effectiveness. It means that remote working motivates workers to function properly due to its benefits. This result agrees with Vyas & Butakhie's (2020) findings that both the employees and employers experience benefits such as flexibility in terms of time and work environment, cost savings, and less use of office space. Also, there is a reduction in commuting time, which helps the auditors to save time. These benefits contribute to better job motivation and satisfaction of employees and their work productivity. However, the findings contrast with the study of De Lucas Ancillo et al. (2020), in which they stated that work-from-home setup is ineffective due to the lack of physical interactions between employees and clients. Accordingly, the work-from-home setup could ultimately affect the organizational culture of a firm in the long run if used permanently.

Level of Audit Quality of External Auditors

Table 2 shows the descriptive statistics of audit quality indicators having an overall mean of 4.09. It implies that most external auditors demonstrate very satisfactory quality in conducting audits. The result in each indicator manifested a high level of knowledge and confidence, individual auditor activity, and audit firm environment. In terms of audit firm activity, it resulted in a very high level. It means that external auditors exhibit a high level of knowledge and mastery in applying the audit principles and conducting the audit processes, correctly identifying and responding to the audit risk factors, and maintaining independence and due

professional care. Further, a high level of audit quality means that external auditors conduct audits with strict adherence to the generally accepted auditing standards, communicate properly with the clients and co-auditors, and receive sufficient guidance and consultations with superiors.

Table 2. Level of Audit Quality of External Auditor

	Descriptive Statistics		Description
	Mean	Std. Deviation	
Knowledge and Confidence	4.08	.73	High
Individual Auditor Activity	4.12	.66	High
Audit Firm Environment	3.93	.67	High
Audit Firm Activity	4.21	.64	Very High
OVERALL Audit Quality	4.09	.59	High

Audit firm activity includes receiving sufficient training and seminars that improve the auditor's judgment, technical, and overall audit skills, being encouraged by superiors to communicate openly with them, monitoring and appropriately supervising during the audit engagements, emphasizing quality control standards, and providing incentives. Also, audit firm activities include value-adding activities such as brainstorming, fraud risk assessments, and reviews by the main office or peer audit firms. These audit firm activities help the auditors ensure a better audit process, which leads to high audit quality (Shitandi, 2020).

Significant Relationship Between the Effectiveness of Work-from-Home Setup and the Audit Quality of External Auditors

Presented in Table 3 is the administered Pearson product-moment correlation coefficient that determines the relationship between the effectiveness of work-from-home setup and audit quality. The computation revealed that the Pearson-r is equal to 0.401. The analysis determined a moderately strong, significant, positive correlation between the effectiveness of work-from-home setup and the audit quality of the external auditors. Based on these findings, as the external auditors conduct audits in a work-from-home setup, it impacts the audit quality. Thus, the more effective the work-

from-home setup in terms of its benefits and work conditions, the better the quality of audits of external auditors. Likewise, audit quality relates to work-from-home setup since attaining excellent audit quality constitutes strengthening or improving the effectiveness of such setup.

Moreover, since the p-value is less than the significance level of 0.05, it only means that the correlation is statistically significant. It indicates enough evidence suggesting that the correlation observed exists in the population. Therefore, the study rejects the hypothesis and does not reject the alternative hypothesis that a significant relationship exists between the effectiveness of work-from-home setup and the audit quality of external auditors.

The results agree with Putrevu (2021) that the benefit of work-from-home auditing as an efficient approach is highly preferred by some auditors and regarded as the future of auditing. It implies that external auditors can implement a work-from-home setup with the usual face-to-face setup since remote audit enables them to gain time flexibility, a sense of independence, and a balance between work and life, leading to high audit quality.

Table 3. Significant Relationship Between Effectiveness of Work-from-Home Setup and Audit Quality of External Auditors

		Correlations	
		OVERALL EWFH	OVERALL AQ
OVERALL EWFH	Pearson Correlation	1	.401**
	Sig. (2-tailed)		.000
	N	100	100
OVERALL AQ	Pearson Correlation	.401**	1
	Sig. (2-tailed)	.000	
	N	100	100

With this, audit firms could allow external auditors to conduct audit activities like training and timely interviews that do not involve complex and significant issues without physically attending to the site. The results oppose the study of Hazaea et al. (2022), asserting a significant negative relationship between the two variables since it was found that an effective work-from-home setup does not negatively affect the audit quality of external auditors.

The Domain of Work-from-Home Setup Significantly Influences the Audit Quality of External Auditors

The coefficient of determination (R-square) has been employed to ascertain the degree of influence of the work-from-home setup's effectiveness on audit quality. As shown in Table 4 below, the R-square of the model was 0.171. It indicates that in the propensity to work remotely, supervision, reorganization, and work-life balance, the variance under study affects only 17.1% of the firm's audit quality changes. Hence, it also corresponds to the moderately strong, positive relationship between the two variables. It also signifies that other indicators of the effectiveness of work-from-home setup measures constitute section 82.90% of the audit quality of external auditors. Thus, the audit firm should conduct extensive research to determine those measures that affect and dictate the external audit quality.

Furthermore, the result shows that the propensity to work remotely, supervision, and work-life balance have positive coefficients except for reorganization. It means that in every factor of propensity to work remotely, supervision, and work-life balance, there is an equal increment by .223, .062, and .143, respectively, in audit quality. However, every reorganization factor has an equal decrement of .016 in audit quality. Furthermore, the propensity to work remotely has shown the most impact on audit quality among the four indicators, and next is the work-life balance. Even though the supervision and reorganization had a small coefficient corresponding to a minimal effect on the audit quality, it should still be considered and not ignored. With this, audit firms must ensure that the propensity to work remotely, supervision, reorganization, and work-life balance are considered and adequately utilized.

Table 4. The Domain of Work from Home Setup Significantly Influences the Audit Quality of External Auditors

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.413 ^a	.171	.136	.54692

Table 5. The propensity to work remotely, supervision, and work-life balance have positive coefficients

Coefficients					
	Unstandardized Coefficients	Std.		Standardized Coefficients	
		B	Error	Beta	
1 (Constant)	2.479	.384		6.456	.000
PWR	.223	.133	.235	1.678	.007
S	.062	.089	.085	.693	.490
R	-.016	.126	-.019	-.126	.900
WLB	.143	.093	.198	1.535	.028

Based on the findings, supervision and reorganization are insignificant, wherein their p-values are equal to .490 and .900, respectively. Two factors are insignificantly related to audit quality and are not reliably accountable for influencing the latter. On the other hand, the propensity to work remotely has shown a p-value of 0.007. At the same time, the work-life balance has a p-value of .028, which still leads to the rejection of the hypothesis that none of the domains of work-from-home setup significantly influence the audit quality of external auditors. The propensity to work remotely and work-life balance significantly influence the audit quality. For instance, gaining personal advantages, time flexibility, and the ability to balance responsibilities through working from home could enable them to become confident in applying specific audit processes following auditing standards and successfully conducting other audit activities of the firm. The present findings agree with Irawanto et al. (2021) assertion, which states that benefits and desirable work-life balance brought by the work-from-home setup contribute to increased work productivity and better time management and job satisfaction.

CONCLUSION

The work-from-home setup poses limitations and challenges in maintaining audit quality; shifting from onsite to remote auditing changes how audit procedures are carried out, including decreased physical interaction and increased reliance on the internet and technology. It elevates the responsibility of auditors to be more adaptive to mitigate the associated risks and uncertainty of implementing such a setup. The study found that the more effective the work-from-home setup, the better the audit quality. It implies that despite the

changes in the processes and lack of physical presence, remote working can be an effective work setup in attaining and maintaining high-quality audits and has the potential to address the demand for flexible work arrangements if appropriately administered. Remote audits can be implemented with onsite audits for processes that do not necessarily need a physical presence, like planning, training, and timely interviews. The findings disagree with the Boundary Theory, which espouses establishing a boundary between personal life and work to avoid work and non-work conflicts that negatively affect work performance. However, the result indicates that the absence of boundary in work-from-home setup does not negatively affect audit quality, hence still attaining work-life balance.

Audit firms are suggested to design and administer a data management system centralizing all necessary audit information. A standardized collaborative platform for conducting virtual meetings should be considered. It will allow auditors to interact effectively during the planning and preparation of the audit, even without the need to be physically present. The IT department should be present to troubleshoot any technical difficulties during the audit. Further, it is recommended that future researchers compare the traditional face-to-face audit, hybrid setup, and purely work-from-home setup. Moreover, future researchers must conduct similar studies using other methods to generate better insights from external auditors and supplement the statistical interpretations.

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