

Key Challenges Faced by Auditors of Multinational Companies after Outbreak of Covid-19: A Case Analysis on Hero Motocorp

Ms. Bhavna Kumawat

S. D. School of Commerce, Gujarat University,
Ahmedabad, Gujarat, India.

Email – bhavnakumawat1995.bk@gmail.com

Abstract: *Outbreak of Covid-19 has really put a severe impact on entire world in terms of loss of millions of lives, where threat among people and stay at home for prevention, has shut down of business of many organisations. This has let each and every affected nation in facing a huge socio-economic loss, which force companies to concern more on managing their financial conditions and performing well. A study is therefore, conducted in present paper with aim to explore some key challenges faced by auditors of multinational companies due to such situations. Because of the pandemic, not only the life of the people, but also the economic sector has been greatly affected. The main objective of the study is to find out the significant challenges faced by auditors in financial reporting practices. To address this objective, Hero Motocorp has been chosen as a main international company of India, because this firm has faced several issues like halts of production, continuous reduction in sales figure, supply chain disruption and more that create challenges for its auditors like contract modifications, impairment of assets and breach of financial operations etc. to perform their role.*

Key Words: *Covid-19, Pandemic, Socio-economic loss, Auditors, Multinational Companies, Financial Reporting.*

1. INTRODUCTION:

1.1. Overview of Research:

Today, one of the adverse issues that mostly faced by various organisations, people and even nations at worldwide level is Covid-19. The way it has spread not only impact on life of individuals but also on companies also, that results in increasing unemployment. The reason behind this is reducing the production rate, trade restrictions within countries and even in states also (Albitar, Gerged, Kikhia and Hussainey, 2020). A report is thereby conduct, to analyse vast impact on multinational organisations of India, especially in terms of finance, Hero Motorcorp has been chosen. This firm after spreading of corona virus, faced a reduction in profitability ratio by near about 95% which is more than 58 Crores (*Covid-19 impact: Hero MotoCorp Q1 net profit falls 95% to Rs 58 crore, 2020*). To ascertain further more issues and strategies adopted by respective company to drive sustainability in business and fight with pandemic attack, proper aims and objectives are being framed. Afterwards, to address project goals, a number of research methodologies are chosen which will be described in further chapters.

1.2. Background of organisation:

Hero Mortocorp is one of the largest manufacturers that is headquartered in New Delhi and established its business in 1984 as a joint venture with Honda of Japan. During the 1980s the company innovated motorcycles which were popular for their economic design and low cost. In 2001, the company turned in the second largest manufacturing company of two wheelers in India and worldwide. By December 2010, the BODs of Hero Honda Group adjudicated to force out the joint venture. Afterwards, from 2011 the name of the company was changed from Hero Honda Motors Ltd. to Hero MotoCorp Ltd. due to dispute with stakeholders and co-partners (Narula and et. al., 2020). It has five manufacturing branches at Dharuhera, Gurgaon, Neemrana, Haridwar and Halol. All these plants conjointly have production capacity of more than 7.6 million two wheelers per year. Along with this, in 2019, it has sold over 7.8 million units and reported highest sales in comparison to others two-wheeler companies. So, having a great size of business and increase volume of sales, make this firm to grab a large market share in automobile sector. But apart from such a vast expansion of operations, Hero still has faced a huge loss in finance and other resources, due to spreading cause of pandemic attack i.e. Covid-19.

1.3. Rationale of research:

The reason behind carrying out a research on such a wide concept i.e. Impact of Covid-19 on financial operations of multinational companies, is to evaluate its extent on economic growth of a country. Hero MotoCorp that deals business at global level, therefore, is chosen because it has given employment to more than 8,000 employees. In this regard, any financial impact will affect income level of its workforce also (Patel, 2020). Due to pandemic crises

the financial position of the company is adversely affected and has walloped on life status of stakeholders and GDP of the nation. This loss can never be overcome in a short time.

1.4. Aims and Objectives:

Aim:

- To find out the significant challenges faced by auditors in financial reporting practices due to Covid-19 outbreak.

Objectives:

- To capture the potential financial impact of Covid-19 and its implications on assets, liabilities and outcomes of business performance.
- To identify the key issues of outbreak of the Covid-19 on financial performance of Hero Moto Corp.
- To articulate the ways through which such challenges can be resolved.

1.5. Significance of Research:

As transparency refers to a key therefore, there is a vital need to gather reliable information which can only be possible via financial reporting. Conducting research on such a wide concept i.e. COVID-19 that highly affect almost all countries in terms of loss of life, economic resources and more, aid researchers in enhancing their knowledge on the same (Bryce, Ring, Ashby and Wardman, 2020). Through determining its implications on financial position of Indian firms like Hero Motor Corp, ways through which its related challenges can be identified. This would not only aid in improving the business of respective firm, but also help in developing and enhancing economy of India as well.

2. LITERATURE REVIEW:

Introduction:

This part of research is considered as the most important one which provides secondary information collected in past by other researchers, from books, articles, journals or more. These sources help in gathering large data and summarising same to meet current research problem (JABBAR, ALMAYYAH, ALI and ALNOOR, 2020). In context with present research, as it is done with purpose to determine consequences of Covid-19 on business performance of Indian companies like Hero Motor Corp, literature review has been done in following way -

Theme 1: Financial impact of Covid-19 and its implications on assets, liabilities and outcomes of business performance:

Pagach and Wiczorek-Kosmala (2020) states that Covid-19 has made it difficult for auditors to assess the financial position of a company, as this disease has threatened even the basic assumptions on which books of accounts are based. The various premises on which Assets and Liabilities are detailed as mentioned below:-

Going Concern Assumption- It is an assumption which states that books of a firm shall be prepared in such a way that the firm will operate for indefinite future. However, COVID-19 raises the suspicion towards this assumption (Campus and et. al., 2020). It may take the firm to loss or may even shut his business. Hence, auditors find it difficult to ascertain in whether business will continue or not, that results in failure of such assumptions.

Contract Modifications- The COVID-19 has adversely affected the Cash flows to a company. It may include the need to obtain additional finance; restructuring; re-scheduling the procedure in the existing loans (Pagach and Wiczorek-Kosmala, 2020). Hence, auditors need to check that whether any new term or a modification in an existing term will lead to any down gradation in the asset classification.

Impairment of Assets- Impairment means a reduction in the value of an asset below its carrying cost. The Accounting Standard Stipulates that at the end of each accounting period the company has to assess whether there is any impairment in assets (De Boni and et. al., 2020). This is calculated by determining the recoverable value of assets which is lower of future cash flows and its Selling price. Since at this event, it is very difficult to ascertain the cash flows and since market is not normal, hence fetching Selling Price is also not possible (Anessi-Pessina and et. al., 2020). Hence, auditor has to see that what amount should be recorded in books of accounts as impairment loss.

Government Relief Measures- The government has provided various relief measures in this pandemic to companies by way of subsidies, tax exemptions, tax credits etc. Hence the accounting should incorporate all these effects, but how these will be accounted remains a challenge for the auditors as well.

Theme 2: Key issues of outbreak of the Covid-19 on financial performance of Hero Moto Corp:

Albitar, Gerged, Kikhia and Hussainey (2020), states that COVID-19 has adversely affected the operations of Hero Motocorp. For Q1 i.e. April to June 2020, the sales of the Hero Motocorp fell by 63% while the net profit gone down by 95% as compared to the corresponding quarter in the previous year. This is due to the following reasons:-

Halting of Production - Due to lockdown imposed by Central Government, the entire manufacturing facilities remained shut for around 1.5 months due to which production cannot be carried out (*Coronavirus Impact: Hero MotoCorp halts suppliers payment*. 2020). Hence auditors are unable to assess by what time this impact will remain in the market.

Reduction in Sales Figures - The beneficiary of the Hero Motocorp is generally a person who belongs to the Middle Class society. This class has suffered a lot of hardship during this time due to non payment of wages, loss of employment, unable to fulfill commitments. Hence as a result of this the sales have reduced substantially (Narula and et. al., 2020). The sale figure will improve only when the relaxations will open and the money will flow in the hands of the consumer. This is an uncertainty which will remain a challenge to the auditor.

Dealers/ Distributors Demand - Due to impact of COVID 19, a lot of vehicles remained stuck in BS-IV and hence all working capital has blocked in that inventory only. Further customer confidence has also shaken up resulting in shifting from demand problem to a supply problem.

Supply Chain Disruption - Hero Motocorp imports a wide array of automotive parts from the China. These components include fuel injection pumps, electronic components, turbochargers, etc. (*COVID-19 impact: Hero MotoCorp suspends production globally*. 2020). With the worst hitting of China due to COVID 19, the imports have come to a halt. Due to this, Hero Motocorp is unable to manufacture the new vehicles.

Theme 3: Ways through which challenges of COVID-19 can be resolved:

Through opinion of Bryce, Ring, Ashby and Wardman (2020), it has been identified that challenges of COVID 19 can be mitigated by Hero Motocorp by adopting some organisational strategies. It includes restarting the operations once lockdown is over more efficiently by creating some changes in organisational structure and working procedures. However, it should be accompanied by proper safety manuals and instructions for the staff as well as the consumer. Proper precautions including compulsory wearing of masks, sanitization of facilities should be done to instill a confidence among consumer. This company can also offer attractive finance schemes to attract the common public (JABBAR, ALMAYYAH, ALI and ALNOOR, 2020). At this time as the public is moving through difficult financial times, hence cheap rate of interest will provide an incentive which may lead to a rise in sales for the dealer/ distributor. The major components which were imported from China needs to be bought from or manufactured in India itself, henceforth Indigenization of components is must to adopt this strategy by respective firm.

The Hero may offer well after sales service such as service on wheels and service camps for scheduled maintenance. This company may redesign its business process to become lean and responsive which may include low fixed cost business models and use of analytics to design short term strategies (Campus and et. al., 2020). In addition to this, adopting the digitalization of customer touch points and explore some offering around hyper local delivery model also aid Hero to overcome from its financial challenges. As uncertainty caused by Covid-19 create difficulties in front of auditors for obtaining the sufficient and appropriate audit evidence, that indicates to make some modifications to their opinion. According to ISA 705 (Revised), such modifications in Opinion on Independent Report of auditors can be done either as qualified opinion, adverse opinion or as disclaimer opinion.

3. RESEARCH METHODOLOGY:

Introduction:

Research Methodology is considered as the most important part of a study that suggests ways through which investigation can be carried out, for gathering all essential information on a specific topic. It defines process by which data is collected like primary and secondary sources. But before taking any method or making decisions to employ methodologies on investigation, it becomes essential for project makers to define purpose behind the same. This would help in determining which technique or process will help in gathering relevant information more efficiently (Pagach and Wiczorek-Kosmala, 2020). It includes process need to be taken out to chase idea, what chosen firm wants to achieve through research, evidences to prove concepts etc. that can be done by collecting information from sources like publication or non-publication reports, online and offline survey etc. which covers both past and present evaluated information.

Significance in this regard, of research methodologies could be measured in terms of manner in which investigation is carried out. This would help project team members for organizing their efforts of into conceptual as well as cohesive ways to generate desired report (De Boni and et. al., 2020). In context with present research, as study is conducting on challenges auditors face currently due to outbreak of Covid-19 and its implications on financial performance of companies, investigation is done by following research methodologies –

Research approach:

This part of refers defines plan and procedure that includes a number of broad assumptions regarding with way to collect, analysis and interpret the information from relevant source through qualitative and quantitative research methods. Hereby, qualitative technique is applied to gather theoretical information which can be analysed via inductive approach, while quantitative aid in collecting numerical data which is interpreted through deductive approach. Both techniques mainly help in identifying the nature of a project aim and its objectives as well as way to address the systematically through integration of various methodologies. It also enables project makers to obtain research outcomes, by formulating the objectives or research problems to carry out further study accordingly (Anessi-Pessina and et. al., 2020). Hereby, to collect information on present topic, both qualitative and quantitative research approach are used.

Research Philosophy:

It is another important part of a research, which is mainly classified as positivism, realism and interpretivism. These philosophies enable researchers to make decision upon which one need to be applied on investigation, for deriving desired result outcomes of research (Albitar and et. al., 2020). Such decisions include research strategy, way to formulate problems, collect, arrange and analyse data etc. In context with positivism, this philosophical approach is applied when strategy of report is formulated on the basis of research hypothesis as well as on data collection, where, hypotheses used to be tested then confirmed first for carrying out further part of report. On contrast, realism is that philosophical branch which is related with scientific enquiry, i.e. its core feature depends on disclosure of the truth of reality and existence of relatable objects. Other than this, interpretivism concerns more on research assessment based upon differences among various perception of other researchers who behave as social actors (Narula and et. al., 2020). With respect to present research, as it is done on the basis of both qualitative and quantitative research methods, therefore, for this purpose, the interpretivism philosophy is applied.

Data Collection:

This aspect of research methodology includes process to collect data that are done through primary and secondary sources. Hereby, primary source includes online and offline survey, interview, self-questionnaire etc. that helps in collecting original data. However, it may consume a lot of time and money for conducting investigation through these methods. But data gathering through primary sources is more reliable and authenticate (Albitar, Gerged, Kikhia and Hussainey, 2020). Another one process i.e. secondary source covers books, scholarly articles, journal reports and more, aid in gathering large amount of information by summarising others' point of views. With respect to present research, literature review has been done by using secondary sources, where some relevant articles on chosen topic has been explored from google scholars. While primary research is done by creating a self-questionnaire, in which some relevant questions will be asked by auditors of Indian multinational companies mainly, to undertake their views on given research problems.

Sampling:

It is another important part that provides way to chosen a sample from large population for conducting primary research. It includes random and non-random sampling techniques, where former ones is used to select respondents randomly by giving equal and independent chance to them individually, while later one selects on non-random basis as per characteristics or some purpose (Patel, 2020). Under present research, 30 respondents from auditors of Indian multinational companies, especially from automotive sectors are selected on random basis where response of them will be collected by sending email to each individual.

4. RESEARCH FINDINGS:

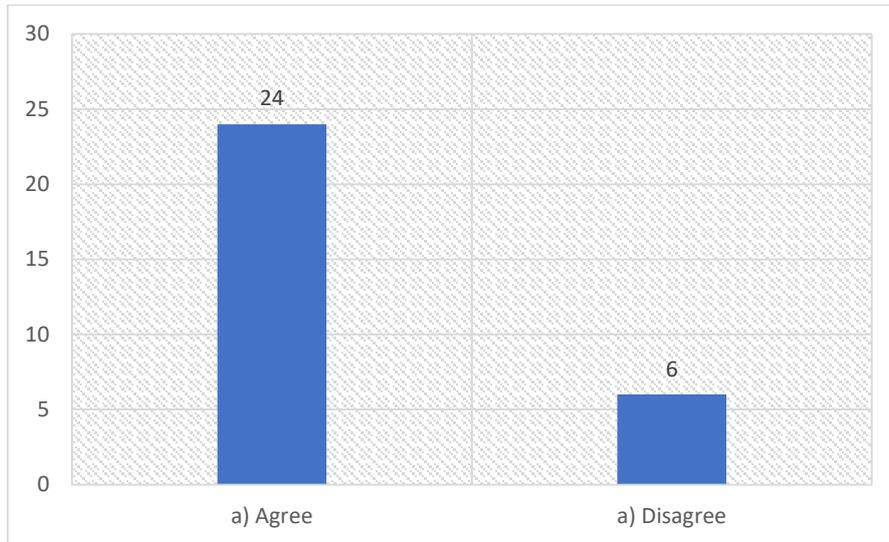
Findings on the basis of Primary Research:

For gathering primary data after sending self-questionnaire to selected respondents by e-mail, thematic analysis has been done to interpret the response of them in following way –

Thematic Analysis:

Theme 1:

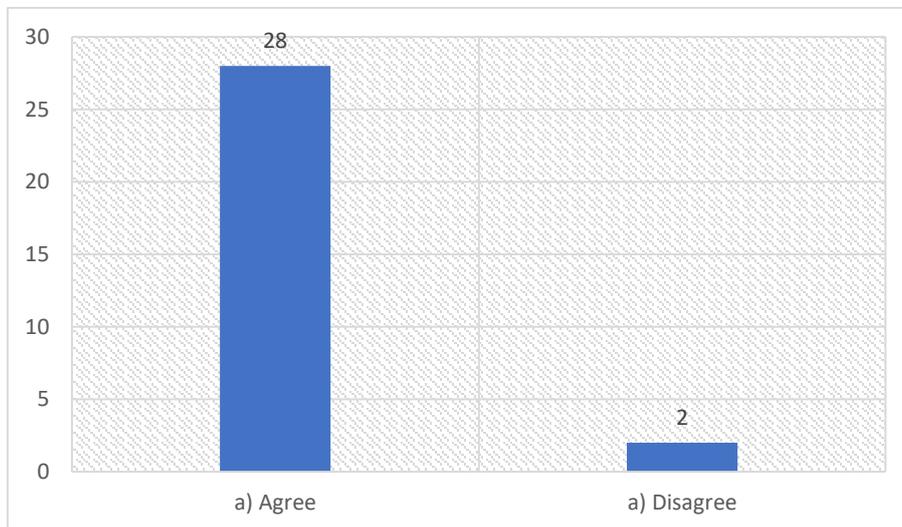
Ques 1: Do you believe that Covid-19 pandemic creates a deep impact on the economy of India and members of its industry?	Frequency
a) Yes	24
b) No	6



Interpretations: It has been interpreted from this graphical figure that among 30 respondents, 24 are believed that Covid-19 has drastically impact on Indian economy and its industrial members, especially after lockdown which has imposed to prevent spread of this virus. Due to this, many projects have been shut and various operations of business laid down, that lead to impact negatively on financial performance of companies as well as on nation.

Theme 2:

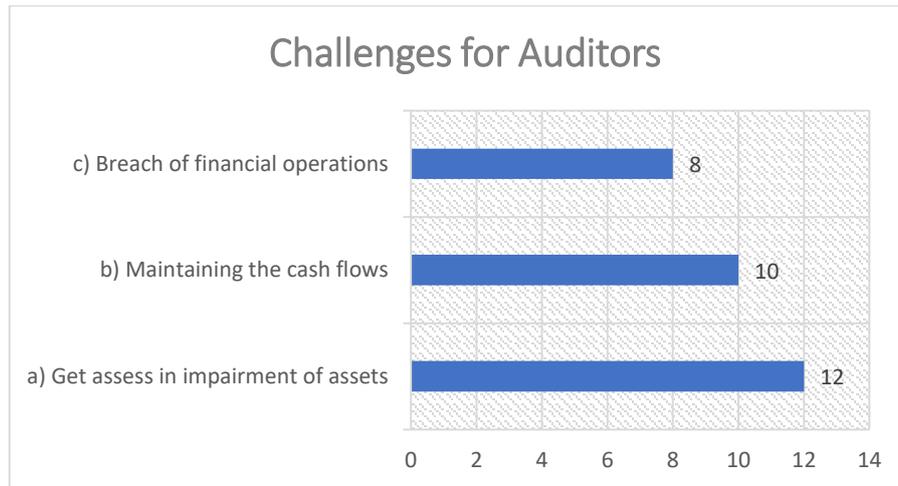
Ques 2. Do you agree that Covid-19 has put the worst impact on financial performance of automotive industry?	Frequency
a) Agree	28
a) Disagree	2



Interpretations: As automotive industry of India has initiated a number of steps in business for combatting the coronavirus impact. But it takes a large investment to run business efficiently in this pandemic period and many of its projects have been postponed, so it impacts negatively on its entire financial performance. Through survey on chosen 30 respondents, 28 are agreed with this statement, while remaining 2 do not agreed with the same, due to successful initiatives and strategies taken by this firm to manage its operations.

Theme 3:

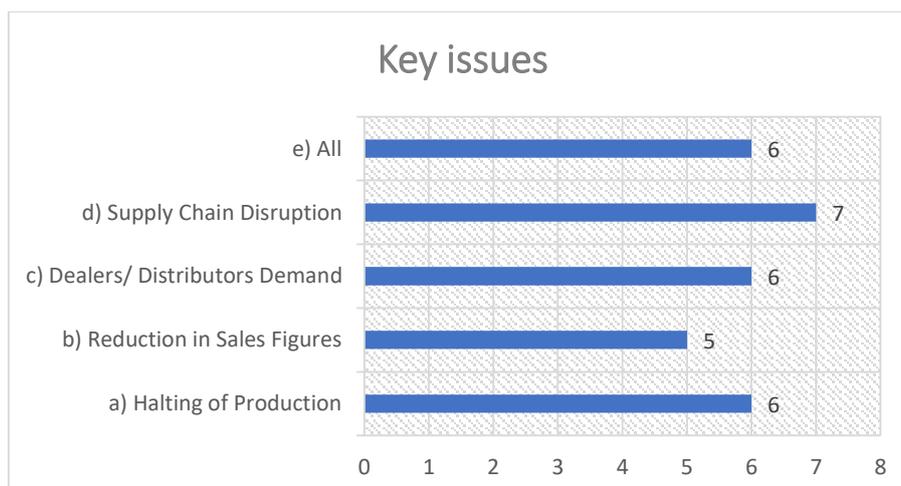
Ques 3: What are the main challenges auditors of automotive industry currently face in this pandemic period?	Frequency
a) Get assess in impairment of assets	12
b) Maintaining the cash flows	10
c) Breach of financial operations	8



Interpretations: By asking the chosen respondents about their opinion on challenges that auditors of automotive industry are faced in this period of pandemic, it has been interpreted that 12 out of 30 believes that getting access in impairment of assets might be the biggest one. While 10 think that maintaining cash flow due to high investment on proactive precautionary measure as well as in keeping operations with business continuity objective, would be the major challenge for them. Other than this, remaining 8 respondents are given their opinion towards breach of financial operations for the same.

Theme 4:

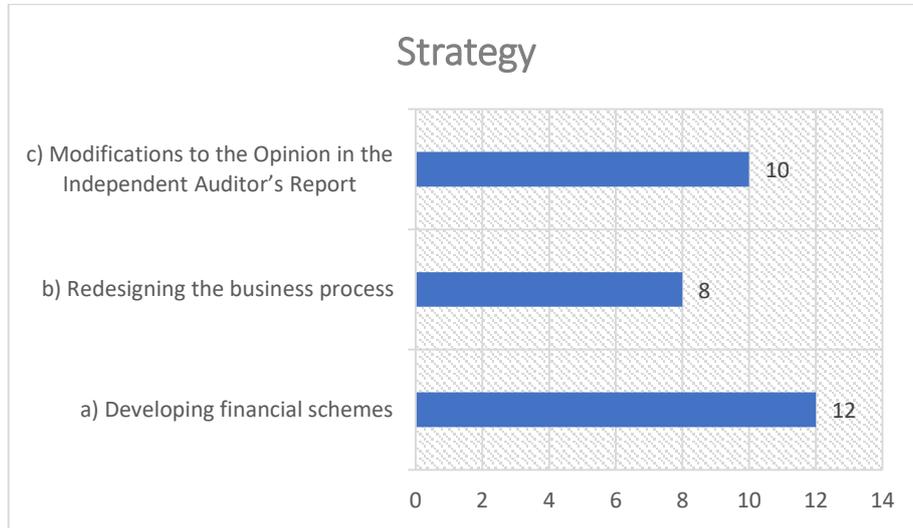
Ques 4: According to you, what are the main key issues of Covid-19 on financial performance of automotive industry?	Frequency
a) Halting of Production	6
b) Reduction in Sales Figures	5
c) Dealers/ Distributors Demand	6
d) Supply Chain Disruption	7
e) All	6



Interpretations: From this statistical figure, it has been interpreted that factors which arise issues in maintaining financial performance of automotive industry, includes halt of production, reduction in sales figures etc. Among 30 respondents, 6 believe that halting of production is one of the major issues which affect its financial performance. While 5 are in favour with reduction in sales figure, 6 towards meeting the dealers demand and 7 towards disruption in supply chain. Other than this, remaining 6 give their response towards all of the mentioned factors, which reduces the financial performance of this firm.

Theme 5:

Ques 5: Which strategy will help auditors of automotive companies to overcome from its current challenges?	Frequency
a) Developing financial schemes	12
b) Redesigning the business process	8
c) Modifications to the Opinion in the Independent Auditor’s Report	10



Interpretations: To overcome from such challenges, 12 respondents have suggested management of automotive industry to develop some financial schemes that will help to improve its financial performance under this pandemic period. While 8 states to redesign the business process as a proactive precautionary measure for dealing with current issues. Other than this, rest of the 10 respondents think that if modifications will be done in auditor’s report, then it will make it easy for auditors to get audit evidence sufficiently.

Findings on the basis of Secondary Research:

It has been summarised from the overall secondary report that unprecedented situation which is caused by Covid-19, has drastically affected many industries across the globe. Lockdown measures which are imposed by government for controlling this virus and mandatory for all people and professions to be followed, creates difficulties for companies to continue their operations. As a going concern, auditors are needed to be alert throughout entire process of obtaining audit evidence. But regarding with going concern assessment and incorporating other precautionary measures, Contract Modifications, Impairment of Assets and more, are some of the factors that arise difficulties for Hero Moto Corp, which is considered as the biggest manufacturer of India, including its auditors to perform their roles efficiently. Along with this, factors like halts of production, continuous reduction in sales figures, supply chain disruption and more, arise major issues in front of this company, that leads to affect its entire financial performance adversely. Therefore, Hero Moto Corp needs to initiates more steps like development of financial schemes and redesigning its operational process, for dealing with such challenges.

5. CONCLUSION:

From all over this research, it has been concluded that ongoing lockdown to stop the spread of Covid-19, has put a large strain on Indian economy and its industrial members. One of the large sectors like automotive industry is not in great shape where reduction in sales and productions cuts impact highly on their financial performance. As this research has been done on Hero Moto Corp which is one of the largest multinational companies of India, has hit in various ways due outbreak of Covid-19. It is mainly happened due to number of initiatives taken by this firm to get efforts of its workforce, who have been stopped to come workplace due to this pandemic attack. Along with this, choking of the distributive channels, longer credit days for continuing the operations as per ongoing concern and more, create a number of issues for its auditors to perform their roles. Therefore, serious actions in terms of launching of new financial schemes and other, might help this firm and its auditors in dealing with such problems.

6. RECOMMENDATIONS:

Working on this project which is based on current ongoing problem faced by companies and its auditors due to worst impact of Covid-19, aids researcher to enhance knowledge in given field. To do this research, researcher has

chosen both secondary and primary techniques that aid me to gather more relevant and useful information. However, using self-questionnaire method arise some issues in terms of delay in getting timely response of chosen respondents. Therefore, face to face discussion will be considered as best alternative method to collect primary data within given span of time. This method will also help in analysing views and opinion of respondents more efficiently, through which mentioned objectives can be addressed in desired manner.

REFERENCES:

Books and Journals:

1. Albitar, K., Gerged, A. M., Kikhia, H., & Hussainey, K. (2020). Auditing in times of social distancing: the effect of COVID-19 on auditing quality. *International Journal of Accounting & Information Management*.
2. Anessi-Pessina, E., Barbera, C., Langella, C., Manes-Rossi, F., Sancino, A., Sicilia, M., & Steccolini, I. (2020). Reconsidering public budgeting after the COVID-19 outbreak: key lessons and future challenges. *Journal of Public Budgeting, Accounting & Financial Management*.
3. Bryce, C., Ring, P., Ashby, S., & Wardman, J. K. (2020). Resilience in the face of uncertainty: early lessons from the COVID-19 pandemic. *Journal of Risk Research*, 1-8.
4. Campus, G., Diaz-Betancourt, M., Cagetti, M. G., Carvalho, J. C., Carvalho, T. S., Cortés-Martínicorena, J. F., ... & Manton, D. J. (2020). Study protocol for an online questionnaire survey on symptoms/signs, protective measures, level of awareness and perception regarding COVID-19 outbreak among dentists. A global survey. *International journal of environmental research and public health*, 17(15), 5598.
5. De Boni, R. B., Balanzá-Martínez, V., Mota, J. C., Cardoso, T. D. A., Ballester, P., Atienza-Carbonell, B., ... & Kapczinski, F. (2020). Depression, Anxiety, and Lifestyle Among Essential Workers: A Web Survey From Brazil and Spain During the COVID-19 Pandemic. *Journal of medical Internet research*, 22(10), e22835.
6. JABBAR, A. K., ALMAYYAH, A. R. A., ALI, I. M., & ALNOOR, A. (2020). Mitigating Uncertainty in the Boardroom: Analysis to Financial Reporting for Financial Risk COVID-19. *The Journal of Asian Finance, Economics, and Business*, 7(12), 233-243.
7. Narula, S., Kumar, A., Puppala, H., Dwivedy, M., Prakash, S., Singh, R., & Talwar, V. (2020). Restarting Manufacturing Industries Post Covid-19: A Mind Map-Based Empirical Investigation of the Associated Challenges in Business Continuity. *International Journal of Strategic Decision Sciences (IJSDS)*, 11(2), 46-65.
8. Pagach, D., & Wiczorek-Kosmala, M. (2020). The Challenges and Opportunities for ERM Post-COVID-19: Agendas for Future Research. *Journal of Risk and Financial Management*, 13(12), 323.
9. Patel, C. D. (2020). COVID-19 and Corporate Governance (India): Practical Issues, Implications and New Relief Measures. *Implications and New Relief Measures (September 11, 2020)*.

Online:

1. *Coronavirus Impact: Hero MotoCorp halts suppliers payment*. 2020. Retrieved from: <<https://cfo.economicstimes.indiatimes.com/news/coronavirus-impact-hero-motocorp-halts-suppliers-payment/74891709>>.
2. *COVID-19 impact: Hero MotoCorp suspends production globally*. 2020. Retrieved from:<<https://www.thehindubusinessline.com/companies/covid-19-impact-hero-motocorp-suspends-production-globally/article31134228.ece>>.
3. *Covid-19 impact: Hero MotoCorp Q1 net profit falls 95% to Rs 58 crore*. 2020. Retrieved from: <https://www.business-standard.com/article/automobile/covid-19-impact-hero-motocorp-q1-net-profit-falls-95-to-rs-58-crore-120081400032_1.html>.

Appendix:

Self-Questionnaire:

Questionnaire	
Name:	
Contact No.:	
Email id:	
Ques 1: Do you believe that Covid-19 pandemic creates a deep impact on the economy of India and members of its industry?	Frequency
a) Yes	24
b) No	6

Ques 2. Do you agree that Covid-19 has put the worst impact on financial performance of automotive industry?	Frequency
a) Agree	28
a) Disagree	2
Ques 3: What are the main challenges auditors of automotive industry currently face in this pandemic period?	Frequency
a) Get assess in impairment of assets	12
b) Maintaining the cash flows	10
c) Breach of financial operations	8
Ques 4: According to you, what are the main key issues of Covid-19 on financial performance of automotive industry?	Frequency
a) Halting of Production	6
b) Reduction in Sales Figures	5
c) Dealers/ Distributors Demand	6
d) Supply Chain Disruption	7
e) All	6
Ques 5: Which strategy will help auditors of automotive companies to overcome from its current challenges?	Frequency
a) Developing financial schemes	12
b) Redesigning the business process	8
c) Modifications to the Opinion in the Independent Auditor's Report	10