

SIMONA CARAMIA, PASQUALE RUGGIERO, AND  
RICCARDO MUSSARI

# Auditors' Sensemaking During Crises: The Case of the COVID-19 Pandemic in Italian Local Public Administrations

Crises such as COVID-19 cause uncertainty that intensifies the pressure on public sector auditors, prompting them to question their established practices and routines. At the same time, stakeholders demand higher levels of assurance of public spending during crises. Using sensemaking as a theoretical framework, our paper explores how auditors changed the way they perform auditing activities in response to the uncertainty and instability stemming from the COVID-19 crisis. Our qualitative survey of auditors of Italian municipalities shows that before the crisis auditors focused on compliance; however, in the face of time and information shortcomings as a result of the crisis, auditors collaborated more with municipalities. After the crisis, in an attempt to reclaim independence, auditors withdrew collaboration. At the same time, they imagined a different future in which they would implement auditing processes in a way that made clear their independence. The paper contributes to the literature on auditing by shedding light on how auditors make sense of their role and the activities performed during the main phases of crises. Moreover, it advances theoretical understanding by elucidating how sensemaking processes are developed throughout the main phases of a crisis. At a practical level, this study may help auditors envisage how to adjust their roles and activities at times of crisis in ways that maintain high audit quality levels.

**Key words:** Audit; COVID-19; Crisis; Italian local governments; Public sector; Sensemaking.

In the public sector, auditors play a pivotal role in ensuring accountability and compliance (Bandy, 2011). Crises create uncertainty, changing the role of auditors and the way they go about performing their duties (Hay *et al.*, 2021). The COVID-19 pandemic is one such crisis, during which there was a greater risk of organizations engaging in earnings management to mitigate potential bankruptcy,

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SIMONA CARAMIA ([simona.caramia2@unisi.it](mailto:simona.caramia2@unisi.it)), PASQUALE RUGGIERO, and RICCARDO MUSSARI are with the University of Siena.

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thereby amplifying the audit risk (Harjoto and Laksmana, 2023; Rinaldi *et al.*, 2020). It also prompted stakeholders to demand higher levels of accountability, especially regarding the use of government funds to address the crisis (Ritonga and Suyanto, 2022).

To comprehend a crisis situation and take appropriate actions in response, auditors engage in sensemaking, questioning their usual beliefs and practices (Maitlis and Sonenshein, 2010; Weick *et al.*, 2005). In doing so they seek to make sense of their changed environment and identify how to grapple with the barriers that prevent them from satisfactorily completing the tasks required of them (Knechel *et al.*, 2013).

While sensemaking is continuous and ongoing (Weick *et al.*, 2005), it is particularly relevant during crises (Weick, 1988; Bojn *et al.*, 2005). In the case of auditors, sensemaking may drive them towards activities and behaviours that significantly differ from their conventional practices (Lonsdale *et al.*, 1999). For example, to address the risk of material errors during crises, auditors may engage in more rigorous scrutiny of the actions of the auditee by increasing the number of checks on their financial statements (Cordery and Hay, 2022; Morin and Hazgui, 2016; Ritonga and Suyanto, 2022). Analyzing how auditors make sense of their role and the auditing processes during the main phases of crises is particularly interesting because auditing typically follows formalized and rigid procedures. Therefore, during the main phases of crises, auditors' sensemaking could determine potentially significant effects on a highly standardized professional activity.

Building on the premise that the COVID-19 crisis challenged the established practices and routines of auditors, making auditing itself unstable, this paper addresses the following research question: How do public sector auditors make sense of the effects of crises on their auditing performance? From a theoretical standpoint, we employ a processual perspective of sensemaking theory to understand how auditors make sense of the effects of crises on auditing and identify why auditing may change in a crisis situation. To this end, we administer a qualitative survey consisting of open-ended questions to auditors working within Italian municipalities during the COVID-19 crisis. To operationalize public sector auditors' work and function, we chose auditors' processes and role as the main aspects to investigate through the survey.

## AUDITING DURING THE COVID-19 CRISIS

Crises such as the COVID-19 pandemic affect society, organizations, and professions, including auditing (Al-Khasawneh, 2021; Hategan *et al.*, 2022). The uncertainty brought by COVID-19 prompted fears among managers about the risk of bankruptcy and business failure. In response to these concerns, managers are more likely to have engaged in earnings management and issued fraudulent financial statements (Harjoto and Laksmana, 2023; Rinaldi *et al.*, 2020). At the same time, the limitations on conducting on-site audits reduced auditors' abilities to gather adequate evidence, thereby increasing the audit risk, that is, the risk that auditors may fail to uncover material errors in the financial statements (Harjoto and Laksmana, 2023;

Hategan *et al.*, 2022). Ritonga and Suyanto (2022) gauged this reduced likelihood of detecting misstatements by examining reductions in cash returns to the treasuries of local governments. When auditors identify critical issues, the responsible party is usually obliged to reimburse payments to the government's treasury. A decrease in return payments, therefore, means that auditors have been less able to detect material errors during the pandemic than before. At the same time, the pandemic raised the risk of fraud, especially regarding the management of government funds allocated to support businesses and public sector organizations during the crisis (Heald and Hodges, 2020). Consequently, auditors may have felt the obligation to enhance accountability towards their primary stakeholders regarding the use of these funds (Ritonga and Suyanto, 2022).

To address heightened audit risk and meet stakeholders' demands for increased accountability, auditors often found it necessary to expand the scope of their audits and carry out thorough examinations (Cordery and Hay, 2022). To do so, auditors had to allocate more working hours and exert extra effort to ensure the accuracy of the financial statements (Albitar *et al.*, 2021; Al-Qadasi *et al.*, 2023). This need for greater effort had to be reconciled with the practical issues stemming from the pandemic. For example, ensuring social distancing forced auditors to invest in technology for teleworking and conducting remote audits (Al-Qadasi *et al.*, 2023; Hategan *et al.*, 2022).

Increased audit efforts and investments in technologies often led auditors to ask for higher audit fees (Al-Qadasi *et al.*, 2023; Xiao *et al.*, 2020), while auditees facing financial difficulties may have asked for lower audit prices (Albitar *et al.*, 2021; Al-Qadasi *et al.*, 2023). This expected decline in audit fees was associated with an expected reduction in audit quality (Albitar *et al.*, 2021; Hazaea *et al.*, 2022). Furthermore, during the most severe phase of the COVID-19 pandemic, auditors experienced salary reductions (Dave, 2020; Hazaea *et al.*, 2022). Building on efficiency wage theories, which propose that higher wages improve auditors' productivity, Albitar *et al.* (2022) found that the decrease in auditors' salaries could have a detrimental impact on their performance, as they might be less motivated to carry out their tasks efficiently. Consequently, any decline in auditors' salaries may have adverse effects on audit quality (Albitar *et al.*, 2021; Hazaea *et al.*, 2022). Expected audit quality was also compromised by the diminished professional training of auditors amid the pandemic (Cordery and Hay, 2022; Hay *et al.*, 2021). Additionally, the bans on physically visiting auditees' offices not only decreased the capacity of auditors to gather sufficient audit evidence but also caused delays in the audit processes (Deloitte, 2020; Harjoto and Laksmana, 2023). As a result, the probability of auditors failing to detect a material misstatement intensified (Diab, 2021; Ritonga and Suyanto, 2022). Higher risks of material misstatements and delays in issuing audit opinions, traditionally associated with a reduced audit quality (e.g., DeAngelo, 1981; Johnson, 1998), further heightened concerns about lower audit quality during COVID-19 (Albitar *et al.*, 2021; Ritonga and Suyanto, 2022).

Addressing concerns about an expected decline in audit quality became crucial because of the increased responsibility placed on auditors to ensure the reliability

of financial statements (Hategan *et al.*, 2022). The complexity and uncertainty brought by the crisis prompted investors and other stakeholders to demand higher quality audits (Kaka, 2021) aiming to enhance confidence in organizations' financials and their decision-making ability (Albitar *et al.*, 2021; Kend and Nguyen, 2022). In turn, concerns about audit quality among investors and stakeholders had implications for auditors' reputation (Harjoto and Laksmana, 2023), causing auditors to focus on maintaining the quality of their audits. This meant that auditors had to reshape their audit process by revising audit plans, identified risks, and methods for collecting evidence (Kend and Nguyen, 2022; Sian, 2022).

Because COVID-19 changed the nature, timing, and scope of audit work (Harjoto and Laksmana, 2023) and led auditors to struggle to maintain the quality of their audits, exploring how public sector auditors made sense of their auditing activities during the the crisis makes a valuable contribution to the audit literature.

## THEORETICAL FRAMEWORK

Sensemaking is a social process 'through which people work to understand issues or events that are novel, ambiguous, confusing, or in some way violate expectations' (Maitlis and Christianson, 2014, p. 57). Initially sensemaking was conceived as a psychological phenomenon based on the designing of cognitive maps used by people for 'reading' the reality they face (Weick, 1979, p. 192). Successively a constructivist approach was developed. Weick (1995, p. 15) stated that 'people make sense of things by seeing a world on which they have already imposed what they believe'. People engage in sensemaking by evaluating the actions they implement in the environment in which they live. Regardless of the approach to sensemaking, it is conceived as a retrospective process. People make sense of their realm by evaluating the result of their actions in comparison to their expectations. Thus, sensemaking presupposes both the enactment and the enacted. The first is the social actions through which 'structures, constraints and opportunities' are put in place. The second is what results from the enactment, and is subject to a retrospective evaluation (Weick, 1995). This is followed by the inter-related processes of creation and interpretation, which shape what people 'subsequently focus on for interpretation and act on those interpretations' (Sandberg and Tsoukas, 2015, p. 14; Christianson and Barton, 2021). In other words, enactment occurs in relationship to its environment, and is inextricably linked to an underlying purpose of restoring or maintaining a rational order in the face of disruption. To this end, actors bracket, notice, and extract cues from their lived experience to create an initial sense of what is taking place in a changed environment, then organize them to define a frame of reference for interpreting the new situation. The overall sensemaking process, combining creation, interpretation, and enactment, is an ongoing and cyclical process that people activate and re-activate until the disruption is resolved through the restoration of the previous order or the establishment of a new one. In addition to the retrospective approach to sensemaking, many scholars have contributed to

defining prospective sensemaking (Gioia *et al.*, 1994; Gioia and Mehra, 1996; Stigliani and Ravasi, 2012; Maitlis and Christianson, 2014; Gatzweiler and Ronzani, 2019).

Unlike retrospective sensemaking, prospective sensemaking does not look at past events to make sense of them, instead considering future imaged events to create 'meaningful opportunities for the future' (Gioia and Mehra, 1996, p. 1229). Retrospective and prospective sensemaking are not mutually exclusive (Dawson and Sykes, 2019; Colville *et al.*, 2012). But while similar processes are implemented both in prospective and retrospective sensemaking, in prospective sensemaking, the processes of creation and interpretation are not realized in a present that is becoming past, but in a present in which enactment creates the enactment (Gioia and Mehra, 1996; Weick, 2005).

Sensemaking during crises is more complex. According to Weick (1988, p. 305), 'because of their low probability, [crises] defy interpretation and impose severe demands on sensemaking'. People usually try to make sense of an uncertain environment by comparing what comes from their actions with what they would expect from them. The re-establishment of the rational order is the objective of sensemaking. However, this can be more problematic during crises. Enactment could result in actions and an enacted environment that may worsen the crisis and in which the rational order is not at all aligned with expectations. This problem arises from the typical retrospective approach to sensemaking. Enactment has an impact on the object of sensemaking, that is, people need to make sense of the consequences of their actions. Thus, according to Weick, during a crisis, 'there is a delicate tradeoff between dangerous action which produces understanding and safe action which produces confusion' (Weick, 1988, p. 305). Also, in times of crisis, disruption is rapid, requiring fast decision-making and actions, in which people may not be able to gather all the necessary information to make appropriate decisions and act accordingly (Maitlis and Christianson, 2014, p. 85).

Sensemaking during a crisis also differs from non-crisis periods because in times of uncertainty and disruption the retrospective approach cannot be applied. Each crisis is characterized by distinctive and unique elements, which Boin *et al.* (2005, p. 32) describes: 'one of the most frequently used shortcuts is the reliance on historical analogies to make sense of the challenges posed by a contemporary crisis. In [...] these circumstances, there is a clear pitfall associated with applying the presumed lessons of one crisis to another: crises might look similar, but they are unique by definition'.

Furthermore, during a crisis, people may face particular restrictions that limit their capacity to focus their attention or act. One such restriction is the limited access to information during a crisis period (Christianson and Barton, 2021), where information is either overwhelming or in short supply. In the first case, people may suffer fatigue from continuously activating a process of sensemaking thus reducing the quality of that process. On the other hand, the scarce availability of information deprives people of the possibility to exhaustively frame and interpret their environment, making full enactment implausible.

Additionally, during the three typical phases of a crisis—pre-crisis, real-time crisis, and post-crisis (Ezzamel and Bourn, 1990; Coombs and Laufer, 2018)—the

processes of creation, interpretation, and enactment may be implemented with different intensity. During a pre-crisis period, people try to make sense of what is going to happen in the near future, and sensemaking may then be both prospective and retrospective, with its quality dependent on available information. During pre-crisis, people work to understand unexpected events, assigning meanings to them to minimize potential traumatic effects, reshape the future, and create an enacted environment that aligns with their expectations (Hill and Levenhagen, 1995; Park, 2016). To this end, they both deepen and speed up the activities of 'noticing' and 'bracketing' so as to narrow their attention to a manageable portion of the environment and better make sense of it to achieve an imagined future (Weick *et al.*, 2005). In the second phase—real-time crisis—people focus their efforts on enacting actions that make it possible to resolve the real problems caused by the crisis. During this phase, the crisis comes to the surface, and people concentrate more on enactment to verify the continuous and rapid adjustments enacted to restore the pre-crisis situation as soon as possible (Ezzamel and Bourn, 1990). People operationalize the aspects on which they have applied sensemaking, reckoning with the actual obstacles occurring because of the crisis versus their expectations (Park, 2016). The meanings created mainly during the pre-crisis phase and its rapid adjustments inform the enactment when the crisis is deploying its effects (Christianson and Barton, 2021; Maitlis and Christianson, 2014). In the post-crisis phase, people should be able to construct their understanding of a crisis after the disruptive event has occurred (Weick *et al.*, 2005). Nevertheless, given that the repercussions of crises frequently have lasting effects, sensemaking might endure beyond the crisis period until a non-crisis situation is restored (Rinaldi *et al.*, 2020).

## RESEARCH METHODS

### *Case Selection*

Given their direct relationship with citizens and therefore capacity to impact people's lives, municipalities played a central role in crises, including the COVID-19 pandemic (Padovani *et al.*, 2021). For this reason, the auditing of these entities is very relevant when examining crises. The Italian case is particularly significant because Italy was one of the countries most affected by the pandemic (ISTAT, 2022). Italian municipalities experienced notable delays in their administrative operations due to their struggle to adopt effectively new organizational requirements as a result of the pandemic, such as the introduction of remote work. Hence, we expect that municipalities' financial records to reflect these difficulties, and therefore a corresponding impact on the auditing process. Additionally, municipalities represent Italy's most prevalent form of public administration (ISTAT, 2023) and therefore auditors of Italian municipalities constitute a substantial portion of the auditor population within the Italian public sector.

*Target Population and Data Collection*

Data was collected through a survey supported by ANCREL, the Italian Association of Local Governments' auditors. This survey involved distributing an online questionnaire to all ANCREL members. A population of 2,090 auditors was reached, with 135 respondents, a response rate of 6.46%. Considering the qualitative nature of the research that does not aim at statistical significance, this response rate can be considered satisfactory for theorizing how auditors make sense of auditing during the main phases of crises. Indeed, the findings of qualitative research can be used to generalize to theory rather than to populations (Bryman, 2012).

A qualitative survey reconciles two distinct sets of research requirements. First, given the significant subjectivity inherent in sensemaking processes (Weick, 1993), it was necessary to understand the motivations guiding individuals' actions, which can be achieved by undertaking interviews. Second, recognizing that everyone interprets and makes sense of situations differently (Park, 2016), we aimed to employ a data collection method capable of encompassing more participants than would be possible via interviews, such as a survey. Consequently, adopting a qualitative survey appeared to be a balanced solution (Braun *et al.*, 2021). As stated by Zulu and Saad (2023), who employed a qualitative survey to apply a sensemaking perspective to digitalization in construction organizations, a qualitative survey can be justified by the exploratory nature of the study in investigating a new and contemporary trend without relying on past theoretical constructs. Additionally, as participants responded by typing answers in their own words rather than selecting from predetermined answer options, reasonably in-depth insights were obtained through open-ended questions (Braun and Clarke, 2013; Zulu and Saad, 2023).

The survey started in December 2022 and ended in March 2023. To increase the appropriateness of the questionnaire and the understandability of its questions, a pilot test was also performed (Braun *et al.*, 2021).

To operationalize the aspects of auditing on which auditors made sense during the COVID-19 crisis, we considered the processes involved in the auditors' activities and their role as the main variables to investigate. COVID-19, in fact, obliged auditors to modify their processes for auditing (Gong *et al.*, 2022; Kend and Nguyen, 2022). In addition, the pandemic made the auditors' role change, as society increased became more sceptical about auditors' ability to enhance financial statements' credibility (Ferry, Midgely *et al.*, 2022). Drawing on the literature on public sector auditing, especially that referring to the effects of COVID-19 on auditing (e.g., Ferry, Midgely *et al.*, 2022; Hategan *et al.*, 2022; Kend and Nguyen, 2022), we identified eight sub-aspects, four for the process aspect and four for the role aspect. For the process aspect, we considered: a) identification of organizational risks; b) identification of relevant areas to audit; c) identification of resources to be employed in the audit; and d) methods for documents collection and auditee's organizational aspects. For the role aspects, we considered: e) audit approach; f) relationship between the auditor and politicians; g) relationship between the auditor and other supervisory bodies; and h) relationship between the auditor and other stakeholders. These sub-aspects are also used for presenting the findings.

We relied on this operationalization to set the questions of the questionnaire. The questionnaire consists of eight questions, one for each sub-aspect considered (a–h). For each aspect we asked: 1) how, in the early pre-crisis of the pandemic, the auditors imagined *a–h* would be affected by the crisis and how they would manage them; 2) how *a–h* were affected during the real-time crisis and how auditors had to adapt their management compared to what they had planned; 3) how auditors managed the changes they have made to *a–h* in the post-crisis.

### *Data Analysis*

We manually coded and categorized data using Microsoft Word and Excel to organize categories and codes associated with each survey response (Gooneratne and Hoque, 2021). Although we recognized the potential advantages of utilizing software for data coding, we conducted manual coding to gain a deeper insight into the subjective viewpoints of the respondents. Respondents provided relatively concise answers, possibly due to time constraints. This brevity allowed us to conduct a manual analysis without the complexity that an excessive volume of data might have introduced. Additionally, employing software to analyze less elaborate responses, compared to what might be obtained in a verbal conversation, could have resulted in a more sterile analysis. In cases where responses appeared unclear to us, we contacted the respondents by phone to ensure our understanding and, if necessary, ask for clarification.

Data analysis was performed in different stages (Guarini *et al.*, 2020). Before starting the analysis, we provided three categories to fit the codes (Collis and Hussey, 2014). Those categories reflect the three phases of crises. Then, each author independently read (and re-read) the survey responses and assigned a category to each response (or part of it, when the response was multi-faceted). Afterwards, codes were defined and assigned to each survey response, reflecting emerging themes that each author deemed relevant (Gerard, 2020; Miles and Huberman, 1994). When all the authors had assigned their categories and codes, a meeting was held to discuss and resolve any differences (Smyth *et al.*, 2009). Appendix 1 provides some examples of how the survey responses have been coded.

## FINDINGS

In this section, we present the findings drawing on the operationalization we did of the audit function (a–d for the process aspects, e–h for the role aspects). We associated each respondent (R) with a number (from 1 to 135) to report some quotes while guaranteeing anonymity.

### *Process Aspects*

*Identification of organizational risks* In the early phase of the pandemic (pre-crisis), the auditors paid close attention to the potential new organizational risks the



pandemic could pose. Citizens are the most important stakeholders for municipalities since they pay taxes to receive services in return. While identifying the risks that could hamper efficient public services has always been one of the auditors' primary goals in planning their audits, when a crisis arises, it becomes a priority. One of the auditors wrote:

The increase in social hardship would soon impose changes in the areas subjected to audit. In particular, I expected increased spending on services and less revenue from collecting taxes and fees for public services. (R132)

The auditors' responsibility as promoters of efficient municipal services strengthened during a real-time crisis. The delay in collecting taxes led the auditors to increase sample checks on those budget items indicative of possible delays in providing essential services (R56, R134). The need to consider additional risks that could amplify the slowdown of service provision also emerged, such as the clients' risk of cyber-attacks (R4, R31, R56) aggravated by obsolete software (R108). Auditors also gained awareness about the poor training of municipal employees as a factor that has increased the deterioration of public services (R35, R47), especially after the most critical phases of the pandemic (post-crisis). Proper use of digital tools would have allowed employees to work efficiently to guarantee the continuity of public services when physical access to the municipality's offices was not possible. On the other hand, given that the auditors still recognized that face-to-face communication with municipal officials and managers allows errors to be corrected more quickly than remote communications (R47), the will to promote hybrid forms of control emerged, in which on-site verifications coexist with remote ones (R32).

*Identification of relevant areas to audit* Consistent with the slowdown in service delivery as the main risk considered by auditors during the crisis, during the pre-crisis period, auditors planned to focus their audit effort on those areas of the financial statements related to municipal services that they feared would have been negatively impacted (R62, R102). During the real-time crisis, increased tax evasion (R102) and tax collection delays (R93) forced auditors to pay more attention to their current tax revenues. Auditors paid particular attention to captive surpluses connected to COVID-19 spending (R126). The Italian government introduced COVID-19 funds to centralize the emergency response and audit the related spending. Ensuring transparency and auditing of funds to recover from the crisis has become of fundamental importance during the recovery phase (post-crisis) to check that municipalities have effectively allocated them for their intended purposes (R121, R35, R19). For instance, one of the respondents stated:

I had to pay particular attention to monitoring the contributions received by the municipalities I audit, especially concerning the destination of the funds they received for the provision of services. (R103)

Through a focus on the provision of services, the crisis has therefore strengthened the auditor's role in promoting accountability for the methods of spending extraordinary resources, so that citizens and other stakeholders can be offered guarantees of the efficient use of funds and full compliance with new regulations.

*Identification of resources to be employed in the audit* During the pre-crisis period, auditors were not particularly concerned about the need for new or different resources to be employed in auditing, except for time. The likelihood of increased formal requirements would have meant more time to study regulations in depth (R117, R119). The lockdown regime that prevented auditors from physically entering municipal offices (real-time crisis) forced the auditors to deploy additional and different resources from those planned. Auditors had to replace on-site visits with those using new IT resources. They also had to assign additional human resources to other work areas with which they were entrusted (e.g., consultancy) to devote more time to auditing (R120, R108, R115). Time is the most critical resource during crises, and auditors must manage it well to complete quality audits without delays.

The importance of time as a valuable resource became evident, especially considering the increasing number of verifications and opinions to be issued to comply with the law. Another difficulty arose when I needed to manage several audit tasks simultaneously. Audited organizations often submitted essential documents just a few days before the deadlines and scheduled meetings with little advance notice. This posed a significant challenge in executing the necessary tasks accurately within the established deadlines. (R89)

After implementing remote controls, some auditors felt that they produced time savings (R96, R105), thus keeping them as the primary method for auditing (post-crisis). Other respondents instead believed that managing technological resources had been challenging for municipalities, significantly increasing the time needed for auditing (R51, R131). The crisis, therefore, has created a split in auditors' perceptions about the impact on the quality of their audits from the additional resources employed in the audit. On the one hand, the time saved for physical travel, the use of up-to-date technological resources, and the availability of more collaborators improved the quality of their audits. On the other hand, the poor training of municipal employees in using the new resources led to slowdowns and delays in completing the audit, worsening its quality.

*Methods for document collection and auditee's organizational aspects* General uncertainty about the measures the Italian central government would have taken against COVID-19 spread (pre-crisis) led auditors to rely on guidelines from hierarchically superior audit bodies, especially the Court of Auditors, the Italian Supreme Audit Institution (SAI) (R135). With the introduction of the circulation ban (real-time crisis), auditors realized that they could not conduct the audit through traditional methods. Auditors had to limit significantly their physical

presence at municipal offices, reducing the possibility of acquiring paper documentation and introducing or increasing the use of remote procedures for auditing (R43, R58). However, many auditors found it challenging to adapt to these methods, mainly because ‘too often municipalities’ systems are not easily accessible remotely’ (R135). For this reason, as soon as possible (post-crisis), many auditors returned to on-site auditing (R47). However, others found benefits from the new data collection techniques, highlighting how COVID-19 forced a move to remote activities that had been carried out exclusively on-site previously due to inertia (R126).

### *Role Aspects*

*Audit approach* During the pre-crisis period, assuring the government and the public about the regularity of financial accounts was the leading goal of auditors (R8, R35). Consequently, independence from the auditee was necessary (R77, R82). When the pandemic effects came to the surface (real-time crisis), the need to find information remotely increased collaboration between auditors and auditees through the exchange of documents and opinions with managers and officials, also resulting the building of trust between them (R102, R124). This collaboration enabled auditors to support the municipalities’ decision-making (R33, R57). On the other hand, some auditors exploited remote work by limiting direct contact with the municipalities’ staff, thus allowing for less collaboration (R47). Interpersonal relationships between auditors and auditees were missing during the pandemic (R69, R91), changing municipal auditing, which has always been characterized by the auditor’s presence at the municipality (R109). Some auditors thus overturned their audit approach (post-crisis) by reconsidering the importance of collaboration with the municipality’s officials, especially with those responsible for financial issues, to establish mutual trust, which, in turn, improves practices and, thus, audit quality (R125). In this respect, one of the respondents wrote:

The relationship with the auditee favours the auditor in getting to know the auditees better than the documents alone can do. Therefore, I returned to in-person verifications and discussions with the municipal officials involved when the most critical pandemic phase had passed. (R91)

Conversely, other respondents kept their traditional auditing approach, indicating that lack of direct contact with municipalities’ decision-makers allowed them to meet better the independence requirement (R30, R54). Indeed, when possible, they still perform remote audits.

*Relationship between the auditor and politicians* Auditors’ independence had to be maintained to instill confidence in citizens (pre-crisis). One of the respondents stated:

Managers are entrusted with the municipality's financial management, and it is with them that the auditors must interact. (R69)

However, the emergence of thorny financial issues during the pandemic (real-time crisis) often intensified the relationship between the auditor and councillors. Auditors realized the municipality could benefit from conversations between auditors and politicians on critical financial issues, such as budget balances (R119). Admittedly, reforms in the 1990s had already introduced assisting the city council in achieving higher levels of efficiency and effectiveness as one of the roles of auditors (Mussari, 1995). However, the pandemic (post-crisis) highlighted the importance of these provisions, emphasizing that the participation of auditors in city council meetings allows for better oversight of administrative and financial compliance. Despite usually avoiding conversations with politicians, some auditors do not exclude dialogue with them (R89). Nevertheless, the independence requirement does not imply a complete absence of interaction with politicians, but rather doing so with 'due detachment' (R122).

#### *Relationship between the auditor and other supervisory bodies*

The need to maintain high levels of audit quality when little awareness about the pandemic's consequences was in place (pre-crisis) made auditors increase their reliance on the guidelines of the Court of Auditors, which has a hierarchically superior position over municipal auditors. The leading role of the Court was confirmed during the severe pandemic phases (real-time crisis), as most auditors strengthened their communication flows with it (R32, R84, R122) and 'followed its provisions slavishly' (R123). These stronger relationships increased auditors' awareness of the Court's guiding role and the benefits they can gain in improving audit quality through ongoing communication. This instilled optimism among auditors regarding their ability to sustain these relationships (post-crisis). Auditors also increased the relationship with the independent evaluation bodies (OIV). The OIV, appointed by the political-administrative body, oversees the monitoring of public sector organizations' performance and performance systems (Mussari, 2022; Pernagallo and Torrisi, 2020). This means that the crisis has widened the scope of auditors, who have come to deal with issues additional to the traditional financial control and compliance of public spending, such as aspects relating to economy, efficiency, and effectiveness, the monitoring of which is the primary responsibility of the OIV.

#### *Relationship between the auditor and other stakeholders*

The main stakeholders of public administrations are citizens, who may need transparent information to deal with the potential uncertainty associated with the pandemic (pre-crisis). Indeed, auditors paid more attention to transparency issues (real-time crisis). Auditors increased their checks on the timely updating of the municipalities' websites and the completeness of the documents disclosed (R105, R119). Despite this path towards greater transparency, a mere compliant

approach to auditing often emerges (post-crisis). In many cases, auditors verify the update of the municipalities' website mainly to 'check' if all the acts to be disclosed by law have been published (R93).

In public sector settings, auditors must account for the use of resources and compliance with the law of procedures, independently from whether someone is interested in it or not. (R32)

## DISCUSSION AND CONCLUSIONS

The crisis brought on by the COVID-19 pandemic affected many aspects of society, including professions (Rinaldi *et al.*, 2020, p. 182). Among these, the case of public sector auditors is particularly interesting, as they must ensure accountability about the proper use of public resources in situations of uncertainty in which public trust may waver (Ferry, Radcliffe, *et al.*, 2022). Auditors had to make sense of this uncertainty that affected their usual way of conducting audits (Maitlis and Christianson, 2014; Weick *et al.*, 2005), suggesting that in times of crisis auditors are faced with the need to modify both their roles and the processes for auditing (Gong *et al.*, 2022; Kend and Nguyen, 2022). We posed the research question: How do public sector auditors make sense of the effects of crises on their auditing performance? We examined this using a questionnaire and a review of the literature, through which we identified three main phases of crises, finding that during these phases auditors engage in sensemaking activities that involve several interconnected processes (Sandberg and Tsoukas, 2015). Applying sensemaking as a theoretical framework, we explore how a crisis may affect the way auditors make sense of their role and processes and visualize the way in which the actions envisaged by that frame should be executed. Creation and interpretation refer to the act of defining the frame of reference for sensemaking (Sandberg and Tsoukas, 2015; Christianson and Barton, 2021), while enactment relates to way actions are implemented in ways that may differ from expectations established during the interpretation phase (Sandberg and Tsoukas, 2015, p. 14; Christianson and Barton, 2021). Evaluation, whether retrospective or prospective, depends on whether individuals analyze past events to derive meaning or anticipate future occurrences to identify 'significant opportunities for the future' (Gioia *et al.*, 1994; Gioia and Mehra, 1996; Stigliani and Ravasi, 2012; Maitlis and Christianson, 2014; Gatzweiler and Ronzani, 2019).

The creation and interpretation processes take on greater importance during the pre-crisis phase, in which auditors make more effort to create a frame in which they emphasize their concerns while maintaining the principles of compliance and independence. At the outset, when limited information was available about COVID-19 and its potential repercussions, auditors reflected on how the pandemic could have affected both their clients and their auditing activities. For

example, they were concerned about the risk that conducting remote audits and transmitting documents through the Internet could increase the risk of cyber-attacks. Municipal auditors saw their role as ensuring that effective public service delivery was offered to citizens, thus identifying the risks that may have prevented effective delivery. Indeed, giving assurance to the public sector's main stakeholders that their money has been spent to provide efficient and effective services has always been a priority for public sector auditors (Bandy, 2011; Jones and Pendlebury, 2010). In line with Weick (1995), auditors needed to re-establish the rational order that would be changed by the crisis because of the emergence of new organizational risks. To do so, the auditors' approach to new risks was to limit their effects, and to this end, they tried to restrict the scope of control to the mere compliance of public spending with laws and regulations. This is in line with the Italian bureaucratic public administration tradition (Pollitt and Bouckaert, 2011), which revolves around overseeing the legality of spending and regulatory aspects of financial accounts, with relatively little attention given to other evaluations (Ferry, Midgley, *et al.*, 2022). This is in contrast to Boin *et al.* (2005), who argue that in crises the retrospective approach does not apply. However, from our case it emerges that it is the maintenance of order relating to the auditor's role that makes the sensemaking approach retrospective, regardless of whether the auditor can use a past crisis as a comparator. Therefore, regardless of the nature and unexpectedness of the effects of the crisis, auditors' sensemaking processes could unfold in similar ways during one type of crisis or another due mainly to their approach to their responsibilities, which is strongly influenced by compliance and regulatory responsibilities that have a legal underpinning.

During the unfolding of the crisis, when its effects start to be visible (real-time crisis), the significance of the enactment phase heightens. During this phase, auditors implemented actions that were opposite to their expectations. The crisis gave rise to unexpected challenges, such as the need to align the gathering of new evidence linked to emerging risks within a limited timeframe (Albitar *et al.*, 2021; Al-Qadasi *et al.*, 2023). This is consistent with Maitlis and Christianson (2014), who find that during crises people often must make decisions and enact them with incomplete information. To deal with this challenge, auditors were forced to review the frame they had built and interpreted based on the principle of independence. The enactment, therefore, had a negative effect on the auditors' perception of their role because they saw their independence jeopardized. Thus, our case confirms Weick's (1998) idea that sensemaking implies both the enactment and the enacted environment not only differs from expectations, but also worsens the perception of the crisis. Furthermore, the greater focus of stakeholders on the quality of the services received led auditors to reinterpret the compliance aspect of their role, shifting their controls to aspects relevant to effectiveness and efficiency of services.

In the post-crisis period, retrospective sensemaking led to a creation process that once again emphasized the role of independence and compliance. Essentially, the frame created and interpreted is brought back to the pre-crisis situation. This retrospective approach is explained by the bureaucratic and legalistic administrative tradition that characterizes the Italian public sector, which focuses auditors and public administration on compliance aspects and highly standardized

procedures rather than performance. However, auditors also envisaged different processes to be implemented to achieve such independence prospectively. Among these, the transparency of the auditee emerged as an area to be audited. Furthermore, regarding the use of technologies, our findings show that issues that were a cause of concern for auditors during the pre-crisis period in the creation process were re-interpreted during the post-crisis phase via prospective sensemaking, for example, the use of technologies being reinterpreted as a tool for guaranteed and increased independence. Indeed, the use of technologies both allows for the limitation of personal interactions with the auditee and increases efficiency in the performance of the audit. In essence, risks to be paid attention to within the frame for sensemaking in the pre-crisis period became an element through which to reinterpret or re-enact the concepts that characterize the role and process of auditing in the post-crisis phase. This implies auditors' adoption of a retrospective approach to make sense of the aspects of the auditor's role, which remains strongly anchored to compliance and independence. On the other hand, a prospective approach emerged regarding the process aspects of the audit. This co-existence of retrospective and prospective sensemaking confirms that the two approaches are not exclusive (Dawson and Sykes, 2019; Colville *et al.*, 2012).

To conclude, this research shows that auditors respond differently to the uncertainty and instability of auditing throughout the main phases of crises. During pre-crisis they focused on the scope of control through compliance with laws and regulations related to public spending. During the real-time phase of the crisis, to deal with time and information shortcomings, auditors increased collaboration with municipalities. During the post-crisis period, the willingness to guarantee independence led them to step away retrospectively from collaboration. At the same time, they prospectively imagine the processes implemented to achieve auditor independence using technologies that may allow for more efficient completion of audit tasks.

Within the broader research on the impact of COVID-19 on auditing, the findings of this research contribute to a better understanding of the behaviour of municipal auditors in managing the effects of the crisis on their processes and role. Furthermore, it contributes to sensemaking theory by elucidating how the processes involved in sensemaking develop during the main phases of crises for individuals whose profession is traditionally characterized by a highly standardized approach. Moreover, the research helps auditors in managing crises by envisaging how to adjust their roles and activities to maintain high audit quality levels during the main phases of a crisis.

This research has some limitations. First, the data were collected after the critical phase of the pandemic, when the recovery was already underway, potentially leading to a 'hindsight' bias. Moreover, hindsight bias is inherent to sensemaking, especially when sensemaking is applied to understanding why some actions during events have surprising outcomes (Pezzo, 2003). However, we believe that hindsight bias can negatively influence the analysis of poor decision-making. Our goal, in contrast, was not to identify auditors' mistakes but to reconstruct their predictions and sensemaking at a specific moment in the past. Furthermore, COVID-19 may have had unexpected effects in the pre-crisis phase, that is, when the first signs appeared in the first two months of 2020. Starting from March 2020, significant media attention meant that

awareness of the potential severity of the effects of the crisis was high. This potentially reduced the impact of the unknown in terms of effects and therefore limited hindsight bias. Moreover, this research may fill gaps identified in studies published in the early stages of the pandemic that were limited by the ongoing nature of the crisis and which implied that further effects could have still occurred (Hay *et al.*, 2021).

Second, the low response rate may have biased results, as only a specific segment of our target population (Royse *et al.*, 2010) may have filled out the questionnaire. If the auditors who returned the questionnaire were predominantly those who felt engaged and successful in handling the crisis, then the responses could be influenced by those with a 'positive' attitude toward the crisis through the development of a proactive identity and role. Conversely, auditors with a 'negative' approach to COVID-19 might have predominantly responded, as they might have viewed the questionnaire as an opportunity to express their frustration and to justify their challenges in managing their roles during the main phases of crises. As a result, a polarization of responses would emerge, potentially counteracting the effects of the bias.

Our study should foster further investigation on how auditors made sense of the crisis created by the pandemic. Future research could focus on other countries having a more managerial rather than bureaucratic public administration tradition. Furthermore, the analysis could be extended to public sector organizations other than local governments, in which the auditors' response to the crisis may have been different given that the role played by citizens' expectations could play a more marginal role.

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APPENDIX 1

CATEGORIES AND EMERGING CODES

Category	Code	Example of survey response quote	Main sensemaking process involved
Pre-crisis	Concerns	Relying too much on the Internet for document and communication transmissions has its critical issues, and many catch us unprepared. In addition, editing digital documents or forcing them is increasingly easy, and solutions to this should be found as well (R33).	Creation and interpretation
	Compliance	The main risk was that administrations would not be able to provide the information within the deadlines imposed by the regulations (R20).	
	Independence	Although aware of the need for greater collaboration with the audited municipality given the situation that was beginning to arise, it has always remained a prerogative for me to maintain a detached attitude by virtue of the independence requirement (R124)	
	Guidelines	It is always essential to slavishly comply with the provisions of the regional control sections of the Court of Auditors, especially when the political/economic situation that lies ahead is unclear (R124).	
Real-time crisis	Service delivery	Smart working has fueled the way of evading internal problems to the detriment of citizens. The legislator should act through interventions aimed at the efficiency of the staff and the objectives that are intended to be achieved, using the models to be filled out by the citizen regarding the satisfaction of the services received and which no public administration (or very few) has put in place (R48).	Enactment
	Time	Smart working and remote control have influenced the audit activity, both positively (I am physically about 2 hours away by car from a municipality) and negatively (internet connections sometimes fail in the mountains) (R42).	
	Collaboration	I feel that the pandemic has favoured a collaborative attitude on the part of the administrations (R44)	
Post-crisis	Transparency	After the advent of Covid-19, the timeliness and completeness of the publication of data and documents of municipalities have assumed greater importance (R57).	Retrospective and prospective evaluation
	Independence	I believe that the advent of Covid-19, having almost eliminated face-to-face human	

(Continues)

*AUDITOR SENSEMAKING IN CRISES*

Category	Code	Example of survey response quote	Main sensemaking process involved
		relationships, which have been replaced by remote methods (in many cases maintained even after the pandemic was over), may have contributed to increasing and improving the independence of the auditor (R55).	
	Efficiency	The use of solutions such as smart working and remote control highlighted the possibility of using them in the near future as well, without involving a loss of efficiency for the municipalities and for the audit processes over them (R54).	
	Starting point	I believe that the audit approach returned to the pre-covid situation once the emergency was over (R49).	