

AUDITORS' AND MANAGERS' RESPONSIBILITIES REGARDING GOING CONCERN ASSUMPTION IN THE COVID -19 PANDEMIC CONTEXT

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Abstract

The social protection measures imposed or recommended by the authorities during 2020, as a result of the COVID-19 pandemic, had a negative impact on the activity carried out by several economic entities in Romania, calling into question the presumption of going concern. Such situations require a closer analysis by auditors and members of the management of economic entities in terms of the risk of business continuity and the implications for the annual financial statements. The annual financial statements are the main source of information for a large category of users, including owners, on the assets, liabilities, financial position and financial performance of economic entities. If the management of an economic entity is aware of events that may lead to a significant restriction of the entity's activity or inability to continue its activity, it must be presented in the financial statements, as well as in the accompanying reports, the director's report and the of the independent auditor, as appropriate.

The purpose of this paper is to present the responsibilities of financial auditors and those of the management of economic entities regarding the presumption of going concern, in the context of the pandemic COVID - 19. To achieve this goal there were analyzed studies, conducted so far by various authors, regarding the economic fields affected by the COVID -19 pandemic, the recommendations of the professional bodies active in the field of auditing the financial statements regarding the analysis of the business continuity risk and how they were applied by the auditors, the provisions of national accounting regulations regarding the going concern principle and the responsibilities of economic entities management to prepare the annual financial statements, in the current context.

Keywords: *going concern, annual financial statements, independent auditor's report, significant subsequent events, COVID-19.*

1. Introduction

For most economic entities in Romania, the year 2020, in the context of the COVID-19 pandemic, represented a year full of challenges, which called into question the presumption of continuity of activity. The effects of this year on economic activity will be felt even in 2021 and maybe even in the future depending on the evolution of the pandemic and the restrictive measures that could be imposed by the authorities.

Although it is the first situation of this kind, situations of economic crisis have existed in the past, respectively in the period 2008-2012, the period of the last economic crisis and its effects. During this period, the international and national professional bodies made a series of recommendations that signaled the necessary changes in the approach of the audit mission, and among the identified risk areas was the continuity of activity.¹

As expected in the context of the COVID -19 pandemic, the Chamber of Financial Auditors (CAFR), the national professional body, made recommendations to the financial auditors to give importance to the

analysis of exposure to business risk and implications for annual financial statements.²

The International Auditing and Assurance Standards Board (IAASB) also produced, in 2020, a publication for audit firm employees highlighting the potential implications of the current context on audit reports, including significant uncertainty about business continuity.

In Romania, indications regarding the development of the activity of economic entities based on the principle of continuity can be obtained from the financial statements and from the accompanying audit report.

The financial statements are the main source of information on the financial position of the economic entity, financial performance, as well as other information detailing aspects of the activity carried out, presented in the explanatory notes. In most cases, the annual financial statements are prepared on a going concern basis. This principle states that the entity is considered to have a continuation of its business in the foreseeable future with neither the need nor the

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¹ Bunget Ovidiu-Constantin, Bliđișel Rodica Gabriela, Dumitrescu Alin Constantin, Demian Raluca, *The Financial Auditor's Reaction to the Challenges of the Economic and Financial Crisis*, Financial Audit, no. 6, CAFR, Bucharest, 2014, pp. 4.

² https://www.cافر.ro/wp-content/uploads/2020/03/Recomandari-pentru-AF-COVID_25_3_20.pdf accessed on February 1, 2021.

intention to be liquidated, to suspend³ or to significantly restrict its activity⁴.

According to a study conducted by the National Institute of Statistics, in April 2020, approximately 34% of economic agents that participated in the research could not estimate the evolution of economic activity, 45% estimated a reduction in the volume of activity by more than 25%, while about 14% of economic agents expected the closure of the activity.⁵ The statistical research was addressed to the managers of economic entities with activity in the manufacturing industry, constructions, retail trade and services.

The purpose of this paper is to present the responsibilities of financial auditors regarding the presumption of continuity of the activity of an economic entity and those of the entity's management, in the context of the COVID-19 pandemic, from the perspective of companies that apply the provisions of the Order of the Ministry of Public Finance no. 1802/2014 for the approval of the Accounting Regulations on individual annual financial statements and consolidated annual financial statements and chose as the reporting period the calendar year. In order to carry out the work, a study was carried out on the economic fields affected by the COVID-19 pandemic, a documentation on the provisions of the International Standards on Auditing regarding the responsibilities of financial auditors to assess business continuity, as well as on recommendations issued by the International Auditing and Assurance Standards Board (IAASB) for audit firm employees in terms of reporting in the current context. Also, a documentation was made on the provisions of the accounting regulations regarding the responsibilities of the management of an economic entity to analyze whether the assumption regarding the continuity of the activity is still adequate or not.

In order to highlight the impact of the economic context caused by the COVID-19 pandemic on the independent auditor's report and on the financial statements, the financial statements for 2019 were analyzed, accompanied by the auditor's report, of several economic entities that apply the provisions of

the Order of the Ministry of Public Finance no. 1802/2014, with activity in the affected fields.

2. Effects of the Covid -19 pandemic and implications on the going concern

To fight the pandemic, EU Member States have taken a wide variety of measures, including restrictions on travel into the EU and between EU Member States, cancellation of public events, restrictions on private gatherings, closing of schools, bars, restaurants, hotels and many retail shops with the exception of supermarkets, pharmacies and banks.⁶ Most of the measures to prevent the spread of COVID -19 were taken in mid-March 2020, kept during April, and since May, many of them have been abandoned or reduced in severity. During the summer, prevention measures were more relaxed, which led to an increase in the number of new cases of COVID-19, and this situation led the authorities in many EU Member States to reintroduce in September and October 2020 some isolation measures of the population.

In Romania, between March and May 2020, the activity of many companies, regardless of their size, was blocked and they faced major problems related to sales, the impossibility of paying due debts due to non-collection of receivables, as well as the situation of choose between keeping employees, sending them into technical unemployment or firing them⁷.

The vast majority of companies in Romania whose activity has been affected by the restrictions imposed by the authorities to prevent the spread of COVID -19 operate in tourism; road, sea, air transport; production and sale of cars; constructions; production of non-vital goods during the pandemic (clothing, footwear).⁸

In view of the information presented above, we conclude that the main economic areas affected are construction, production, services and trade. Thus, in figure 1 we present the dynamics of the volume of constructions, industrial production and trade in the period January - December 2020.

³ Turlea Eugeniu, Mocanu Mihaela, *Reflection upon the Accountability of Management and Auditors in Evaluating Going Concern*, Financial Audit, no. 1, CAFR, Bucharest, 2010, pp. 24.

⁴ Order of the Minister of Public Finance 1802/2014 for the approval of the Accounting Regulations on individual annual financial statements and consolidated annual financial statements, article 49, paragraph 1.

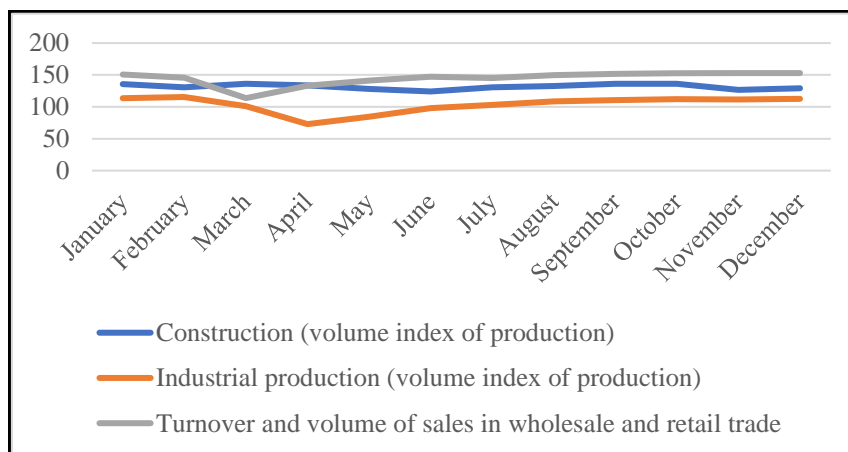
⁵ https://insse.ro/cms/sites/default/files/cercetare_impactul_covid-19_asupra_mediului_economic.pdf accessed on February 1, 2021.

⁶ Covid-19 containment measures in Europe, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Impact_of_Covid-19_crisis_on_construction#Covid-19_containment_measures_in_Europe accessed on February 20, 2021.

⁷ Corina Graziela Dumitru, Alina Mihaela Irimescu, *Guide to Financial Reporting According to National Accounting Regulations, in the Context of the Crisis Generated by Coronavirus*, CECCAR, Bucharest, 2020, pp. 2.

⁸ Corina Graziela Dumitru, Alina Mihaela Irimescu, *Guide to Financial Reporting According to National Accounting Regulations, in the Context of the Crisis Generated by Coronavirus*, CECCAR, Bucharest, 2020, pp. 3.

Fig. 1. Development of construction, production activities & sales, between January and December 2020



Source: <https://ec.europa.eu/eurostat> and author's processing

The table below shows the change in the volume of construction production, industrial production and sales in December compared to January 2020 and in December compared to April 2020:

Table 1

	December/ January 2020	December/ April 2020
Construction	-4.79%	-3.44%
Industrial production	-0.88%	54.73%
Sales	1.39%	14.70%

Source: <https://ec.europa.eu/eurostat> and author's processing

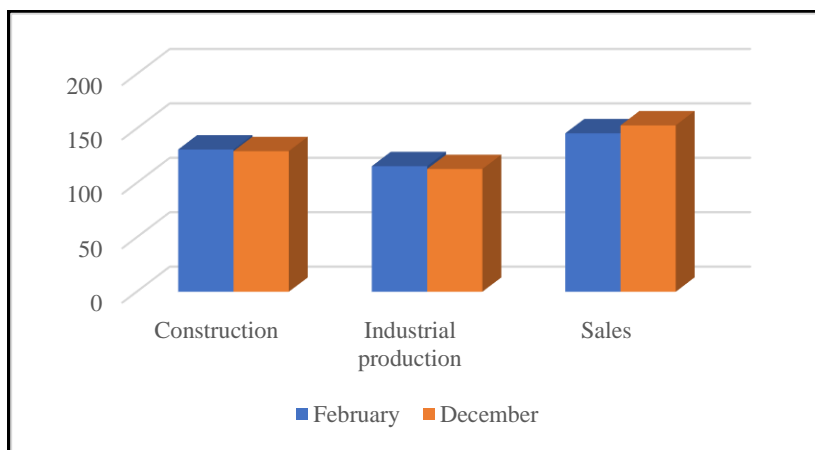
In order to perform the analysis, the first month of 2020, the month in which the COVID -19 pandemic had not yet been declared, was taken as benchmarks, as well as April, which was the first full month in which severe restrictive measures were applied that led to limiting the activity of certain economic entities or to the temporary or permanent closure of others.

Thus, the volume of construction production decreased by 4.79% in December 2020 compared to January of the same year, and compared to April by 3.44%. Meanwhile, the volume of industrial production decreased by 0.88% in December 2020 compared to January 2020 and an increase of 54.73% compared to

April 2020. The volume of sales, although in March 2020 recorded the lowest value (Fig. 1), increased both in December compared to January 2020, by 1.39%, and compared to April 2020, by 14.7%.

An analysis of the recovery of the volume of activity in December compared to February 2020 was also performed, the last month before the declaration of the COVID -19 pandemic, which is shown graphically in figure 2. Thus, the volume of construction production was recovered in proportion of 98.85%, that of industrial production in proportion of 97.75%, and in terms of sales volume, it exceeded in December the value recorded in February 2020 by 5%.

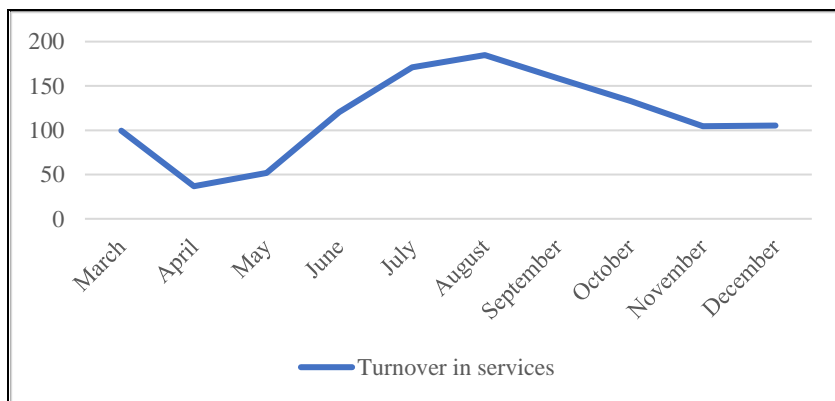
Fig. 2. The degree of recovery of the activity volume in December compared to February 2020



Source: <https://ec.europa.eu/eurostat> and author's processing

Regarding the economic entities in Romania with activity in the provision of services, they registered a turnover in the period March - December 2020 according to Figure 3:

Fig. 3 The evolution of the turnover of the companies with service provision activity in the period March - December 2020



Source: <https://ec.europa.eu/eurostat> and author's processing

We present in table 2 services turnover growth rates in first, second and third quarter 2020, depending on the category of services provided:

Table 2

Activities	Services turnover growth rates (%)		
	Trim I 2020	Trim II 2020	Trim III 2020
Transportation and storage	5.7	-14.8	9.4
Accommodation and food service activities	-15.7	-58.3	110.7
Information and communication	5.9	-3.1	3.7
Professional services	7.5	-15.6	14
Administration support	2.3	-17	8.2
Total	4.5	-17.6	13.8

Source: <https://ec.europa.eu/eurostat>

Economic entities with service activity experienced a decrease of approximately 18% in turnover in the second quarter of 2020 compared to first quarter of the same year. The largest decrease in

turnover was registered by companies with activity in accommodation and food service of 58.3%.

In conclusion, the Romanian economic entities with activity in the field of constructions registered a decrease of the production volume in February 2020, those with activity in the field of industrial production faced a decrease of the production volume in the period February - April 2020, meanwhile sales volume of trading companies had the lowest level in March 2020. Regarding the turnover of companies with service activities, it decreased in the second quarter of 2020 compared to the previous period. Therefore, economic entities from Romania that apply the provisions of the Order of the Ministry of Public Finance no. 1802/2014 and that have chosen the calendar year as the reporting period, had indications about the reduction of the volume of activity or turnover before the submission, at the territorial units of the Ministry of Public Finance, of the annual financial statements for 2019, respectively before 31 July 2020⁹.

A significant reduction in the volume of activity, production volume or turnover could negatively affect the operating result of an economic entity, as well as the financial position. According to the accounting regulations, the administrators of the companies that became aware of some elements of insecurity generated by the COVID-19 pandemic and that could have led to their inability to continue their activity, should have presented these elements in the explanatory notes of the financial statements for 2019.

Specialists of the Body of Expert Accountants and Certified Accountants recommended that large economic entities, with complex activity, in the context of the COVID-19 pandemic, perform a more detailed analysis of business continuity, taking into account the company's net situation, operating cash flows, generation significant operating losses due to production delays, supply shortages, labor difficulties due to illness or restrictions imposed by the authorities, inability to pay debts at maturity¹⁰.

3. Responsibilities of the management of economic entities regarding the presumption of going concern

Economic entities from Romania that apply the provisions of the Order of the Ministry of Public Finance no. 1802/2014 prepare annual financial

statements through which they provide information to a wide range of users regarding financial position, financial performance, cash flows generated by the activity carried out during the financial year, which, in most cases, coincides with the calendar year.

The management of the economic entities is responsible for preparing the annual financial statements¹¹. The items presented in the financial statements are recognized and measured in accordance with the principles described in the above-mentioned accounting regulations. One of the fundamental accounting principles is the going concern principle which assumes that the entity will continue to operate normally, without entering into a state of liquidation or significant reduction in business.¹² However, the financial statements will not be prepared on the basis of the going concern principle if the members of the management of the economic entity establish after the balance sheet date that they liquidate the entity or cease the activity.

If the managers of an economic entity are aware of certain elements that could affect the continuity of the activity, these must be presented in the explanatory notes¹³, annexed to the balance sheet.

Business continuity requires careful analysis by the management of the economic entity when operating profit and financial position deteriorate.

On January 30, 2020, the World Health Organization declared a state of emergency following the epidemic caused by the new coronavirus, and as of March 11, 2020, it was considered a pandemic. At national level, various measures have been taken by the authorities to prevent the spread of the virus, measures which have included, inter alia, the temporary suspension of the activity of some economic entities.

Given that the date on which the Covid-19 pandemic was declared is later than the balance sheet date of the economic entities that have chosen the calendar year as their financial year, the events generated by the social protection measures imposed or recommended by the authorities are subsequent events that do not adjust the indicators presented in the financial statements for 2019. However, their impact on the activity of economic entities is significant and an estimate of the financial effect must be provided or the reason why such an estimate cannot be made¹⁴ in the explanatory notes annexed to the financial statements for 2019.

⁹ The usual deadline for submitting the annual financial statements is 150 days from the end of the previous financial year, but in 2020 was adopted an Emergency Ordinance no. 48/2020 on some financial - fiscal measures, by which the deadline for submitting the annual financial statements for the financial year 2019 has been extended to 31 July 2020.

¹⁰ Corina Grazziela Dumitru, Alina Mihaela Irimescu, *Guide to Financial Reporting According to National Accounting Regulations, in the Context of the Crisis Generated by Coronavirus*, CECCAR, Bucharest, 2020, pp. 17.

¹¹ Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, 2018 Edition, Vol. I, IFAC, pp. 84.

¹² Order of the Minister of Public Finance no. 1802/2014 for the approval of the Accounting Regulations on individual annual financial statements and consolidated annual financial statements, article 49, paragraph 1.

¹³ Order of the Minister of Public Finance no. 1802/2014 for the approval of the Accounting Regulations on individual annual financial statements and consolidated annual financial statements, article 49, paragraph 3.

¹⁴ Order of the Minister of Public Finance no. 1802/2014 for the approval of the Accounting Regulations on individual annual financial statements and consolidated annual financial statements, article 74, paragraph 4.

The specialists of the Body of Expert Accountants and Certified Accountants from Romania recommended that the information that can be presented in the notes to the financial statements as subsequent events, the following: interruptions in the supply chains; decrease in sales revenues and, implicitly, in revenues; decrease in liquidity, caused by non-collection of customers; cessation / reduction of production for certain periods for certain categories of goods; restructuring plans determined by the closure of some work points or shops; losses caused by the cancellation of certain contracts; dismissing employees or resorting to measures of technical unemployment; renegotiating the maturity of debts resulting from contracts with suppliers.¹⁵

The administrators' report accompanying the annual financial statements must also contain an analysis of the uncertainties and risks to which the economic entity is subject in the coming period.¹⁶ In this regard, companies are advised to consider potential

issues, such as the loss of customers or the decrease in their traffic in sales units, the impact on the distribution chain and supply delays or interruptions and production delays or limitations. At the same time, the impact on human capital, the additional security measures required and their impact on production must be taken into account. Neither the risk of losing significant contracts, which may lead to the closure of production units, shops or installations, nor the risk of penalties for non-performance of contractual obligations should be neglected.¹⁷

In the table below we have made a selection of the information presented in the Administrators' Report and the explanatory notes regarding the continuity of activity in the context of the COVID pandemic - 19. Economic entities from Romania with activity in the economic fields affected by the health crisis were selected, which apply the provisions of the Order of the Ministry of Public Finance no. 1802/2014 and chose as reporting period the calendar year:

Table 3

Activities	Date of signing the financial statements for 2019	Mentions in the Administrators' Report / explanatory notes
Clothing Manufacturing; Retail Clothing, Footwear, Watches, Jewelry	April 1, 2020	The Administrators' Report mentions that the financial statements for 2019 are prepared based on the principle of business continuity. There are no risks that could affect the activity due to the COVID -19 pandemic. The explanatory notes related to the financial statements of 2019 state that they were prepared based on the going concern principle and the entity's management is not aware of other events subsequent to December 31, 2019 that could have a significant impact on them. Also, reference is made to the situation of the entity in the context of COVID - 19, namely the activity is partially affected, on the retail side, the work points being temporarily closed.
Retail	April 22, 2020	The Administrators' Report does not present any risks that may affect the activity as a result of the COVID -19 pandemic. The explanatory notes related to the financial statements of 2019 state that they are prepared based on the going concern principle. The note on subsequent events describes the context in which the company operates and states that management cannot assess, at the date of preparation of the financial statements, the financial impact or the duration of the effects of the pandemic. However, this event does not adjust the figures in the financial statements as of 31.12.2019. It is also stated that managers expect this crisis to affect the company's activity in 2020, without a major impact on the financial position.
Automotive and non-automotive production; services - logistics, transport, construction, electrical works.	March 18, 2020	The Administrators' Report does not present any risks that may affect the activity as a result of the COVID -19 pandemic. The financial statements for 2019 have been prepared based on the going concern principle. The explanatory note on subsequent events states that the long-term impact of COVID-19 may affect the volume of products traded, cash flows and profitability. However, in the context of the COVID -19 pandemic, at the date of preparation of the financial statements for 2019, the company fulfills its obligations at maturity and applies the principle of business continuity.

Source: Financial statements for 2019 prepared by listed economic entities with activity in the areas affected by the COVID pandemic

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¹⁵ Corina Graziela Dumitru, Alina Mihaela Irimescu, Guide to Financial Reporting According to National Accounting Regulations, in the Context of the Crisis Generated by Coronavirus, CECCAR, Bucharest, 2020, pp. 7.

¹⁶ Corina Graziela Dumitru, Alina Mihaela Irimescu, Guide to Financial Reporting According to National Accounting Regulations, in the Context of the Crisis Generated by Coronavirus, CECCAR, Bucharest, 2020, pp. 8.

¹⁷ <https://www2.deloitte.com/ro/en/pages/business-continuity/articles/cum-reflectam-COVID-19-in-situatiile-financiare.html> accessed on February 20, 2021.

In conclusion, the COVID -19 pandemic began to have effects on the activity of economic entities in March 2020, but at the date of preparation of the financial statements for 2019, they were subsequent events that did not adjust the amount of indicators for the financial year ended 31.12.2019.

Regarding the going concern principle, the economic entities that did not intend to liquidate or significantly restrict the activity in 2020, mentioned, according to the provisions of the accounting regulations, in the explanatory notes, that this principle is the basis for preparing the financial statements at 31.12.2019. If the managers of the entities were able to assess the impact of COVID - 19 on the activity in 2020 or on the financial position, profitability, cash flows, they mentioned these aspects in the explanatory notes related to the financial statements of 2019.

4. Responsibilities of financial auditors regarding the going concern principle

Economic entities from Romania that apply the provisions of the Order of the Ministry of Public Finance no. 1802/2014, have the obligation to audit the annual financial statements if they fall into the category of medium and large entities or if they are public entities.

The economic entities that are part of the category of medium and large entities are those that, at the balance sheet date, exceed the limits of at least two of the following three criteria: total assets 17, 5 million lei, net turnover 35 million lei and average number of employees during the financial year 50.¹⁸

Also, economic entities that in two consecutive financial years exceed the limits of at least two of the following criteria: total assets 16 million lei, net turnover 32 million lei and average number of

employees 50, have the obligation to audit the annual financial statements.

Auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole, including disclosures, are free from material misstatement¹⁹. Following the audit mission, the auditors obtain evidence on the basis of which they draw up a report in order to express their opinion on the financial statements.

The restrictive measures taken by the authorities, starting with the first quarter of 2020, in order to protect the health of the population as a result of the COVID-19 pandemic, have affected and continue to affect the economic environment. In this context, the Romanian Chamber of Financial Auditors recommended to the auditors that, starting with January 2020, they should be extremely alert to audit risk in terms of direct implications on compliance with the going concern principle of audited companies.²⁰

The IAASB also recommends that audit firm employees obtain sufficient appropriate audit evidence regarding disclosures of the significant effects of the COVID-19 pandemic on business continuity reasoning.²¹ However, the auditor is not responsible for issuing a final conclusion on business continuity²², but to obtain sufficient adequate audit evidence, and to conclude on the degree of adequacy with which the entity's management uses the going concern principle in preparing the financial statements and if any significant uncertainty about events or conditions may raise significant doubts about the entity's ability to continue to operate.²³

The auditor's conclusions regarding the adequacy with which the entity's management uses the going concern principle in preparing the financial statements will have implications for the audit report, which are summarized in the table below:

Table 4

The use of the going concern bases of accounting is		Implications for the report
inappropriate		the auditor shall express an adverse opinion
		the auditor may consider it appropriate, in extremely rare cases, to declare that it is impossible to express an opinion
appropriate, but a material uncertainty exists	an adequate presentation of significant uncertainty is made in the financial statements	the auditor shall express an unmodified opinion and the auditor's report shall include a separate section entitled "Material uncertainty regarding on Going Concern"
	an adequate presentation of significant uncertainty is not made in the financial statements	the auditor shall express a qualified or adverse opinion, as appropriate, and in the Base for qualified (adverse) opinion section of the report, state that there is material uncertainty that could raise significant doubts about the entity's ability to proceed activity and that the financial statements do not adequately present this aspect

¹⁸ Order of the Minister of Public Finance no. 1802/2014 for the approval of the Accounting Regulations on individual annual financial statements and consolidated annual financial statements, article 9, paragraph 4.

¹⁹ Auditor Reporting in the Current Evolving Environment Due to COVID – 19, IAASB, pp. 2, <https://www.ifac.org/system/files/publications/files/Staff-Alert-Auditor-Reporting-Final.pdf>, accessed on February 11, 2021.

²⁰ https://www.cafr.ro/wp-content/uploads/2020/03/Recomandari-pentru-AF-COVID_25_3_20.pdf, accessed on February 1, 2021.

²¹ Auditor Reporting in the Current Evolving Environment Due to COVID – 19, IAASB, pp. 2, <https://www.ifac.org/system/files/publications/files/Staff-Alert-Auditor-Reporting-Final.pdf>, accessed on February 11, 2021.

²² Țurlea Eugeniu, Mocanu Mihaela, *Reflection upon the Accountability of Management and Auditors in Evaluating Going Concern*, Financial Audit, no. 1, CAFR, Bucharest, 2010, pp. 31.

²³ Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, 2018 Edition, Vol. I, IFAC, pp. 591.

Source: International Standard on Auditing (ISA) 570 (Revised), Going Concern

In the table below we have made a selection of the information presented in the Independent Auditor's Report on on going concern basis of accounting. The economic entities from Romania with activity in the

economic fields affected by the COVID - 19 pandemic, which apply the provisions of the Order of the Ministry of Public Finance (OMPF) no. 1802/2014 and chose as reporting period the calendar year, were targeted:

Table 5

Activities	Date of signing the Audit Report on the financial statements for 2019	Mentions in the independent auditor's report
Clothing Manufacturing; Retail Clothing, Footwear, Watches, Jewelry	April 1, 2020	Qualified opinion: Except for the possible effects of those presented on the basis of the qualified opinion section, the financial statements present faithfully, in all material respects, the company's financial position at 31.12.2019, financial performance and cash flows for the year ended . The basis of the qualified opinion section mentions the issues that led the auditors to this opinion, which are related to the inability to determine whether value adjustments are required for property, plant and equipment in the absence of their revaluation by the entity and the inability to obtain sufficient and adequate information on the net realizable value of inventories. Revaluation is the accounting treatment chosen by the entity in order to establish the value of tangible assets. No details were provided regarding the uncertainties generated by the effects of the COVID-19 pandemic on business continuity.
Retail	April 22, 2020	Opinion: the financial statements present faithfully, in all material respects, the company's financial position at 31.12.2019, financial performance and cash flows for the year ended on the same date. The paragraph on key issues states that the financial statements have been prepared on a going concern basis, but the auditors have identified an element of uncertainty, namely negative equity, which may significantly call into question the company's ability to continue to operate. No details were provided regarding the uncertainties generated by the effects of the COVID-19 pandemic on business continuity.
Automotive and non-automotive production; services - logistics, transport, construction, electrical works.	March 18, 2020	Opinion: the financial statements present faithfully, in all material respects, the company's financial position at 31.12.2019, financial performance and cash flows for the year ended on the same date. The section on management responsibilities states that managers are responsible for assessing the company's ability to continue its business. No details were provided regarding the uncertainties generated by the effects of the COVID-19 pandemic on business continuity.

Source: Report of the independent auditor accompanying the Financial Statements for 2019 prepared by listed economic entities with activity in the fields affected by the COVID -19 pandemic

If auditors find significant uncertainties that may affect business continuity, they must be reported in accordance with ISA 570 Going Concern, expressing an unmodified opinion, a qualified opinion or an adverse one, as appropriate.

5. Conclusions

In the first quarter of 2020, the World Health Organization declared the COVID-19 pandemic, which prompted state authorities to take action to prevent the spread of the virus. The measures taken, in March 2020, by the Romanian authorities led to the restriction or temporary suspension of the activity of certain economic entities. In this context, in April 2020, one third of the managers of economic entities, subject to a study conducted by INS, could not estimate the evolution of economic activity, more than 40% estimated a reduction in the volume of activity by more than 25%, meanwhile about 14% of them predicted the closure of the activity. Thus, the presumption of going concern for economic entities active in the

manufacturing, construction, retail and services industries was called into question.

Indications about the continuity of the activity of the companies that apply the provisions of OMPF no. 1802/2014 and are obliged to audit the annual financial statements, can be obtained from the explanatory notes attached to the balance sheet and from the report of the independent auditor.

The annual financial statements for the financial year 2019 had as deadline for submission to the territorial units of the Ministry of Public Finance July 31, 2020, at that time it was known that the COVID-19 pandemic will have repercussions on future activity, but the indicators presented in the balance sheet 2019 were not adjusted because the events generated by the social protection measures, imposed or recommended by the authorities, were events subsequent to the balance sheet date. However, their impact on the activity of economic entities is significant, it was mentioned in the explanatory note regarding subsequent events, and in the case of entities that could assess the impact of COVID - 19 on the activity in 2020 or on financial position, profitability, cash flows , also

made references to them. Therefore, the provisions of the accounting regulations according to which if the administrators of an economic entity have knowledge about events that would prevent the continuous activity or determine the significant restriction of the activity, they must be presented in the explanatory notes, otherwise it will be mentioned that the financial statements are prepared on the going concern basis of accounting and the events subsequent to the balance sheet with significant impact will be presented in the specific explanatory note.

With regard to the auditors' responsibilities for the financial statements for 2019, they have planned and conducted their work in such a way as to obtain sufficient evidence and adequacy to conclude whether the financial statements as a whole, including disclosures, are free from material misstatement.

Auditors are not responsible for issuing a final conclusion on business continuity, but for concluding on the adequacy with which the entity's management uses the going concern basis of accounting in preparing the financial statements and whether there is significant uncertainty about events or conditions that may give rise to material doubt on the entity's ability to continue its business. If auditors find significant uncertainties

that may affect business continuity, they should be presented in the report.

In the audit reports that accompanied the annual financial statements of the financial year 2019, prepared by the studied entities, no mentions were made regarding the uncertainties generated by the effects of the COVID-19 pandemic on the continuity of activity. Instead, clarifications were made that the financial statements were prepared on the basis of the business continuity principle, and in cases where auditors identified elements of uncertainty, they were presented in the paragraph related to key issues.

The COVID -19 pandemic, for the financial statements of 2020, which will be submitted to the tax authorities by economic entities until May 31, 2021, is no longer a subsequent event, its effects on the activity carried out by the entities will be reflected in the amount reported indicators. In this context, the management of economic entities must pay greater attention to the assessment of the business continuity hypothesis, the dynamics of operating results and the financial position, and if it finds the inability to continue the activity it must be presented in the explanatory notes to the financial statements of the year 2020.

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