CAMERA AUDITORILOR FINANCIARI DIN ROMANIA

PROFESSIONAL RECOMMENDATIONS FOR FINANCIAL AUDITORS IN THE LIGHT OF COVID-19 IMPLICATIONS

The pandemic caused by the COVID-19 virus in the first months of 2020 continue to determine governments to take more restrictive measures meant to protect population and reduce the spread of the virus. The measures taken have a clear impact on the economic environment in its entirety, as well as on the society as a whole, at an unprecedented global scale.

We are already witnessing major effects such as, but not limited to, the following:

- Suspension of purchases from quarantined areas
- Limitation or cease of deliveries to quarantined areas
- Cuts in production, following the dramatic reduction of available raw materials
- Shortage related to staff availability
- Contraction in activity for smaller firms, lacking prior digitalization readiness
- Dramatic activity reduction in firms with a direct/ face to face relationship with the client (restaurants, hotels, travel agencies, retail stores, sport facilities, etc.)
- Closure of shops, no longer able to sell the merchandise in storage
- Reduced negotiation and financing options
- Fall of stock indices

Beginning with January 2020, auditors **need to be particularly vigilant on audit risk**, especially given the direct effects on the compliance of audited entities with the going concern principle.

The Coronavirus pandemic **is a subsequent event occurring after the end of the 2019 financial year which can, or cannot, lead to adjusted figures in the annual financial statements, in so far as these can be reliably estimated.**

The economic effects on the audited entity can be seen in the subsequent events up to the date of issue of the audit report and the auditors shall very carefully examine them.

First, entities need to be very attentive in assessing their risk exposure and the manner in which their financial reporting for the financial year ended at 31 December 2019 will be affected by the event subsequent to the year end.

Both those charged with governance and financial auditors shall pay attention to the going concern risk and its impact on annual financial statements.

IMPLICATIONS ON THE AUDIT REPORT

A. KEY AUDIT MATTERS

For PIEs and those non-PIES applying ISA 701 „*Communicating Key Audit Matters in the Independent Auditor's Report*”, the auditor shall now carefully assess KAM and include them in a separate paragraph, related to the impact on activity of the going concern risk, in the KAM section of the audit report..

For non-PIEs, when ISA 701 was not adopted, the auditor **shall give a due consideration to the content of explanatory notes where these issues are to be disclosed in detail, as well as to the risk assessment included in the Administrator's Report, in line with OMFP 1802/2014, as subsequently amended**.

B. GOING CONCERN THREATS

We are advising financial auditors to have in mind the provisions of **ISA 570 „Going Concern"** and those in the audit report related standards: *„the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so*".

Going concern means that financial statements are prepared on the same considerations as current financial statements, except when management intends either to liquidate the entity or to cease trading or **is lacking any other realist option**. The assessment on whether the basis for the going concern is adequate is carried out while taking into account the subsequent events following the end of the reporting period.

For example, at 31 December 2019, for entities not severely affected by the impact of the COVID-19 pandemic, **even if the significant impact on operations occurred after the year end**, management shall consider the opportunity to prepare the financial statements on a going concern basis. When management is aware of **material uncertainties** seriously casting a doubt on the entity's ability to continue as a going concern, the **entity should disclose these material uncertainties in the financial statements**.

Thus, in line with ISA 560 „*Subsequent Events*", there is **a need to include** in the annual financial statements as of 31 December 2019 detailed **information notes** about the impact of this situation on the company, so that users are able to assess the effects or at least to be aware of these effects on the company and on the economy, as a whole. Stock participants, investors, authorities need detailed industry-related information to be able to take economic decisions.

Thus, we have two scenarios:

1.There is an explanatory note on subsequent events, detailing the measures taken by the entity and there is **an immaterial uncertainty** related to the going concern risk	The audit report shall be affected by an emphasis of matter paragraph, pointing to this issue, without affecting the audit opinion on the financial statements as of 31 December 2019.
2. There is no explanatory note on subsequent events, detailing the measures taken by the entity and there is **a material uncertainty** related to the going concern risk.	The audit report shall contain in the Basis for opinion a remark related to the material going concern risk and, consequently, the audit opinion shall be modified to an adverse opinion or even a disclaimer of opinion.

In any of the circumstances, it is recommended that the auditor requires additional written information, obtains formal management representations in this regard, carefully examines the entity's risk assessment procedures, reviews the considerations taken into account by the management in its risk assessment and **decides, based on his/her professional judgement and available information, whether the assessment carried out by the entity is reasonable at the time when the audit report is issued**.