# EXAMINING THE AUDIT CLIENTS GOING CONCERN

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**Abstract***:* The paper discusses a very topical issue, under the conditions of the economic crisis, on the going concern of an entity and the manner in which the auditor can provide reasonable assurances to that effect. The going concern assumption is a fundamental principle for drafting the financial statements, which state that an entity is generally regarded as presenting a continuation of its work in the foreseeable future, having no intention or need to be liquidated, and to suspend its activity or to seek protection from creditors. The keywords of the success of an audit mission will consider the consolidation of the credibility of accounting information, along with early detection of some possible risks which the entity may expose to in the future. Raising the issue on following-up the activity in a public manner means already bringing a prejudice to the entity. Thus, in a field such as accounting, announcing the result of the current year as being lower compared to the result of the previous year already represents the priming of the vicious circle of losing the confidence. The events or conditions that could significantly question the reporting entity's ability to continue work can be identified during the execution of the risk assessment procedures or during the execution of further audit procedures. The auditor assesses the effect of the identified events or conditions when assessing the significant distortion risks, and, therefore, their existence may affect the nature, type and extent of the auditor's further procedures. For the more rigorous assessment of abiding the principle of future business, the financial auditor will examine the dynamics of liquidity, solvency, equilibrium and financial performance indicators, and to evaluate the risk of bankruptcy by the score method. To interpret the results, the professional reasoning, experience and comparative data of the activity field of the similar entities are essential.

**JEL classification: M41, M42**

**Key words: audit, going concern, financial statements, examination, risk of bankruptcy.**

## 1. INTRODUCTION

In the new international context, the auditor's mission complicates every day. He can no longer perform an audit mission in which he only expresses his view according to which the financial statements are untrue or not. The auditor must be something more, he must oscillate between reinforcing the belief of stakeholders that the financial statements give a true picture of the financial position and to provide them information about the health status of the entity.

The keywords of the success of audit mission will consider the consolidation of the credibility of accounting information, along with early detection of some possible risks which the entity may expose to in the future[1]. This is the context which is not simple at all in which the auditor's work means exposing the opinion and signalizing (alerting) the risks to which the entity is exposed every day, especially in new international conjuncture.

Thus, the current economic crisis emphasizes the importance of one of the fundamental principles of accounting: the going concern assumption. Increasingly more organizations, due to the seriousness of this crisis and speed of development, confronts with difficulties of forecasting and can not say with a reasonable risk level that presently the conditions of fulfillment of their activities take place normally. While the potential impact on the result and the amount of sources and resources is considerable, the liquidation value is obviously lower than the normal value of using an asset.

The consequences upon professional attention and the responsibilities of the auditors are equally strong, especially because one of the standing committees of the International Federation of Accountants (IFAC), the Auditing and Assurance Standards Council (AASC) already issued two alert messages (Staff Audit Practice Alert)[2]:

- October 2008: Challenges in Auditing Fair Value Accounting Estimates in the Current Market;
- January 2009: Audit Considerations in Respect of Going Concern in the Current Economic Environment.

The financial reporting framework developed by the International Accounting Standards Board (IASB) provides that the annual financial statements are drafted, usually, assuming that the reporting entity will continue its work in the foreseeable future. Thus, it is assumed that the entity has no intention or need to liquidate or significantly reduce its activity. If such an intention or need exists, the financial statements should be drafted on a different basis for evaluation and, in this case, it must be indicated the used base[3].

Also, the going concern assumption is already stated in the Fourth Directive, on the annual accounts of certain types of companies from July 25th, 1978, which stipulates in the art. 31: "It is alleged that the company to continue its activities."

In the same spirit, the national accounting regulations4 require the compliance by the reporting entity of the principle of going concern in drafting the annual financial statements, this principle requiring that an entity continues its work in the foreseeable future without the intention or need to go into a liquidation status or significant reduction of its activity, to suspend its activity.

Of course, the fact that a company may have difficulties is not something new, but, exceptionally, this phenomenon has become increasingly common in the current crisis.

Diversifying its products and markets, a company could master their risks. In case of a more serious difficulty, the possibility of takeover by a competitor or by an investor was often considered. Currently, it may be ascertained such a decline in demand in all states, as diversification plays no more a stabilizing role. The going concern assumption,

[1] D. Zăpodeanu, M. I. Boloş, M. Farcaş, S. Marian, „Detection of companies' difficult situations under exogenous risks conditions. Approach from the point of view of the auditor", Audit financiar magazine, no. 1/2009.

[2] A. Burlaud, „The auditor and the going concern business issue during economic crisis", Audit financiar magazine, no. 7/2009.

[3] General framework for the drafting and presentation of the financial Statements, paragraph 23.

[4] Ordinance of the Public Finances Ministry no. 3055/2009 for the approval of accounting regulations according with the European directives, the Official Gazette no. 766bis/10.11.2009.

which basically came by itself, becomes an actual topic of discussion for those charged with the governance for companies and users of financial statements.

Raising the issue on following-up the activity in public already means bringing a prejudice to the entity. Thus, in a field such as accounting, announcing the result of the current year as being lower compared to the result of the previous year already represents the priming of the vicious circle of losing the confidence. Those charged with the governance or auditors must resolve a dilemma:

- not to raise the issue of going concern, knowingly, in order not to compromise the chances of survival of the entity;

- to clearly set the risk issue, by itself, to challenge a disaster that has been so long questioned.

Following, we will give particular attention to the auditor in its dual role to ensure and prevent.

## 2. THE AUDITOR AND THE ANALYSIS OF THE GOING CONCERN ASSUMPTION

Currently, the pressure on auditors is becoming greater. Partly, the cause of this pressure is the so-called "expectation gap", means the distance between professional practice and what the public considers as the responsibility of the auditor[5].

Both in general and especially in the context of a going concern review, the public requirements on the auditor’s responsibility are high and can be described as it follows:

- An auditor is an alarm system against those who violate the law. For non-professionals it is difficult to understand how an entity may suffer serious financial difficulties as a result of frauds shortly after receiving an unqualified opinion from its auditors;

- The auditor acts as a radar able to detect signs of insolvency;

- The auditor acts as a safety net. Non-professionals need additional insurance in terms of the welfare of the organizations in which they invest;

- The public expects more safety measures on the auditor’s independence;

- The public wants to understand what the auditor intends to say, in other words, is required a consistent and clear communication from the auditor.

Therefore, the expectations regarding the financial auditor are high. Regarding the going concern principle, the International Standard on Auditing, revised, of IAASB, ISA 570 "Going Concern", in force since December 15th, 2009, establishes the framework of the auditor's mission. He repeats that IAS 1 "Presentation of Financial Statements" requires those charged with the governance of the entity to decide upon the respective entity's ability to continue its business. When the management assesses whether the going concern is appropriate, takes into account all the information it has about the future, which should be at least, but not limited to, 12 months , after the balance sheet date6, under ISA 560, "Subsequent Events" .

IAS 1 provisions relating to the compliance of the going concern principle in the financial reporting process are also replicated in the national accounting regulations. Thus,

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[5] L. Dobroţeanu, C. Dobroţeanu, D. Ciolpan, D. Manea, „Economic crises generate the change of the perceptions on the role of audit?”, Audit financiar magazine, no. 1/2010.

[6] If the assessment of the entity's ability to continue its business, performed by the management, covers less than 12 months after the balance sheet date, the auditor should ask the management to extend the assessment period to 12 months of the balance sheet.

if an entity's managers were aware of some elements of uncertainty related to certain events that may lead to the entity's inability to continue its business, these elements must be presented in the annotations. If the annual financial statements are not drafted on a going concern principle, this information should be presented, along with the explanations on how to draft them and the reasons for the presumption that the reporting entity can no longer continue its business.

It is the auditor's responsibility to obtain conclusive evidence on going concern or regarding the existence of a significant risk. This is part of the risk assessment procedures presented by ISA 315, "Identifying and assessing the significant distortion risks by understanding the entity and its environment". The auditor must submit claims by expressing an opinion on the existence or absence of a significant risk. In the presence of risk, he should ensure that that risk is properly presented in the financial statements and to show all the consequences of his report. Consequently, the absence of any reference to uncertainty related to going concern in the audit report can be viewed as a guarantee of the entity's ability to continue its business7.

In the Annex, the ISA 570 presents an illustrative list of the events that may raise doubts about the going concern assumption, distinguishing:

- Financial dimension (such as loans to maturity, with no possibility of repayment or refinancing, negative operating cash flow, credit loss provider, and so on).

- Managerial dimension (such as: a person, leaving without being replaced, charged with the governance, loss of important markets, threat of competitors, and so on).

- Various events (such as: regulations change, disaster whose consequences are not covered or are partially covered by insurances, and so on)

The events or conditions that could significantly question the reporting entity's ability to continue its business can be identified during the execution of the risk assessment procedures or in the execution of the further audit procedures. The auditor assesses the effect of the identified events or conditions when assessing the significant distortion risks, and, therefore, their existence may affect the nature, type and extent of the auditor's further procedures. Such an approach enables the auditor to plan some timely discussions with the management of the reporting entity, to review the management's plans and to make decisions on going concern issues of the identified business. They are a constituent part of the planning stages, progress and evaluation of the results of the applied audit procedures8.

In order to investigate the management's assessments on the going concern assumption, namely the appropriateness level of the use by the management of the going concern assumption, the auditor:

- examines the process of internal control that the management followed to assess the going concern assumption;

- identifies and analyzes the assumptions underlying the management's assessment;

- examines the management's action plans;

- checks if the assessment took into account all relevant information that the auditor has obtained as a result of the audit procedures;

- interviews the management about the knowledge he has about the events or conditions and operational risks, beyond the evaluation period specified by the financial

[7] ISA 570 „Going concern principle”, paragraph 9-10.

[8] T. Dănescu, O. I. Spătăcean, „Analysis of the going concerning assumption of the investment companies' business- a challenge for the financial auditors under the financial crisis”, Audit financiar magazine, no. 9/2009.

reporting framework, which would significantly question the entity's ability to continue its business;

- requires the management to determine the potential significance of the event or condition on going concern evaluation.

The auditor should apply further audit procedures if he identified the events, conditions or potential risk factors, namely that events, conditions and operational risks that could significantly question the entity's ability to continue its business, such as :

- gathering sufficient audit evidences to confirm or infirm whether there is a significant uncertainty, including taking into account the effect of the management plans and other factors of contraction;

- obtaining some written statements from the management regarding its action plans, including the plans for liquidation of assets, to attract borrowed funds or debt restructuring, reduction or deferral of expenses;

- analyzing and discussing the cash flow, profit and other relevant previsions with the management, including the latest available interim financial statements of the entity;

- reviewing the minutes of the General Meetings of Shareholders, of the meetings of the persons responsible for the governance or other relevant committees, for any reference to financing difficulties;

- questioning the advocate of the entity regarding the disputes and claims for damages brought by the creditors, as well as concerning the reasonableness of the assessment of their result made by the management and the estimation of their financial implications;

- confirming the existence, legality and applicability of the contracts which provide or maintain the financial support, concluded with the financial creditors and related parties to assess their ability to provide additional funds;

- analyzing the events after the end of the period to identify those which either decrease or otherwise affect the entity's ability to continue its business on the going concern principle;

- comparing the projected financial information for the periods which recently ended with the historical results, namely the projected financial information for the current period with the results achieved to date.

If information disclosures regarding the going concern assumption described by the management in the annual audited financial statements reflect reality, and the auditor is not in disagreement with the company's management concerning these aspects, then the auditor will not include reservations in this regard in his report. However, in some cases, it may be necessary to issue a changed report9. In Table no. 1 there are shown more nuanced the respective statements, when the auditor disagrees with the management and the information disclosure is appropriate.

Of course, if the going concern assumption is appropriate, but there is significant uncertainty and the information disclosures are not adequate, then the auditor's opinion will be with reservations or an adverse opinion.

Also, the opinion will be adverse if the going concern assumption is inappropriate, and the financial statements are drafted on a going concern basis.

[9] V. Iuga, „From awareness to action - the audit under crisis - the biggest challenges for the auditing profession ”, Audit financiar magazine, no. 9/2009.

**Table No 1 AUDIT REPORT AND APPROPRIATE PRESENTATION OF THE GOING CONCERN BUSINESS BY THE MANAGEMENT**

| Result | Consequences for the presentation by the management | Consequences for the auditor's opinion and report |
|---|---|---|
| The management decides that the going concern principle is appropriate. There were not identified material uncertainties which would cause a significant doubt about going concern. | However, financial statements may include information disclosures that would explain the conclusion of the going concern and how it was reached. | Opinion without reservation provided that the auditor's assessment to comply with that of the management and to justify the information disclosures. It is not necessary to introduce a paragraph emphasizing some aspects which would refer to the information disclosures. |
| The going concern assumption is appropriate, but there is a significant uncertainty. | Information disclosures that would explain the specific nature of the significant uncertainties, and why, however, the going concern principle was enacted. | The audit report having an opinion without reservation, which includes a paragraph emphasizing some issues, highlighting the existence of material uncertainties - provided that the auditor's assessment to comply with that of the management and the supporting information disclosures. This results in an amended report. |
| The management decides that the going concern is not appropriate. | Information disclosures that would explain the reasoning of the conclusion and the applied accounting policies in drafting the financial statements based on other principles other than that of going concern. | Opinion without reservations – provided that the financial statements include the necessary information disclosures and the auditor to consider the drafting base appropriate for the given circumstances. The auditor may consider appropriate to include a paragraph highlighting some issues under these conditions, to attract user's attention to the accounting basis used in the financial statements, resulting in an amended report. |

## 3. GOING CONCERN ASSESSMENT AND RISK OF BANKRUPTCY

Often, analytical procedures are used as indicators that signal that the audited entity is facing major financial difficulties. The probability of a future financial blocking must be analyzed by the auditor within the risk assessment procedures and in terms of how managers have applied the going concern assumption over drafting the financial statements. Some analytical procedures may prove very useful in this regard, such as when finding an above average report between long-term debts and net assets, simultaneously with a report between profit and total assets below average, when it can be inferred the existence of a risk of relatively high financial blocking. Such circumstances not only affect the audit planning, but they could also indicate the existence of some substantial doubt regarding the audited entity's ability to maintain the going concern of operation, namely the bankruptcy risk[10].

[10] S. Domnişoru, S. Vînătoru, „Audit and financial communication", Universitaria Publishing House, Craiova, 2009.

The first signals about the existence of the risk of bankruptcy are determined by the two important concepts to be known by the entity's manager, namely solvency and liquidity. If solvency represents the company's ability to honor its long-term obligations on account of total assets, liquidity represents the company's ability to honor, on behalf of the same assets, its short-term obligations.

In order to analyze the risk of bankruptcy, in practice a number of indicators are used, of their category making part[11]:

- the rate of repayment capacity, determined as the ratio between the total debts and self-financing capacity, indicates for a manager that the entity has its own sources (net profit and depreciation) to repay the total debts;

- the rate of payment capacity of the interests, determined as the ratio between the gross operating surplus before the taxation, plus the depreciation and it is related to the interests, indicating whether from the operation there are own financial resources sufficient to meet the interests' time limit. The rate is compared with its values recorded in reference sectors of national economy;

- the rate of financial autonomy is determined as the ratio between the self-financing capacity (SFC) and stable financial liabilities (including interests) which for the manager indicates that the company has its own sources (net profit and depreciation) to repay "the loans";

- the treasury surplus cash of operation is an indicator that reflects itself whether a company will be able to reimburse the financial expenses with the debts, the two situations being possible: ETE - T (income tax)?, respectively < than the financial expenses + repaying the debts (annually). The first situation corresponds to the possibility to meet the debt service by the enterprise.

To better understand the indicators above, we synthesized them in a panel having an information power, indicating the presence or not of the "bankruptcy virus" in an entity.

**Table No 2 INDICATORS AND ANALYSIS OF THE RISK OF BANKRUPTCY**

| **Indicator (rate)** | **Method of calculation** | **Insurance level** | **What is?** |
|---|---|---|---|
| The rate of repayment capacity | $\frac{DAT}{CAF}$ | $R_{CR} \leq 4$ | The enterprise's ability to repay the total debts from its own sources. |
| The rate of payment capacity of the interests | $\frac{EBIT + Amo}{Dob}$ | $R_{CDb} \leq R_{CDb}$ (per sector) | The enterprise's ability to pay the interests related to loans from the operation result (including the depreciation). |
| The rate of financial autonomy | $\frac{CAF}{Dfst}$ | Raf > 2 | The enterprise's ability to pay the financial debts from its own sources (loan + interest). |

In practice, the risk assessment of going into business and maintaining the company's business in a competitive market also requires the use of statistical methods for predicting the risk of bankruptcy, of which, on short-term, we mention the score method or "credit-scoring", which has seen an important development because of the use of some statistical methods for analyzing the financial situation, starting with one set of rates. The

[11] J. Van Jorne, „Financial Management and Policy", 9th edition Prentice Hall Inc., New Jersey, 1992.

target of this method is to determine for each company a summary indicator called "score", which would allow the estimation of the bankruptcy of the company.

In fact, the score method has evolved into two meanings: one is to use a Z function, the other is based on assigning scores to the indicators characterizing the activity of the company that wants to be analyzed.

One of the analytical models of the bankruptcy developed in economic theory is Altman model, also called "Z" model.

The Altman model is a statistical-mathematical model for forecasting the bankruptcy of companies, being developed in the USA, in 1968, by Professor Altman. The "Z" model includes five variables considered the most representative financial understates of a company. With this model, Professor Altman was able to foresee about 75% of the bankruptcies of some companies with approximately two years before their occurrence.

The coefficients of the selected variables were determined after the analysis of the economic and financial status of many companies, some of which went bankrupt.

The „Z" model is a follows: $Z = 1{,}2X_1 + 1{,}4X_2 + 3{,}3X_3 + 0{,}6X_4 + 1{,}0X_5$, where:

- $X_1$ variable evaluates the company's flexibility and is determined by the ratio of the floating capital (operating current assets – operating current liabilities or short-term debts) (KC) or the working capital (FR), and the balance-sheet assets (AB):

$$X_1 = \frac{KC}{AB} \text{ or } X_1 = \frac{FR}{AB} \text{ or } X_1 = \frac{AC\text{-}DTS}{AB}$$

- $X_2$ variable represents the self-financing rate of the total assets and is determined by the ratio of the reinvested profit (PRI) and the balance-sheet assets:

$$X_2 = \frac{PRI}{AB} \text{ or } X_2 = \frac{RNE\text{-}DIV}{AB}$$

The reinvested profit is determined as the difference between the net result of the year (RNE) and the equities given to the shareholders (DIV), ie:

$$PRI = RNE - DIV$$

- $X_3$ variable represents the rate of economic earning capacity and is determined by the ratio of the gross result of the year and the balance-sheet assets:

$$X_3 = \frac{RBE}{AB}$$

- $X_4$ variable emphasizes the company's borrowing capacity and is determined by the ratio of the market value of the shares (CSVP) and the medium and long-term debts (DTML) of the company:

$$X_4 = \frac{CSVP}{DTML}$$

For the unlisted companies, the market value of the shares will be equal to the joint stock.

- $X_5$ variable measure the assets' performance rating and is determined by the ratio of the turnover (CA) and the balance-sheet assets (AB):

$$X_5 = \frac{CA}{AB}$$

Depending on the achieved score, the companies rank on three levels, namely:

- level I: creditworthy companies for Z of the interval (3, + ∞);
- level II: companies with temporary financial difficulties for the Z value in the range (1,8; 3)
- level III: bankrupt companies for Z e (-∞; 1,8).

Among the disadvantages of applying this method, we mention:

- using some "historical" information;
- different accounting of the patrimony's movement;
- "creative" accounting;
- outdated accounting evaluations.

Professor Altman's model can be applied with good results for the companies listed on the stock exchange.

In order to see how Altman model is applied, we consider an example of an economic entity that presents the following data in the past three consecutive years (taking into account the fact that the financial statements of the year 2009 are not completed):

| Indicator/Year | 2006 | 2007 | 2008 |
|---|---|---|---|
| Current assets (AC) | 12.534.916 | 15.788.341 | 18.851.916 |
| Short-term debts (DTS) | 10.222.721 | 13.833.043 | 15.885.301 |
| Net result of the year (RNE) | 2.226.872 | 3.836.397 | 7.015.474 |
| Equities given to shareholders (DIV) | 2.039.370 | 3.141.753 | 2.051.876 |
| Balance-sheet assets (AB) | 21.021.879 | 25.460.278 | 31.261.606 |
| Gross result of the year (RBE) | 3.750.086 | 6.188.631 | 8.022.104 |
| Joint stock to market value (CSVP) | 1.000.000 | 1.480.000 | 1.300.000 |
| Medium or long term debts (DTML) | 5.432.651 | 4.876.247 | 6.471.632 |
| Turnover (CA) | 27.420.838 | 46.964.964 | 67.812.346 |

Next, we will calculate each of the five variables of Altman model and then we will compare the values of Z for the three years to assess the risk of bankruptcy.

Company's flexibility: $X_1 = \frac{AC-DTS}{AB}$

$$X_{1\ 2006} = \frac{12.534.916 - 10.222.721}{21.021.879} = 0,1099$$

$$X_{1\ 2007} = \frac{15.788.341 - 13.833.043}{25.4560.278} = 0,0768$$

$$X_{1\ 2008} = \frac{18.851.916 - 15.885.301}{31.261.606} = 0{,}0949$$

Rate of total assets self-financing: $X_2 = \frac{RNE\text{-}DIV}{AB}$

$$X_{2\ 2006} = \frac{2.226.872 - 2.039.370}{21.021.879} = 0{,}0089$$

$$X_{2\ 2007} = \frac{3.836.397 - 3.141.753}{25.4560.278} = 0{,}0273$$

$$X_{2\ 2008} = \frac{7.015.474 - 2.051.876}{31.261.606} = 0{,}1588$$

Rate of economic earning capacity: $X_3 = \frac{RBE}{AB}$

$$X_{3\ 2006} = \frac{3.750.086}{21.021.879} = 0{,}1784$$

$$X_{3\ 2007} = \frac{6.188.631}{25.4560.278} = 0{,}2431$$

$$X_{3\ 2008} = \frac{8.022.104}{31.261.606} = 0{,}2566$$

Debt capacity: $X_4 = \frac{CSVP}{DTML}$

$$X_{4\ 2006} = \frac{1.000.000}{5.432.651} = 0{,}1841$$

$$X_{4\ 2007} = \frac{1.480.000}{4.876.247} = 0{,}3035$$

$$X_{4\ 2008} = \frac{1.300.000}{6.471.632} = 0{,}2009$$

Assets performance rating: $X_5 = \frac{CA}{AB}$

$$X_{5\ 2006} = \frac{27.420.838}{21.021.879} = 1{,}3044$$

$$X_{5\ 2007} = \frac{46.964.964}{25.4560.278} = 1{,}8446$$

$$X_{5\ 2008} = \frac{67.812.346}{31.261.606} = 2,1692$$

„Z" variable of Altman model will have the following values:

$Z_{2006}$ = 1,2 x 0,1099 + 1,4 x 0,0089 + 3,3 x 0,1784 + 0,6 x 0,1841 + 1,0 x 1,3044 = 2,1479

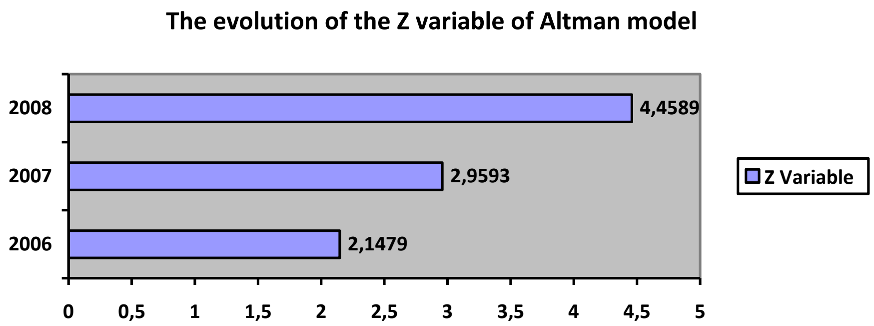
$Z_{2007}$ = 1,2 x 0,0768 + 1,4 x 0,0273 + 3,3 x 0,2431 + 0,6 x 0,3035 + 1,0 x 1,8446 = 2,9593

$Z_{2008}$ = 1,2 x 0,0949 + 1,4 x 0,1588 + 3,3 x 0,2566 + 0,6 x 0,2009 + 1,0 x 2,1692 = 4,4589

In order to analyze the data, we will centralize the indicators for the three years in a table, behind the Altman model of risk analysis.

| Indicator's denomination | Symbol | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| Company's flexibility | $X_1$ | 0,1099 | 0,0768 | 0,0949 |
| Rate of total assets self-financing | $X_2$ | 0,0089 | 0,0273 | 0,1588 |
| Rate of economic earning capacity | $X_3$ | 0,1784 | 0,2431 | 0,2566 |
| Debt capacity | $X_4$ | 0,1841 | 0,3035 | 0,2009 |
| Assets performance rating | $X_5$ | 1,3044 | 1,8446 | 2,1692 |
| „Z" variable | | 2,1479 | 2,9593 | 4,4589 |

Starting with the above table, we can represent in a diagram the values of the "Z" variable per years, to easier see if the risk of bankruptcy decreases or increases as time passes by.




As it ca be also noticed from the diagram, in 2006 and 2007 the value of the "Z" variable was in the safety range [1,8;3], which suggests us that the respective company had during these years slight financial difficulties, but adopting an appropriate strategy to relaunch the business in the following year, 2008, it has grown beyond the value of 3, reaching 4.4589, which means that the analyzed economic entity is considered to have a low risk of bankruptcy in the next period, falling into the category of creditworthy firms .

## 4. CONCLUSIONS

The going concern assumption is a fundamental principle for drafting the financial statements, which states that an entity is generally regarded as presenting a continuation of its activity in the foreseeable future, having no intention or need to be liquidated, to suspend its business or to seek protection from creditors. Therefore, unless the going concern assumption is inappropriate for the situation of the entity, the assets and liabilities are recorded on the basis that the entity will be able to realize its assets and to repay its debts and to obtain refinancing (if any) in the ordinary course of its business.

For the more rigorous assessment of abiding the going concern principle, the financial auditor will examine the dynamics of liquidity, solvency, equilibrium and financial performance indicators, and to evaluate the risk of bankruptcy by the score method. To interpret the results, the professional reasoning, experience and comparative data of the activity field of the similar entities are essential.

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