
Effects of the Covid-19 Pandemic Estimated in the Financial Statements and the Auditor's Report

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Abstract

The COVID-19 pandemic had a significant impact on all aspects of life, but also on the financial reporting of companies and on the activity of auditors. The paper aims to highlight the importance of reporting in the financial statements the subsequent events caused by the COVID-19 pandemic, but also of the aspects that can significantly influence the going concern of companies' activities, respectively how these effects can cause changes in the quality of audit services. The study was conducted on a sample of 60 companies listed on the Bucharest Stock Exchange, analyzing the components of the annual reports for the financial year 2019, namely the financial statements, the administrator's report and the independent auditor's report. The results showed that the effects generated by the COVID-19 pandemic had a significant impact in most of the industries studied, affecting both companies to carry out activities by closing borders, reducing or even closing certain activities, stopping travel and hindering communication with suppliers, customers or investors, reduced sales, deferred payments or the need to optimally manage costs and available resources, as well as at the level of employees by performing work at home, technical unemployment or salary reductions, but also at the level of the client-auditor relationship, by limiting travel in business interest. Most of the estimated effects of the pandemic were presented in the administrator's report, some of the effects being mentioned in the explanatory notes to the financial statements. From a statistical point of view, the companies' declaration of the effects of the pandemic was correlated with the size of the auditor, the opinion issued by him and the average number of employees. The study showed that certain auditors assessed the risks posed by subsequent events reported by companies, presenting insignificant uncertainties in some cases, but also significant uncertainties regarding the going concern of the activity of some companies.

Key words: COVID-19; audit; subsequent events; going concern; adjustment

JEL Classification: M40, M41

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Introduction

The COVID-19 pandemic has produced numerous changes, both at the level of individuals and at the level of companies through the restrictions imposed to limit the spread of the virus, which have had serious repercussions. Companies were forced to assess the risks associated with the pandemic on their financial statements, which will be reported as they occur or can be estimated. Although the globalization of the economic environment has experienced a favorable evolution lately, the COVID-19 pandemic has brought a strong reversal of the situation, causing numerous blockages.

The main concern of the organizations was human capital by taking measures to protect them and limiting the risk of contamination with this virus. The COVID-19 crisis has forced governments to impose strict measures, such as restricting travel even in the interests of work, or temporarily shutting down certain industries and automation, redirecting employees to work from home, teleworking or even technical unemployment.

The pandemic caused a significant impact on all aspects of life, but also on the financial reporting and the conduct of the audit activity. Auditors need to be careful about adapting audit procedures to gather sufficient appropriate audit evidence to support the audit opinion, especially as audit risk has increased and travel restrictions at the client's premises are limited or even prohibited in some countries. Even so, it is imperative to comply with auditing standards and applicable law in order to maintain the required level of audit quality.

As it is difficult to estimate the period of the pandemic, the entities had to make a thorough assessment of the risks and potential impact of this epidemic, but also to implement rapid measures to reduce any risk. A generally valid set of procedures does not suit all companies. In this case, it is recommended that they contact consultants for specific advice depending on the field in which the company operates, the nature of the activity carried out, the country of origin or any other element that could be affected by this event.

The auditor has the responsibility to plan and perform a quality audit, applying professional skepticism and taking into account the fact that there may be certain circumstances that distort the financial statements. A relevant example would be the related consequences of the COVID-19 pandemic which have led to risks of material misstatement, either as a result of fraud or error, or of a

change in the internal control environment in which entities that may incur financial reporting errors operate. Auditors should be aware of these factors risk and ensure that professional skepticism is applied throughout the audit. If fraud or error is identified or suspected, the auditor should discuss these issues with management, or, where appropriate, with those responsible for governance. If can not be obtained evidence of discovered nonconformities, the auditor should evaluate the effect of the lack of sufficient and adequate evidence on the audit opinion, according to the audit standards.

The objective of the paper is to analyze the presentation of the effects generated by the COVID-19 pandemic in the annual financial statements concluded on December 31, 2019 and in the directors' report, and whether these effects led to the adjustment of financial statements or even changes to the audit opinion initially issued. The sample includes 60 companies listed on the Bucharest Stock Exchange with non-financial activity.

The results of the study indicate that the COVID-19 pandemic has produced numerous changes in financial reporting and financial audit activity. In most cases, companies were forced to close down or reduce certain areas of activity, this directly affecting the employees and revenues of the companies concerned. Also, the smooth running of the economic market was disrupted by sudden changes in prices and demand for certain raw materials, thus producing a supply disruption that forced companies to better manage existing stocks and resources. A large part of the companies' budgets has been allocated to the purchase of protective materials and disinfectants, but also to donations to institutions that treat COVID patients. The only industry that gained value from this pandemic was the pharmaceutical industry, which in this situation has increased the production of medicines used to treat and prevent contamination.

The research provides an analysis of available data on the reporting of subsequent events following the COVID-19 pandemic by listed companies in Romania, from a perspective focused on the need to declare and assess the risks arising from subsequent events caused by the COVID-19 pandemic.

The paper is structured as follows: a section containing a synthesis of the relevant literature on reporting the effects produced by the COVID-19 pandemic, followed by the second section describing the research methodology. The third section presents the results of

the study together with the analysis and synthesis of the data, and the paper is completed with a part reserved for the conclusions, the limits of the study and the future research directions.

1. Literature review

As the pandemic began spontaneously, auditors and regulators of the profession were forced to find quick and viable solutions to align the standards imposed by the profession at the best level. In this regard, the specialists from the *Association of Chartered Certified Accountants* (ACCA) considered that the current restrictions generated by the COVID-19 pandemic affect both the auditor and the audited entities, the auditors having to perform audit procedures to assess the events recorded after the preparation of the financial statements. These events differ depending on the industry in which the audited company operates. If the entity has ceased operations, the declared events should not cause problems for the auditors. Otherwise, if trade has been possible, distortions can be significant and can even make audit procedures more difficult.

Studies were also carried out by specialists from audit firms in category BIG 4. Thus *KPMG* (2020) analyzed the effect of the COVID-19 pandemic on international taxation or applicable social security legislation. The responses to the questionnaire reflected the application of the following measures to limit the effects of the pandemic on the business environment: monitoring the legal, tax and immigration implications in each jurisdiction, reviewing employee mobility policies, improving employee experience, information security technologies, additional costs generated by various forms of work and benefits brought to the company, review of remuneration packages.

PwC Romania (2020) conducted a study on the continuation of companies' activity after the COVID-19 pandemic, using a questionnaire answered by a number of 91 companies from various sectors. Thus, 37% of the surveyed companies partially or totally interrupted their activity after declaring the state of emergency, 20% restricted their activity, 19% opted for work at home and 27% stated that they would resort to technical unemployment.

Deloitte (2020) appreciated that from a financial reporting perspective, entities may face significant challenges for future reporting periods. To address these

implications, experts suggested the following adjustments to the balance sheet items: impairment of fixed assets, adjustment of inventories, provisions for onerous contracts, provisions for employee benefits at retirement and subsequent events.

BDO International (2020) believe that certain factors such as: declining revenues, low financial liquidity or the risk of business continuity in the pandemic, can affect the sustainability of companies.

Accountancy Europe (2020) proposed four steps for a sustainable recovery during the pandemic: improving management risk, especially in the case of SMEs, moving to a circular economy, adapting the public sector, a change in lobbying.

South African Institute of Chartered Accountants - SAICA (2020) considers that changing the audit approach and using alternative procedures may impact the planned audit activity, requiring additional time for completion, resulting in delays in financial reporting of companies, in some cases auditors are required postpone the publication of the audit report, or even make changes to the audit report originally issued.

The auditor is not required to perform audit procedures on the financial statements after the date of the audit report. The only exception is when the auditor finds information that could lead to a change in the audit report (IAASB, 2020). While it is important to adjust the effects of the pandemic, it is equally important for auditors to apply professional skepticism and ensure that the adjustments presented in the financial statements are indeed a result of the pandemic and are assessed correctly (*Australian Accounting Standard Board - AASB and Auditing and Assurance Standard Board - AUASB*, 2020).

Committee of European Auditing Oversight Bodies - CEAOB (2020) highlighted some of the challenges facing auditors following the pandemic, which could have a negative effect on audit quality. These are: obtaining sufficient and relevant audit evidence, a thorough assessment of the entity in terms of its ability to continue to operate, an analysis of the information provided by the companies, in terms of subsequent events and the extent to which these events may influence the financial statements and the audit report, assess the financial position of the entity, the main risks and uncertainties faced by the audit activity and, where appropriate, mention in a paragraph dedicated to this section in the audit report.

Public Company Accounting Oversight Board - PCAOB (2020) considered that during this period it is very important to communicate with the audit committee and the main effects produced by the COVID-19 pandemic on the financial statements to be reported are: significant changes to the planned audit strategy or significant risks initially identified that require changes, issues related to accounting policies, practices or estimates and the auditor's assessment of the audited company's financial statements quality or any difficulties encountered during the audit engagement.

The Center for Audit Quality (2020) specified another example that may influence the quality of audit services is the limitation resulting from the auditor's inability to observe the balances of the material inventory, which is caused by the restriction of travel to the client's premises. Examples of risks from the COVID-19 pandemic: compliance risk; poor correlation of the measures imposed to reduce the risk of contamination with the needs of users of financial statements; operational risk; prioritizing the company's objectives and priorities during the pandemic; the risk of not taking staff safety measures during work; financial risk: failure to plan for cash during the pandemic.

The Romanian Chamber of Financial Auditors - CAFR (2020) made recommendations on the implications of the pandemic, which is considered "an event after the close of the financial year 2019 which may or may not lead to sharp adjustments to the annual financial statements, insofar as they may be estimated in a credible way".

All the implications on the annual financial statements as well as the risk of business continuity require a careful analysis by the persons responsible for governance and by the financial auditors.

Audit standards contain recommendations that contribute to increasing the quality of audit services provided. Thus, according to ISA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", the auditor should carefully consider these key issues and introduce them in a special paragraph regarding the impact of the business continuity risk. In the case of companies that do not currently adopt this standard, the auditor should carefully evaluate the content of the explanatory notes detailing these issues, as well as the risk assessment included in the administrator's report, as required by the financial reporting framework.

The second standard that contributes to increasing the quality of audit services is ISA 570 "Going Concern", which

specifies that the preparation of annual financial statements is based on the assessment of management's statements regarding the company's ability to continue its business even if the general financial reporting framework does not include a requirement in this regard.

In this regard, ISA 315 "Identifying and Assessing the Risks of Material Misstatement" also requires auditors to identify and assess the risk of material misstatement, either as a result of accounting fraud or error, or by understanding the entity, its environment, and internal control, thus providing a basis for designing and implementing responses to identified distortion risks.

In the case of entities significantly affected by the impact of the COVID-19 pandemic, it is necessary to consider the possibility of preparing financial statements based on going concern, even if the significant impact on activity occurred after December 31, 2019. If the company's management is aware of certain, uncertainties that may significantly affect the entity's ability to continue to operate should be disclosed and quantified in the annual financial statements.

Also, the ISA 560 "Subsequent Events" standard requires the inclusion in the financial statements as of December 31, 2019 of detailed explanatory notes, so that users of the financial statements can assess the effects of these implications on the company concerned or even the economy in general.

The impact of the COVID-19 pandemic on the financial audit activity was also studied at international level by elaborating scientific studies, especially qualitative ones, being a difficult event to estimate quantitatively. In this approach, the authors Castka et al. (2020) conducted a qualitative study to analyze the way in which the certification services were performed following the COVID – 19 pandemic. The results showed a significant adoption of remote auditing, even if it uses advanced technologies.

2. Research methodology

In order to carry out the proposed study, 60 companies listed on the Bucharest Stock Exchange (BVB) on the main market, with non-financial activity, were analyzed. Starting from the total number of 83 of the listed companies, 12 companies in the financial field, 3 international companies and 8 companies in insolvency or on the special list were eliminated, resulting in a sample of 60 companies. The data were collected manually from the annual reports published for the financial year 2019 by the companies included in the sample.

The companies were grouped by activity sectors, respectively the following industries: extractive, manufacturing, production and provision of services, construction, trade, transport and storage, hotels and restaurants and professional activities. The financial statements, administrators' reports and auditors' reports were analyzed for the specified period, looking at whether companies identified the events that occurred as a result of the COVID-19 pandemic and how they were reported in the annual report structure, and the extent to which the auditor took these into account when expressing his opinion or having to change the initial opinion.

The data from the first stage of the study were statistically processed to analyze the correlations between reporting events identified as pandemic effects (E) mentioned above and possible factors, represented by company characteristics (CC), which led to the reporting of pandemic effects. Thus, the proposed econometric model is represented by a linear regression, according to the equation:

$$E = \alpha_{it} + \beta_1 CC + \varepsilon_{it} \quad (1)$$

Where:

α_{it} - constant

β_1 - beta value or risk measure,

ε_{it} - represents the error component, $\varepsilon \sim N(0, 1)$.

In order to highlight the characteristics of the companies (CC), the indicators referring to the characteristics of the auditors were used as independent variables, such as: the size of the audit firm (A) and the type of opinion expressed in the report (O). The inclusion in the econometric model of the mentioned indicators was based on previous studies on the quality of the financial statements of Romanian listed companies (Bătae, 2019;

Istrate and others, 2020), as well as on research in which they were statistically validated in econometric models (Robu et al., 2019; Grosu et al., 2019). To control the reliability of the model and reduce the risk of bias, the following control variables were introduced in regression: trading category (C), profitability (P) and average number of employees (S). These indicators have been considered relevant in previous research, as they may influence communication with stakeholders (Hațegan, 2020; Hațegan and others, 2020).

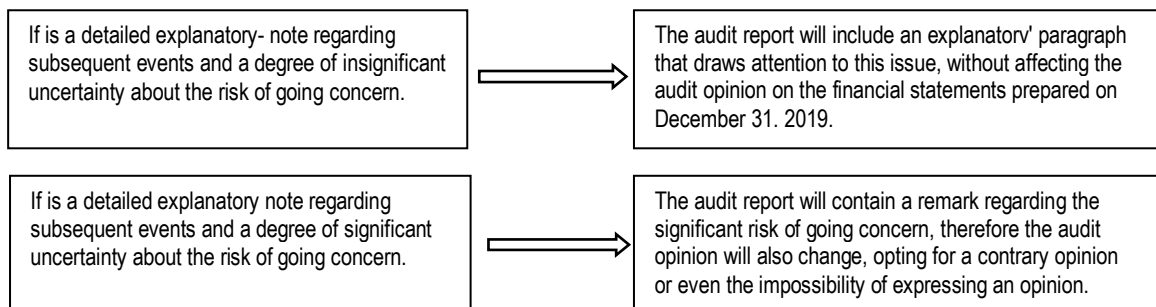
3. Results and discussion

The results were grouped in two directions: identifying the events generated by the pandemic and the characteristics of the companies that declared the possible effects of the pandemic on their activity.

3.1. Identification of events generated by the COVID-19 pandemic

The study showed that information on the effects of the pandemic was presented both in the directors' reports and in the explanatory notes to the financial statements. Depending on the content of the explanatory note on subsequent events, the auditor may include in the report an explanatory paragraph drawing attention to events with insignificant uncertainty about the continuity of the activity or may change the opinion if there are significant uncertainties on it (*Figure no. 1*). From the reports issued by the auditors, it was found that only situations with insignificant uncertainty were identified, so that at a small number of companies the auditors drew attention in the reports prepared on the significant uncertainties regarding the continuity of the activity.

Figure no. 1. Subsequent events generated by COVID-19



Source: Own projection, based on data analyzed

The identified events were grouped according to their subject and according to the frequency of their occurrence. Depending on the subject of the

events declared by the companies were classified into 11 categories, as one can see in Table no. 1.

Table no. 1. Classification of identified events			
No.	Subject	Event identified	No. of companies
1	Ongoing activities	Activity reductions	14
		Closing branches	2
		Increasing production	3
		Delivery of new products	3
		Opening new projects	3
2	Honoring contracts	National delivery	5
		Import-export	3
3	Losses	Income	3
		Turnover	5
		Interest rate	1
4	Cost allocation	Raw material stock	5
		Fixed cost adjustment	3
		Disinfection materials	4
5	Market	Price change	5
		Changes in demand	3
6	Postponement of payments/ receipts	Suppliers / customers	1
		Rent	1
		Sources of external financing	1
		Debts to the state	1
7	Implementation	Going concern	7
		Prevention	10
8	Employees	Work from home	7
		Technical unemployment	6
		Salary reductions	1
9	Communication with users of financial statements	On-line system	1
		Technical support	1
		Travel limitation	3
10	Donations	Donations to public institutions	1
11	Not declared		20
	TOTAL		123

Source: Own projection, based on data analyzed

The first category contains the subsequent events that affected the actual activity of the analyzed companies, encountering in this group temporary reductions in activity (14 companies), the closure of branches in countries severely affected by the COVID-19 pandemic (2 companies, in the case of extractive industry). and production). From another perspective, the pandemic has also benefited the pharmaceutical and drug industries. Three companies producing drugs used to treat the virus have predicted a significant increase of the

paracetamol production and the adoption of a product delivery strategy both nationally and internationally.

The second category of subsequent events declared by the companies refers to the impossibility of honoring the service contracts established prior to the COVID-19 pandemic. In this regard, five companies postponed deliveries nationwide and three companies said they were unable to meet their obligations due to the cessation of imports and exports.

The analysis of the information showed that for most industries the COVID-19 pandemic had negative effects producing significant losses, especially on sales and automatically on turnover (declared by 5 companies), but also a decrease in revenue (3 companies) or the decrease of the monetary policy interest rate (1 company declared this aspect as a subsequent event).

All these negative effects have determined companies to better manage the costs and resources available. In this category, the companies stated as subsequent events that an optimal management of the existing raw material stocks is necessary in order not to reach the impossibility of supply, in some cases the supply was from severely affected countries such as China (5 companies), but also an adjustment of fixed costs (3 companies) and the allocation of costs necessary for the purchase of protective materials and disinfectants (4 companies).

The following category of subsequent events refers to the changes in the economic market, namely the change in the price and demand for raw materials, especially oil and crude oil, which affected the extractive industry (8 companies).

The companies also stated the need to postpone the payments already expected, due to the decrease in sales. In this category we find the postponement of payments for receivables and debts incumbent on customers and suppliers (1 company), the postponement of rent payment (1 company), the postponement of debts to the state budget (1 company), but also the impossibility to access external financing sources (1 company).

The COVID-19 pandemic forced entities to develop and implement complex business continuity plans (7 companies) and plans to protect and prevent COVID virus contamination (9 companies).

Another group of subsequent events severely affected by the COVID-19 pandemic is related to the employees of companies that have suffered as a result of the reduction of production activity or even the permanent closure of certain sections or branches. In this regard, seven companies opted for the provision of work at home by employees, six companies were forced to establish technical unemployment and only one company expected wage reductions.

To continue operating under the law, three companies have limited business travel, one company has implemented online communication systems with users of financial statements, and another has developed an IT technical support department that provides assistance to employees and users. .

A penultimate category of subsequent events refers to donations made by companies that were not significantly affected by the COVID pandemic. Thus, a company (ALRO S.A.) offered donations to state institutions that treat COVID patients, even if the financial result obtained by it was a loss.

As the COVID-19 pandemic started suddenly and inevitably, the companies failed to estimate an exact value of the effects produced on the annual financial statements and on the balance sheet elements. For this reason, the companies did not consider it necessary to adjust the financial statements, being values difficult to estimate in the event of subsequent events caused by the pandemic.

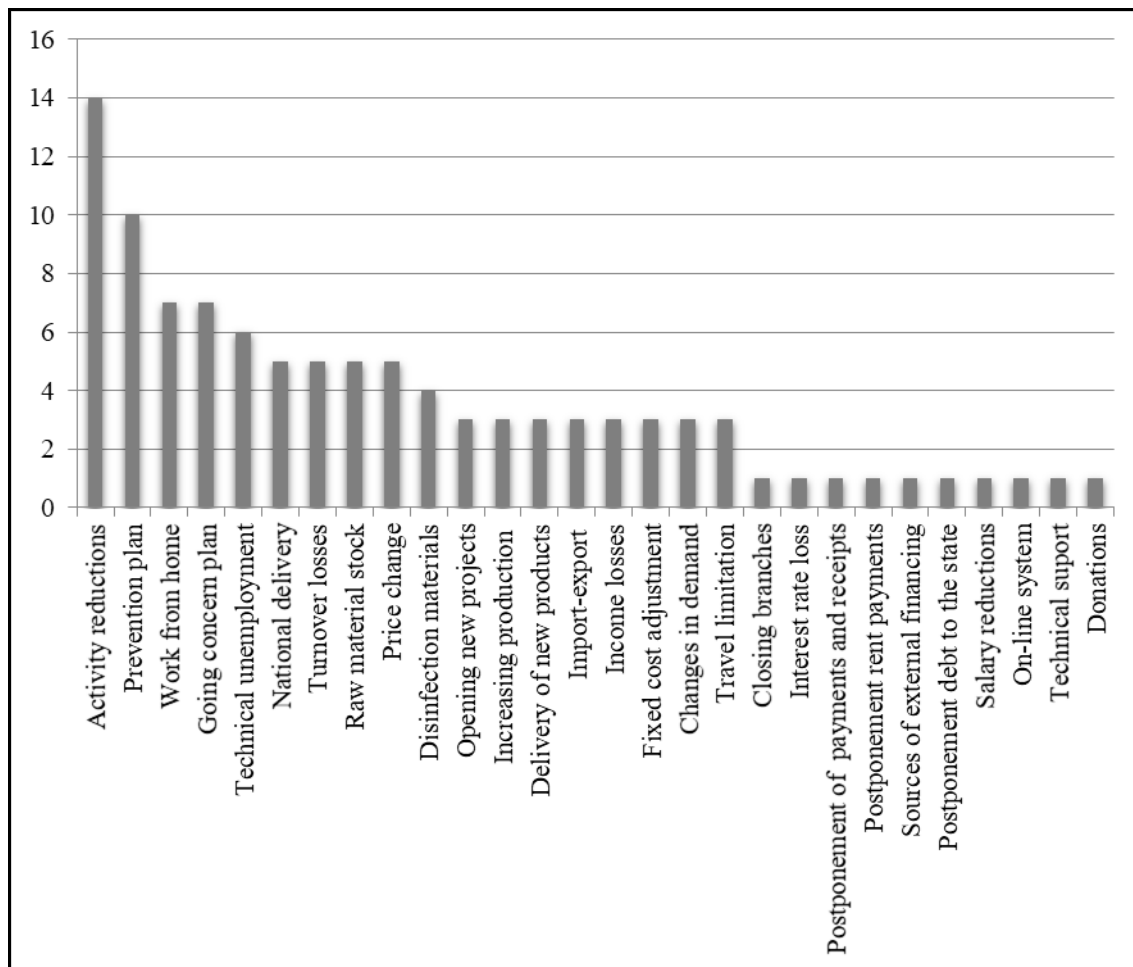
Following the analysis, we found that the subsequent events declared by the companies in the annual reports affected the industries both at the microeconomic level, but especially at the macroeconomic level by imposing strict restrictions on movement and production.

From the 60 companies analyzed, 20 did not report subsequent events caused by the COVID-19 pandemic.

The second classification of subsequent events caused by the COVID-19 pandemic was made according to their frequency (*Figure no. 2*). The most common are the reductions of activity in various industries, the implementation of plans for the protection of employees and the prevention of contamination and continuity of activity, but also the allocation of employees in technical unemployment or work at home.

They are followed by effects resulting from the need to delay deliveries, change the price, optimize the distribution of raw material costs and reduce turnover. The ranking is followed by the allocation of costs for the purchase of protective and disinfection materials.

Figure no. 2. Frequency of events generated by the COVID-19 pandemic



Source: Own projection, based on data analyzed

Less frequently, there are effects caused by closing borders, increasing the production of medicines and delivering them to new markets, reducing revenues, adjusting fixed costs, changing product demand and limiting business travel.

On the penultimate place we find the closure of activity in severely affected industries, and the ranking is finalized with subsequent events such as: lowering the monetary policy interest rate, postponing payments, stopping access to external financing sources, postponing the payment of debts to the state, reducing wages, donations to hospitals and clinics, but also the implementation of technical support and online assistance.

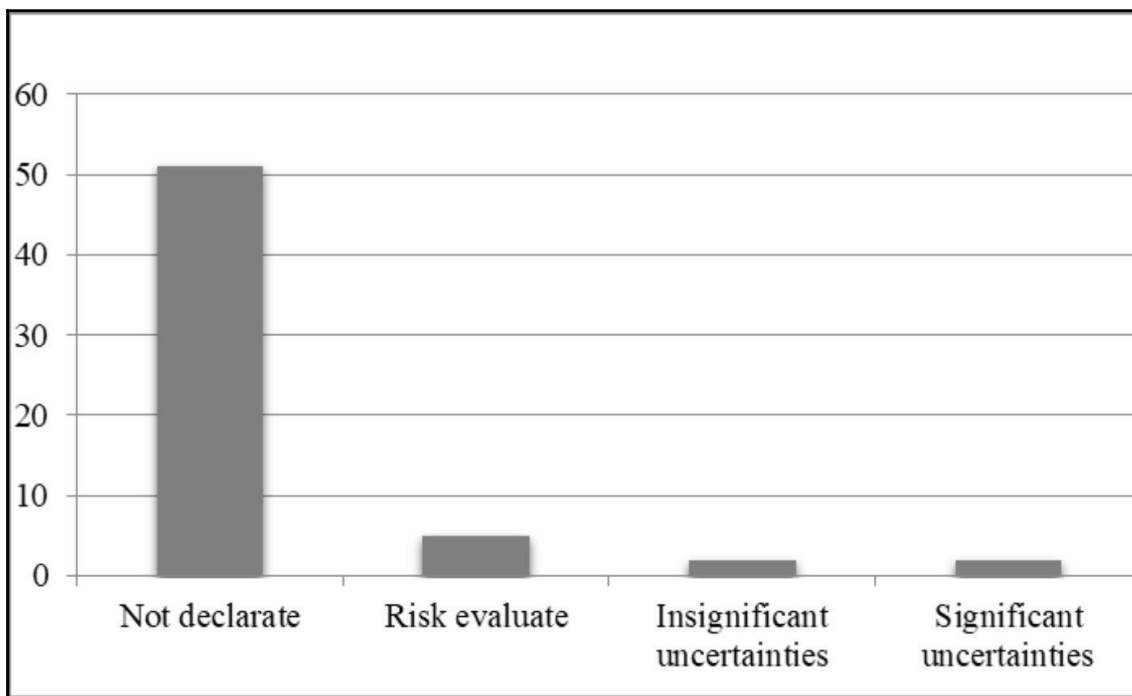
In the case of the audit reports, it was not necessary to issue another audit opinion or modify the initial report. Some auditors reported significant uncertainties about business continuity for companies in significantly affected industries, while some auditors felt that the current uncertainties were not significant and only temporarily affected business continuity in the audited industries. Also, a significant proportion of auditors did not assess the risks or uncertainties caused by the COVID-19 pandemic.

From the total of the 60 audit reports analyzed, 51 reports do not present information on subsequent events caused by the COVID-19 pandemic, most of which were in the case of companies that did not report further

events in this regard (*Figure no. 3*). The risks declared by certain companies were assessed by 5 auditors in the audit reports, 2 auditors considered that there were

insignificant uncertainties regarding the continuity of the companies' activity and 2 auditors assessed these uncertainties as significant on the going concern.

Figure no. 3. Risk assessment by the auditor



Source: Own projection, based on data analyzed

3.2. The characteristics of the companies that declared in the annual report the effects of the COVID-19 pandemic

The study showed which companies declared the effects of the pandemic on their activity and how to declare them. For the characterization of the companies were used the indicators presented in *Table no. 2*.

From *Table no. 2* results that two thirds of the number of studied companies presented the effects of the pandemic in the report of the administrators. The average number of identified effects is 2.05, and the maximum number is 7, in a single company.

Regarding the presentation of the events identified in the explanatory notes to the financial statements, the number of

companies that have chosen to declare the effects decreases by half. Most companies presented the effects in the Explanatory Notes to Subsequent Events, and a small number of companies also mentioned in the explanatory notes on accounting policies or risk management. As a result, the average number of events decreases to 1.07, and the maximum number remains 7 for a single company, but different from the one that presents 7 events in the directors' report. In the case of 15% (9 companies) of the number of reports issued by auditors, paragraphs were identified to draw attention to the possible effects of the pandemic, which were mentioned by auditors in the Non-BIG4 category.

Table no. 2. Descriptive statistics

Variables	Code	Description	Average	Standard error	Standard deviation
Events identification					
	E				
Identifying events in the administrators' report	RA	1 – Yes 0 – No	0.6667	0.06137	0.0475
Number of events identified in RA	NRA	From 0 to 7	2.0500	0.2554	1.9781
Identify the events in the explanatory notes	NE	1 – Yes 0 – No	0.5000	0.0651	0.5042
Number of events identified in the NE	NNE	From 0 to 7	1.0667	0.1972	1.5279
Identification of events in the auditors' report	RAud	1 – Yes 0 – No	0.1500	0.0464	0.3601
Characteristics of companies					
	CC				
Auditor size	A	1 – BIG4 0 – Non BIG4	0.3167	0.0606	0.4691
Auditor opinion	O	1 – Unmodified 0 – Modified	0.8167	0.0504	0.3902
Average number of employees	S	1 – over 500 0 – under 500	0.3833	0.0633	0.4903
Transaction category	C	1 – Premium 0 – Standard	0.2333	0.0551	0.4265
Profitability	P	1 – profit 0 – loss	0.8333	0.0485	0.3758

Source: Own projection, based on data analyzed

Regarding the characteristics of the studied companies, it is observed that only 31.67% were audited by auditors from BIG4 category, the predominant audit opinion was without reservations (81.67%), 38.33% of companies had an average number of employees over 500, in the category

Premium trading were included 23.33%, and most companies made a profit (83.33%).

The correlations between the presentation of the effects of the pandemic in the annual report and the characteristics of the companies are presented in **Table no. 3.**

Table no. 3. Correlation matrix

	RA	NRA	NE	NNE	RAud	A	O	S	C	P
RA	1									
NRA	0.739	1								
NE	0.424	0.297	1							
NNE	0.428	0.375	0.704	1						
RAud	0.099	0.084	0.420	0.136	1					
A	0.253	0.311	0.322	0.490	-0.186	1				
O	0.122	0.122	-0.215	-0.121	-0.283	0.045	1			
S	0.339	0.085	0.171	0.259	-0.235	0.127	0.108	1		
C	0.223	0.227	0.236	0.392	-0.011	0.387	0.058	0.294	1	
P	0.158	0.171	0.000	-0.098	-0.063	0.016	0.135	-0.015	0.141	1

Source: Own projection, based on data analyzed

From the analysis of correlations, it is observed that there are no close correlations between the analyzed variables. However, the moderate correlations between the variables that reflect the presentation of the effects of the pandemic (RA, NRA, NE and NNE) with the Auditor variable can be taken into account, from which it can be concluded that the size of the auditors moderately influenced the reporting of events. Other moderate correlations were also recorded between the group of variables RA and NNE with the variables S and C.

Given the lack of strong correlations between variables, to test the degree of dependence of variables in group E with those in group CC, we proceeded to eliminate invalidated variables from groups, so that the econometric model was tested only with representative variables.

Thus, in the econometric **Model 1** the dependent variable was represented by the number of effects declared in the administrators' report (NRA) and the size of the auditor (A) and the audit opinion (O) were tested with independent variables. **Table no. 4** shows the regression results.

Table no. 4. Results of regression for Model 1

Regression Statistics	
Multiple R	0.7372
R Square	0.5435
Adjusted R Square	0.5184
Standard Error	1.9497
Observation	60

ANOVA					
	df	SS	MS	F	Significance F
Regression	2	262.5126	131.2563	34.5274	0,0000
Residual	58	220.4874	3.8015		
Total	60	483			

	Coefficients	Statistics error	t Stat	P-value
Intercept	0	#N/A	#N/A	#N/A
A	1.5526	0.5253	2.9555	0.0045
O	1.6563	0.3271	5.0633	0.0000

Source: Own projection, based on data analyzed

The statistical processing showed that the change of the two variables influences in a proportion of 54% the change of the dependent variable, and Multiple R shows a strong link between the variables. Given that the P-value is significant at 1%, **Model 1** is validated.

In econometric **Model 2** the dependent variable was represented by the number of events identified in the explanatory notes (NNE) and was tested with the same independent variables as in **Model 1**, the regression results are presented in **Table no. 5**.

From the information processing it resulted that the modification of the two variables influences in a proportion of 45% the modification of the dependent variable, and Multiple R shows a quite strong connection between them (**Table no. 5**), but lower than the results from **Model 1**. Given that the P-value is significant at 1% only for variable A model 1 can be considered partially validated.

Model 2 was also tested with another independent variable that replaced the invalidated variable (O), respectively the average number of employees (S). The regression results are presented in **Table no. 6**.

Table no. 5. Results of regression for Model 2 (var A)

Regression Statistics	
Multiple R	0.6740
R Square	0.4543
Adjusted R Square	0.4276
Standard Error	1.3922
Observation	60

ANOVA					
	df	SS	MS	F	Significance F
Regression	2	93.5837	46.7919	24.1418	0.0000
Residual	58	112.4163	1.9382		
Total	60	206			

	Coefficients	Statistics error	t Stat	P-value
Intercept	0	#N/A	#N/A	#N/A
A	1.8385	0.3751	4.9014	0.0000
O	0.3793	0.2336	1.6237	0.1099

Source: Own projection, based on data analyzed

Table no. 6. Results of regression for Model 2 (var B)

Regression Statistics	
Multiple R	0.7076
R Square	0.5007
Adjusted R Square	0.4748
Standard Error	1.3317
Observation	60

ANOVA					
	df	SS	MS	F	Significance F
Regression	2	103.1433	51.5716	29.0808	0,0000
Residual	58	102.8567	1.7734		
Total	60	206			

	Coefficients	Statistics error	t Stat	P-value
Intercept	0	#N/A	#N/A	#N/A
A	1.7388	0.3385	5.1369	0.0000
S	0.8848	0.3076	2.8761	0.0056

Source: Own projection, based on data analyzed

Following the statistical processing, it resulted that the modification of the two variables influences in a proportion of 50% the modification of the dependent variable, and Multiple R shows a strong connection between them. Given that the P-value is significant at 1%, **Model 1** can be considered validated.

The results of the statistical processing showed that the number of effects presented by the companies in the annual report is closely correlated with the size of the auditor. In the case of the pandemic effects presented in

the directors' report, a direct correlation was identified with the type of opinion expressed by the auditor, and in the case of presenting the effects in the explanatory notes there was a correlation with the company size expressed by the average number of employees.

Conclusions

Through this paper were presented the theoretical and practical aspects regarding the effects and subsequent

events following the COVID-19 pandemic, both at the level of financial reporting and at the level of audit activity.

The COVID-19 pandemic has produced numerous changes in all aspects of life, but also in the annual financial reporting or even the conduct of the planned audit activity.

The main industries affected were the extractive industry, HORECA, transport and the manufacturing industry to some extent, while the pharmaceutical industry benefited to an increase of over 50% in the production of paracetamol and other drugs used to treat the COVID pandemic. 19.

From the analysis, were identified two categories of subsequent events occurred as a result of the COVID pandemic: events that did not adjust the financial statements, in which case the analysis of uncertainties and risks to which the entity is exposed was included in the explanatory notes and the directors' report and subsequent events that lead to the adjustment of the annual financial statements.

A significant effect of the pandemic was the limitation of business travel, which made it more difficult to plan the audit activity, in some cases being necessary to communicate with the client only through the online system.

Under these conditions, the auditors need to pay more attention to adapting audit procedures in order to gather sufficient appropriate audit evidence to support the audit opinion, especially as the audit risk has increased. Even so, it is imperative to comply with auditing standards and applicable law in order to maintain the required level of audit quality. If fraud or error is identified or suspected, the auditor should discuss these issues with management, or as appropriate, with those responsible for governance. If cannot be obtained evidence of discovered nonconformities, the auditor should assess

the effect of the evaluate if have sufficient and adequate evidence that based the audit opinion, in accordance with ISA 705.

The analysis showed that most of the events identified by the companies were the reduction of activity, the announcement of prevention plans and the work at home of employees. Two thirds of the analyzed companies presented the information regarding the effects of the pandemic in the directors' report, and half of the total number also stated in the explanatory notes to the financial statements. In the case of 15% of the companies, the auditors included in their report a paragraph in which drawing attention to the possible effects of the pandemic. The econometric model tested showed a direct correlation between the declaration of the effects of the pandemic in the annual report with the size of the auditor, as well as with his opinion or with the average number of employees. The other characteristics of the companies included in the model did not influence the way of declaring the effects of the pandemic.

The paper can be a bibliographic source for researchers in the field of accounting and financial auditing, for business representatives to understand the need and importance of reporting subsequent events, especially in uncertain crisis conditions.

The limitations of the research consisted in the fact that there is no certified database, the data were collected manually being taken from the information published by companies, their degree of trust being ensured by the reports issued by independent financial auditors.

Future research directions can be seen in expanding the number of companies both nationally and internationally, as well as future analyzes of the extent to which the estimated effects of the pandemic have occurred and how they may influence the content of annual reports.

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