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# Evolution and Diversification of the Going Concern Uncertainties Disclosed in the Auditor's Report

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## Abstract

The going concern of an entity's activity is a fundamental accounting principle. The practical application of this principle has accounting, legal and financial implications. From an accounting point of view, the management of the entities shall be responsible for drawing up the financial statements in accordance with this principle. From a legal perspective, entities that go into liquidation are no longer obliged to respect the going concern principle. When auditing financial statements, auditors shall be responsible for assessing the adequacy of compliance with the principle of going concern and for including the appropriate references in their report. The objective of the paper is to analyse the reasons for including in the auditors' report the paragraph on going concern uncertainties, in the light of their evolution over time, their frequency and diversification. The sample included 120 companies listed on European stock exchanges, included in the main stock indexes for the period 2010-2020. The data was gathered from reports published by auditors that were included in the Audit Analytics database. The results showed that there was an average trend of 20 reported situations per year, but with a significant increase over the last two years analysed mainly due to the situations arising from the impact of the Covid-19 pandemic. The most common reasons were liquidity risk, substantial liabilities and the refinancing of activities. In recent years there has been a diversification of reasons, but with a reduced frequency, such as the working capital, the decrease in stockholder equity and competitor threat. Reporting on going concern issues is of particular importance so that increasing transparency in the publication of this information can contribute to a higher degree of investor confidence in the entities' financial statements.

**Key words:** financial audit; auditor's report; going concern; uncertainties; financial statements;

**JEL Classification:** M42, M48, M41

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