
Testing the Going Concern Assumption in Financial Audit Engagement using Duration Models

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Abstract

The role of the financial audit in testing the going-concern assumption is always evolving, being updated in response to events as diverse as financial and health crises and financial scandals. Normally, a company's management is responsible for preparing and reporting financial statements on the assumption that it will continue as a going concern within a foreseeable time horizon without going into liquidation or significantly winding down its operations. Thus, the financial auditor expresses a going concern opinion based on sufficient appropriate audit evidence. The purpose of this study is to estimate the probability of a situation occurring over time in which the entity can no longer continue its activity based on the auditor's observations in the audit report, under the influence of the determining factors on the financial position and performance, as well as those on the earnings management, under the conditions of IFRS application. The study is conducted at the level of Romanian entities listed on the regulated market - Bucharest Stock Exchange (BSE), for the period 2012-2023. The research results indicate a direct and significant influence of the liquidity ratio, as well as of the earning management operations on the probability of occurrence over time of the situation in which the entity can no longer continue its activity based on the auditor's observations on the going concern.

Key words: financial auditing; going concern; duration models; survival analysis; financial indicators; Bucharest Stock Exchange;

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