



## The Validation and Capitalization of the Accounting Truth and of the Appropriate Image in Accountancy by Means of Financial Audit – Practical Specifics

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**Abstract:** The present scientific research is generated by the concern of bringing forth the validation and capitalization of the accounting truth and the appropriate image in accountancy by means of financial auditing, referring to the reforms of these two fields based on the profound changes of the last three decades, but especially of the present ones. The interest and importance of scientific research is enhanced by the researcher's ability to highlight the influence of financial auditing on the credibility of the financial statements of a public interest economic entity in expressing and validating both the accounting truth and the appropriate image of its financial position. Therefore, it finds solutions to users' requirements as well as to the needs of an efficient management process.

**Keywords:** accounting truth; accurate image; financial audit; credibility; public-interest entities; financial-accounting information; significance threshold; financial audit report; public interest

**JEL Classification:** M41

### 1. Introduction

The current economic situation indicates an imperative need to strengthen the credibility and quality of the financial-accounting information provided through the financial statements, thus creating a significant pressure on the audit market.

The current context faced by the world economy, initially generated by the health crisis and aggressively accentuated by the military conflicts in Ukraine, with widespread economic consequences primarily at the European level, conducts the

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economic entities to obvious uncertainty regardless of the sector they operate in, putting Romania in a difficult situation as well, like other European countries.

Moreover, in complementarity with the financial auditors, the management involved in the governance of economic entities responding not only to the public interest, has a professional and moral duty to become increasingly involved in the analysis and treatment of the business continuity risk those entities are exposed to, with significant consequences in the content of the annual financial statements and implicitly in that of the audit report.

The interest of the research has a major impact on the quality increase of both the professional financial auditor and the financial audit activity itself, as well as on increasing the importance and quality of the financial-accounting information as it is so useful in meeting the requirements of its users and implicitly in streamlining decision-making, management, investment and other processes.

The interest of the research is quite current as there are entities managers who have not understood yet the role and purpose of a quality financial audit, and from the perspective of investors, they want professional elite financial auditors to audit the consolidated financial information results as the milestone of managerial decisions.

## 2. Literature Review

The current level of knowledge within the financial auditscope is quite impressive, with different aspects of awareness and approaches, hampering our selection activity. The regulatory and standard-setting sphere of financial auditing is tackled, among other topics, in the following works such as:

*The Financial Accounting Audit* (Morariu & Țurlea, 2001) is one of the milestones in the knowledge and deepening of financial auditing as the “pinnacle of the accounting profession” that stands between the producer of financial accounting information and its users.

*The Auditing and assurance services: an integrated approach* (Arens, Elder & Beasley, 2022), has raised interest from the perspective of an integrated approach to concepts in the financial audit process from inception to completion, presenting a number of examples focusing on key decisions in financial auditing, risk assessment, information gathering and evidence gathering in response to identified risks.

*Principles of Auditing. An Introduction to Intenational Standards of Auditing* (Hayes, Dassen, Schilder & Wallage, 2014), is considered an introduction to international audit standards for those interested in the field.

The papers *Financial Audit Procedures* (Dănescu, 2007) and *Techniques and Financial Audit - Convergences between Theoryand Practice* (Dănescu, 2007) have

contributed to the researcher's orientation towards knowledge from a methodological perspective on the one hand, and on the other hand answer questions such as, What is the role of financial audit? Why are financial audits necessary? What are the differences between management and the auditor's responsibilities? etc.

Manuals of international regulations of quality control, audit, review, other assurance and related services in which the I.F.A.C. standardizes the financial audit activity, by the following:

Handbook of international regulations on quality control, audit, review, other assurance and related services, Volume I and Volume II<sup>1</sup>;

Supplement to the Handbook of International Regulations on Quality Control, Auditing, Review, Other Assurance and Related Services, Volume III<sup>2</sup>;

Handbook on the International Code of Ethics for Professional Accountants, including the International Independence Standards<sup>3</sup>.

*Financial Audit Manual.*<sup>4</sup>

*Financial Audit ISSAI Implementation Handbook.*<sup>5</sup>

The professionals' concerns on both applied and theoretical financial audit are extremely generous and quite visibly promoted in the aforementioned works, adding the following:

*The auditor-client relationship- interferences, influences and associations* (Crucean & Hațegan, 2021, p. 55)-is approached in this paper in a dual theoretical and empirical manner.

*The study on the role of financial audit in ensuring the use of caution in financial reporting* (Toma & Robu, 2014, p. 3) connected to the subject of this scientific research interferes with its interest in debating the relationship between the principle of caution and the accurate image in order to set the objectives of financial audit

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<sup>1</sup>International Standards on Auditing, Handbook of International Regulations for Quality Control, Auditing, Review, Other Assurance and Related Services, 2018 Edition, Volume I, II, International Federation, of Accountants.

<sup>2</sup>Supplement to the Manual of International Regulations for Quality Control, Auditing, Review, Other Assurance and Related Services, 2018 Edition, Volume III, International Federation, of Accountants.

<sup>3</sup>Handbook on the International Code of Ethics for Professional Accountants, including International Standards on Independence, 2018 Edition, International Federation, of Accountants.

<sup>4</sup>Financial Audit Manual, Commission on Audit, Commonwealth Avenue Quezon City, Philippines, file:///D:/Downloads/Financial-Audit-Manual.pdf iunie2022.

<sup>5</sup>Version 1, Financial Audit ISSAI Implementation Handbook, INTOSAI Development Initiative (IDI), december 2020, <https://idi.no/elibrary/professional-sais/issai-implementation-handbooks/handbooks-english/1118-financial-audit-issai-implementation-handbook-version-1-english-light-touch-review-2020/file iunie2022>.

regarding caution in financial reporting.

The accurate image is also tackled in the paper *The role of financial auditing in enhancing the quality of financial information* (Toma, 2012) where the relationship between regularity, honesty and accurate image is thoroughly argued.

*The Accounting truth and its assurance in the entities of the Republic of Moldova* (Țurcanu & Golocialova, 2016, pp. 714-726) represents a way of reflecting the truth in accountancy through the most relevant influencing factors, namely accounting techniques, qualitative principles and characteristics, accounting standardization and last but not least the auditing of financial-accounting information.

The paper *Is it possible for accounting standards to serve the public interest?* (Burlaud, 2018, pp. 303-310) contributed to set some

personal views on the conceptualisation of auditing principles and practices under the circumstances of the economic and social impact on the entity's financial reports. In this respect, I have also found *The Auditor's Public Interest Commitment* (Ardelean, 2018, pp. 429-445) which solely highlights the fundamental role of the audit profession in serving the public interest.

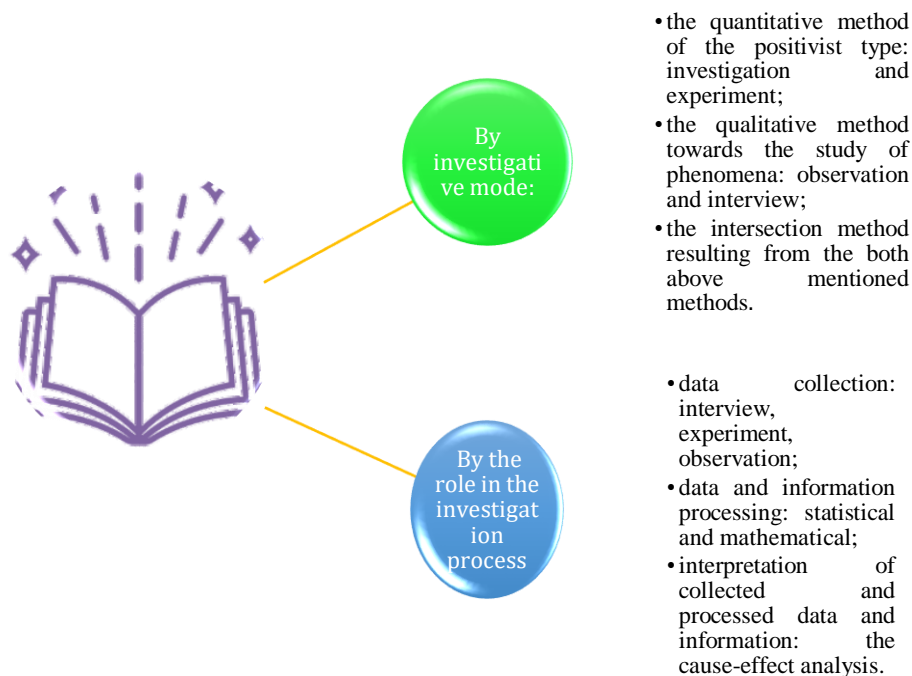
The paper *Influencing factors in reporting the key issues in audit* (Porumbacean & Tiron-Tudor, 2021) highlights the key issues within the

financial audit report as a possibility to increase the audit report quality, the value of financial information through credibility and validation.

### **3. Research Methodology**

The research methodology has focused on tackling accounting and financial auditing, i.e. qualitative and quantitative research, as they complement each other in meeting the aimed goal of bringing forth the accounting validation and capitalization as well as an appropriate image in accounting by means of financial auditing, the latter being classified in the category of public interest missions.

The scientific research methods used during the present scientific endeavour stick into the typology of quantitative and qualitative methods, by conducting to the intersection method, but also to the category of investigative methods. A suggestive representation of the research methods used is shown in Figure 1:



**Figure 1. Research Methods used During the Scientific Approach**

*Own source*

## 4. Applied Features

### 4.1. The Context of the research study

Carrying out a pertinent applied research involves a refocus on the basic concepts of financial auditing in accordance with I.S.A. 200<sup>1</sup>, respectively: preliminary analysis of financial statements, audit planning; significance threshold; sufficiency of evidence; ethical requirements related to the audit of financial statements; quality control system; professional judgment; significant misrepresentation; professional skepticism of the auditor, with the mention that, the auditor must critically and circumspectly assess the validity of the audit evidence and focus on the one that affects the credibility of documents or management statements.

The fundamental principles applied throughout this application have been structured into:

<sup>1</sup>I.S.A. 200 – General Objectives of the independent auditor and an audit development complying with the Audit International Standards, Manual of international regulations for quality control, audit, review, other assurance services and related services, Edition 2018, Volume I, International Federation, of Accountants, pg. 79 -108.

- general principles, namely: ethics and independence; professional judgement and scepticism; quality control;
- management of auditors' skills, competencies and abilities; audit risk; materiality; communication; documentation;
- Applicable principles throughout the financial audit process, namely: planning: audit strategy; reaching

agreement with the entity; identifying and assessing risks; considering the risk of fraud; preparing the financial audit plan; execution: audit procedures to get audit evidence; testing the effectiveness of the internal control system; applying substantive procedures; reporting: assessing audit evidence and drawing conclusions; expressing an opinion and reporting on the financial statements.

The applied research was carried out in significant stages and aspects at a public interest entity in the pharmaceutical sector whose identification data were kept anonymous to ensure confidentiality in the circumstances described by the specific legislation in force.

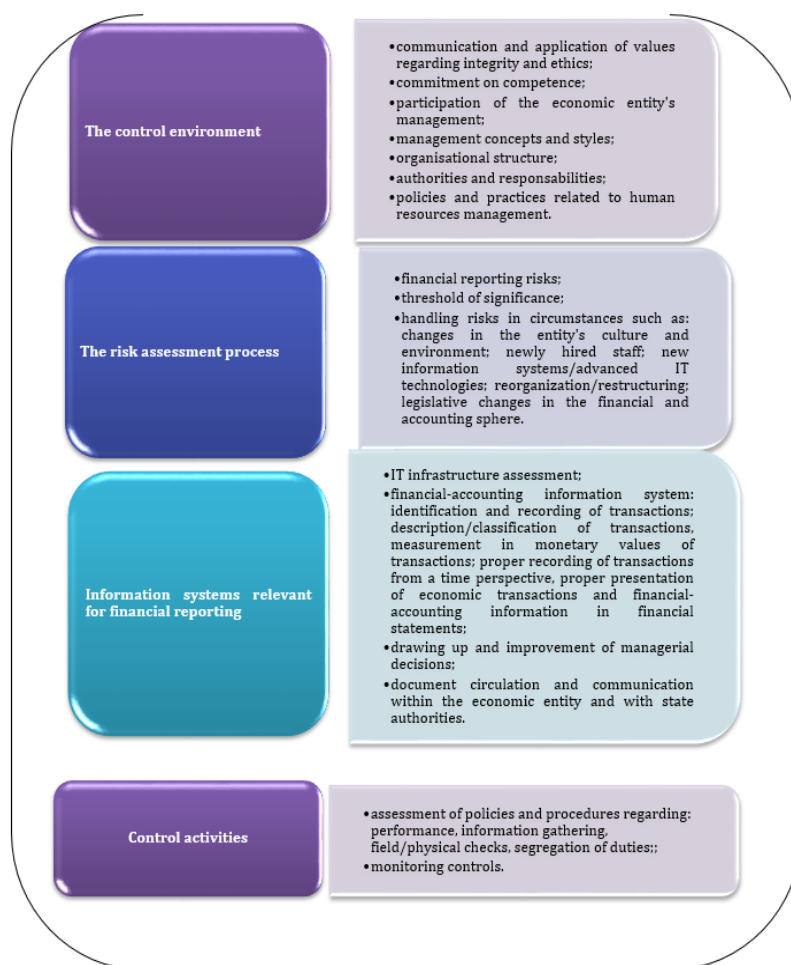
During the applied study, we researched essential data and information in the documents drawn up at the level of the studied entity, the most relevant of which were the following:

- Assessment on 31.12.2021;
- Profit and loss account on 31.12.2021;
- Assessment receipt on 31.12.2021;
- Trial assessment on 31.12.2021 - cumulated;
- Analytical balance sheet on 31.12.2021;
- Summary balance sheet on 31.12.2021;
- Further events;
- Explanatory notes;
- Declaration of compliance;
- Letter about the involved parties;
- Account sheets: 117, Retained earnings: 397, Adjustments for impairment of goods: 401, Suppliers: 409,
- Suppliers – debtors: 411, Customers: 448, Other payables and receivables with the state budget: 457, Dividends payable: 607. Expenses relating to goods: 665, Foreign exchange expenses: 765, Foreign exchange income: 781, Income from provisions and impairment adjustments relating to operating activities, etc., Accounting notes;

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- Litigation situation on 31.12.2021;
  - The last tax certificate;
  - Handbook of accounting policies ;
  - Loan agreements;
  - C.A and A.G.A. Decisions, Flow Chart/ R.O.F.;
  - B.V.C. for 2021 and its establishment;
  - Deeds of property;
  - Fixed asset assessment (last version);
  - Report of risks;
  - Self-assessment questionnaires (S.C.I.M., Purchasing Department, Assistant Manager, C.F.G., Specialty
  - Pharmacist Department, Finance, Accounting, Logistics, Administration, Commercial, Human Resources, Marketing, Warehouse, Sales, etc.);
  - S.C.I.M Development Report.;
  - Inventory Report for 2020;
  - Financial statements for 2020;
  - Contracts;
  - VAT deductions.;
  - Internal audit reports / Financial management control reports / Control reports / Mandatory provisions
  - (C.C.R., A.N.A.F. etc.);
  - Audit Committee Report for 2021;
  - Annual Report of the Monitoring and Remuneration Committee for 2021;
  - Board Directors’ Report for 2021;
  - The Auditor’s Report and The Supplementary Report for 2020 etc..

#### 4.2. The Assessment of the Internal Control System Studied at the Pharmaceutical Entity

The assessment of the internal control system at the studied entity concerned the following components (Figure no. 2):



**Figure 2. Elements of Internal Control**

*Own source*



The financial audit activity aimed at getting a reasonable assurance that the financial statements do not contain significant distortions generated by errors or fraud, as well as their compliance with the applicable financial reporting framework, implicitly evaluating compliance with the principles of the organization and operation of the financial accounting of the economic entity both at its overall level as well as regarding the components, respectively the principles: continuity of activity, steady methods, prudence, independence of exercises, distinct assessment of assets and liabilities, intangibility of the opening balance sheet, non-compensation, the prevalence of the economic perspective over the legal one and last but not least the significance threshold.

Therefore, the objectives of the financial audit were related to the assessment of applying the tackled principles, manifesting itself as *“a systematic process of obtaining and evaluating assertions about actions and events of an economic nature, taking into account the compliance degree of these assertions with pre-established criteria, as well as providing the results to interested users.”*<sup>1</sup>

#### **4.3. The research results**

The applied research was carried out in the context of inserting the International Financial Auditing Standards and the legal norms in force and the researcher considered the aspects concerning the financial statements of the studied entity, respectively:

- the coherence of the annual financial statements in case of knowing the audited entity, its activity field and last but not least the economic-social environment;
- the accuracy and consistency of the application of accounting principles and specific regulations in force;
- the accuracy of assessing the events subsequent to the closing date of the balance sheet.

As part of the financial audit, according to I.S.A. 230 Audit documentation they were developed all mandatory forms / documents (within sections and subsections) that must be drawn up as part of an audit mission or engagement.

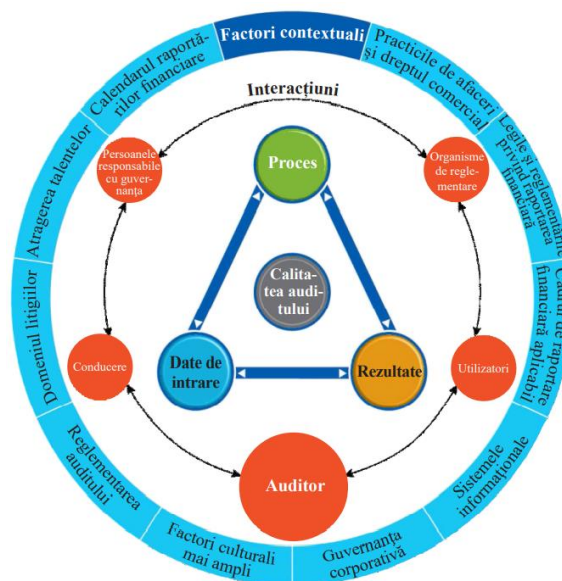
By Audit Documentation we mean all materials (working papers) prepared by the auditor as well as materials from the auditee in performing the audit on paper or electronically, as appropriate.

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<sup>1</sup>American Accounting Association, American Accounting Association Committee on Basic Auditing Concepts, A Statement of Basic Auditing Concepts, 1973.

In the auditor's documents, there were carried out the procedures, the tests, the information and the conclusions recorded throughout the audit. They contain all the information that the financial auditor considers necessary for the audit process in a suitable manner so that they can support and justify the audit report and their opinion.

We consider that the financial audit quality results from the one of the working papers actually providing the fundamental evidence for the final audit report, by highlighting the elements set out in the financial audit quality framework (Figure 3):

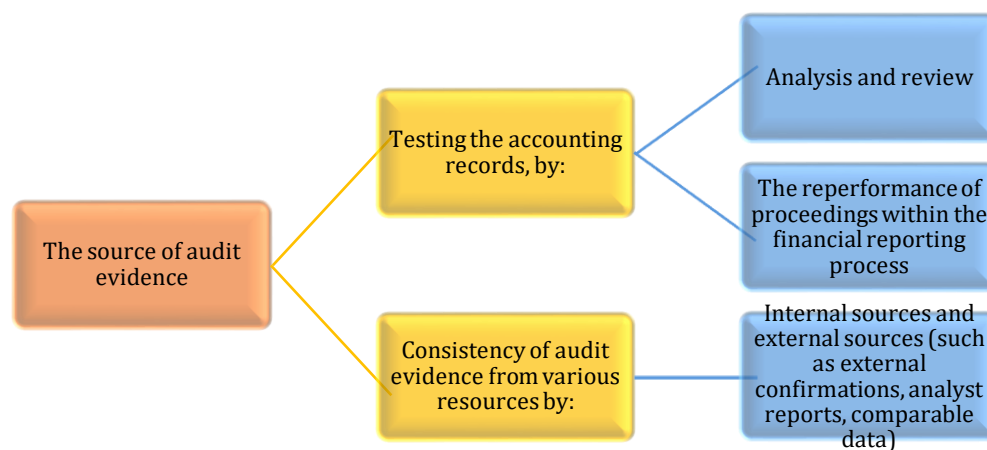


**Figure 3. Key Competing Elements of Achieving a Quality Financial Audit**

Source: *Supplement to the Handbook of International Standards on Quality Control, Auditing, Review, Assurance and Assurance Services, 2018 Edition, Volume III, International Federation of Accountants, pg. 7*

The purpose of the documents elaboration consisted of the support for the financial auditor so that he could provide reasonable assurance that a proper audit had been carried out in accordance with International Standards on Auditing.

The source of audit evidence represented the entity's information base and it followed the traceability identified in the studies as follows (Figure 4):



**Figure 4. Traceability of audit evidence sources**

Source: The course of Prof. Ana Morariu - I.S.A. 500 Audit Samples

The documents were essential to plan the audit, recording the acquired evidence and the results of the tests, resulting in a collection of the data necessary to determine the appropriate type of report, as well as a basis for the verification going to be carried out later.

For conclusions on the conformity of the Financial Statements prepared by JS.FAR entity, there are presented as following, the most relevant documents related to the audit:

- The financial audit plan,
- Audit report on financial statements,
- The independent auditor’s additional report,
- Letter of recommendations ,
- Report to the entity’s Board of Direction.

We considered that these documents and particularly the Audit Report represent the final stage of an assignment and at the same time the product of the work carried out by the auditor, presenting the conclusions following the rumination of the financial and accounting information for all users of financial statements.

The audit report’s content and form are provided in I.S.A. 700 - Auditor’s Report on the Financial Statements, which sets rules for the preparation of the audit report. *“The auditor should review and assess the conclusions resulting from audit evidence*

as a basis for expressing an opinion on the financial statements.” (I.S.A. 700 Auditor’s Report on Financial Statements, para. 2).

#### 4.3.1. The Financial Audit Plan

Client: JS.FARM The audited time: 2021 Submitted: _____, date: _____ Revised: _____, date: _____		
The performance of the financial audit mission will take place at JS.FARM in accordance with the requirements of I.S.A. for a reasonable assurance when the financial statements are free from material misstatement. As for an adequate and sufficient audit evidence, the auditor will carry out the following activities:		
<b>Activities</b>	<b>Period</b>	<b>Allotted Time</b>
A. Planning and documenting the financial audit assignment: - drawing up the audit strategy; - collecting information useful in understanding JS.FARM structure regarding: its organization, activity and applicable legal and regulatory framework; - communicating with the auditor from the previous year’s financial audit; - communicating with those responsible for governance, including members of the Audit Committee; - analysis on JS.FARM.	19.01.2022 25.02.2022	25
B. Understanding the accounting system and internal control system: - analysis of the accounting policy manual and its application;; - organisation, implementation, functioning of the internal control system; - the organisation and functioning of internal audit; - the examination of the accounting system, the internal control system, the internal audit.	23.01. 2022 11.02.2022	25
C. Causing risk and materiality - setting the significance threshold at the planning stage, tolerable error, sample selection; - risk assessment, i.e. audit, inherent general, specific, non-detection, internal control; - defining significant audit areas.	11.01.2022 18.02.2022	15
D. Checking the assets inventory: - analiza dosarului de inventariere / verificarea aplicării legislației specifice; - analysis of the inventory file / verification of applying the specific legislation	03.01.2022 30.04.2022	80

- attending inventory and audit testing; - verification of inventory capitalization		
<b>E.</b> Acquiring adequate and sufficient audit evidence: tangible/intangible/financial assets, inventories, receivables, customers, suppliers, payroll expenses, grants, houses and bank accounts, equity, expenses, income, taxes. Application of audit procedures, i.e. verification, observation, interview, questionnaire, reassessment, recalculation, review.	01.02.2022 11.05.2022	140
<b>F.</b> Completing of the audit mission: - checking the financial statements and the trial balance; - revision of the materiality threshold; - checking subsequent events, business continuity; - analysis/review/evaluation of findings; - establishing the audit opinion and drafting the report; Final discussions with those responsible for governance.	03.05.2022 18.05.2022	45
<b>Total hours:</b>		<b>330</b>
We note that we reserve the right to modify the Financial Audit Plan depending on the complexity of the audit mission, the required additional checks and any problems that may arise during the mission.		
On behalf of and for: _____ Financial auditor: _____		

#### 4.3.2. Audit Report on the Financial Statements

The report was drafted comprising the financial statements on 31.12.2021 prepared by JS.FARM.

To,

General Meeting of Shareholders / Board of Directors

JS.FARM

Opinion

Considering the study of the JS.FARM individual financial statements with registered office in \_\_\_\_, Unique Registration Code \_\_\_\_, we have found the balance sheet, income statement, statement of changes in equity and cash flow statement for the financial year ended on 31th of December 2021, including the relevant accounting policies and explanatory notes, it is noted that:

The JS.FARM's financial statements at 31.12.2021 are identified as follows:

Total Assets: 1,085,662,768 lei;

Total equity: -180,369,524;

Result for the financial year (loss): - 195,571,050 lei;

We conducted our audit in accordance with the I.S.A., *EU Regulation No. 537 of the European Parliament<sup>1</sup> and Law No. 162 issued on 6th of July 2017<sup>2</sup>*. On this regard, our responsibilities as financial auditors are described in the section “*Auditor’s Responsibilities in an Audit of Financial Statements*” of this Report and agree with I.S.A. At the same time, we sustain that we are independent of the JS. FARM according to the requirements of *the International Code of Ethics regarding the professional accountants<sup>3</sup>*, meeting the ethical criteria relevant for the exercise of statutory audit in Romania.

We cannot express an opinion regarding the JS.FARM’s individual financial statements, issued on 31.12.2021 due to the importance of the aspects identified and exposed in the section *Basis for the impossibility of expressing an opinion* of this report, and we cannot get an adequate and complete audit evidence so as to allow us to formulate an audit opinion that characterizes the aspects of the topic.

#### ***Basics for the impossibility of expressing an opinion***

**A1.** In the financial year ended on December 31, 2021, JS.FARM recorded a net loss of 195,571,050 lei. The cumulative losses at the end of 2021 are 208,884,227 lei. JS. FARM registers on December 31, 2021 a loan in the amount of 2,472,310,000.61 lei, of which 2,400,000,000 lei represents the main amount and 72,310,000.61 lei the unpaid late payment penalties, the creditor being M.F.P. maturing on September 26, 2021. The auditor did not receive a document for extending the repayment term of the loan until the date of the report, the amount of 2,472,310,000.61 lei being entered in the tax certificate as an outstanding budgetary debt. Given that the amounts owed to M.F.P. exceed the aggregate value of goods in stock and of receivables and cash held by the entity, the financial auditor considers this situation as a significant risk to the entity’s ability to continue its ongoing activity according to the principles of the applicable financial reporting framework. Therefore, the auditor found that the value of JS.FARM’s net assets, caused by the difference between its total assets and total liabilities, had decreased to less than its half within the subscribed and paid-up share capital which represented a violation of the provisions stipulated in the *Article 153 of the Law No. 31 on Trade Companies of 16 November 1990<sup>4</sup>*, as there might be a risk for the entity to be dissolved if the situation is not fixed. Hence, on

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<sup>1</sup>Regulation (EU) no. 537/2014 of the European Parliament and of the Council of April 16, 2014 regarding specific requirements relating to the statutory audit of public interest entities and repealing Commission Decision 2005/909/CE, published in J.O.U.E. L158/77 of 27.05.2014.

<sup>2</sup>Law no. 162 of July 6, 2017 regarding the statutory audit of the annual financial statements and of the consolidated annual financial statements and amending some normative acts, issuer: Parlamentul României, Published in M.O. no. 548 of July 12, 2017.

<sup>3</sup><https://www.ethicsboard.org/martie2022>.

<sup>4</sup>Law no. 31 of November 16, 1990 (\*\*republished\*\*) on companies, issued by the Parliament of Romania, published in M.O.m no. 1066 of November 17, 2004.

December 31, 2021 JS.FARM registers negative equity in the amount of 180.369.524 lei, having a subscribed and paid-up capital of 230.000.000 lei. The above disclosures indicate the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern. The entity has not carried out an analysis to determine whether the net book value of the assets is higher than their recoverable amount, nor has it presented concrete solutions to comply with The financial statements do not adequately disclose these matters in the explanatory notes. We couldn't have caused any adjustments that might result from such uncertainty.

**A<sub>2</sub>.** We attended the inventory of stocks and it was found that on December 31, 2021 JS.FARM has recorded stocks of goods in the amount of 522,263,954 lei, of which goods held by third parties values at about 100,863,341 lei. The economic entity has made adjustments for the depreciation of goods in the amount of 11,120,294 lei, including the expired ones or those that expires on June 30, 2021. The economic entity did not perform an analysis of inventory impairment on December 31,2021. Therefore, we can have an opinion neither on the inventories recorded on 31.12.2021 in the Accounting Balance Sheet from December 31,2021, nor on the value of the corresponding positions in the Profit and Loss Account as at December 31, 2021.

**A<sub>3</sub>.** As part of our audit procedures, we requested balance confirmations for suppliers. Since we did not receive them and we could not insure ourselves for the balances of suppliers in the amount of 21,184,971 lei by using the alternative audit methods, we are unable to tackle the value of these balances recorded in the liabilities subchapter of the Balance Sheet.

**A<sub>4</sub>.** As part of our audit procedures, on December 31, 2021 we requested balance confirmations for clients. Since we didn't receive the balance confirmations and the security of alternative audit methods for customer balances amounting to 10,409,906 Lei was unfulfilled, we find unable to express an opinion on the amount of customers' balances recorded under the item Receivables in Current Assets of the Balance Sheet.

#### ***The highlighting of certain aspects***

**B<sub>1</sub>.** We draw attention to the explanatory note no.19 "*Other information - Subsequent events*" concerning the controls carried out by the State authorities at the JS.FARM's level, as follows:

- checking the referrals to biocidal products, carried out by Ministry \_\_\_\_, control - Control Report \_\_\_\_;
- control of the public resources' management during the state of emergency, carried out by the \_\_\_\_ Cluj Company;
- control of the C.C.R., completed with the control report 120/\_\_\_\_;

- unexpected operational control, carried out by D.G.A.F., the control has not been completed until December 31,2021, with no. 502/ \_\_\_\_, registered at JS.FARM with no. \_\_\_\_;

Therefore, the economic entity is the subject of a D.N.A. investigation regarding the purchases made during the state of emergency, an investigation that is ongoing.

**B2.** We draw attention to explanatory note no. 19 “*Other information - Subsequent events*” concerning the request addressed to JS.FARM by Decision no. 63/\_\_\_\_ of the A.G.A. which in art. 1 letter d, encompasses the analysis and the communication by the Board of Directors to the Minister’s office of the incidence of the provisions from *paragraph (4) of Law no. 85 of June 25, 2014*<sup>1</sup>, which states the following: “(1) *The debtor in a state of insolvency is obliged to submit to the court a request to meet the provisions of this law, within a maximum of 30 days from the occurrence of the insolvency state [...]*” and “(4) *A debtor whose insolvency is imminent may submit to the court a request of being subject to the provisions of the current Title*”, referring to the content of the clear analysis about the existence or non-existence of the insolvency or its imminence or non-imminence, as the case may be.

#### ***Key audit issues***

Apart from the matters described in paragraphs 1, 2, 3, 4 of *the basis for the impossibility of expressing an opinion*, we have concluded that there are no other key audit matters required to be disclosed in our report.

#### ***Other information – The Managers’ Report***

The managers are responsible for drawing and presenting other relevant information. That *Other Information* comprises the Managers’ Report but not the financial statements and the auditor’s report on them as well as the non-financial statement.

Our opinion on the financial statements does not cover these Other Information and, apart form situation when there are explicitly stated in our report, we express no assurance on them.

As related with our audit of the financial statements for the year ended on December 31, 2021, our responsibility is to examine that Other Information and to evaluate whether that Other Information is materially inconsistent with the financial statements, or with the knowledge we obtained during our audit, or whether it appears to be materially misstated.

Regarding the Managers’ Report, I have read and reported whether it has been drawn up, by all means, in accordance with the requirements of OMFP 1.802 of 29

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<sup>1</sup>Law. 85 of June 25, 2014 on the procedures for insolvency prevention and insolvency as such, issued by the Parliament ,published in the Official Journal. nr. 466 of June 25,2014.



December 2014<sup>1</sup>.

Based solely on the work that meant to be performed during the audit of the financial statements, we sustain as follows:

- the information stipulated in the Management Report for the financial year encompasses all essential material regarding the financial statements;
- The Managers' Report has been drawn up, by all significant means, in accordance with the requirements of *OMFP 1.802 of December 29, 2014*<sup>2</sup>.

Moreover, as we take into account our knowledge and understanding of the business entity and its environment acquired during our audit of the financial statements for the year ended on December 31, 2021, we are required to report whether we have identified any material misstatements in the Managers' Report. As a consequence we have nothing to report on this matter.

***Responsibilities of management and those charged with governance for the financial statements***

The economic entity's management is in charge with the preparation of financial statements that provide an ideal picture in accordance with OMFP no. 1.802/2014 for the approval of the Accounting Regulations on the individual annual financial statements and the consolidated annual financial statements, as amended, as well as for that internal control which plays an important role in the elaboration of financial statements without material distortions, caused either by fraud or error.

For the financial statements elaboration, the management ought to assess the entity's ability to continue its activity, and to present it, where appropriate, for using the business accounting as a principle of continuity, unless the management either intends to liquidate the entity or to cease operations or it has no realistic alternative other than these.

Those in charge of governance are responsible for supervising the entity's financial reporting process.

***The auditor's responsibilities in an audit of financial statements***

Our responsibility is to conduct an audit of the entity's financial statements in accordance with the I.S.A. adopted by the C.A.F.R. and to issue an auditor's report. However, due to the matters described in the Basis for the Inability to Express an

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<sup>1</sup> Pct. 489 – 492, Order 1.802 of December 29, 2014 to pass the Accounting Regulations regarding the annual financial situations, issued by M.F.P., published in the Official Journal, no. 963, of December 30, 2014.

<sup>2</sup> Pct. 489 – 492, Order no. 1.802 of December 19, 2014 to approve of the Accounting Regulations regarding the individual annual financial situations and the consolidated ones, issued by M.F.P., published in the Official Journal, no. 963 December 30, 2014.

Opinion section of our report, we were unable to get relevant appropriate audit evidence for an audit opinion on these financial statements.

Our objectives are meant to obtain reasonable assurance as to whether the financial statements as a whole are deprived of important misstatements, caused either by fraud or error, and to issue a report by the auditor that includes our opinion. The reasonable assurance is of a high level, but it doesn't guarantee that an I.S.A. audit will always detect a significant distortion, if any. The distortions may be caused either by fraud or error and shall be considered significant if it can reasonably be expected that they, individually or cumulatively, will influence the economic decisions of the information users regarding these financial statements.

As part of an audit in accordance with the I.S.A., we exercise professional reasoning and maintain professional skepticism throughout the audit. Therefore:

We identify and assess the risks of material misrepresentation of financial statements, determined by either fraud or error, we design and execute audit procedures in response to those risks, and we obtain sufficient and appropriate audit evidence to provide a basis for our opinion. The risk of not detecting a significant distortion caused by fraud is higher than that of not detecting a significant distortion caused by error, as fraud may involve secret agreements, forgery, intentional omissions, false statements and the avoidance of internal control.

We consider the internal control relevant to the audit, in order to design audit procedures appropriate to the circumstances, but without the purpose of expressing an opinion on the effectiveness of the JS. FARM's internal control.

We assess the appropriateness of the used accounting policies and the reasonableness of accounting forecasts and related disclosures.

We draw a conclusion on the appropriateness of management's use of accounting based on business continuity and we determine, on the basis of the audit evidence, whether there is material uncertainty about events or conditions that could raise material doubts about the entity's ability to continue its business. If we conclude that there is a significant uncertainty, we must draw attention in the audit report to the related presentations in the financial statements or, if these disclosures are inappropriate, to change our opinion. Our conclusions consist of the audit evidence up to the date of the auditor's report. However, the future events or conditions may determine the entity to cease its activity under the business continuity principle.

We assess the presentation, structure and content of financial statements, including disclosures and the extent through which the financial statements reflect the underlying transactions and events in a great manner.

Among other aspects we communicate to those responsible for governance, the planned mission and time scheduling of the audit, as well as the main findings of the

audit, including any significant deficiencies in internal control, that we identify during the audit. We also provide those responsible for governance with a statement about our compliance with ethical independence requirements and communicate to them all relationships and other matters that can reasonably be considered to be likely to affect our independence and, where appropriate, the related safety measures.

Considering the matters we have communicated to those charged with governance, we identify those matters that were of most significance in the audit of the current period's financial statements and they represented the key audit matters. We describe these matters in the audit report, unless legislation or regulation prevents public disclosure of the matter or unless, in extremely rare circumstances, we consider that a matter should not be disclosed in the audit report because the benefits to the public interest are reasonably expected to be outweighed by the negative consequences of such disclosure.

#### ***The report on other legal and regulatory provisions***

We were appointed by the A.G.A. on 21.10.2021 to audit the JS.FARM's financial statements for the financial year ended December 31,2021. The total uninterrupted term of our engagement is valid for 1 year, covering the financial the same date mentioned above.

#### ***We confirm that:***

Our audit opinion meets the additional report submitted to the Company's Audit Committee, which we issued on the same date with this report. Therefore, by carrying out our audit, we have maintained our independence from the audited entity. We have not provided for the entity the prohibited non-audit services stipulated in the Article 5 para. (1) of EU Regulation No .../... 537/2014.

#### ***4.3.3. The additional report of the independent auditor***

*To*

Audit Committee,

JS.FARM

We have audited the individual financial statements of the economic entity JS. FARM, with its registered office in \_ comprising the balance sheet of December 31, 2021, the profit and loss account, the statement of changes in equity and the statement of cash flows for the financial year ended on 31.12.2021, as well as a summary of significant accounting policies and explanatory notes.

#### ***Independence***

*We are independent of the JS society. FARM in accordance with the Code of Ethics of Professional Accountants (I.E.S.B.A Code) issued by the Council for International*

*Ethical Standards for Accountants and with the ethical requirements that are relevant for the audit of financial statements in Romania. We have fulfilled our ethical responsibilities in accordance with these requirements and the I.E.S.B.A. Code according to the declaration of independence of the financial auditor.*

*Description of the scope and timing of the audit*

We carried out our audit in accordance with the I.S.A., the EU Regulation No. 537 of the European Parliament and of the Council (hereinafter the “Regulation”) and the Law No. 162 of July 6 2017. The I.S.A. requires compliance with ethical requirements and the planning and conduct of the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

*The audit mission was carried out according to the following timetable:*

The Engagement planning and audit documentation (pre-engagement activities - analysis of the auditee, acquiring the necessary information to understand the client: update and documentation, preliminary assessment of risks and materiality threshold, development of audit strategy, engagement plan, time budget, etc.) - from November 19, 2021 to 25.02.2021, including the review of the initial planning.

- Understanding the accounting and internal control system (evaluation of the system for recording and processing the entity’s transactions, evaluation of internal control and internal audit, estimation of inherent risk, control, testing of accounting and control systems intention, etc.) - in the period 23.01-2022 -11.02.2022.

-Collecting adequate and enough evidences on: intangible fixed assets; corporate fixed assets; financial fixed assets; inventories; customers; personnel and employee settlements; budget settlements; other liabilities; treasury; equity; expenses; income; taxes and duties; group and associates; off-balance sheet accounts, etc., by applying the procedures like: checking documents and records, observation, interviewing/questioning, re-performance, recalculation, review (verification) - during the period 01.02.2021-30.04.2022.

-The auditor’s attendance in the inventory and check of recording its results in accountancy- during the period 03.01.2021-11.05.2022.

- Completing of the audit work including the check of the financial statements and the trial balance, the revision of the materiality threshold, the check of subsequent events and of compliance with business continuity, analysis, review and assessment of the performed audit conclusions as well as of the work papers, setting the audit opinion and drafting the report, the end-of-mission works and the meeting with the customer- during the period 03.05.2022 -18.05.2022.

*Description of the applied audit methodology*

Following the risks identification and assessment of the financial statements' material misrepresentation caused by errors, we have selected and carried out audit procedures in response to those risks, aiming at collecting audit evidence.

We have got an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the entity's internal control. We assessed the appropriateness of the used accounting policies and the reasonableness of the accounting forecasts as well as of related disclosures made by management.

We assessed the overall presentation, structure and content of the financial statements including disclosures and the correlation of financial statements with the data recorded in the accounts.

The audit tests consisted of both analytical substantive procedures and detailed tests of the transactions and accounts balances.

#### *Threshold of significance*

The purpose of this audit was determined according to the materiality threshold. An audit shall be planned with a view to obtaining reasonable assurance that the financial statements don't contain material misstatements. These distortions may be determined by fraud or error. They shall be considered to be material if it can reasonably be expected that they, individually or cumulatively, will influence the economic decisions of users taken on the basis of the financial statements.

By our professional judgement, we have determined certain quantitative limits on materiality, including the overall materiality threshold for the financial statements taken as a whole, as shown in the table below. These, together with qualitative aspects, helped us to determine the audit purpose as well as the nature, time and extent of our audit procedures for assessing the distortions, individually and in aggregate, on the financial statements taken as a whole.

Therefore, we have determined the overall significance threshold.

<b>The global significance threshold</b>	<b>1.990.329,48 lei</b>
The causing method	The arithmetic average of 2% of the turnover over the last 3 (three) years.
The argument for determining the benchmark used for the significance threshold.	We have chosen turnover as a benchmark because in our view, this indicator is relevant as the economic entity has public utility status and it is also a generally accepted benchmark. We have chosen 2% in the spirit of our best practice, gained from our own experience, as we believe it represents an acceptable quantitative threshold of significance for the chosen benchmark.

*Aspects regarding the principle of business continuity.*

Following the evidences resulted from the audit procedures, the auditor found that:

In the financial year ended on December 31, 2021, JS.FARM records a net loss of 195,571,050 lei. The cumulative loss at the end of 2021 is 208,884,227 lei. JS.FARM records as at 31.12.2021 a loan amounting to 2,472,310,000.61 RON, of which 2,400,000,000 RON represents the main amount and 72,310,000.61 RON outstanding late payment penalties, the creditor being M.F.P., due on September 26, 2021.

The auditor did not receive a document that extended the repayment term of the loan until the date of the report, the value of 2.472.310.000,61 lei being registered on the fiscal guarantee as a budgetary debt not paid at maturity. Considering that the amounts due to the MFP exceed the cumulative amount of the stock goods, claims and cash availabilities that the entity holds, the financial auditor find this situation as a significant risk in terms of the continuity of the entity's business, in accordance with the principles of the applicable financial reporting framework.

The auditor also found that the net asset value of JS.FARM, defined as the difference between its total assets and the total liabilities, decreased to less than half value of the share capital subscribed and paid up. This is a violation of the Article 153 provisions according to the Law No. 31 on Trade Companies of November 16, 1990, by risking to dissolve the entity if the situation is not remedied. Hence, JS.FARM registers at December 31, 2021 negative own capital in the amount of 180.369.524 lei.

The situations described above indicate the existence of a material uncertainty which may cast significant doubt upon the company's ability to continue its activity. The entity has not achieved an analysis to determine whether the net book value of the assets is higher than their recoverable amount and it hasn't presented concrete solutions to comply with the provisions stipulated in the Article 153 of the Law No 31 on Trade Companies of November 16, 1990. The financial statements do not adequately disclose these matters in the Explanatory Notes.

We were unable to determine any adjustments that might result from such uncertainty.

*The aspects concerning significant deficiencies identified in the financial statements, the internal financial control system and the accounting system*

As independent auditors of JS.FARM, we have audited the individual financial statements of the economic entity which comprise the balance sheet of December 31, 2021, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, as well as a summary of significant accounting policies and explanatory notes. The report issued on 31.05.2022 doesn't express an

opinion on the entity's financial statements of December 31, 2021. Due to the significance of the matters described in the Basis for not being able to express an opinion section of the audit report, we couldn't get enough appropriate audit evidence to provide a basis for the audit opinion on these statements.

As part of the audit engagement, we also assessed the internal control exercised within the entity in 2021, with the financial auditor finding significant internal control deficiencies as for the public procurement carried out by the entity.

Following the discussions with JS.FARM's executive management, regarding the analysis of the information provided, and the performance of audit procedures designed and performed by the auditor, it was found that there are significant deficiencies in the internal control established in JS.FARM. On this concern, there were identified double payments to supplier XYZ, achieved to some of the entity's suppliers for goods that they did not deliver, purchases of non-compliant goods, defective performance of contractual obligations, as in the case of customer ABC, where there was executed the warranty letter of contract signed with ABN, and UMC and the entity was penalised for late delivery of the sold products.

There were not met the legal provisions concerning the commitment, validation, authorisation and payment of expenditure, the payments were made without supporting documents such as endorsement of the CFP, the payments for products acquisition were not included in the approved and subsequently corrected VAT framework, and they were made to various suppliers without regulating the advances, which led to the additional indebtedness of the entity.

The auditor followed procedures to test the flow of stock inwards and outwards but he was unable to get enough information on the management discharge for the sample selected. From discussions with the entity's staff, the auditor found that the goods receipt process was flawed due to lack of staff and the very large volume of goods purchased during the period, with goods often stored in unsuitable conditions and inconsistencies between packaging indication and reality.

By testing the accounting system, we identified a series of errors regarding turnovers within the accounting analytical sheets such as the accounts 765 Revenues from exchange rate differences and 665 Expenses from exchange rate differences that presented significantly distorted turnovers as well as the passage of some external suppliers in the analytical sheet of the internal suppliers. These issues were corrected during the audit.

The explanatory notes to the financial statements don't provide descriptive details and don't include additional information for each significant item included in the annual financial statements.

*Matters relating to actual or alleged non-compliance with laws, regulations and administrative provisions or Staff Regulations*

Regarding the discussions with the entity's management and the released information in public, we noticed that JS Farm unfolded the following controls such as:

Control of biocidal products referral by the Ministry of Health Public. Health Department of Bucharest, resulted in the Control Report JS/FARM2021.

The audit of the public resources' management by the Accounts Court of Romania, which resulted in Audit Report 10/JS.FARM.

Unannounced operational control by the General Board for Tax Fraud, control not completed to date, registered at JS.FARM under no. 81/2021;

Control by the Economic and Financial Inspectorate concluded with Report 7/F/2021 and Binding Order No 6/209/F/2021, registered at JS.FARM under No 68/2021.

Verification of the measures implementation ordered by decision X/2019, carried out by the C.C.R., the control was finalized by Report 10482/10.07.2021. The entity is also the subject of an ongoing DNA procurement investigation.

By analysing the documentation provided by the JS.FARM's executive management, the financial auditor failed to identify both the decision of the JS.FARM's Board of Directors to contract the loan granted by M.F.P. in the amount of 2,450,000,000 lei, as well as the AGM's resolution to ratify that decision, in accordance with the powers of the Board of Directors and the AGM.

*The issues relating to the valuation methods applied to various items in the annual financial statements*

The items presented in the individual annual financial statements are recognised and measured in accordance with the general principles set out in the Order of the Romanian Minister of Public Finance No 1.802/2014 for the approval of the Accounting Regulations on the individual annual financial statements and consolidated annual financial statements, as amended.

*The auditor's communication with the audited entity*

We confirm that you have provided the explanations and documents requested and that in your Letter of Representation you have also responded affirmative in sending all the documents you considered relevant to the conduct of the audit engagement and to support the data in the ongoing financial statements.

*Other aspects*

We have not provided to the entity prohibited non-audit services mentioned in the Article 5(1) of EU Regulation 537/2014.



**4.3.4. Letter of recommendations**

To,

JS.FARM

Dear Manager,

Based on the audit services contract no. 3/2/2021 we are currently performing the audit mission on the financial statements that include the balance sheet, the profit and loss account, informative data, the statement of fixed assets, as well as the statements of cash flows and the statement of changes in equity for the financial year ended on 31.12 .2021.

The auditor's objectives are to obtain reasonable assurance regarding the financial statements which, taken as a whole, are free from material misstatement because of the errors occurred. We carry out the audit mission in accordance with I.S.A..

According to the ethical requirements these standards plan and perform the audit for reasonable assurance in case the financial statements are free from material misstatement.

The purpose of this letter is to present recommendations leading to improved performance and prevention of deficiencies that could result in material losses or errors. It is your obligation to take the necessary steps to rectify these deficiencies. Please send us your response to our comments and recommendations.

In this context, this letter represents the secondary result of the audit mission and it is designed exclusively for informing the management of the economic entity but for no other purposes.

We would like to express our thanks to those responsible for the governance and employees of the economic entity as well as for the support and cooperation provided during the audit.

Auditor: \_\_\_\_\_, (Name, surname and signature)

**A. Significant uncertainties regarding the business continuity**

In the financial year ended on December, 31.2021, the entity recorded a net loss of 195,571,050 lei. The cumulative losses are 208,884,227 lei. The entity registers a loan in the amount of 2,472,310,000.61 lei, of which 2,400,000,000 lei represents the basic equity and 72,310,000.61 lei unpaid late penalties and the creditor is M.F.P., due on 26.09.2021. The auditor did not receive a document by which the loan repayment deadline would have been extended until the date of the report, the amount of 2,472,310,000.61 lei being entered in the tax certification as not paid budget debt on maturity.

Taking into account the fact that the amounts due to M.F.P. exceed the aggregate

value of goods, receivables and cash held by the entity, the financial auditor considers this situation as a significant risk to the entity's ability to continue its activity in accordance with the principles of the applicable financial reporting framework.

The auditor found that the entity's net asset value, determined as the difference between its total assets and its total liabilities, decreased to less than half value of the subscribed and paid-up capital, which represents a violation of the Article 153 provisions according to the Law No. 31 on Trade Companies of November 16, 1990, and there will be a risk of the entity's dissolution if the situation is not rectified. Hence, the entity registers on December 31, 2021 a negative equity in the amount of 180,369,524 lei.

The above situations indicate the existence of a significant uncertainty that may cast significant doubt about the economic entity's ability to continue as a going concern. Neither has the economic entity performed an analysis to define whether the net book value of the assets exceeds their recoverable amount, nor has it presented concrete solutions to comply with Article 153 provisions according to the Law No. 31 on Trade Companies of November 16, 1990. The financial statements don't adequately disclose these matters in the explanatory notes.

The auditor could not determine any adjustments that might result from such uncertainty.

**The auditor recommends those responsible for governance to perform a broad analysis in order to identify feasible solutions to resolve the above-mentioned issues, by underlying their importance.**

#### **B. Aspects of deficiencies related to the inventory of assets and stock valuation**

The auditor took part in the stocks' inventory and found that JS.FARM recorded on December 31, 2021 stocks of goods in the amount of 522,263,954 lei, of which goods held with third parties in the amount of 100,863,341 lei. The entity has made adjustments for the goods depreciation in the amount of 11,120,294 lei considering the goods expired or those which meant to expire on 30.06.2022. The auditor proposed the implementation of an impairment test at December 31, 2021 to identify the fair value of the goods but this was not performed by the entity.

The auditor brings about proceedings to test the flow of inputs-outputs of stocks but could not obtain enough information on managing for the selected sample. From the discussions held with the entity's staff, the auditor found that the goods reception process was faulty due to the lack of staff and the very large volume of goods purchased, the goods being stored many times in improper conditions and there being inconsistencies between what the packaging indicates and the reality.

As part of the audit procedures, on December 31, 2021 we demanded balance

confirmations for suppliers and customers. We did not receive balance confirmations, and we couldn't ensure through alternative audit methods for supplier balances in the amount of 21,184,971 lei and for customer balances in the amount of 10,409,906 lei. We also mention that the account statements are part of the inventory file according to OMFP 2861 of October 9, 2009.<sup>1</sup>

**The auditor recommends the entity's management to analyse and revise the entity's inventory management procedures to solve the above issues.**

### **C. Significant deficiencies regarding the functionality of internal control and the accounting system**

In our audit, we also assessed the internal control exercised at JS.FARM in 2021, the financial auditor noting significant deficiencies in internal control regarding the public procurements carried out by the entity during the state of emergency in 2021.

Following the discussions with the JS.FARM's executive management regarding the analysis of the information provided, the audit procedures designed and carried out by the auditor, it was found that there are significant deficiencies in the internal control established in JS.FARM. In this regard, there were identified double payments for supplier XYZ, advances granted to some suppliers of the entity for goods that were not delivered to them, purchases of non-conforming goods, defective execution of contractual obligations, as in the case of customer ABC, where the entity was executed the letter of guarantee related to the contract concluded with ABN, and respectively UMC where the entity was charged late penalties for the late delivery of the sold products.

The legal provisions concerning the commitment, validation, authorisation and payment of expenditure were not complied with, payments were made without supporting documents, without the approval of the CFP, payments for the purchase of products were made without being included in the approved and subsequently corrected VAT framework, payments were made to various suppliers without regulating the advances paid to them leading to the additional indebtedness of the entity.

By testing the accounting system, we identified a series of errors regarding the turnovers within the analytical accounting sheets such as the accounts 765 Income from exchange rate differences and 665 Expenses from exchange rate differences which presented distorted turnovers as well as the passage of some external suppliers in the analytical sheet of internal suppliers. These deficiencies were rectified during the audit.

Regarding the *Explanatory Notes to the financial statements*, they don't present a

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<sup>1</sup>Order no. 2861 October 9, 2009 to approve of the Norms the organisation and inventory of the assets, debts and own equities, issued by M.F.P., published by the Official Journal, n0. 704 October 20, 2009;

descriptive detail, without including in their entire additional information for each significant element of the annual financial statements.

**The auditor recommends an improvement of the accounting and internal control system in the sense of revising internal procedures regarding public procurement, the way of hiring, liquidation, ordering and payment of expenses, verifying the information implemented in the accounting system.**

#### **4.3.5. Report to the Board of Directors of JS.FARM**

The company \_\_\_ was appointed by the Decision of the JS.FARM Board of Directors no. \_\_\_ to audit the financial statements of the economic entity for the financial year related to 2021. On November 20, 2021, the financial audit services contract no. \_\_\_, and on March 1, 2021 the mission letter related to the financial year 2021 was signed.

Further to the planning of the financial audit mission, as agreed with those in charge with the governance of JS.FARM, we started the financial audit mission by performing useful audit procedures in order to obtain audit evidence necessary to substantiate the opinion we will express on the annual financial statements of JS.FARM concluded on December 31, 2021.

Taking this into account, I requested the necessary information for the documentation of the audit mission, I had meetings with those responsible for governance and with other employees with management duties within the entity, I participated to the annual inventory of JS.FARM's assets, I applied my own appropriate audit procedures based on the financial and non-financial statements received from the entity

Having carried out the above-mentioned activities, we have identified several significant aspects of the entity's financial position and internal control system which are worth being mentioned to you with regards to the requirements of *the I.S.A. 260 and I.S.A. 265*, as well as the responsibilities of the entity's Board of Directors regarding the supervision of JS.FARM's financial reporting process, as follows:

#### **Stocks:**

As a result of the analysis of the provisional verification balance drawn up on December 31, 2021 and the participation in their physical inventory, we found that JS.FARM records stocks of goods worth 522,263,954 lei, of which goods in custody worth 100,863.341 lei. Further to the meetings with those responsible for the governance of JS.FARM and considering the information, we found that the entity has stocks of expired goods in the amount of 10,111,860.62 lei, as well as stocks of goods whose market value, based on the available information, we believe that it could be below the purchase cost (especially products specific to combating the pandemic, namely protective masks, coveralls, ventilators, etc.). Considering the

situation set out above (the value of expired stocks and those that could have a capitalization price below the purchase price), the financial auditor recommends the adjustment for the depreciation of the expired goods or of those due to expire on June 30<sup>th</sup> 2022, booked in the accounting records on December 31<sup>st</sup> 2021, and an impairment test for unexpired stocks to identify their fair capitalization value. If the fair value of capitalization is lower than the cost value, the auditor recommends an adjustment for the depreciation of the goods with the resulting amount consisting of the difference between the cost value and the one obtained as a result of the impairment test, in case of different values.

**Credits:**

JS.FARM records on December 12, 2021 credits of 1,000,000,000 lei, the creditors being M.F.P. for the amount of 1,000,000,000 lei, Bank \_\_\_ for the amount of 19,998,300.00 lei. Further to the discussions with the executive officers and the governance of the entity, and considering the provided information, we found that the amount owed to M.F.P. due on September 26, 2021, is outstanding on the date of this letter, and the credit granted by Bank \_\_\_ had been due on February 15, 2022.

Given that the amounts owed to Bank \_\_\_ and M.F.P. exceed the cumulative value of goods in stock, the receivables and available assets owned by the entity, the financial auditor informs the JS.FARM Board of Directors that this situation represents a significant risk in terms of the continuity of the entity's activity, in accordance with the principles of the applicable financial report. Thus, there are significant uncertainties regarding the elaboration of the financial statements of JS.FARM on December 31, 2021, based on the principle of activity steadiness. As a result of the aforementioned situation, we also found that the value of the entity net asset is lower than half of the subscribed and paid-up capital, and this violates *the provisions of art. 153 of the Commercial Companies Law no. 31 of November 16, 1990*. There is also a risk of the entity's dissolution if the situation is not rectified. In case the maturity extension of the loan granted by the M.F.P. for 12 months from December 31, 2021, the financial auditor recommends setting up a provision for risks and expenses, equivalent to the outstanding amount.

**Tangible assets:**

Considering the findings of the financial auditor on the auditing of the previous financial statements, respectively on December 31, 2020, the lack of fair assessment of the tangible assets was considered one of the basic elements of the expressed opinion. Considering the documents analysis provided by JS.FARM and the discussions with the persons in charge with the governance and the involved employees, it was found that, on June 20, 2021, the economic entity had drawn up an evaluation report to update the rent prices charged to its tenants, supplemented with an evaluation report for the fair value of tangible assets - the heritage buildings. We analyzed the evaluation report and differences were found between the

information presented in the evaluation report and the ones found in the property deed of the entity regarding the space of the evaluated buildings. These differences might have a significant impact on the financial statements of the entity related to the financial year 2021, given that the amounts resulting from the valuation report for the fair value of tangible assets must be recorded in the annual financial statements, in accordance with the applicable financial reporting framework. The financial auditor considers it necessary to clarify this aspect before completing the annual financial statements of the financial year 2021.

**The internal control:**

Considering the discussions with the entity's management together with the provided documents, the information analysis, the audit procedures designed and carried out by the auditor, there were found significant deficiencies in the internal control established at the entity level. In this respect, double payments were identified for the consultancy provider \_\_\_ in the amount of 17,331,279 lei, down payments granted to some suppliers of the entity for goods they failed to deliver, purchases of non-compliant goods, faulty execution of contractual obligations ( for example: client "Y" to whom the letter of guarantee in the amount of 530,888.15 lei, related to contract no. \_\_\_, was executed, with no compliance with the legal provisions regarding employment, liquidation, ordering and payment of expenses, making payments without supporting documents as well as payments to suppliers without the regularization of the down payments , making non-budgeted purchases, causing additional indebtedness of the entity).

Moreover, the financial auditor found significant deficiencies in the internal control in terms of making the purchases made during the state of alert, in 2021. Thus, purchases of specific equipment or materials were contracted without being stipulated in the budget revenues and expenses, or without the Board of Directors 'the approval.

**The Corporate Governance:**

Having analysed the documentation provided by the executive management of JS.FARM, the financial auditor could not identify the decision of the of the entity's Board of Directors to contract the loan granted by M.F.P. in the amount of 1,000,000,000 lei, as well as the decision of the A.G.A. regarding the ratification of the aforementioned decision, in accordance with the powers of the Board of Directors and the General Meeting of Shareholders.

The financial auditor considers that there might be a significant risk for the continuity of JS.FARM's activity for the next 12 months as well as significant uncertainties regarding a possible draft of the entity's annual financial statements for the financial year 2021, which should mention from the outset the principle of a steady activity, as described by the applicable financial reporting framework.

The auditor recommends to those responsible for the governance of JS. FARM to ask the executive management for a detailed description in the explanatory notes in the annual financial statements of the financial information presented, as well as of the used accounting practices.

At the same time, the financial auditor recommends the Board of Directors of JS.FARM to thoroughly present and describe all these aspects in the administrators' report drawn up for the financial year 2021 and attached to the annual financial statements drawn up on December 31, 2021.

If the members of the JS.FARM Board of Directors find it proper to discuss upon the aforementioned aspects with the financial auditor, we certainly agree with this meeting, as we consider it useful and timely for both parties.

## 5. Conclusions

The financial audit activity provides a solid basis for raising the quality bar of the financial-accounting information included in the financial statements. Through the carried out activity and the provided opinion, the objective of the financial audit is to connect as best as possible, to the the users' information demands, offering accurate and reliable information in the financial statements.

The financial audit plays an important role in promoting the responsibility, efficiency and transparency of the financial-accounting information provided by public entities.

The need to provide reliable and relevant information to the parties interested in the financial statements of an entity proves the existence and development of the financial audit.

In order to avoid an opportunistic dissemination of the information in the financial statements, the financial auditor interferes to assert and certify this information since he is an expert in this respect.

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