

*FARview Podcast Series, written report: #8 Marshall Geiger*

## **COVID-19 and the Going Concern Opinion**

In the FARview Podcast Series, FAR staff members conduct interviews with academics and professionals regarding the practical relevance of academic research in the field of auditing. This written report contains an edited transcript of the interview with Marshall Geiger. Geiger is the CSX Chair in Management and Accounting and Professor of Accounting at the University of Richmond, US.

### **Key points**

- A Going Concern Opinion is not supposed to predict failure, it's a mechanism for the auditor to alert readers that there are concerns.
- Going concern research in a COVID-19 era might flesh out more cleanly that more industry experience will lead to more accurate going concern opinions.
- Companies are adapting their business models, but the real issue is how well they are going to do under the new business model, how excellent are they going to be able to execute their business plans.
- The possibility of a second COVID\_19 wave is an important issue. What will that wave look like? How much will it affect specific companies? And how much support will companies get then? That should also be disclosed by management.

### **Could you tell us a bit more about your FAR-project with Anna Gold and Philip Wallage from the Vrije Universiteit Amsterdam?**

‘We did a literature review for going concern opinion (GCO) research. Earlier, I was involved with a project for the PCAOB in the US that did a similar thing, which was concluded in 2012. FAR had a call for research to update this PCAOB-project. We examined all the research on the GCO, in as many dimensions as possible: qualities of the firms that get GCO's or don't get them, qualities of the auditors that issue them or don't issue them, outcomes of the opinions, consequences to the audit firms as well as the client that receives them. So, we tried to tackle it from a lot of different angles.’

### **Going concern is very topical, given the COVID-19 pandemic. What is the value of a GCO in the current situation?**

‘As we know, the GCO is not necessarily a prediction of failure. It is an auditors' indication, in their professional opinion, that there are signs that failure might be on the horizon, that there is reasonable doubt about the client continuing in business. So, you can't issue a GCO to everyone. That would take away from the value of it. On the other hand, you also can't issue a GCO to no one, because we know that there are going to be business failures, even in good times. Before COVID-19, we were at a 10-year low in the GCO rates. So, although other people might not have been interested in it, I was still researching it. Now, everyone is interested in it and I'm sure we will have tons of great research, which unfortunately comes out of a terrible economic time. The benefit is to give the reader of the audit opinion and the financial statements a heads-up that it looks like there are some issues that need to be addressed. Certainly, management should address them in their disclosures in the financial statements. But, this is the auditor's 'tack-on' to say that disclosures should be read very carefully, because there might be some going concern problems. So, the GCO is not supposed to predict failure, it's a mechanism for the auditor to alert readers that there are concerns.’

**Do audit partners with more experience have a better chance of issuing accurate GCO's during these unprecedented times?**

‘Some of the past research found that partners with more industry experience issue more GCO's, basically under the premise that they know what to look for. And their opinions are more accurate. There also has been research that has found no difference. However, I haven't seen any research that has found the opposite: that partners with more industry experience are worse at this. So, it is certainly skewed towards the positive side. In these extreme stress-test kinds of situations, we might find that it really is industry experience, along with maybe some general experience, that is going to actually differentiate the ones that address the nuance against those that don't have the experience, yet. Going concern research in a COVID-19 era might flesh this out more cleanly. More industry experience will probably lead to more accurate GCO's. It might not lead to more GCO's. As earlier research has shown, issuing more GCO's is not always a sign of quality. It should be issued at the right time at the right place.’

**How could clients employ innovative strategies to remain a going concern, in the current crisis?**

‘Some companies have radically changed their business strategy and business model, particularly if they were highly reliant on face-to-face contact, like retail and restaurants. The business model is going to be a significant factor, but I guess the real issue is how well they are going to do under the new business model, how excellent are they going to be able to execute their business plans. That is just an added layer of uncertainty, because they could have been mediocre to great under the old business model but for pivoting to a new one they might not have the expertise, resources, or the supply chain in place. That is also difficult for auditors. As practitioners know, every client is different, experiences different circumstances and has a different perspective on what is going to happen. Particularly in the current situation, even the normal differences will be magnified. For sure, interesting research will come out of this, which will hopefully help practice. Unfortunately, the fruits of research labor will not come out in academic journals for several years, when practice will have moved on and things have already become clearer.’

**What role do government bailouts play in issuing going concern statements?**

‘Governments tried to make sure that companies which have received financial support, understand whether it was a loan or a gift. Once that has been determined, it is relatively easy. A more difficult issue is whether there is going to be more government help for an audit client in the future. In the broad scheme of things, I would place it in the bucket with the same kinds of decision processes that auditors go through to ascertain whether clients are going to get help from banks or financial institutions. In that big bucket, the process of decision-making is similar, but it is certainly dissimilar in the fact that the unknown as to whether it is going to come, and in what form, and how much in the future is much different compared to whether the bank is going to increase a credit line.’

**The big unknown is whether there is going to be a second wave?**

‘That is an important issue. What will that wave look like? How much will it affect specific companies? And how much support will companies get then? And some clients will not have to rely on that, but tons of them will. That should also be disclosed by management. It certainly gives auditors headaches and sleepless nights to figure that out.’

**For more information concerning the Going Concern Research Synthesis project, please refer to:**

<https://foundationforauditingresearch.org/en/research-publications/projects/2017a01-going-concern-opinions-research-synthesis-prof-geiger/>

The Foundation for Auditing Research (FAR) is an autonomous research institute that is focused on developing and disseminating scientific knowledge concerning audit quality. FAR pursues these objectives by facilitating relevant and rigorous academic audit research via collaboration between academia and audit practice