PCAOB IAG Going Concern Survey For Investors

Multiple Choice

Below are the questions and results of the survey the Going Concern IAG Working Group sent out. The first column is the frequency the answer was chosen. The middle column is that frequency divided by the total number of answers listed at the bottom of the left column. The far right column tells the percentage of the frequency divided by the number of survey participants, 40, when the respondents are able to choose multiple answers.

1. Is the accounting concept Going Concern important to you? (select one)

A	Yes, very important	**26**	65.00%
B	Somewhat	**11**	27.50%
C	Very little	**2**	5.00%
D	No, not important at all	**1**	2.50%
E	Not sure	**0**	0.00%
		40	

2. Should there be a change in the accounting term going concern? (select all that apply)

A	Yes, change the definition	**6**	11.76%	15.00%
B	Yes, change the triggers	**15**	29.41%	37.50%
C	Yes, change the responsibility	**7**	13.73%	17.50%
D	No need to change	**11**	21.57%	27.50%
E	Not sure	**12**	23.53%	30.00%
		51		

3. When determining whether or not to identify whether a company is a going concern or not, should the auditor issue a report when: (select one)

A	There is "substantial doubt" that company will continue as a going concern (e.g., 80% chance or more of that likelihood)	**9**	22.50%

B	It is more likely than not the company will not continue as a going concern (e.g., 51% chance of not continuing)	**20**	50.00%	
C	It is reasonably possible that company will not continue as a going concern (e.g., less than 51% but more than remote)	**7**	17.50%	
D	Not sure	**4**	10.00%	
		40		

4. Should the assessment as to whether a company will be a going concern be based on a time period assessment: (select one)

A	Limited to the next 12 months	**2**	5.00%
B	Limited to the next twelve months but also considered foreseeable events occurring shortly after the next twelve months such as the need for debt financing, loss of a major contract, etc	**24**	60.00%
C	The forseeable future such as the next one to three years, but not an indefinite period of time?	**11**	27.50%
D	Other	**1**	2.50%
E	Not sure	**2**	5.00%
		40	

5. Should it be the responsibility of the independent auditor, management, or the audit committee to report to investors when a question arises as to whether or not a company will continue as a going concern? (select all that apply)

A	Management of the company	**21**	24.14%	52.50%
B	Independent auditor	**31**	35.63%	77.50%
C	Audit committee	**27**	31.03%	67.50%
D	Regulators	**7**	8.05%	17.50%

E	Not sure	**1**	1.15%	2.50%
		87		

6. If it is concluded by either the independent auditor, or management or both that the company may not be a going concern, what disclosures should be provided to investors? (select all that apply)

A	A reasonably detailed discussion of the company's ability to generate sufficient cash to support its operations during at least the twelve months from the date of the financial statements?	**37**	16.23%	92.50%
B	Expected courses of action that bear on financial flexibility of the company such as:	**34**	14.91%	85.00%
C	New borrowings	**21**	9.21%	52.50%
D	Raising of new capital	**23**	10.09%	57.50%
E	Liquidating of assets	**27**	11.84%	67.50%
F	Reducing costs	**22**	9.65%	55.00%
G	Reducing dividends	**23**	10.09%	57.50%
H	Reducing levels of services or products	**19**	8.33%	47.50%
I	Filing for bankruptcy	**22**	9.65%	55.00%
J	Other	**0**	0.00%	0.00%
		228		

7. Should the disclosures identified above be included in: (select all that apply)

A	An unaudited Management's Discussion and Analysis	**24**	33.33%	60.00%
B	The footnotes to the audited financial statements	**20**	27.78%	50.00%
C	Included in auditor's report	**27**	37.50%	67.50%
D	Other	**1**	1.39%	2.50%
		72		

8. Do you believe an auditor should identify in their report, if they believe the company will not continue as a going concern? (select one)

A	Yes, definitely	**30**	75.00%
B	Yes, but in a different reporting mechanism	**3**	7.50%
C	Maybe	**4**	10.00%
D	No	**1**	2.50%
E	Not sure	**2**	5.00%
		40	

9. Should the auditor's report identify the basis and reasons for the auditors conclusion that the company may not be a going concern? (select one)

A	Yes, definitely	**35**	87.50%
B	Maybe	**1**	2.50%
C	No	**1**	2.50%
D	Not sure	**3**	7.50%
		40	

10. Did the financial crisis highlight problems with Going Concern? (select all that apply)

A	Yes, definitely,	**15**	34.88%	37.50%
B	Yes, somewhat	**14**	32.56%	35.00%
C	No, there were no problems with Going Concern during the financial crisis	**4**	9.30%	10.00%
D	Already felt there were problems with the definition of Going Concern before the financial crisis	**4**	9.30%	10.00%
E	Not sure	**6**	13.95%	10.00%
		43		

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Explanations/Written Answers

1. Is the accounting concept Going Concern important to you? (select one)

Yes, very important.

An indication of the organization's viability from a knowledgeable independent source

Investors need the information to as accurately as possible predict future cash flows. Clearly, when management, the Board of Directors, and auditors are aware of circumstances that may result in the inability to generate sufficient cash flows to remain a viable business entity for the near term, that is relevant to investors!

Auditors are too focused on the details often times with not enough attention paid to whether or not the entity is or can remain a viable going concern.

It is one of the most critical accounting concepts

Filing a chapter or going through a restructuring can be a healthy process, and even an anticipated or desired process from an investor's perspective.

Investing in an entity that fails often results in the loss of the entire investment.

As investors we rely on understanding whether a company demonstrates the ability to function as a going concern.

Valuation of assets typically assume that they are used in the business to generate revenue; if the business is not a going concern valuation will usually be much different. This would impact the view of most stakeholders of the company.

Yes. It has everything to do with a company's ability to continue normal operations in the future.

If a companies auditors can't say the company can continue as a going conern, we shouldn't be invested in it.

Going Concern disclosure by publicly traded companies help us as investors to assess a company's solvency and liquidity

Somewhat

It is an indication of financial stress.

No, not important at all

What publicly traded entity is not operated on a going concern basis?

2. Should there be a change in the accounting term going concern? (select all that apply)

Yes, change the definition

Present standard too low

The GC reporting responsibility for be at least one year from the date of the audit report, rather than only one year from the balance sheet date.

Yes, change the triggers

Needs to be an early warning approach

To me it seems the firm is so far down the path when the term "no longer a going concern" is used that the triggers need to change or have different levels of going concern (green, yellow, red)....

No need to change

Need more information before answering.

I think the term is understood and I don't know what changing it will accomplish.

The accounting term going concern is relatively well known.

Not sure

It would be too difficult for auditors to assess the 51% benchmark

In the analysis of publicly traded equities, it is a non-issue. Not sure how the average CPA will be affected - not that I care.

3. When determining whether or not to identify whether a company is a going concern or not, should the auditor issue a report when: (select one)

There is "substantial doubt" (80+%)

I do not believe that auditors or management have the ability to assess the precision required of 51%. The factors being assessed to come to a conclusion of say 40% should be discussed with investors.

However, if these is less than 51% but more than remote, we believe the auditor should provide information in the emphasis paragraph that indicates this.

More likely than not (51% chance)

Restructurings happen very frequently and quickly. Perhaps an indication that a form of restructuring is possible should be considered by auditors.

I think that by the time we are the substantial doubt point of a company's status as a going concern company, the reporting responsibility to shareholders has been passed. Shareholders have a right to know sooner that there may be concern.

As I stated above, a greater than 50% chance is in my analogy Yellow and the 80% would be Red.

This is really a subjective matter and there is no right or wrong so long as a report is issued when a company is and/or is not a going concern

Reasonably possible (<51%)

I am inclined to answer either 80% chance or 51% chance, but am not sure why those two thresholds are being suggested. Maybe somewhere in between these two is the appropriate threshold.

In the analysis of publicly traded equities, it is highly probable that the market has determined the likelihood of business failure faster than the accountants (excluding fraud). Where fraud is present, the auditor should issue if there is a possibility of failure due to fraud.

Not sure

The role of auditors as they pertain to the idea of making a going concern opinion seems similar to the role of Rating Agencies as they pertain to sovereign debt. In some respect, by making a downgrade or an upgrade, the Rating Agencies are issuing an investment opinion. Investors, for their part, handicap the likelihood of a downgrade, bidding up or down the yield, in most cases well ahead of any upgrade or downgrade. So, by the time the Rating Agency actually makes the report, the information is old news to the market. If an auditor's change of opinion works the same way, any issue of a downgrade is likely already anticipated by investors. In the end, the investment opinion is in the domain of investors.

4. Should the assessment as to whether a company will be a going concern be based on a time period assessment: (select one)Limited to the next 12 months

Yes, should be a snapshot in time with an eye on material items going forward that are more likely than not to occur that may negatively impact the firm.

Too difficult to assess a longer period of time given so many variables and uncertainties

Limited to next 12 months but also considered foreseeable events

We believe 1-3 year time frame would be helpful to flag companies where additional disclosures would be helpful to investors on how they plan to mitigate this concern.

I think that 12 months as probably sufficient unless there is something major that is anticipated.

All businesses may cease to operate in the long term.

We would recommend substituting “the need for debt financing for “access to capital” for example so that it’s not just debt but also equity. We would also add something related to hostile takeovers and privatizations.

The foreseeable future (1-3 years)

Somewhere between 12 months and 3 years seems appropriate time line, Yellow for that time period....Red is maybe approx 12 months /maybe less (or shortly there after as you mention)

5. Should it be the responsibility of the independent auditor, management, or the audit committee to report to investors when a question arises as to whether or not a company will continue as a going concern? (select all that apply)

1 Management, 2 Audit Committee, 3. Independent Auditor

1 Audit Committee, 2 Management, 3 Auditor

1 Regulators, 2 Audit Committee, 3. Auditor, 4. Management

1. Management, 2. Auditor, 3. Audit Committee

1. Management of the company 2. the audit committee 3. the regulators 4. external auditor.

1. Audit Committee 2. Auditor

1 - audit committee 2 - management 3 - auditor

1. Regulators, 2. Auditors

Mgt 1 Auditor 2

1. Independent Auditor 2. Audit Committee

6. If it is concluded by either the independent auditor, or management or both that the company may not be a going concern, what disclosures should be provided to investors? (select all that apply)Reasonably detailed discussion of the company's ability to generate sufficient cash

All of the above items should be included in 1 and 2 above

More the better.

Expected courses of action that bear on the financial flexibility of the company such as:

Many of these are already items that should be discussed if there are discussions or plans in place to undertake them.

7. Should the disclosures identified above be included in: (select all that apply)An unaudited MD&A

It makes sense for certain information to be in the MD&A, other information in the footnotes and other information flagged and discussed in the auditors report.

The more robust the disclosures the better a reader of financials can determine the relevant facts

Footnotes of financials

These are material items that may impact investment decisions on where to allocate investment dollars.

Such material disclosures ought not to be buried in the footnotes to financial statements, but be made abundantly clear in the company's disclosures.

Included in auditor's report

should be mgt's job to recognize going concern limitations and if they exist to provide the background, causative factors and plan of action. by putting this in the f/ns, by definition the auditor will need to form their own view of mgt's assertions and reasonableness of disclosures in forming their audit opinion

Other

Separate SEC filing where applicable.

we would favour a brief note in the chairman's/CEO letter included in the proxy statement mentioning the change in the company's "going concern status"

8. Do you believe an auditor should identify in their report, if they believe the company will not continue as a going concern? (select one)Yes, definitely

Auditors need to accept their responsibility to report on the basis underlying the financial statement - value as a going concern or not.

Yes, but in a different reporting mechanism

This is an important issue to investors.

The auditor, management, and Audit Committee must be consistent. If there is disagreement, that should also be disclosed.

If the auditor believes the company will not continue as a going concern, then the auditor should identify this in their report.

Not Sure

It is a question of what is trying to be conveyed. Should how some type of disclosure but maybe it should take a different form. However, should also consider that Auditors are not necessarily risk managers.

9. Should the auditor's report identify the basis and reasons for the auditors conclusion that the company may not be a going concern? (select one)Yes, definitely

The auditor should provide the reasons why they have reached their conclusion that the company may not be a going concern.

the basis and reasons

Maybe

All material information related to the same.

What work the auditor completed and the reasons the auditor came to this conclusion.

Not sure

That is management's responsibility in the MD&A and financial statement footnotes. The financials and disclosures are management's not the auditor's. The auditor's opinion should be concurrence with management’s conclusion.

10. Did the financial crisis highlight problems with Going Concern? (select all that apply)

Yes, definitely,

The issue relates primarily to financial organizations given a going concern issue would likely accelerate the issues but that is the reality that investors and others need to know.

Audit reports of the TARP companies did not provide any indication of issues at these entities. There needs to be a change in the information that auditors provide to investors as an independent source of information.

Lehman Brothers.

Seemed rarely used to my recollection with quite a few needed that interpretation

Yes, somewhat

This is clearly the case for banks. I think banks are very special animals that can collapse on a whim. The concept of "going concern" is rather different for banks than for other sectors

Perhaps it highlighted the fact that the standard and importance of going concern concept needs to be revisited and changed.

The financial crisis highlighted the need for more extensive auditor involvement with quarterly reporting.

No, there were no problems with Going Concern during the financial crisis

Not really an issue. The market knew Bear/Lehman were a probably long before the accountants (unless there was fraud).

Not sure

Going concern is sometimes a subjective decision/evaluation. Neither management or the auditor have a crystal ball, so circumstances like the financial crisis in 2008 are difficult to predict.