

Aligning disclosure requirements for managerial assessments of going concern risk: Initial evidence from New Zealand

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Abstract

This study examines the impact of the Financial Reporting Standard No. 44 *New Zealand Additional Disclosures* (FRS 44) amendment issued by the New Zealand Accounting Standards Board (NZASB). The FRS 44 amendment aligned disclosure requirements for managerial assessments of going concern risk in financial reports with auditing standards for periods ending on or after 30 September 2020. We first present descriptive evidence on the frequency of going concern opinions (GCO), frequency of going concern issues identified as key audit matters (GCKAM), and frequency and content of managerial assessments of going concern risk (GCMA) before and after the FRS 44 amendment. Second, we show lower audit fees and shorter audit lags for financially distressed companies post-FRS 44 implementation. This suggests that the harmonisation of accounting and auditing disclosure requirements alleviates tension during the going concern decision-making process for affected companies, subsequently leading to reduced audit fees.

KEYWORDS

going concern, key audit matters, management disclosure, managerial assessment

JEL CLASSIFICATION

G38, M42, M48

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1 | INTRODUCTION

The collapse of prominent companies like HBOS, BHS, and Carillion, despite having clean auditor's opinions without warnings of potential misstatement, underscores the vital role auditors play in disclosing going concern risks (Casterella et al., 2000; Financial Reporting Council, 2019). In response to global concerns surrounding going concern disclosure, the New Zealand Accounting Standards Board (NZASB) issued an amendment to the Financial Reporting Standard No. 44 *New Zealand Additional Disclosures* (FRS 44). The amendment increases disclosure requirements of managerial assessments of going concern risk in financial reports and aligns the requirements with auditing standards for periods ending on or after 30 September 2020. This regulatory change makes New Zealand a pioneer in amending International Financial Reporting Standards (IFRS) to align with auditing requirements.

To gain a better understanding of the consequences of the regulatory change, this paper aims to: (i) investigate the different types of going concern risk disclosures before and after the FRS 44 amendment; and (ii) examine the impact of aligning accounting and auditing standards on audit fees and lag for financially distressed companies. We base our sample on 107 listed companies in New Zealand and examine data from 1 year before and 1 year after FRS 44 adoption. The choice of the New Zealand sample is both purposeful and relevant. First, New Zealand is an early adopter of the regulatory changes to align accounting and auditing standards for going concern risk disclosure, making it an ideal setting to examine the consequences of such alignment. Second, given New Zealand's use of international accounting standards, findings from the New Zealand context can serve as a valuable reference point for international standard setters considering similar regulatory changes.

Going concern risk can be disclosed in three ways depending on the perceived severity of the risk: a going concern opinion (GCO) contained in the audit report (including a material uncertainty relating to going concern, other matter, qualified or adverse opinions), a key audit matter (GCKAM), or a managerial assessment of going concern risk (GCMA) in the notes to the financial statements.¹ We observe that among the three going concern disclosure types, GCMA is the most common at 11% of the sample, followed by GCOs (8%) and GCKAMs (4%). There is no significant difference in the propensity of any going concern risk disclosure pre- and post-FRS 44. Subsequent to the regulatory change, descriptive evidence regarding the information contained in GCMA disclosures reveals an increase in the disclosure of going concern uncertainty, but a decrease in plans to address the risk in the notes.

We next examine our second research objective of whether FRS 44 adoption results in lower audit fees or shorter audit lags for companies with potential going concern issues. We find economically significant reductions in audit fees post-FRS 44 adoption for financially distressed companies. There is some evidence that financially distressed companies also experience shorter audit lags post-FRS 44. Our findings suggest that aligning GCMA disclosure with auditing standards reduces auditor-client tension during the audit. This results in lower fees and reduced audit lag due to a reduction in audit effort. These findings align with concerns raised by auditors that management's lack of preparation for financial reporting disclosure surrounding the going concern assumption leads to increased audit effort and delays in financial statement preparation (Geiger et al., 2017). Additionally, we find no change in discretionary accruals post-FRS 44.

Our paper makes several contributions to the extant literature and contributes directly to calls for more research on GCMA (Geiger et al., 2017) and provides early empirical evidence to guide international standard setters' future development of going concern

¹ Existing literature on going concern risk disclosure has investigated factors influencing the issuance and usefulness of GCOs (Carson et al., 2013; Geiger et al., 2017).

disclosure regulation. We show that aligning GCMA reporting can reduce audit effort for financially distressed companies without affecting audit quality. These findings complement the findings of Wang (2022), who shows an increase in informational value to investors after a going concern disclosure accounting regulation issued in the United States. Thus, we support calls from Chartered Accountants Australia & New Zealand (CA ANZ) for an alignment of going concern disclosure requirements in both accounting and auditing standards (CA ANZ, 2020). As a recent Australian Accounting Standards Board staff paper also noted that ‘concerns around the adequacy of going concern disclosures and a lack of guidance for entities not operating under the going concern assumption are global issues, and need to be addressed at an international level’ (Australian Accounting Standards Board, 2021), we suggest this issue is added to the International Accounting Standards Board (IASB) work plan.

In the next section, we discuss the institutional setting and review the existing literature. This is followed by the presentation of our research method. We then report our results, and the final section provides concluding remarks.

2 | INSTITUTIONAL SETTING AND RESEARCH QUESTIONS

2.1 | Institutional setting

This study focuses on the institutional setting of New Zealand, where listed companies must prepare financial statements using New Zealand IFRS and undergo audits following International Standards on Auditing (New Zealand) (ISA (NZ)). In this section, we discuss the accounting and auditing standards relevant to going concern disclosure and explain the FRS 44 amendment.

According to paragraph 25 of New Zealand Equivalent to International Accounting Standard (NZ IAS) 1 *Presentation of Financial Statement*, ‘An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so’. Additionally, ‘When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties’. Thus, when facing material uncertainty surrounding their future ability to remain a going concern, management has a responsibility to disclose a managerial assessment of going concern risk in the notes to the financial statements.

The auditing standard, ISA (NZ) 570 (Revised) *Going Concern*, outlines three key responsibilities for auditors in relation to the going concern assumption. First, the auditor should assess the appropriateness of the going concern assumption. If the going concern assumption is deemed inappropriate, an adverse audit opinion can be issued. Second, auditors must assess management's evaluation of the going concern assumption and determine if there is adequate disclosure of any going concern uncertainties. In cases where the auditor believes material uncertainty exists, but disclosure by management in the financial statements is deemed inadequate, a qualified or adverse opinion is issued. If there is material uncertainty surrounding the going concern assumption, but adequate disclosure in the financial statements, the auditor expresses an unmodified opinion which includes a Material Uncertainty Related to Going Concern (MURGC) section. If the auditor deems there to be no material uncertainty but identifies events or conditions that cast significant doubt upon the entity's ability to be a going concern, ISA (NZ) 570 paragraph 20 requires detailed disclosure of a managerial assessment of going concern, with paragraph A24 outlining the disclosure requirements. Finally, auditors need to consider whether the going concern assumption was a Key Audit Matter (KAM), as mandated by ISA (NZ) 705 *Communicating Key*

Audit Matters in the Independent Auditor's Report. The standard requires a KAM to be disclosed for 'those matters that required significant auditor attention in performing the audit (para. A9)'. Thus, going concern risk may be expressed as a KAM. However, the standard highlights that a KAM should not be considered a substitute for a MURGC.

Partly because of the COVID-19 pandemic, a need for more specific going concern disclosure requirements to provide information to stakeholders was identified. Consequently, the NZASB issued Exposure Draft 2020-2 Going Concern Disclosures (Proposed amendments to FRS 44). The proposal received broad support, with a professional body endorsing not only this amendment, but also advocating for an international revision of the standard (CA ANZ, 2020). The FRS 44 amendment mandates that if there is significant doubt about the going concern assumption, the company must disclose:

- a. That there are one or more material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- b. Information about the principal events or conditions giving rise to those material uncertainties.
- c. Information about management's plans to mitigate the effect of those events or conditions.
- d. That, as a result of those material uncertainties, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

FRS 44 notes that material uncertainty relates to events that may cast significant doubt. Consistent with the NZASB view, these changes align accounting and auditing standards, requiring management to consider and disclose information about their going concern per ISA (NZ) 570 para. A24 (Bradbury et al., 2022). We interpret FRS 44 as reducing auditor risk and effort for companies where going concern disclosures would be an audit issue, thereby mitigating tension during the fraught going concern disclosure process.

The US has also introduced accounting regulations addressing going concern disclosure. Accounting Standards Update (ASU) No. 2014-15 Presentation of Financial Statements-Going Concern established Accounting Standards Codification Subtopic 205-40: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (ASC 205-40), which requires similar disclosures. However, notable differences exist between international and US accounting standard guidance on this issue, including the assessment time period (at least but not limited to 12 months vs. 1 year) and the distinctions between material uncertainty and substantial doubt, which are reflected in both accounting and auditing standards (Bradbury et al., 2022), and the requirements to perform this analysis on an interim and annual basis.² ASC 205-40 indicates that the US Generally Accepted Accounting Principles (US GAAP) previously lacked guidance on this matter. Consequently, New Zealand offers a robust setting to examine the effectiveness of going concern disclosure as it transitions from the current 'general' guidance in IFRS and ASC 205-40 to the more stringent requirements for managerial going concern assessment outlined in FRS 44.

2.2 | Literature review and hypothesis development

There is substantial literature on the determinants, accuracy, and market reaction of going concern opinions (Carson et al., 2013; Geiger et al., 2017). DeFond and Zhang (2014) conclude that 'the research strongly suggests that market participants value the information communicated in going concern opinions' (p. 293). However, Geiger et al. (2017) highlight that GCO research typically makes a binary distinction between the presence or absence of a GCO in an

² New Zealand has half-yearly as opposed to quarterly interim reporting.

Going concern

As a result of the COVID-19 pandemic, there are inherent uncertainties in all markets relating to the impact of continued cinema closures, delayed film content and the deterioration in general economic conditions. Accordingly, the Board consider it appropriate to take a cautious outlook on the cinema industry.

At the date of signing these financial statements, Vista Group had put in place significant initiatives to protect the financial strength of the Group, including:

- Successfully completing a \$65 million capital raise, with excellent support from its existing institutional and retail shareholders.
- Applying for and receiving government relief for its businesses in New Zealand, Australia, United States, United Kingdom and Netherlands.
- Cancelling the 2019 final dividend.
- Terminating the agreement to acquire a further 14.5% stake in Vista China.
- Cost containment initiatives, including the Board and management temporarily reducing their remuneration and the core business organisation restructuring.
- Maintaining engagement with customers to ensure Vista Group's products and services remain relevant throughout the COVID-19 pandemic.

At 31 December 2020, Vista Group had cash balances totaling \$67.1m, along with \$38.6m undrawn on its ASB revolving credit facility.

The Board believe that the actions taken, current cash levels, an anticipation of a recovery from the COVID-19 pandemic in the medium-term, and the continued support of ASB Bank ensures that Vista Group can continue to adopt a going concern basis of accounting for a period of at least twelve months from the date of these financial statements being issued.

FIGURE 1 Example of managerial assessment of going concern disclosure by Vista Group for the year ended 31 December 2020.

annual report, and there is room for research on alternative ways of communicating going concern issues.³ A recent study with audit practitioners also calls for going concern related future research (Geiger et al., 2024). Limited research exists on alternative going concern disclosure types, such as GCKAMs, which can be grouped into three primary themes.

First, several studies examine the informativeness of management commentary in predicting failure (Alexeyeva & Sundgren, 2022; Boo & Simnett, 2002; Tennyson et al., 1990). For example, Mayew et al. (2015) find that a statement about a company's ability to continue as a going concern within the MD&A is predictive for up to 3 years for firms that later file for bankruptcy. However, using data from the United Kingdom, Uang et al. (2006) find that tone of managerial assessments of going concern risk do not predict GCOs.

Second, research that focuses on the association between management disclosures of going concern uncertainty and investment returns. Bochkay et al. (2018) find a relationship between downward price revisions of initial public offerings and GCMAs. Similarly, Bédard et al. (2019) report a negative market reaction to severe managerial disclosures of going concern risks in Canada, with an increase in this negative reaction observed only for less severe assessments following a regulatory change requiring an emphasis of matter paragraph.

Finally, the impact of regulatory changes on managerial assessments is another area of interest. The adoption of ASC 205-40 in the US has prompted studies such as Bakarich and Baranek (2020), who find an increase in GCOs issued for both bankrupt and non-bankrupt companies post-ASC 205-40, whilst Matkaluk (2023) finds an improvement in financial reporting quality.⁴ Wang (2022) demonstrates that the market views managerial assessments of going concern risks as credible only after the implementation of ASC 205-40, with quarterly reports being the primary driver of this perception. These studies emphasise the importance of understanding the role of GCMAs in the context of going concern uncertainty.

³ Illustrating the value of alternative going concern disclosure types, Grosse and Scott (2022) find that going concern conclusions in interim financial statements have information content.

⁴ Matkaluk (2023) also find a significant but economically immaterial decrease in earnings announcement speed of half a day.

Prior studies on GCMA may involve disclosures that are less detailed than required in the enhanced requirements of New Zealand's FRS 44 as shown by an example in [Figure 1](#).⁵ Thus, FRS 44 has the potential to impact GCMA. The revisions introduced in FRS 44 clarify the significant managerial effort to substantiate the going concern assumption. Additional managerial effort and disclosure may alleviate tension during the fraught process of disclosing going concern risk from the auditors' perspective. Furthermore, the increased requirements placed on management disclosure may result in reduced audit effort and risk as the burden of disclosure shifts to management. Geiger et al. (2017) provide evidence in which audit partners explain that the process of evaluating the going concern assumption greatly depends on whether the client is adequately prepared, and that the audit process is more complex if management has not properly considered the going concern assumption. If the client is unprepared, the auditor would have to exert more effort, resulting in higher audit fees and a longer audit lag. One example provided was that clients may not have made sufficiently detailed cash flow analyses available to the auditor, or management may not have prepared adequate scenario analyses about their own mitigating actions to address the going concern issue.⁶ Thus, FRS 44 may improve client preparedness and reduce audit effort and risk. We argue that any effect would likely be restricted to companies in financial distress, as it is these companies who need to extensively review their going concern assessment and have negotiations with their auditor regarding the appropriateness of the going concern judgement (Ye et al., 2011).

There is a substantial body of research that examines the supply and demand of audit effort (e.g., Causholli et al., 2010; Eierle et al., 2022). Changes in accounting standards have resulted in higher audit fees after IFRS adoption (De George et al., 2013; Kim et al., 2012), including in New Zealand (Higgins et al., 2016), whilst moving to a less 'strict' auditing standard reduces audit fees (Doogar et al., 2010; Krishnan et al., 2011). Audit standards requiring KAMs to be disclosed are not found to be associated with audit fees based on international evidence (Eierle et al., 2022). However, evidence is more mixed in New Zealand, with Li et al. (2019) finding an increase in audit fees whilst Al-mulla and Bradbury (2022) do not. Overall, we conclude that changes in standards can influence audit effort.

We examine two proxies for audit effort: audit fees and audit lag. Prior research has shown that audit lag, that is, the length of time between the end of the financial period and the auditor signing off on the audit report, is related to the amount of work performed in the audit engagement and thus is a proxy for audit effort (Knechel et al., 2009; Knechel & Payne, 2001; Tanyi et al., 2010). We hypothesise that the introduction of FRS 44 will lead to more transparent and informative managerial assessments, which could reduce audit risk and/or effort, and subsequently lower audit fees and shorten the audit lag for financially distressed companies. Thus, we state our two hypotheses about audit effort as:

H1a. There is a negative association between FRS 44 and audit fees for financially distressed companies.

H1b. There is a negative association between FRS 44 and audit lag for financially distressed companies.

⁵ For example, Mayew et al. (2015) provide an example of 'However, due to continuing losses and immediate need for additional financing, it is possible that the Company may not be able to continue as a going concern' (p. 1648), whilst Bédard et al. (2019) provide a severe example that 'The Corporation is currently in negotiations with the holder of the promissory note to renegotiate the settlement of the promissory note, which is now payable on demand ... These circumstances and the material uncertainty of not having sufficient funds in place to repay the promissory note, cast significant doubt as to the Corporation's ability to continue as a going concern' (p. 53).

⁶ Some clients may simply not have the professional ability to adequately perform such activities, or they may be overconfident in their abilities, affecting their perceived credibility by the auditor (Geiger et al., 2017). We agree with Geiger et al. (2017) that the proactiveness of auditor and management in the GCO determination would be a fruitful area for future research.

TABLE 1 Sample selection.

All companies listed on New Zealand's exchange (NZX) during 2019–2021		178
Less	Companies without available annual reports in the pre-FRS 44 year	(14)
	Companies without available annual reports in the post-FRS 44 year	(3)
	Companies following non-New Zealand reporting requirements	(3)
	Banks and exchange traded funds	(51)
	Total deletions	(71)
Total sample		107

Note: Table 1 provides a breakdown of the sample selection process.

3 | RESEARCH METHOD

3.1 | Sample

Our sample is based on all companies listed on New Zealand's Exchange (NZX) (178 firms in total). The implementation of FRS 44 in New Zealand requires firms to report under the FRS 44 requirements for financial years ending on or after 30 September 2020. Therefore, companies with a 31 March 2020, or 30 June 2020 financial year-end would prepare their 2020 financial statements in a pre-FRS 44 regime. For these firms, the 2021 financial statements will represent the first post-adoption financial year.⁷ However, for a minority of companies with a financial year end of 30 September 2020 or 31 December 2020 (17 out of 107 companies), 2019 is the pre-adoption year, and 2020 is the first post adoption year. Therefore, our sample is drawn from 2019 to 2021. We remove companies without available annual reports in both the pre- (14 firms) and post- (three firms) year for the FRS 44 amendment. As FRS 44 is domestic GAAP, we remove companies following non-New Zealand equivalents to IFRS (three firms). We also remove banks and exchange-traded funds due to different operating characteristics (51 firms). This results in a sample of 107 unique firms, and 214 firm-year observations spread from 2019 to 2021. Our sample selection process is shown in Table 1.

3.2 | Regression models

Our analysis uses a regression model to estimate audit effort with determinants drawn from prior literature (Hay et al., 2006). We employ a difference-in-differences approach to examine the effect of the FRS 44 amendments (*POST*) on financially distressed firms (*DISTRESS*). We specify the following regression model (time and firm subscripts omitted for convenience):

$$\begin{aligned}
 \ln AF \text{ or } LAG = & \beta_0 + \beta_1 DISTRESS + \beta_2 POST + \beta_3 POST * DISTRESS + \beta_4 \ln TA \\
 & + \beta_5 CURRENT + \beta_6 ARINV + \beta_7 TLTA + \beta_8 BSIZE + \beta_9 ACINDEP \\
 & + \beta_{10} CROSS + \beta_{11} BIG4 + \beta_{12} CITYCOST + \beta_{13} GCO \\
 & + \beta_{14} GCKAM + \beta_{15} GCMA + \epsilon.
 \end{aligned} \tag{1}$$

⁷ Early adoption of FRS 44 is not observed in our sample. As the effective date of FRS 44 is for accounting periods ending on or after 30 September 2020, and the exposure draft was circulated in June 2020 and was approved in August for there was limited time for firms to consider early adoption of the proposed rules.

TABLE 2 Variable definitions.

Dependent variables	
<i>GCO</i>	A binary variable that takes the value of 1 if the firm receives a going concern opinion, whether qualified or an emphasis of matter and 0 otherwise
<i>GCKAM</i>	A binary variable that takes the value of 1 if the firm discloses going concern risk as a key audit matter and 0 otherwise
<i>GCMA</i>	A binary variable that takes the value of 1 if the management made a disclosure of going concern risk and did not receive a <i>GCO</i> or a <i>GCKAM</i> and 0 otherwise
<i>Clean</i>	A binary variable that takes the value of 1 if the firm does not receive a <i>GCO</i> , <i>GCKAM</i> , or <i>GCMA</i> and 0 otherwise
<i>LnAF</i>	The natural logarithm of reported audit fees paid to the auditor of firm <i>i</i> in year <i>t</i>
<i>LAG</i>	The number of days between when the audit report is signed and the balance date
<i>DACC</i>	The total value of discretionary accruals measured from a pooled cross-sectional Modified Jones model
Independent variables	
<i>DISTRESS</i>	A binary variable that takes the value of 1 if either earnings before interest and tax or net cash flow from operations is negative, and 0 otherwise
<i>POST</i>	A binary variable that takes the value of 1 if the annual report is for the period ending on or after 30 September 2020, and 0 otherwise
<i>LnTA</i>	The natural logarithm of total assets
<i>CURRENT</i>	The ratio of current assets to current liabilities
<i>ARINV</i>	The ratio of accounts receivables and inventories to total assets
<i>TLTA</i>	The ratio of total liabilities to total assets
<i>BSIZE</i>	The number of directors on the board
<i>ACINDEP</i>	The percentage of independent directors on the audit committee
<i>CROSS</i>	A binary variable that takes the value of 1 for cross-listed companies, and 0 otherwise
<i>BIG4</i>	A binary variable that takes the value of 1 if the auditor is Deloitte, Ernst and Young, KPMG or PwC, and 0 otherwise
<i>CITYCOST</i>	A binary variable that takes the value of 1 if the audit was based in Auckland and 0 otherwise
<i>PRIORGCO</i>	A binary variable that takes the value of 1 if a going concern opinion was given, whether qualified or an emphasis of matter in the prior year and 0 otherwise
<i>PRIORGCKAM</i>	A binary variable that takes the value of 1 if going concern risk was a key audit matter in the prior year and 0 otherwise
<i>PRIORGCMA</i>	A binary variable that takes the value of 1 if management made a disclosure of going concern risk and did not receive a <i>GCO</i> or a <i>GCKAM</i> in the prior year and 0 otherwise
<i>PRIORCLEAN</i>	A binary variable that takes the value of 1 if a clean opinion was given in the prior year, and 0 otherwise
<i>ANYGC</i>	A binary variable that takes the value of 1 if any of <i>GCO</i> , <i>GCKAM</i> or <i>GCMA</i> equal one and 0 otherwise
<i>ANYPRIORGC</i>	A binary variable that takes the value of 1 if any of <i>PRIORGCO</i> , <i>PRIORGCKAM</i> or <i>PRIORGCMA</i> equal one in the prior year and 0 otherwise

All variables are defined in Table 2.⁸ First, we specify *LnAF* as the dependent variable which measures the natural logarithm of reported audit fees. Next, we specify the dependent variable as *LAG*, measured as the time in days between when the audit report is signed and the

⁸ We Winsorise all variables at 1% and 99%, respectively, to remove the effect of outliers.

balance date. Our variables of interest are *DISTRESS*, a binary variable equal to one if the company reported negative earnings before interest or tax or has negative cash flow from operations in the current period (Ye et al., 2011) and *POST*, a binary variable equal to one for the period ending on or after 30 September 2020 (i.e., after the FRS 44 amendment). The interaction variable *POST***DISTRESS* indicates whether audit fees changed after the FRS 44 amendment for distressed firms.

We select our control variables based on prior literature. In a meta-analysis of published studies, Hay et al. (2006) find that client size is the most important determinant of audit effort; thus, we expect a positive sign on *LnTA*. Client risk and complexity are associated with higher audit effort (Dickins et al., 2008; Simunic, 1980); therefore, we expect a negative (positive) association between audit fees and *CURRENT* and *ARINV* (*TLTA*). We also include board size and audit committee independence to control for any relationship between governance and audit effort (Griffin et al., 2008, 2009; Hay et al., 2008). *CROSS* controls whether the company is also listed on the Australian Securities Exchange (Choi et al., 2009; Higgins et al., 2016). Next, we control for the effect of any *BIG4* effect (Ferguson & Scott, 2014; Hay et al., 2006; Simunic, 1980).⁹ We also control for whether the audit is conducted in a higher cost city (*CITYCOST*) (Chan et al., 1993). Last, we control for any going concern issues. *GCO* is equal to one if the company has a going concern opinion (whether qualified or material uncertainty), zero otherwise; *GCKAM* is equal to one if going concern risk was listed as a key audit matter, and zero otherwise; and *GCMA* is equal to one if there is a managerial assessment of going concern risk disclosed and the company did not receive a *GCO* or *GCKAM*, and zero otherwise.

4 | RESULTS

4.1 | Going concern summary statistics

Table 3, Panel A provides evidence on the prevalence and nature of different types of going concern risk disclosures before and after the FRS 44 amendments. We classify an observation as a *GCMA* when there is a *GCMA* and no *GCO* or *GCKAM*. This allows us to focus on the incremental information content of disclosing a *GCMA*. We find that *GCMA*s are more common than *GCO*s or *GCKAM*s across our full sample and in each year.¹⁰

Table 3, Panel B displays the frequency of the prior year's going concern risk for each going concern risk category. Specifically, the sample contains 163 *Clean* observations, of which 152 (94%) received a *Clean* opinion in the prior year. Interestingly, of the clean firms, eight (5%) had received a *GCMA* in the prior year, two (1%) had received a *GCKAM* in the prior year, and only one (0.5%) had received a *GCO* in the prior year. Of the 17 *GCO*s reported in the full sample, 15 (88%) received a *GCO* in the previous year. Only one observation (6%) showed a firm changing from either *GCMA* or *Clean* to a *GCO* observation, and there were no observations of a firm changing from a *GCKAM* to a *GCO*.

There is a lower degree of stickiness in *GCKAM*s and *GCMA*s. Of the nine reported *GCKAM*s, four (45%) had received either a *GCKAM* or a *Clean* opinion previously, and only one (10%) had a prior *GCO*. In the sample of 25 *GCMA* observations, nine (36%) received a *GCMA* in the previous year. Similarly, nine (36%) observations had a *Clean* opinion previously, four (16%) had a prior *GCO*, and three (12%) had a prior *GCKAM*. Overall, based on

⁹ We do not control for change in audit firms as there are very few observations where the audit firm changed.

¹⁰ In unreported tests of significance, there are no significant differences in the reporting frequency of any going concern disclosure post-FRS 44. This contrasts with US evidence in Bakarich and Baranek (2020); the different findings may be driven by the pre-existing requirement in New Zealand to report managerial assessments of going concern.

TABLE 3 The frequency of going concern disclosure types.

Panel A: Frequency of going concern disclosures								
	Full sample (N = 214)		Pre-FRS 44 (N = 107)		Post-FRS 44 (N = 107)			
	<i>N</i>	%	<i>N</i>	%	<i>N</i>	%		
<i>Clean</i>	163	77	79	74	84	79		
<i>GCO</i>	17	8	10	9	7	7		
<i>GCKAM</i>	9	4	6	5	3	3		
<i>GCMA</i>	25	11	12	12	13	11		

Panel B: Frequency of prior year going concern disclosures								
	<i>Clean</i> (N = 163)		<i>GCO</i> (N = 17)		<i>GCKAM</i> (N = 9)		<i>GCMA</i> (N = 25)	
	<i>N</i>	%	<i>N</i>	%	<i>N</i>	%	<i>N</i>	%
<i>PriorClean</i>	152	94	1	6	4	45	9	36
<i>PriorGCO</i>	1	0	15	88	1	10	4	16
<i>PriorGCKAM</i>	2	1	0	0	4	45	3	12
<i>PriorGCMA</i>	8	5	1	6	0	0	9	36

Note: Panel A reports frequencies of different going concern disclosure types. Panel B presents frequencies on different going concern disclosures in the prior year ($t - 1$).

Table 3, we conclude that GCMA do not predict a future GCO or GCKAM, that is, the material uncertainty that is being disclosed by management does not necessarily eventuate. This illustrates the potential benefit of GCMA reporting to be utilised to disclose a lower level of going concern risk than that contained in the audit report.

We provide evidence of the content of managerial assessments of going concern risk in Table 4. We hand collect each disclosure from the notes and code the information provided following Bradbury et al. (2022) and report frequencies for all going concern disclosure types in the pre- and post-FRS 44 setting. Panel A of Table 4 provides data on the indicators of going concern uncertainty. Post-FRS 44, there has been an increase in the disclosure of uncertainty surrounding financial indicators, and particularly: profitability (43%–52%), cashflow (50%–70%), and working capital (7%–17%). The largest increase seems to be cashflow for GCMA observations (36%–77%).

Panel B of Table 4 provides information regarding management's plans to offset going concern risks. There has been an increase in the disclosure of operational details post-FRS 44 in cutting expenses (46%–74%) but a decrease in debt funding (46%–17%). Despite FRS 44 noting that disclosure of events or conditions where there is material uncertainty, disclosures do not typically include either general or conditional sensitivity analysis (see Figure 1 for an example). However, FRS 44 also requires information about management's plans. This may not have increased due to uncertainty around management plans or a view that FRS 44 emphasises the current conditions that give rise to the uncertainty. They typically provide less information than might be found in management discussion and analysis and are kept general, such as 'implement cost savings'. Thus, the disclosure of this information may also be viewed as provided in management commentary. There is a large increase in directors expressing confidence in the company's ability to continue as a going concern post-FRS 44, driven by GCMA observations increasing from 36% to 77%.

TABLE 4 Management assessment of going concern disclosure classification.

	ANYGC=1		GCO=1		GCKAM=1		GCM=1							
	Pre-FRS 44	Post-FRS 44	Pre-FRS 44	Post-FRS 44	Pre-FRS 44	Post-FRS 44	Pre-FRS 44	Post-FRS 44						
	N	%	N	%	N	%	N	%						
Panel A: Disclosure of uncertainty														
Disclosure of loss in the most recent fiscal year, revenue and expenses or other operating results, or working capital issues relating to the current situation (CP Loss)	12	43	12	52	7	70	2	40	1	33	3	27	5	38
Disclosures mentioned current cash position, cashflow from operating activities, cashflow from investing activities or cash reserves (CP Cashflow)	14	50	16	70	8	80	2	40	1	33	4	36	10	77
Discussion of working capital	2	7	4	17	1	10	0	0	0	0	1	9	3	23
Discussion of net assets	9	32	9	39	6	60	0	0	1	33	3	27	3	23
COVID-19 mentioned in the discussion of the current position (CP Covid)	18	64	15	65	7	70	2	40	3	100	9	82	6	46
Panel B: Disclosures of rectification plans														
Operational (SP Operational)	20	71	9	39	6	60	5	100	3	100	9	82	3	23
Operational – increase revenue	11	39	9	39	3	30	3	60	2	67	5	45	3	23
Operational – cut expenses	13	46	17	74	6	60	2	40	3	100	5	45	9	69
Additional funding (SP funding)	20	71	8	35	8	80	3	60	3	100	9	82	2	15
Funding – raising additional capital, equity	13	46	10	43	6	60	1	20	2	67	6	55	7	54
Funding – new debt or reorganising existing debt	13	46	4	17	4	40	2	25	1	33	7	64	1	8
Asset sales (SP Asset Sales)	2	7	12	52	2	20	0	0	1	33	0	0	4	31

(Continues)

TABLE 4 (Continued)

	ANYGC=1		GCO=1		GCKAM=1		GCOMA=1											
	Pre-FRS 44	Post-FRS 44	Pre-FRS 44	Post-FRS 44	Pre-FRS 44	Post-FRS 44	Pre-FRS 44	Post-FRS 44										
	N	%	N	%	N	%	N	%										
COVID-19 mentioned in any part of the plans or assumptions for the upcoming year (SP Covid)	18	64	20	87	7	70	5	63	3	60	3	100	8	73	10	77		
Panel C: Other disclosures																		
Other discussion (SP Other)	26	93	12	52	9	90	8	100	5	100	5	100	3	100	12	109	5	38
Mention of directors' considerations or confidence in the firm being able to continue as a going concern	12	43	16	70	6	60	5	63	2	40	2	67	4	36	10	77		

Note: This table follows Bradbury et al. (2022) categorising going concern disclosures pre- and post-FRS 44.

4.2 | Descriptive and univariate statistics

Table 5 Panel A shows sample descriptive statistics. Consistent with using the whole population of NZX companies, there is a large variation from multinationals to micro-caps, as shown by the range in company size (*LnTA*). As per NZX corporate governance recommendations, the median board size (*BSIZE*) is six, and the median audit committee is fully independent (*ACINDEP*). The New Zealand audit market is dominated by the Big 4 (*BIG4*) with a 79% market share and by Auckland (*CITYCOST*) offices (70%). Companies categorised as in distress (*DISTRESS*) represent 22% of the sample.

In Panel B, we report mean differences between sample descriptive statistics across the *POST*, *GCO*, *GCKAM*, and *GCMA* categories. Audit lag (*LAG*) is the only variable that has significantly changed post-FRS 44, with a decrease of over 8 days. This may be driven by the pre-year being the more COVID impacted year in our sample, with lockdowns during the busy season increasing audit lags (Hay et al., 2021).

As expected, there are fundamental differences in the financial characteristics of *GCO* and non-*GCO* observations. *GCO* companies have lower audit fees (*LnAF*) but a longer audit lag (*LAG*), lower discretionary accruals (*DACC*), fewer total assets (*LnTA*), higher leverage (*TLTA*), smaller boards (*BSIZE*), fewer independent audit committees (*ACINDEP*), and are less likely to be audited by a Big 4 auditor (*BIG4*) or cross-listed (*CROSS*). *GCKAM* companies have higher accounts receivable and inventory levels (*ARINV*) and leverage (*TLTA*), whilst *GCMA* companies have longer audit lags (*LAG*), are smaller (*LnTA*), have higher current ratios (*CURRENT*), smaller boards (*BSIZE*), but more independent audit committees (*ACINDEP*), and are less likely to be audited by a Big 4 auditor (*BIG4*) or be based outside of Auckland (*CITYCOST*). *GCO*, *GCKAM*, and *GCMA* are all more likely to be in financial distress than other observations.

There is extensive literature examining the determinants of *GCO* issuance, with Carson et al. (2013) noting the significance of ‘financial statement items including profitability, leverage, liquidity, company size, debt defaults, and prior *GCO*’ (p. 357).¹¹ Besides *GCO*, *GCKAM*, and *GCMA* observations all being more likely to be in financial distress than other observations, there is no other consistent similarity between the three categories of going concern type. However, standard-setter guidance suggests that *KAMs* can be appropriate for ‘close calls’, and provides flow charts suggesting that *MURGC*, *KAM*, and *GCMA* consider this decision in sequence (IAASB, 2022). This univariate evidence, when jointly interpreted with our summary statistics on trends in going concern reporting, highlights that a *GCMA* does not lead to a *GCKAM* or *GCO*.

4.3 | Consequences of FRS 44 amendments

Table 6, Panel A presents the results of audit fee regressions. Our models have an adjusted R^2 of 68%, just below the lower end of a range that audit fee research normally achieves (Hay, 2013). We first run the regression without any going concern variables and find no evidence of a change in audit fees post-FRS 44 (*POST*) after controlling for other factors. Consistent with our expectations, we find lower audit fees for financially distressed companies after the FRS 44 amendment, as shown by the significant negative coefficient on *POST*DISTRESS*. The results are consistent in model (2) when we include *GCO*. We note that in other studies covering the same time period, there is evidence of an increase in audit fees post-COVID-19 (Hossain & Monroe, 2022). However, *POST* is insignificant in our study, likely as it does not directly map to a pre- and post-COVID setting.

¹¹ The same determinants are examined in research using NZ data (Van Peursem & Pratt, 2002).

TABLE 5 Sample descriptive statistics.

Panel A: Sample statistics					
	Mean	Median	Std. dev.	Min.	Max.
<i>LnAF</i>	5.51	5.54	0.90	3.53	7.75
<i>LAG</i>	64.40	57.00	22.19	38.00	148.00
<i>DACC</i>	0.00	0.00	0.07	-0.29	0.23
<i>LnTA</i>	19.56	19.66	2.09	14.58	22.98
<i>CURRENT</i>	2.62	1.29	4.14	0.13	25.58
<i>ARINV</i>	0.17	0.12	0.17	0.00	0.71
<i>TLTA</i>	0.48	0.49	0.23	0.02	1.12
<i>BSIZE</i>	5.91	6.00	1.34	3.00	9.00
<i>ACINDEP</i>	84.00	100.00	18.93	20.00	100.00
	<i>N</i>	%			
<i>DISTRESS</i>	47	22%			
<i>CROSS</i>	68	32%			
<i>BIG4</i>	168	79%			
<i>CITYCOST</i>	149	70%			

Panel B: Univariate analysis								
	<i>POST = 1 - POST = 0</i>		<i>GCO = 1 - GCO = 0</i>		<i>GCKAM = 1 - GCKAM = 0</i>		<i>GCMA = 1 - GCMA = 0</i>	
	Mean diff.	<i>t</i> -stat	Mean diff.	<i>t</i> -stat	Mean diff.	<i>t</i> -stat	Mean diff.	<i>t</i> -stat
<i>LnAF</i>	0.08	0.61	-1.16	-5.42***	0.23	0.68	-0.31	-1.61
<i>LAG</i>	-8.28	-2.77***	37.96	7.50***	8.55	1.27	12.33	2.29**
<i>DACC</i>	0.01	1.19	-0.13	-3.72***	0.04	0.68	0.00	0.00
<i>LnTA</i>	0.12	0.42	-3.25	-6.80***	-0.65	-0.87	-1.34	-3.34***
<i>CURRENT</i>	-0.10	-0.19	-1.33	-1.27	1.35	0.96	2.65	3.06***
<i>ARINV</i>	-0.01	-0.25	-0.05	-1.12	0.17	2.99***	-0.03	-0.80

TABLE 5 (Continued)

	<i>POST=1 - POST=0</i>		<i>GCO=1 - GCO=0</i>		<i>GCKAM=1 - GCKAM=0</i>		<i>GCMA=1 - GCMA=0</i>	
	Mean diff.	<i>t</i> -stat	Mean diff.	<i>t</i> -stat	Mean diff.	<i>t</i> -stat	Mean diff.	<i>t</i> -stat
<i>TLTA</i>	-0.03	-1.00	0.13	2.19***	0.19	3.34***	-0.07	-1.35
<i>BSIZE</i>	-0.09	-0.51	-1.11	-3.37***	-0.13	-0.24	-0.80	-3.19***
<i>ACINDEP</i>	0.26	0.10	-17.32	-3.14***	-1.62	-0.18	8.15	2.04**
	<i>POST=0 (%)</i>	<i>POST=1 (%)</i>	<i>GCO=0 (%)</i>	<i>GCO=1 (%)</i>	<i>GCKAM=0 (%)</i>	<i>GCKAM=1 (%)</i>	<i>GCMA=0 (%)</i>	<i>GCMA=1 (%)</i>
<i>DISTRESS</i>	19	25	17	82***	21	44*	17	56***
<i>CROSS</i>	31	33	34	12*	32	22	30	44
<i>BIG4</i>	79	79	83	24***	79	78	80	64*
<i>CITYCOST</i>	68	71	71	59	69	89	68	84*

Note: Panel A reports descriptive statistics for the full sample of observations ($n=214$). Panel B reports Student *t*-tests of differences for continuous variables and chi-square tests of differences in proportions for binary variables. Two-tailed test of significance: *** <0.01 , ** <0.05 , and * <0.1 . Variables are as defined in Table 1.

TABLE 6 Regression analysis on consequences of FRS 44 amendments.

Panel A: Audit fees				
	(1)	(2)	(3)	(4)
Variables	<i>LnAF</i>	<i>LnAF</i>	<i>LnAF</i>	<i>LnAF</i>
<i>DISTRESS</i>	0.28* (1.87)	0.37** (2.37)	0.34** (2.08)	0.26* (1.63)
<i>POST</i>	0.11 (1.39)	0.11 (1.46)	0.12 (1.52)	0.10 (1.22)
<i>POSTDISTRESS</i>	-0.30* (-1.74)	-0.37** (-2.10)	-0.37** (-2.10)	-0.29* (-1.70)
<i>LnTA</i>	0.24*** (8.54)	0.23*** (8.05)	0.23*** (8.08)	0.25*** (8.41)
<i>CURRENT</i>	-0.02** (-2.11)	-0.03** (-2.50)	-0.03** (-2.53)	-0.02** (-2.01)
<i>ARINV</i>	1.34*** (5.99)	1.27*** (5.65)	1.27*** (5.53)	1.34*** (5.98)
<i>TLTA</i>	0.42** (2.33)	0.45** (2.49)	0.43** (2.35)	0.40** (2.20)
<i>BSIZE</i>	-0.00 (-0.10)	-0.00 (-0.07)	0.00 (0.05)	-0.00 (-0.05)
<i>ACINDEP</i>	-0.00 (-1.57)	-0.00* (-1.77)	-0.00* (-1.88)	-0.00 (-1.56)
<i>CROSS</i>	0.43*** (5.15)	0.42*** (5.13)	0.42*** (4.97)	0.42*** (4.95)
<i>BIG4</i>	0.46*** (4.03)	0.44*** (3.83)	0.43*** (3.77)	0.45*** (3.92)
<i>CITYCOST</i>	0.22*** (2.86)	0.20*** (2.66)	0.19** (2.49)	0.22*** (2.85)
<i>GCO</i>		-0.29* (-1.75)	-0.24 (-1.41)	
<i>GCKAM</i>			0.10 (0.52)	
<i>GCMA</i>			0.10 (0.82)	
<i>ANYGC</i>				-0.05 (-0.38)
<i>ANYPRIORG</i>				0.12 (0.99)
<i>Constant</i>	-0.03 (-0.06)	0.25 (0.48)	0.20 (0.39)	-0.20 (-0.38)
Observations	214	214	214	214
Adj. <i>R</i> -squared	0.68	0.69	0.68	0.68

TABLE 6 (Continued)

Panel B: Audit report lag				
	(1)	(2)	(3)	(4)
Variables	LAG	LAG	LAG	LAG
<i>DISTRESS</i>	14.56*** (2.90)	8.29 (1.59)	5.53 (1.04)	8.99* (1.73)
<i>POST</i>	-6.46** (-2.42)	-6.78*** (-2.61)	-6.36** (-2.46)	-5.15* (-1.96)
<i>POSTDISTRESS</i>	-10.93* (-1.88)	-6.44 (-1.11)	-6.71 (-1.17)	-9.42* (-1.66)
<i>LnTA</i>	-1.74* (-1.81)	-1.07 (-1.12)	-0.84 (-0.88)	-1.75* (-1.79)
<i>CURRENT</i>	-0.13 (-0.37)	0.18 (0.51)	0.16 (0.45)	-0.14 (-0.40)
<i>ARINV</i>	12.91* (1.70)	17.16** (2.30)	17.21** (2.30)	12.72* (1.73)
<i>TLTA</i>	5.82 (0.96)	3.95 (0.66)	3.31 (0.55)	4.47 (0.75)
<i>BSIZE</i>	-0.57 (-0.50)	-0.63 (-0.57)	-0.25 (-0.22)	-0.14 (-0.13)
<i>ACINDEP</i>	-0.12* (-1.72)	-0.09 (-1.35)	-0.11* (-1.73)	-0.14** (-2.14)
<i>CROSS</i>	4.95* (1.76)	5.22* (1.91)	4.40 (1.60)	4.68* (1.69)
<i>BIG4</i>	-19.69*** (-5.09)	-18.24*** (-4.81)	-18.35*** (-4.87)	-18.72*** (-4.96)
<i>CITYCOST</i>	6.37** (2.47)	7.34*** (2.90)	6.58*** (2.60)	5.51** (2.19)
<i>GCO</i>		18.96*** (3.46)	22.73*** (4.00)	
<i>GCKAM</i>			4.34 (0.71)	
<i>GCMA</i>			9.57** (2.33)	
<i>ANYGC</i>				15.05*** (3.74)
<i>ANYPRIORGC</i>				-6.82* (-1.71)
<i>Constant</i>	117.72*** (7.04)	99.70*** (5.83)	95.14*** (5.57)	116.59*** (6.74)
Observations	214	214	214	214
Adj. <i>R</i> -squared	0.42	0.45	0.46	0.45

(Continues)

TABLE 6 (Continued)

Panel C: Discretionary accruals				
	(1)	(2)	(3)	(4)
Variables	<i>DACC</i>	<i>DACC</i>	<i>DACC</i>	<i>DACC</i>
<i>DISTRESS</i>	-0.04 (-1.20)	-0.03 (-0.66)	-0.04 (-1.03)	-0.06 (-1.44)
<i>POST</i>	0.00 (0.06)	0.00 (0.10)	0.01 (0.26)	0.00 (0.04)
<i>POSTDISTRESS</i>	0.00 (0.01)	-0.01 (-0.29)	-0.01 (-0.30)	0.00 (0.09)
<i>LnTA</i>	0.02*** (3.65)	0.02*** (3.31)	0.02*** (3.42)	0.03*** (3.71)
<i>CURRENT</i>	0.01*** (3.44)	0.01*** (2.99)	0.01*** (2.84)	0.01*** (3.49)
<i>ARINV</i>	0.07 (1.32)	0.06 (1.08)	0.05 (0.85)	0.07 (1.31)
<i>TLTA</i>	-0.16*** (-3.63)	-0.15*** (-3.50)	-0.17*** (-3.78)	-0.16*** (-3.72)
<i>BSIZE</i>	0.00 (0.44)	0.00 (0.46)	0.00 (0.59)	0.00 (0.56)
<i>ACINDEP</i>	-0.00 (-0.51)	-0.00 (-0.66)	-0.00 (-0.81)	-0.00 (-0.60)
<i>CROSS</i>	-0.05** (-2.34)	-0.05** (-2.38)	-0.05** (-2.40)	-0.05** (-2.44)
<i>BIG4</i>	-0.06** (-2.25)	-0.07** (-2.39)	-0.07** (-2.52)	-0.06** (-2.25)
<i>CITYCOST</i>	-0.02 (-1.24)	-0.03 (-1.39)	-0.03 (-1.62)	-0.02 (-1.30)
<i>GCO</i>		-0.05 (-1.34)	-0.04 (-0.86)	
<i>GCKAM</i>			0.08* (1.75)	
<i>GCMA</i>			0.03 (0.92)	
<i>ANYGC</i>				0.01 (0.49)
<i>ANYPRIORGC</i>				0.01 (0.47)
<i>Constant</i>	-0.36*** (-2.99)	-0.31** (-2.45)	-0.31** (-2.48)	-0.39*** (-3.09)
Observations	214	214	214	214
Adj. <i>R</i> -squared	0.21	0.21	0.22	0.20

Note: Ordinary least square regression results on the natural logarithm of audit fees (*LnAF*), audit lag (*LAG*) and discretionary accruals (*DACC*) in Panels A, B and C, respectively. Other variables are defined in Table 2. Two-tailed test of significance are reported. ***<0.01, **<0.05, and *<0.1.

GCMA and *GCKAM* are not typically used in the audit fee literature; however, we augment model (2) with additional going concern variables. Model (3) reports these results and shows that the inclusion of additional going concern variables does not alter the main findings. As an alternative specification, in model (4) we control for the disclosure of any going concern risk (*GCO*, *GCKAM*, or *GCMA*) in the current (*ANYGC*) or previous year (*ANYPRIORGC*) and find similar results. Overall, the results presented in Table 6 support H1a and suggest that the companies most impacted by FRS 44, those who potentially face a going concern disclosure decision, benefit from lower audit fees. The audit fee reduction is likely driven by a reduction in auditor–client tension during the fraught going concern disclosure process. This result is consistent with the alignment of auditing and assurance standards leading managers to conduct further going concern assumption testing before the audit, reducing audit effort (Geiger et al., 2017). To be specific, given the mean audit fees in our sample is just under NZ\$250,000, the average audit fees post-FRS 44 for financial distressed firms decreased by 7.3% (NZ\$18,150) relative to non-distressed firms.¹²

Our control variables are broadly consistent with prior literature, with higher audit fees for larger, riskier companies and evidence of a Big 4 fee premium. As *GCMA* is a managerial disclosure rather than an audit outcome, the insignificant relationship with audit fees should be expected, despite its disclosure potentially decreasing audit litigation risk. One exception is that *GCO* is significantly negative in model (2). However, Hay et al. (2006) show that although it is more common to have a significantly positive coefficient, other prior studies do document significantly negative or non-significant coefficients.

To provide evidence on H1b, we next examine the impact on audit lag (*LAG*). Table 6 Panel B displays evidence of a significantly shorter audit lag post-FRS 44 (*POST*) across all models, consistent with our univariate results. There is some evidence of a further reduction in audit lag for the companies most impacted by FRS 44 as *POST*DISTRESS* is significantly negative at the 10% level of confidence in models (1) and (4). In line with our expectations that going concern disclosure is an area that increases audit effort and is fraught with tension between the client and the auditor, model (3) shows that firms receiving a *GCO* or reporting a *GCMA* are associated with significantly longer audit lag. Furthermore, in untabulated subsample results, the significantly positive coefficient on *GCMA* becomes insignificant in the post-FRS 44 period. This finding is consistent with Geiger et al. (2017) stating that firms who are unprepared to justify the appropriateness of their going concern assumptions to auditors often suffer delays in reporting. Thus, the alignment of accounting and auditing standards is likely to have resulted in clients being better prepared to provide auditors information surrounding going concern disclosure assumptions. We conclude that our audit lag analysis provides confirmatory support for reduced audit effort.

Building on Matkaluk (2023) who find an improvement in financial reporting quality after ASU 2014-15, we also consider whether there has been a change in financial reporting quality subsequent to FRS 44. We use discretionary accruals (*DACC*), which are calculated by the modified Jones model with a constant term, as the proxy for financial reporting quality (Kothari et al., 2015). Considering our small sample size, we follow Kabir et al. (2010) and estimate discretionary accruals as residuals from the pooled cross-sectional modified Jones model.¹³ We find no evidence of significantly different accruals for distressed companies

¹² We find that the average audit fee for financially distressed firms changed from NZ\$126,902 pre-FRS 44 to NZ\$145,047 post-FRS 44 (NZ\$18,145 increase), compared to a change from NZ\$275,296 to NZ\$311,591 for non-distressed firms (NZ\$36,295 increase). Thus, the audit fees post-FRS 44 for financial distressed firms decreased by almost NZ\$18,150 relative to non-distressed firms.

¹³ We also calculate discretionary accruals by using: (i) cross-sectional regressions requiring at least six observations in each sector-year combination; (ii) time-series regressions requiring at least 6 years' observations for each firm; and (iii) pooled regressions running over all sample (Subramanyam, 1996). These alternative estimations result in reduced samples and produce similar results.

(*DISTRESS*), in the post-FRS 44 period (*POST*), or for distressed companies post-FRS 44 (*POST*DISTRESS*). Thus, the amendment has no impact on financial reporting quality market-wide or for distressed companies. Our results may differ from Matkaluk (2023) as they use a more direct measure of financial reporting quality (restatements). Additionally, ASU 2014-15 resulted in a greater change in disclosure for firms, considering the lack guidance before its adoption. Furthermore, as we argue the main benefits of FRS 44 are to reduce the fraught conversation around the going concern assessment, lower audit fees from reduced auditor effort are consistent with unchanged financial reporting quality.

5 | CONCLUSION

Auditors are often criticised for failing to disclose companies' going concern risks in a timely manner. Reporting going concern risk in other channels is one of the regulatory responses to auditors' inaccurate reflection of the going concern risk. As a result of the COVID-19 pandemic in 2020, more specific going concern disclosure requirements were viewed as needed to provide relevant and transparent information to stakeholders. Thus, the NZASB issued an amendment to FRS 44 for more specific going concern disclosure requirements when material uncertainties exist, or significant judgements are made, aligning accounting standard requirements with auditing standards (XRB, 2020).

We examine the impact of FRS 44 on a sample of all NZX listed companies 1 year pre- and post-FRS 44. First, we find that audit fees are lower post-FRS 44 for companies in financial distress, our proxy for those likely making a going concern disclosure decision. We find some confirmatory evidence that this group of companies also has significantly shorter audit lags, but there is no change in discretionary accruals. This suggests that aligning the GCMA disclosure with the audit standards reduces auditor–client tension during the fraught going concern disclosure process, which is passed on in terms of lower audit fees. We conclude that the alignment of accounting and auditing standards disclosure requirements has value and should be added to the IASB work plan, consistent with local professional bodies' views (CA ANZ, 2020).

The NZ setting provides evidence of interest to global standard setters interested in another channel for disclosing going concern risk without the formal issuance of a GCO. Going concern risk disclosure has consistently received substantial media and regulator attention, and there have been calls for earlier identification with the Public Company Accounting Oversight Board (PCAOB, 2012), noting that 'going concern reports have failed to show up sufficiently early to warn investors'. One regulatory response to the problem of GCOs not providing a timely signal for investors is to require the disclosure of 'close-calls' through managerial assessments of going concern risks. A potential concern with our sample is that it does include the COVID-19 pandemic period. However, any effect of COVID-19 is limited by FRS 44, as it affects periods ending on or after 30 September 2020. This means that there are financial periods reflecting when the company was first impacted by COVID-19 in both the pre- and post-FRS 44 sample. We also use a difference-in-difference approach that partly reduces any potential endogeneity concern in the audit fee analysis by focusing on the post-FRS 44 effects on the most impacted group. If COVID-19 is argued to increase audit risk and effort (Hossain & Monroe, 2022), it would work against our result of lower audit fees for the most impacted firms. It is also unclear whether COVID-19 would affect the determinants of GCO, GCKAM, and GCMA differently. Another limitation of our study is the small sample size inherent in using New Zealand data which reduces our ability to conduct further statistical robustness tests. Future study is likely needed, including tests of market reactions to announcements when sample size increases.

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DATA AVAILABILITY STATEMENT

The data that supports the findings of this study are publicly available and can be sourced from the authors upon reasonable request.

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