

ASSESSMENT OF GOING CONCERN FOR THE ITALIAN LISTED COMPANIES: AN EMPIRICAL STUDY

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ABSTRACT

The research has a dual purpose. The first is to investigate the going concern assumption for Italian listed companies by analyzing the contents of audit reports issued by the independent auditors. We examined meeting the following criteria: a) all the companies listed on the Italian Stock Exchange; b) excluding foreign companies c) and included an auditor report on the 2012 consolidated financial statements. The results show that 80% of Italian listed companies have no issues related to business continuity. The remaining 20% showed significant problems. The second purpose is to analyze the trend of the going concern assumption for Italian listed companies. We compare going concern figures between 2009 and 2012.

JEL: M41, M42

KEYWORDS: Going Concern, Audit's Opinion

INTRODUCTION

The economic crisis affected has the entire world since 2008. The crises is ongoing in Italy. Emerging economies have slowed their growth. Mature economies have entered a downward spiral that led to a drastic deterioration of macroeconomic indicators. According to data published by ISTAT in 2012 (www.istat.it) among the major European economies, Italy has experienced the most pronounced GDP decline. The Italy decline in GDP of 6.3% compared to an average of around 3.5% in other European countries. The international economies, especially Asian countries, are able to cope better with the crisis despite a slowdown in the growth of their GDP. In this difficult economic environment it is essential that stakeholders receive accurate information from companies on their health status and their ability to continue the business and safeguard the going concern assumption. The problem of verifying existence of the assumption of going concern is particularly relevant in the current period. This holds true for both Italy and other nations. The standardization of accounting standards has allowed harmonization of the procedures for financial statement preparation. In this research, we analyze the going concern assumption as a fundamental principle in the provision of financial statements. We use the Going Concern Audit's Report of Italian listed companies to attest that many Italian listed companies have significant problems related to business continuity. Furthermore, a comparison over time between 2009 and 2012, using a research issued by Italian Chartered Accountants Association, suggests increasing problems and doubts related to business continuity. The remainder of the paper is organized as follows. The next section describes literature related to the scope of this research on the going concern assumption. Next we describe and discuss the data of analysis and in the final section provide some concluding comments.

LITERATURE REVIEW

The assumption of going concern has ancient origins. Only in recent years, due to the bad conditions of the world economy, has it become a hot topic. The first research on business continuity dates back to Laurance R. Dicksee (1892) and then to H. R. Hetfield (1909). Over the years, many studies were published that analyzed differences contained in the regulations of various countries for the assessment of

going concern. In particular, the research of J. E. Boritz (1991), R. D. Martin (2000), L. Collins (1992), A. Kausar, R.J. Taffler, C. Tan (2008), M. Ogneva, K. R. Subramanyam (2007) show that despite efforts made by international institutions, in an attempt to harmonize the standards, there are still substantial differences. Common standards for assessment of the going concern assumption in the U.S.A remain more methodological compared to other European countries including Germany, France and the United Kingdom.

Other authors Robinson D. (2008), K. Menon, D.D. Williams (2010), P.J. Carey, A. Marshall, G. and B.T.O' Connell (2008), G. Atkinson (2009), I. G. Basioudis, E. Papakonstantinou, M.A. Geinger (2007), highlight the relationships between the Going Concern Audit's Opinion and investors decisions. The going concern assumption is universally understood and accepted by accounting professionals, however it has never been formally incorporated into U.S GAAP. In 2011 after the publication of the FASB Exposure Draft on Going Concern Assumption emphasized the major management responsibility for business continuity. Some studies W. Hahn (2011), D. L. Lindberg (2011) have been published showing the update of the FASB is necessary because provisions on going concern for the U.S. GAPP are still too different than other international standards.

DATA AND METHODOLOGY

In the Italian system, the main standard rules relating to going concern are contained in: 1.) Civil Code, Article 2423-bis, 2.) OIC. No. 5 - Financial Statements for liquidation's company, 3.) No OIC.11 - Financial Statements, objectives and postulates, 4.) IAS 1 - Presentation of Financial Statements, 5.) Auditing Standard No. 570 - Going Concern, 6.) The Bank of Italy / Consob / Isvap 2 of 6 February 2009, 7.) Consob Communication no. 9012559 dated 6 February 2009.

Article 2423-bis of the Civil Code entitled "Basis of preparation of Financial Statements" states: "In preparing the financial statements, the following principles should be observed: the evaluation of the financial statement must be made prudently and in a going concern basis, as well as considering the economic function of the assets and liabilities;"

The OIC 5, entitled "Financial Statements for liquidation's company", in paragraph 7 defines a company in continuity ("going concern") as "company functioning and intended to continue the business for at least twelve months after the date of the balance sheet." The OIC 5, unlike the provisions set out under the Civil Code, defines a time-frame of 12 months referring to evaluate business continuity.

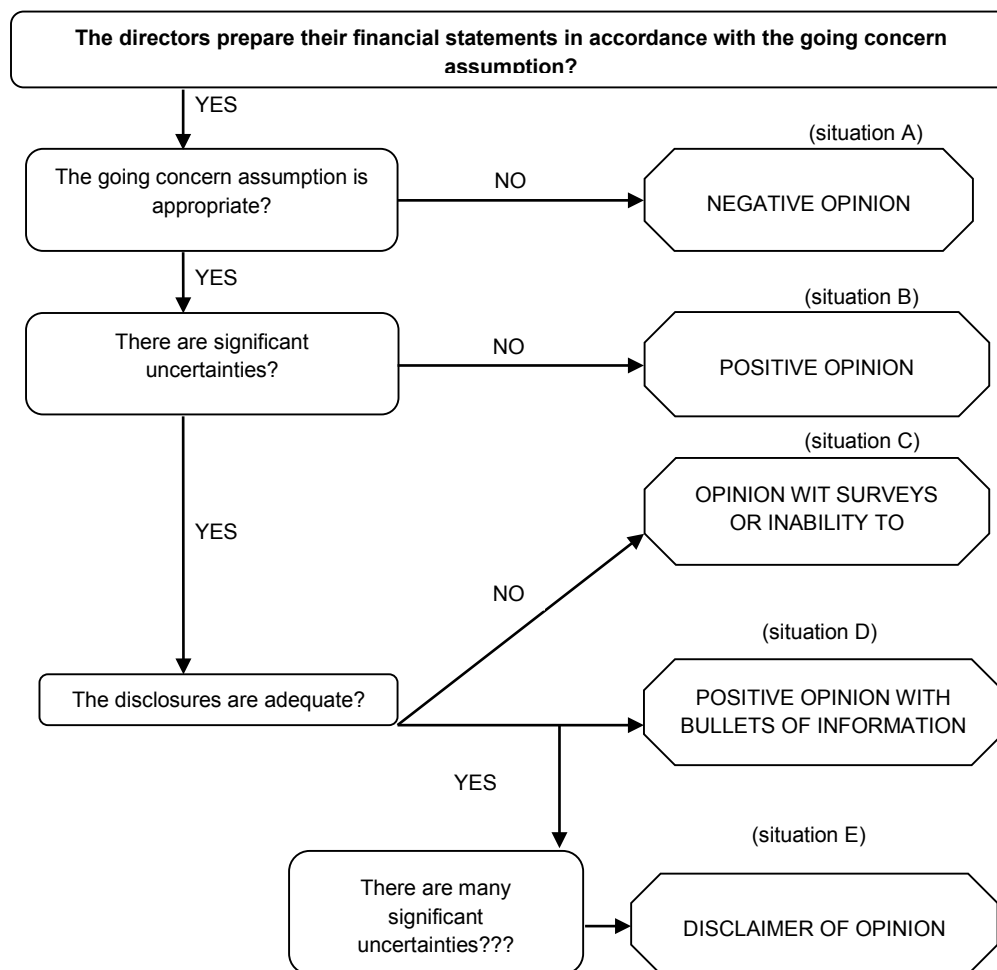
The OIC 11, entitled "Financial Statements - purpose and postulates," interprets and describes the main postulates and principles for annual financial statements, including the going concern assumption. Among the international accounting standards, there are numerous references to assumption of going concern. First, the principle of going concern is included in the IFRS Framework as an "underlying assumption" for the preparation of the financial statements. The theme is explored in IAS 1, Paragraphs 23 and 24 entitled "Presentation of Financial Statements." This document states: "In the process of preparing financial statements, management shall make an assessment of the entity's ability to continue as a going concern ..."

In estimating the assumption of a going concern, management takes into account all available information about the future, which must be at least, but not limited to, twelve months after the date of the financial statements. The grade of consideration depends on the circumstances related to each specific company. Three main considerations emerge by reading the paragraphs: a) In preparing the financial statements, management must assess whether conditions for the company to continue activities are present. These assumptions must be properly documented in financial reporting. b) The financial statements must be drawn up with a view to going concern. If financial statements are not prepared on a going concern basis, this fact shall be disclosed, together with the basis on which it was prepared and the reason why the entity is not

regarded a going concern. c) The period of twelve months is not to be considered a limit for the assessment of going concern, but as a minimum threshold of reference.

International auditing standards show certain uniformity on review of the principle of going concern. The ISA No. 570 Going Concern, led to a progressive homogeneity on topics covered and the procedures the audit must follow in its assessments. Review of the going concern basis was introduced and pursued by the Big Four. This made possible the homogenization of rules explained in the "guides" that auditors must follow. The purpose of ISA No. 570 is to establish standards and provide guidance on the auditor's responsibility for the correctness of the going concern assumption used as a basis for the preparation of financial statements. Based on considerations made by the directors with regard to going concern, the auditor expresses his opinions in the audit report on the financial statements. ISA 570, in the section "Conclusions of the review and drafting of the auditor's report," explains the different types of auditor's opinion which are summarized in Figure 1.

Figure 1: Auditor's Opinions on Going Concern Assumption



This figure shows the different audit opinions on Going Concern Assumption according ISA No. 570.

Analysis of situations that may occur. Situation A.) The auditor must describe the reasons why the use of the going concern assumption is not appropriate (Negative or Qualified Opinion). Situation B.) In this case no reference to business continuity will appear in the report (Positive or Unqualified Opinion). Situation C.) This hypothesis are planned and regulated by the Standard on Auditing 570 according to paragraphs 37

and 38,; "In certain circumstances [...] the auditor may find it necessary to ask management to make or extend its assessment. If management refuses, it is not the auditor's responsibility to correct the lack of such analysis. In this case, it may be appropriate for the auditor to issue a report with an opinion other than unqualified because it may not be possible to obtain sufficient and appropriate audit evidence about the correctness of the going concern basis in preparing the financial statements. In the absence of feedback from management, the auditor may not be able to assess the existence of events or circumstances that cast significant doubt about the going concern of the company, or the existence of plans to cope with such events or circumstances or to assess other mitigating factors. In these cases, the auditor should express a qualified opinion for limitations to the review process or declare the impossibility of expressing an opinion. If the refusal by management to make or extend the evaluation of going concern constitutes a deviation from the applicable financial reporting framework applicable to the financial statements, auditors should disclose this fact in its audit report in the same paragraph in describing the limitations to the review process. They should express a qualified opinion for limitations to the review process, or declare it impossible to make a judgment".

Situation D.) According to the auditor's opinion, there is a significant uncertainty, but the going concern assumption is considered appropriate. The auditor has verified the budget adequately describes main events and circumstances that raise doubts about the business continuity and management's plans to deal with such events. The budget also shows clearly that a material uncertainty exists related to events or conditions that raise significant going concern doubts and therefore the firm may not be able to realize its assets and discharge its liabilities in the normal course of business. The audit opinion will emphasize these aspects to attract the reader's attention. Situation E.) Regarding this circumstance, the Standard on Auditing, 570, paragraph 33, states: "When the going concern assumption is subject to multiple relevant uncertainties, the auditor may conclude, in extreme cases, not to be able to express an opinion on the financial statements."

In 2011, the ODCEC (Italian Association of Chartered Accountants) carried out research relating to the business continuity assumption of Italian listed companies. They analyzed the Audit's Report on financial statements dated 2009. In accordance with the standards, the requirement to assess whether an entity is a going concern should rest with the management team. Independent auditors must assess and analyze: 1.) The process followed by management in assessing business continuity, 2.) The assumptions underlying the process, 3.) Management's plans for future action. The auditor's responsibility is to obtain appropriate audit evidence about the appropriateness of management's use of going concern assumption in the preparation of the financial statement and to conclude whether there is uncertainty about the entity's ability to continue as a going concern. Each Audit's Report has been classified according to the five possible opinions 1.) Unqualified Opinion, 2.) Unqualified Opinion with Emphasis, 3.) Qualified opinion, 4.) Negative opinion, 5) Disclaimer opinion. The research results are summarized in Table 1.

Table 1: The Going Concern Italian Listed Companies Opinions Dated 2009

Opinion	Number	%
Unqualified Opinion	254	87%
Unqualified Opinion with Emphasis	24	8%
Qualified opinion	1	0%
Negative opinion	2	1%
Disclaimer opinion	9	3%
Not available	1	0%
Total	291	100%

This table shows results from 280 Italian listed companies in 2009. For 250 firms the going concern assumption is affirmed. For 37 firms there are concerns regarding going concern status.

We performed the same analysis on 2012 financial statement in order to allow a comparison over time between the two years. The research investigates Italian Stock Exchange listed companies including 272 listed companies in 2012, as reflected on the Italian stock exchange website (www.borsaitaliana.it). We

exclude foreign companies listed in Italy (for their exclusion we analyzed the registered office of the parent company). We include only one observation when there are multiple share listings for a single company. The sample was restricted to firms having Audit Reports.

RESULTS

From Table 2 we deduce a.) Some 200 companies have a fully unqualified opinion (74% of the total). b.) another 50 companies have an unqualified opinion with emphasis (18% of the total). This category can be further divided in two types: those with emphasis on the going concern assumption (35 companies, 13% of the total) and those with emphasis related to other topics (15 companies, 5% of the total). The companies with explicit emphasis on going concern assumption are shown in Table 3. Table 4 shows listed companies highlighted unqualified audit report with emphasis on other topics. Table 5 shows listed companies with highlighted disclaimer of opinion.

Table 2: The Going Concern Italian Listed Companies Opinions dated 2012

Opinion	Number	%
Unqualified Opinion	200	74%
Unqualified Opinion with emphasis	50	18%
Qualified opinion	0	0%
Negative opinion	0	0%
Disclaimer opinion	12	4%
Not available	10	4%
Total	272	100%

This table shows results of the analysis of 272 Auditors Reports to the Financial Statements dated 2012. For 200 companies listed there are problems of business continuity

For these companies, there are significant doubts about the entity’s ability to continue as a going concern for a reasonable time period, not to exceed one year beyond the date of financial statements being audited. In these cases, the external auditors have considered positively management views on the issue of going concern, inviting the stakeholders to consider carefully the section of financial statement where the topic is discussed.

Table 3: Listed Companies Highlighted Unqualified Audit Report with Emphasis on Going Concern

A.S. Roma	Eukedos	Mediacontech	Primi Sui Motori
Aedes	Fintel Energia Group	Molmed	Rcs Mediagroup
Bastogi Spa	Gabetti	Moviemax	Screen Service
Borgosesia	Hi Real	Nova Re	Sintesi
Brioschi	Imvest	Olidata	Snai
Cape Live	Industria E Innovazione	Pierrel	Stefanel
Ceramiche Ricchetti	Invest E Sviluppo	Pininfarina Spa	Telecom Italia Media
Chl	K.R.Energy	Pms	Tiscali
Cobra	Maire Tecnimont	Prelios	

The table shows the companies that according to Audit’s Opinion highlight doubts on going concern assumption

The topics on which to turn the requests for information are mainly: the related party transactions, ongoing litigation, changes in accounting standards compared with the previous year and assessment methods of fixed assets. For these companies according to the auditors there aren’t problems of business continuity.

c) The companies for which it has been notified the impossibility to express an opinion by auditors (Disclaimer of opinion) are 12, corresponding to the 4% of all companies analyzed.

For these companies there are “significant and substantial” evidence of events or conditions that may cast doubt on the entity’s ability to continue as a going concern. These situations led the auditor to express the impossibility an of audit opinion. For these companies the going concern assumption is seriously

compromised. d) For 10 companies, about 4% of the total, it was not been possible to obtain the Audit Opinion because financial statements dated 2012 are not available. Table 6 shows companies belonging to this category and the causes that didn't allow to obtain the audit's report.

Table 4: Listed Companies Highlighted Unqualified Audit Report with Emphasis on Other Topics

Acea	Falck Renewables	It Way
Acque Potabili	Fiera Milano	Mc-Link
Autostrade Meridionali	Finmeccanica	Prysmian
Banca Mps	First Capital	S.S. Lazio
Dea Capital	Impregilo	Vita Società Editoriale

The table shows the companies that according to the audit's reports highlight emphasis on other topics

Table 5: Listed Companies Highlighted Disclaimer of Opinion

Antichi Pellettieri	Dmail Group
Beghelli	Eems
Biancamano	lkf
Cdc	Pramac
Ciccolella	Uni Land
Cogeme Set	Zucchi Spa

The table shows the companies without an audit opinions

For Montefibre and Value Italian Holding we were not able to obtain the financial statement report. The documents appear neither on the company website nor on the Italian Stock Exchange website. We assume independent auditor's report is not positive. This hypothesis is strengthened by the fact that for previous annual reports the auditors communicated the impossibility of making an opinion. For research purposes we considered it appropriate to insert in the sample the companies just mentioned, as they were all operating and listed on the Italian Stock Exchange in the in 2012.

Table 6: Listed Companies without Audit Report Available

Aicon	bankrupt company dated 21/01/2013
Aion Renewables	bankrupt company dated 18/03/2013
Arena	creditors agreement procedure from 08/08/2012
Banca Popolare di Spoleto	extraordinary administration procedure from 12/02/2013
Crespi	liquidation procedure from 29/04/2013
Rdb	extraordinary procedure from 10/09/2012
Seat Pagine Gialle	creditors agreement procedure from il 28/06/2013
Sopaf	Liquidation procedure from 01/07/2013
Montefibre	Financial Statement not available either on the company's website or on the website of the Italian stock exchange
Valore Italia Holding Di Partecipazioni	Financial Statement not available either on the company's website or on the website of the Italian stock exchange

The table shows the companies without an Audit's Opinion and the reasons. The data show companies whose activities have been extraordinary procedures such as bankrupt, creditors arrangement or liquidation

CONCLUDING COMMENTS

Table 7 shows the results and temporal comparison between the two researches in absolute and relative terms. The number of listed companies on the Italian Stock Exchange has declined over the from 2009-2012. This shows that Italian companies are reluctant to list on the stock exchange. Changes in the number of listed companies in the three years considered, the comparisons will be made on the deviations. Audit Reports with unqualified opinion decreased of 10% while Audit Reports with unqualified opinion with emphasis increased by 10%. The results of ODCES research do not provide details related to unqualified opinions with emphasis if they refer to going concern or other aspects. We assume these two variations reflect a worsening of the situation of Italian listed companies on their business continuity. Another

significant negative aspect is the increase of companies without financial statements. We aggregated the data to obtain a single parameter analysis on going concern assumption as shown in Table 8.

Table 7: Final Aggregate on Going Concern Assumption

Opinion	2012	%	2009	%	Δ
Opinion unqualified	200	74%	254	87%	-14%
Opinion unqualified with emphasis	50	18%	24	8%	10%
Qualified opinion	0	0%	1	0%	0%
Negative opinion	0	0%	2	1%	-1%
Disclaimer opinion	12	4%	9	3%	1%
Not available	10	4%	1	0%	3%
Totale	272	100%	291	100%	

This table shows a comparison between the data for 2009 and 2012. Companies with Unqualified Opinion with emphasis are 50 in 2012 increased compared to those of 2009. The companies with Disclaimer Opinion and Without Opinion available in 2012 are increased compared to 2009 too.

The first group includes all companies with an unqualified opinion and with an unqualified opinion with emphasis related to other topics not related to the going concern assumption. The second category includes companies for which the auditors issued an unqualified opinion with emphasis on going concern. The third group includes companies for which the auditors manifested the impossibility to express an opinion because there are conditions and events that indicate substantial doubt about the entity’s ability to continue as a going concern. Finally, the fourth group includes the two companies that declared bankrupt (Aicon and Aion Renewables) and two in the process of liquidation (Crespi and SOPAF).

In conclusion we note that about 80 percent of Italian listed companies at the end of 2012 did not have business continuity problems, a deterioration compared to the 2009 data. Apparently the Italian economy situation is reflected the performance of listed companies.

Table 8: Final Aggregate on Going Concern Assumption

Categoria	Numero	%
Unqualified Opinion and Unqualified with Emphasis on other topics	215	79%
Opinion with Emphasis on going concern	35	13%
Significant and substantial doubt to the entity’s ability to continue as a going concern	18	7%
Companies gone out of business activities	4	1%
Totale	272	100%

The table shows the final aggregate on going concern assumption. Companies with problems on Going Concern assumption are 53 of which 35 with Opinion with emphasis on going concern and 18 with significant and substantial doubt to the entity’s ability to continue as a going concern

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