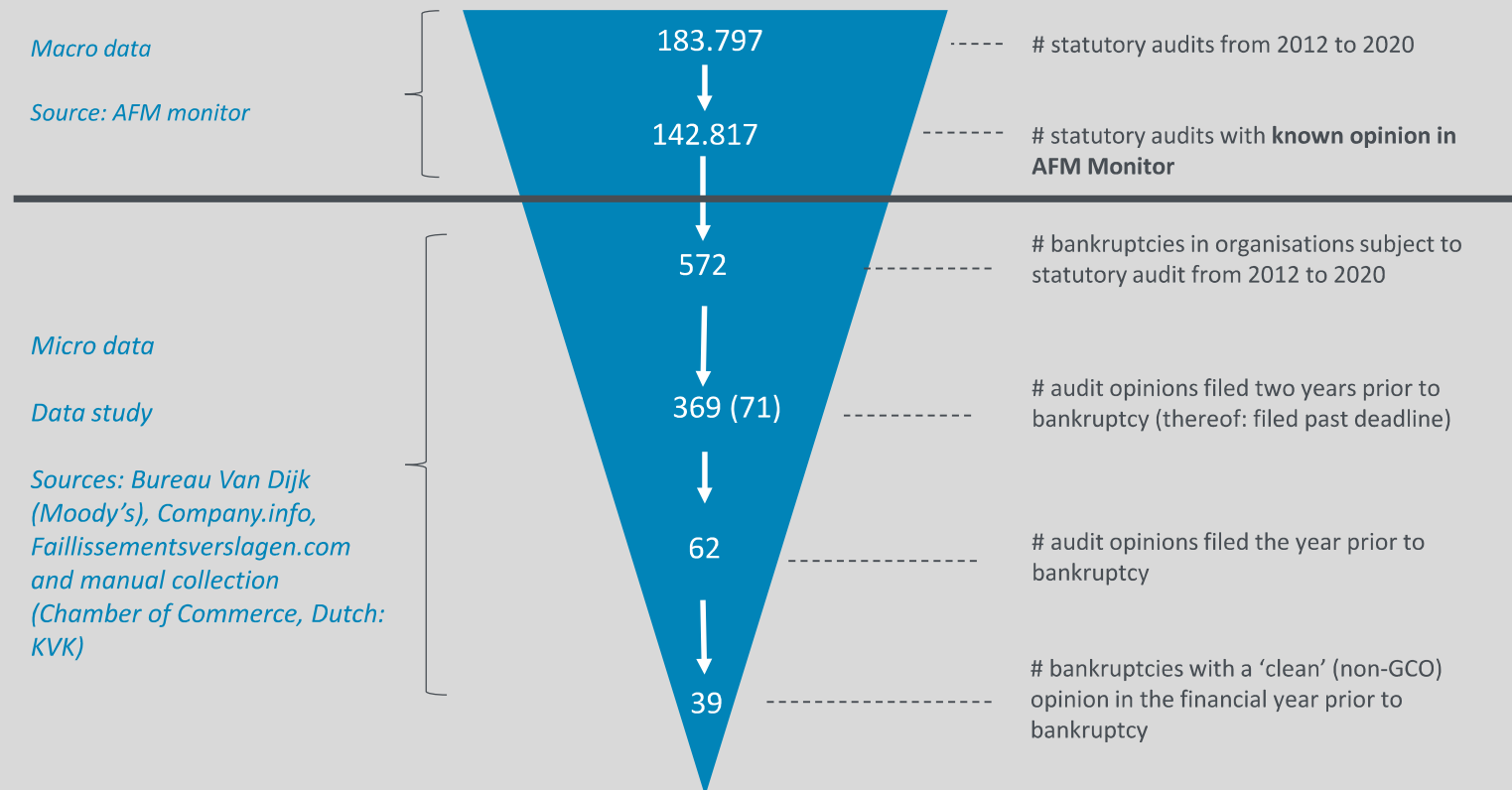


3. Data study FAR



Research method

Research Method: Statutory Audit Opinions issued in 2012-2020



Data study – filing

Figure 1: Filings of Financial Statements Three Years before Bankruptcy

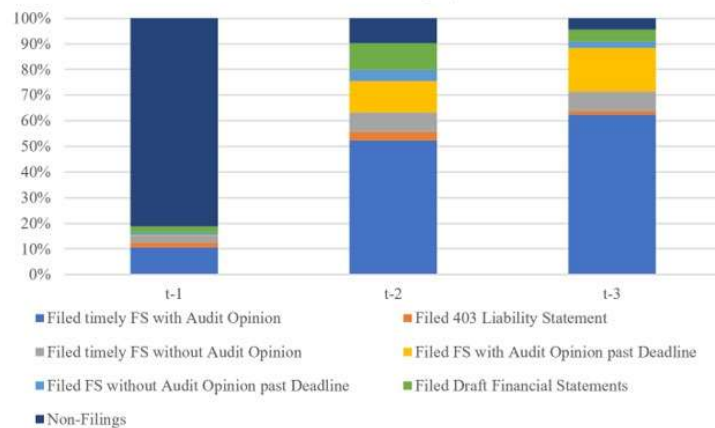


TABLE 3
Timely Filing of Audited Financial Statements

Years until Bankruptcy	t-1	t-2	t-3
Filed timely FS with audit Opinion	10.49%	52.45%	62.41%
Filed 403 Liability Statement	1.92%	3.15%	1.40%
Timely and complete Filings	12.41%	55.59%	63.81%
Filed FS with Audit Opinion past Deadline	0.35%	12.41%	17.13%
Filed timely FS without Audit Opinion	2.80%	7.52%	7.52%
Files FS without Audit Opinion past Deadline	0.70%	4.20%	2.45%
Filed Draft Financial Statements	2.45%	10.49%	4.72%
Non-Filings	81.29%	9.79%	4.37%
Overdue and/or incomplete Filings	87.59%	44.41%	36.19%



Data study – results (1)

- **Type of opinion in filed financial statements**

The majority of the **audit opinions** filed (11%, which means 62 out of 572 bankruptcies) are non-GCO (39) and also do not contain a voluntary disclosure relating to the going concern risk.

- **Timely filing of financial statements**

Only **12%** of the organisations file adopted and audited financial statements (11%) or a 403-statement (exemption through liability statement from the parent company at the trade register) (1%) in the year prior to bankruptcy; this percentage amounts to 56% (64%) for year two (three) prior to bankruptcy.

- **Contents of filed financial statements**

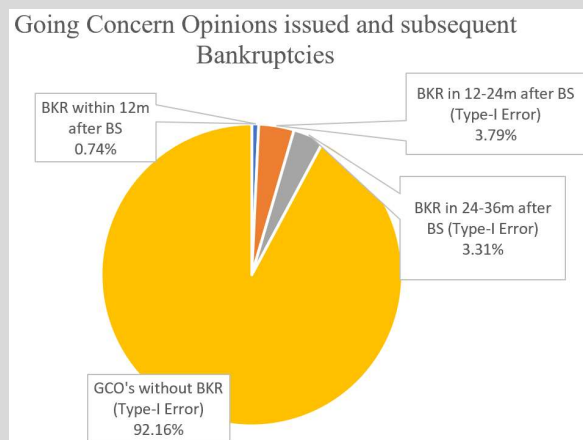
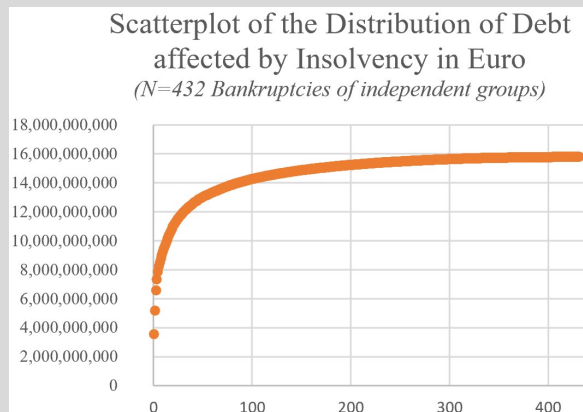
71% of filed financial statements prior to bankruptcy do not contain a **disclosure by management** of the going concern risk or situation.

- **Important limitation in the interpretation of the results**

The data study does not provide insights into the **causes** of the bankruptcies.



Data study – results (2)



Numbers are relative

A bankruptcy of an organisation subject to statutory audit is a relatively rare event (<0.3% of all statutory audits). However, a small number of large bankruptcies cause the largest debt affected by insolvencies (Pareto distribution). Please see Sheet 28 for the top 25 bankruptcies in The Netherlands in 2012-2020.

Self-fulfilling prophecy of GCO seems unlikely (macro level)

Auditors yearly include GCO's in 2.3% to 3.1% of statutory audit opinions. In 2020 auditors issued a record high of 10.6% GCO's in statutory audit opinions, mainly due to the Covid 19-crisis.

In **99.3%** (92.2%) of the cases in which a GCO was issued, **12** (36) months after balance sheet date the company **did not end up in bankruptcy**. In 23 cases in which a GCO was issued, bankruptcy proceedings were opened within 12 months after balance sheet date.



Data study – other observations (1)



Data quality and accessibility could be improved

- Extensive research into bankruptcies in the Netherlands was conducted in 2005, by the Hugo Sinzheimer Instituut (University of Amsterdam) and commissioned by the House of Representatives. The last research by the national statistical office (Statistics Netherlands) is from 2015. The involvement of auditors was barely featured. Hence, there is not much reliable data available concerning the involvement of auditors in bankruptcies in the Dutch context.
- Available data sources for bankruptcies are not easily accessible (Chamber of Commerce, www.rechtspraak.nl) and data is deleted from the insolvency register after six months.
- When a GCO is issued in XBRL format, this is not visible in the standard financial statement product that the Chamber of Commerce publishes and sells, but only in the original PDF / XBRL filing.
- If entities file financial statements in the years prior to their bankruptcy, these are with an average filing lag of 295 days relatively old and therefore less useful for financial statement users.



Data study – other observations (2)



Public role auditor and Chamber of Commerce could be optimised

- Filings of unaudited draft financial statements and insolvency reports show regularly, that the auditor has not issued an opinion due to going concern risks. Filing is not enforced by the Chamber of Commerce or the “Bureau Economische Handhaving” (part of the Dutch tax authorities), contrary to for example Germany. As a result, the data provision to the general public is not sufficient.
- In the opinions analysed, 14 opinions including Key Audit Matters were found (the Long Form Audit Reports). In 7 opinions, the Key Audit Matters contain the subject of going concern.
- For 16% of organisations going bankrupt, auditors issued a modified opinion. This can be either a qualified opinion, a disclaimer of opinion, or even an adverse opinion.



Summary data study

Main conclusions



Legal obligation to provide data not complied with by organisations in many cases

88% of organisations do not file adopted and audited financial statements or a 403-statement for the year prior to bankruptcy before the legal deadline. This percentage is 44% for two years before bankruptcy and 36% for year three.



Essential information provided by management is missing from financial statements

71% of filed financial statements in the year prior to bankruptcy do not contain a disclosure by management of the going concern risk or situation.



Audit opinion is missing from latest financial statements

In 88% of bankruptcies, the audit opinion is missing for the financial year prior to the year of bankruptcy. The majority of filed audit opinions are non-GCO and do not include a voluntary disclosure.

