Bankruptcies, Audit Reports, and the Reform Act

ABSTRACT

The Private Securities Litigation Reform Act (Reform Act) was enacted as law in 1995 and represents a major victory for the public accounting profession. Since audit reporting for publicly traded companies that enter bankruptcy continues to be of interest to legislators and the public, the Reform Act also includes audit reporting requirements regarding the auditor’s assessments of a company’s ability to continue as a going concern. This study examines the potential impact of the Reform Act on auditor reporting by examining audit reports for 383 bankrupt companies during the 1991-1998 period. The results indicate that, after controlling for financial stress, company size, default status, audit reporting lag and bankruptcy filing lag, auditors were less likely to have issued prior going-concern modified audit reports for bankrupt companies after the Reform Act.

Keywords: Private Securities Litigation Reform Act, Bankruptcy, Going-concern reporting.

Data Availability: Contact the authors.