Auditors’ going-concern opinion is important information/warning for investors. However, practitioners and PCAOB view false alarm (GCO Type I or Type II errors) inappropriate. Type II errors incur costs for investors. In addition, Type I errors are also concerned because issuing GCO raises a risk at client-side because of consequences from GCO itself. Subsequent to receiving GCOs, stock prices drop and cost of capital increases. The cost at client-side exacerbrates when self-fullfiling prophecy operates where GCOs cause bankruptcy because those prevent from raising capital.

GCOs are auditor judgment-based decisions, highly likely being influenced by auditors’ judgment bias. I examine machine-learning prediction of issuing GCOs based on hold-out sample learning from bankruptcy. Since machine-learning does not incorporate humane bias, I base machine-learning prediction as unbiased GCOs (i.e., unbiased prediction given all observable factors included). Then, using experimental sample, I compare machine-predicted GCOs with auditors’ GCOs.

I first examine whether Machine-learning based GCO issuance more accurate than audit firm’s GCO issuance.

Cases where both machine-learning and GCOs are inaccurate (i.e., incurring either type I errors or II errors) suggest that certain factors that are not incorporated in the model or events occurred. I further provide reasons for these legitmate errors and summarize events or factors that are missed. Although practitioners and researchers sometimes argue that some GCO errors are legitimate (meaning totally unpredictable when issuing audit opinions), less evidence is provided whether auditors’ bias or what legitimate events (i.e., unexpected) lead to errors

Using cases where machine-learning is more accurate than auditors, I examine which observable factors are over- or under-weighted by comparing each coefficients.

Research question 1 – Is Machine-learning based GCO issuance more accurate than audit firm’s GCO issuance.

Research question 2 – What are the legitimate reasons that incur errors?

Research question 3 – Which observable factor does auditors rely too much to make inaccurate GCOs? Where are auditors biased?