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# GOING CONCERNS

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A 20-YEAR REVIEW

Revised June 2024

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# INTRODUCTION

Accounting principles operate on the assumption that a company is defined as a **going concern** during the auditing process. This means that a company will continue to operate until a specified period of time.

The absence of significant information that can impact the company's operation of business is an indication of its continuation as a going concern.

Contrarily, the presence of information indicating that the company is unable to continue to meet its obligations is subject for further review.

The auditor has a responsibility to evaluate whether there is **substantial doubt** about the company's ability to continue as a going concern.

When there is substantial doubt about a company's ability to continue as a going concern, an audit firm will include an emphasis of matter in the audit report explaining why there is substantial doubt about the company's ability to continue. Opinions with this type of emphasis of matter are designated going concern opinions in this report.

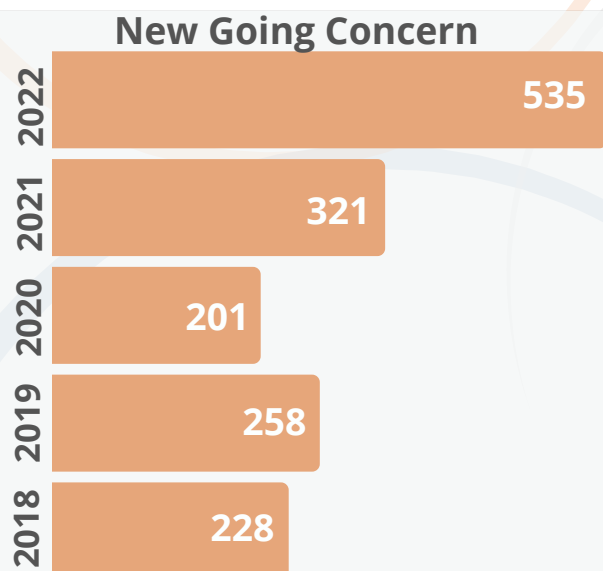
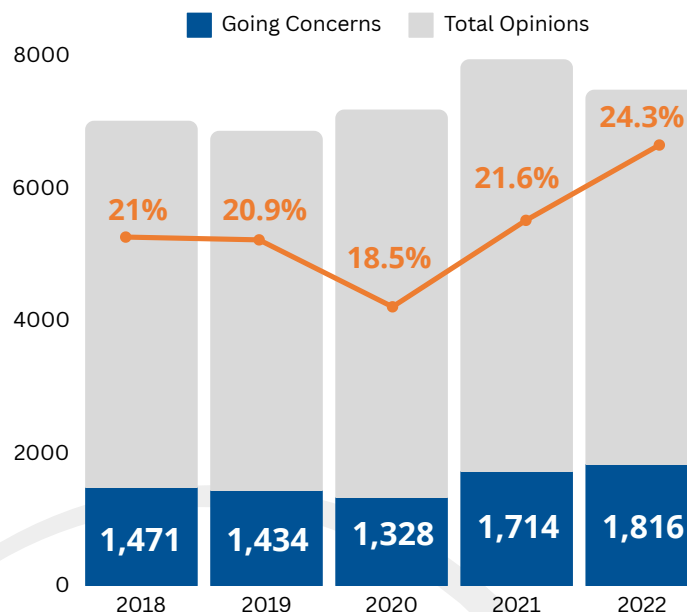
There is one key difference between the PCAOB determination of the conditions that warrant a going concern opinion and the IAASB determination of the conditions that warrant a going concern opinion. The PCAOB defines a period of time for considering a company's ability to continue as a going concern to *not exceed one year*. In comparison, the IAASB defines a period of time for considering a company's ability to continue as a going concern of *at least twelve months*.

Consequently, this allows auditors using the IAASB standards to issue going concern opinions based on evidence that would fall outside the scope of auditors using the PCAOB standards.



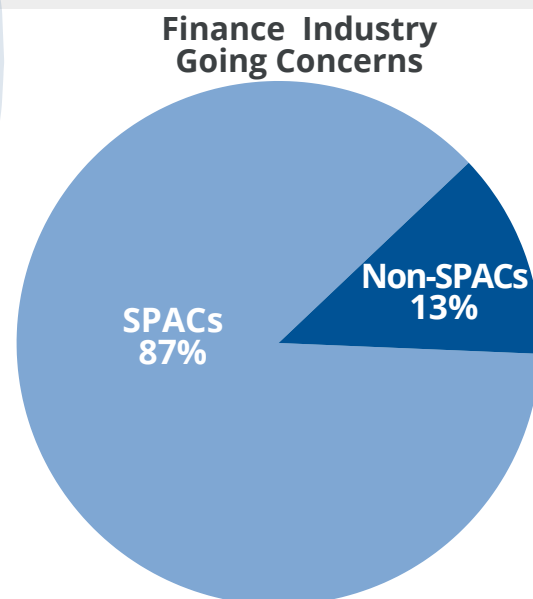
# EXECUTIVE SUMMARY

**Going concern opinions** grew to **24.3%** in FY2022 from 21.6% in FY2021, despite a decrease in total opinions issued.



The number of companies that received a **new going concern** in **FY2022** increased to **535**, the highest amount seen since FY2008.

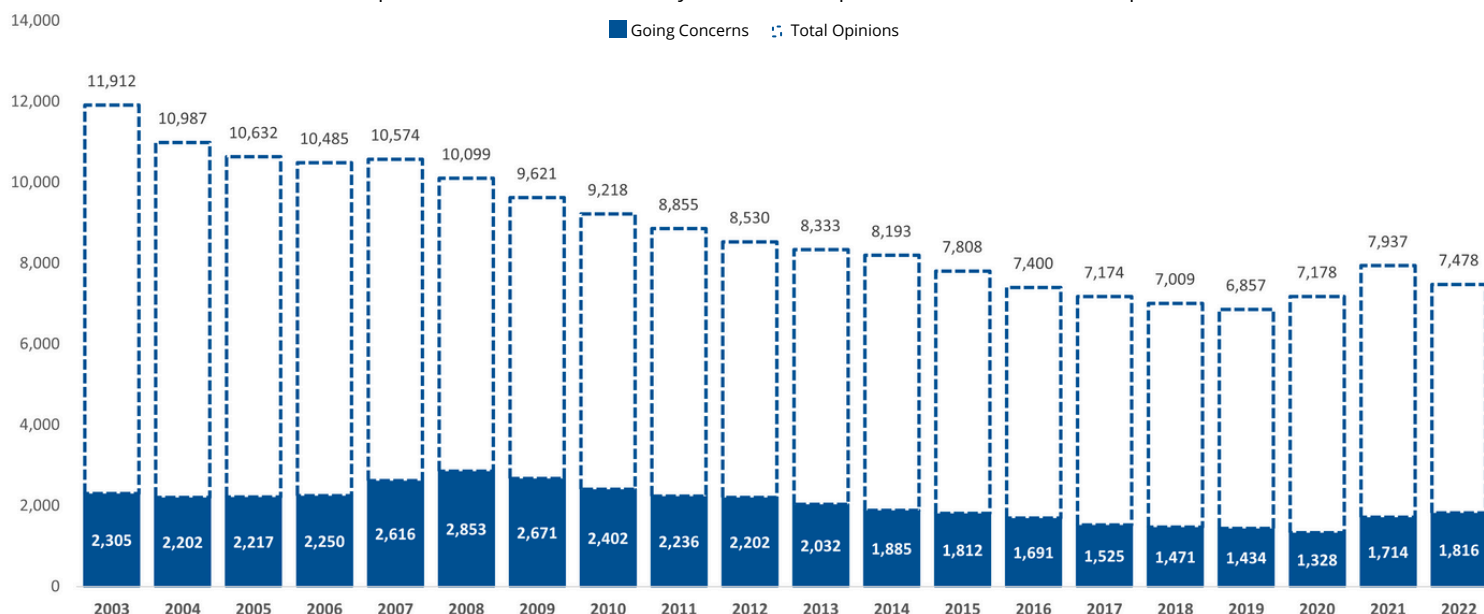
In FY2022, nearly 25% of Finance companies received a going concern opinion. Of which, **87%** were issued to **Special Purpose Acquisition Companies (SPACs)**.



# OVERVIEW

## Report Population

Population is based on the fiscal year end of companies that filed an annual report.

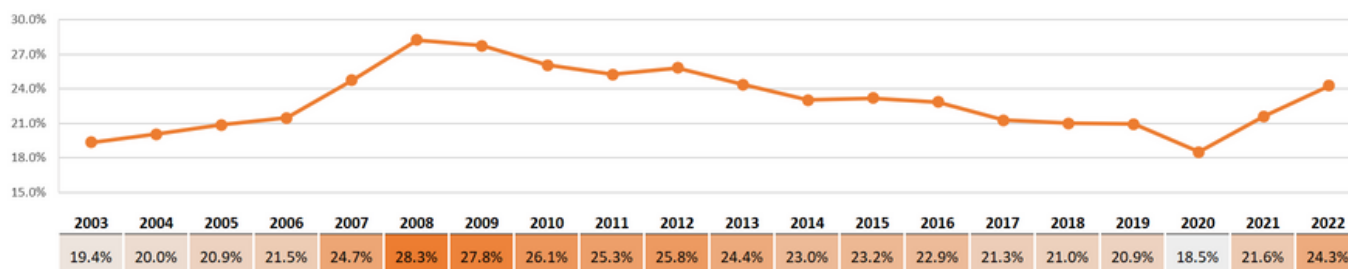


The number of companies that received a going concern opinion during fiscal year (FY) 2022 increased 6% from FY2021 to 1,816, similar to the number of going concerns seen in FY2015. The percentage of companies that received a going concern opinion during FY2022 was 24.3%, representing a 2.7 percentage point increase from FY2021.

Going concern opinions peaked at 2,853 in FY2008, during the height of the financial crisis. FY2008 also saw a high of 28.3% of companies that received a going concern opinion. Since then, both going concerns and total opinions have been steadily declining.

FY2020 saw an all time low in going concern opinions. This was followed by a spike in both total opinions and going concerns during FY2021. While the number of total opinions decreased by nearly 6% in FY2022, the number of going concerns continued to increase.

## Going Concern Rate

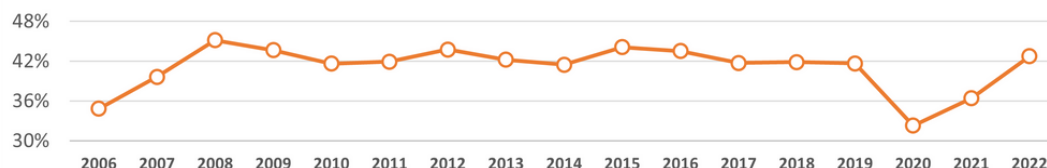


# COMPANY SIZE

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Non-Accelerated	34.8%	39.6%	45.1%	43.6%	41.6%	41.9%	43.8%	42.2%	41.5%	44.1%	43.5%	41.7%	41.9%	41.7%	32.3%	36.4%	42.7%
Accelerated	3.3%	3.7%	6.6%	3.3%	2.2%	3.0%	3.0%	2.5%	3.9%	4.4%	5.1%	4.8%	7.3%	8.3%	2.7%	3.6%	5.1%
Large Accelerated	0.2%	0.3%	1.2%	0.4%	0.1%	0.3%	0.3%	0.2%	0.2%	0.6%	0.6%	0.3%	0.3%	0.5%	0.4%	1.1%	0.7%

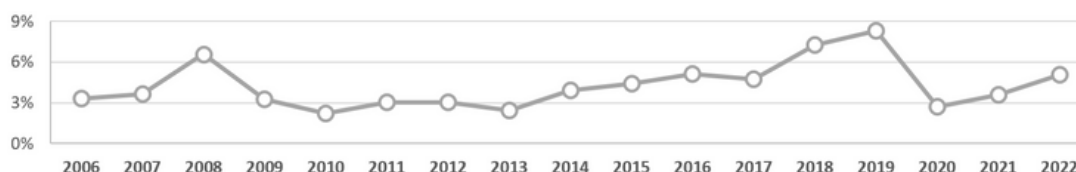
Non-accelerated filers have historically seen significantly higher going concern rates than larger companies. In FY2022, both non-accelerated and accelerated filers experienced an increase in going concern rates. However, non-accelerated filers saw an increase four times greater than accelerated filers. Conversely, the going concern rate for large accelerated filers saw a steep decline in FY2022.

## Non-Accelerated Filers



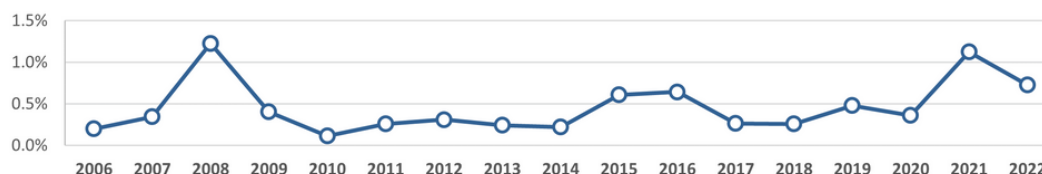
The number of non-accelerated filers that received a going concern opinion increased to 1,752 in FY2022, a 6% increase from FY2021. Conversely, the total number of non-accelerated filers that issued an annual report decreased by 10% in FY2022 to 4,100. These changes resulted in a 6.3 percentage point increase in the going concern rate for non-accelerated filers, reaching 42.7% in FY2022. This increase is the steepest seen over the last 20-year period.

## Accelerated Filers



The number of accelerated filers that received a going concern opinion in FY2022 increased to 46, up 59% from FY2021. Simultaneously, the total number of accelerated filers that issued an annual report increased by 12% in FY2022 to 905. These changes resulted in a 1.5 percentage point increase in the going concern rate for accelerated filers to 5.1% in FY2022.

## Large Accelerated Filers



Only 18 large accelerated filers received a going concern opinion in FY2022, decreasing 38% from FY2021. Additionally, the total number of large accelerated filers that issued an annual report decreased 4% in FY2022 to 2,472. These changes resulted in a 0.4 percentage point decrease in the going concern rate for large accelerated filers to 0.7% in FY2022. This is steepest decline seen since the decrease between FY2008 and FY2009.

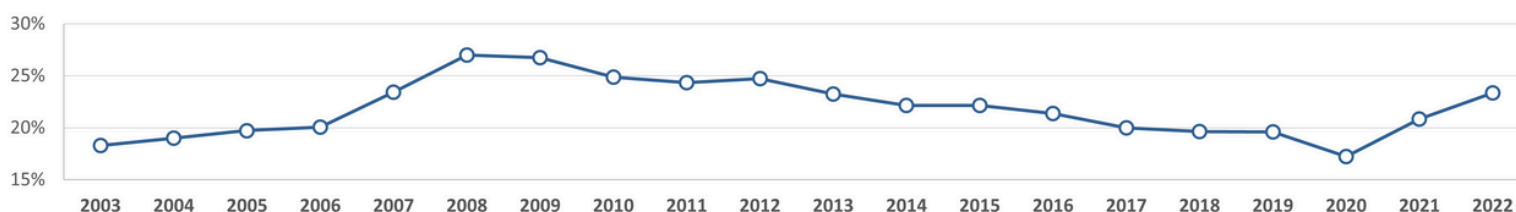


# COMPANY LOCATION

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
United States	18.3%	19.0%	19.7%	20.1%	23.4%	27.0%	26.7%	24.9%	24.3%	24.7%	23.2%	22.1%	22.1%	21.4%	20.0%	19.6%	19.6%	17.2%	20.8%	23.4%
Foreign	26.2%	26.1%	27.2%	29.1%	31.8%	34.8%	33.0%	31.9%	30.0%	31.5%	30.5%	27.7%	28.8%	30.3%	27.5%	27.3%	26.7%	24.0%	24.9%	28.1%

Foreign companies have historically seen a higher rate of going concern opinions than the US. During FY2022, foreign companies had a 4.7 percentage point higher going concern rate than US companies, the second closest in range over the 20-year period. This gap has increased from the 4.1 percentage point difference seen in FY2021.

## United States

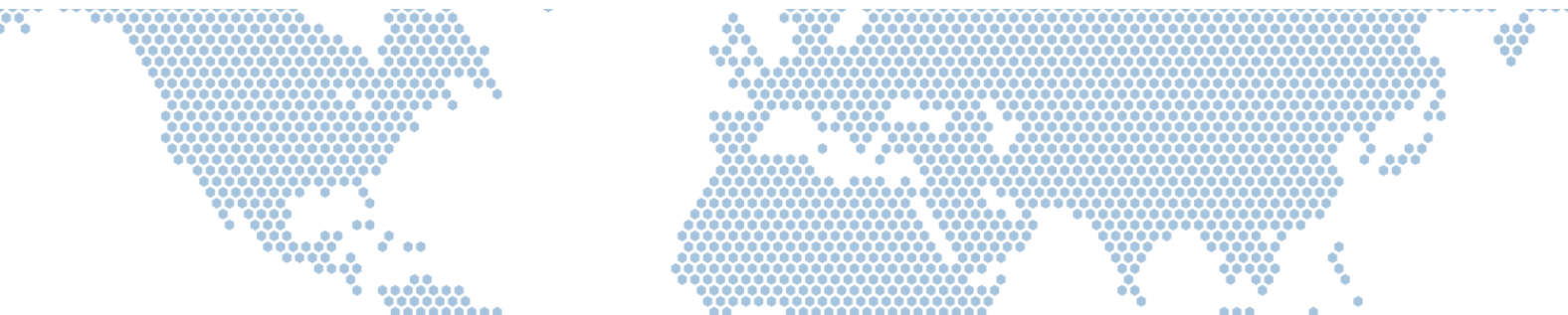


After a historic low in FY2020, the going concern rate of US companies has continued to exceed pre-pandemic figures. The number of US companies that received a going concern opinion for FY2022 increased 5% from FY2021 to 1,402. Conversely, the total number of US opinions declined by 6%. This resulted in a 23.4% going concern rate for US companies in FY2022, the highest seen since 2012.

## Foreign



The number of foreign companies that received a going concern opinion increased 9% during FY2022 to 414. Conversely, the total number of foreign opinions decreased by 3%. This resulted in a 28.1% going concern rate for foreign companies in FY2022, the highest seen since 2016.

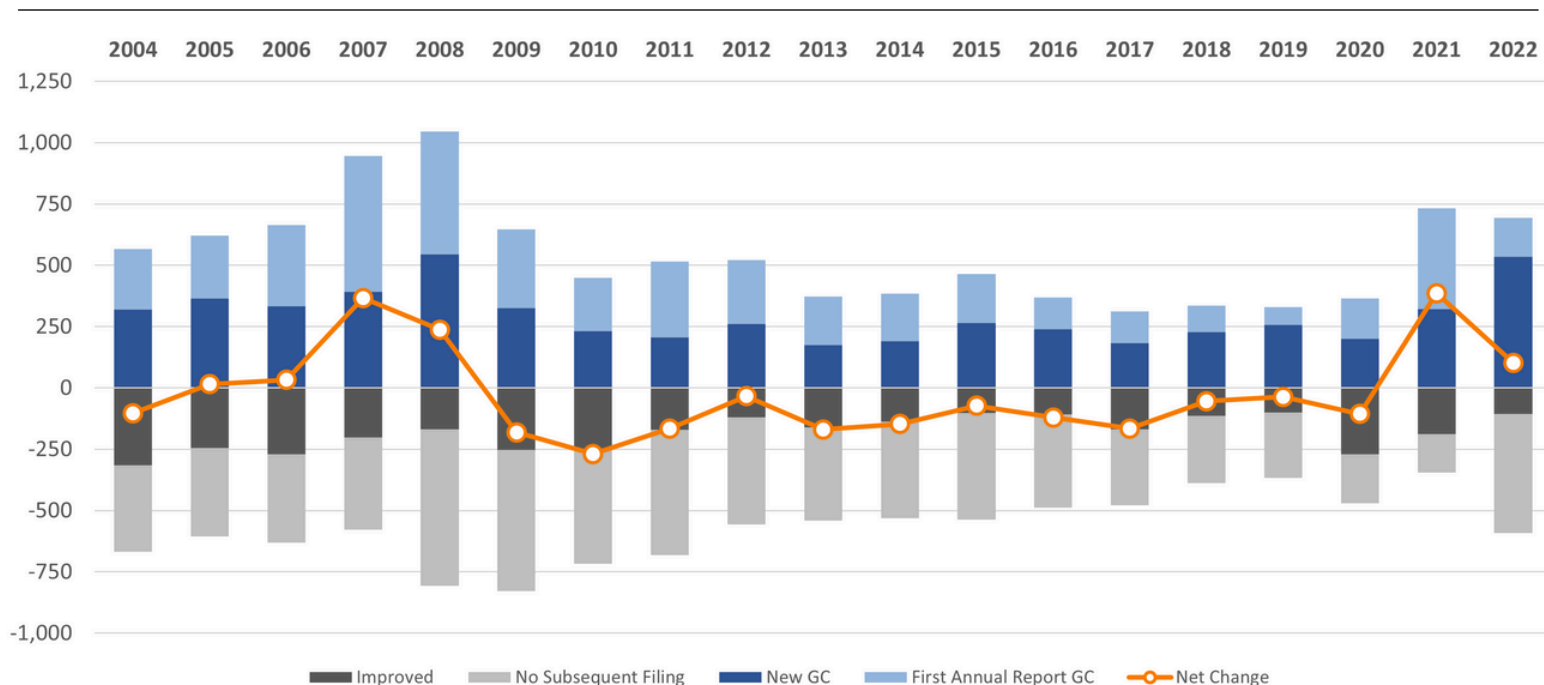


# CHANGES IN GOING CONCERN OPINIONS

The number of going concerns identified changes from one year to the next. This section looks at what contributed to the increase and attrition (decrease) in the number of going concerns year-over-year. The changes are categorized into four groups.

<b>First Annual Report Going Concern</b>	Companies that received a going concern opinion in their first annual report.	>>>	Increase
<b>New Going Concern</b>	Companies that received a clean opinion or had no opinion for the previous year and received a going concern opinion for the current year.	>>>	
<b>Going Concern Improvement</b>	Companies that earned a clean opinion in the current year after receiving a going concern opinion the previous year.	>>>	Attrition
<b>Going Concern Companies with No Subsequent Filing</b>	Companies that received a going concern opinion for the previous year and did not file an annual report for the current year.	>>>	

**Changes in Going Concern Opinions**



Going concern opinions experienced a net increase of 102 in FY2022. Contributing to this net change was the attrition of 591 going concern opinions and an addition of 693 new going concern opinions between FY2021 and FY2022.

During every year between FY2009 and FY2020, there was a greater amount of going concern opinion attritions than going concern increases, resulting in an overall decline in the number of going concerns each year. The decline in going concern opinions over this 12-year period coincided with a decline in the total number of annual reports filed.

However, this trend reversed in FY2021 with the largest ever increase in both going concerns and total opinions. While the number of total opinions decreased in FY2022, going concerns continued to see positive net gains.



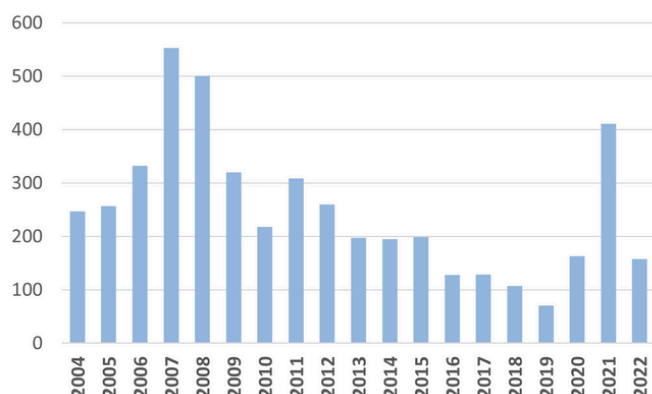
# GOING CONCERN INCREASES

## Going Concern Increase Distribution

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
First Annual Report GC	44%	41%	50%	59%	48%	50%	49%	60%	50%	53%	51%	43%	35%	41%	32%	22%	45%	56%	23%
New GC	56%	59%	50%	41%	52%	50%	51%	40%	50%	47%	49%	57%	65%	59%	68%	78%	55%	44%	77%

Last year, companies with a going concern in their first annual report comprised 56% of the going concern increase for FY2021. However in FY2022, 77% of going concern increases came from existing companies with a new going concern. This distribution is reminiscent of the one seen in FY2019, when auditors were issuing opinions at the beginning of pandemic uncertainty.

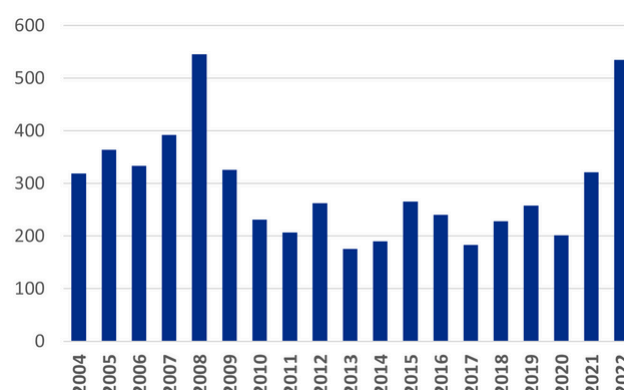
### First Annual Report Going Concern



In FY2022, the number of companies that received a going concern in their first annual report opinion declined to 158. This represents a 62% decrease from the number of first annual report going concerns in FY2021. This coincides with the decline in total first annual reports, which decreased by 68% in FY2022.

Companies with a going concern opinion in their first annual report represented 8.7% of all going concerns in FY2022.

### New Going Concern



The number of companies that received a new going concern opinion during FY2022 spiked to 535, a 67% increase from FY2021. This was the highest amount of new going concerns seen since 2008.

Companies receiving a new going concern opinion in FY2022 represented nearly 30% of all going concern opinions for that year. This was the largest proportion of new going concerns for any year over the 20-year period.

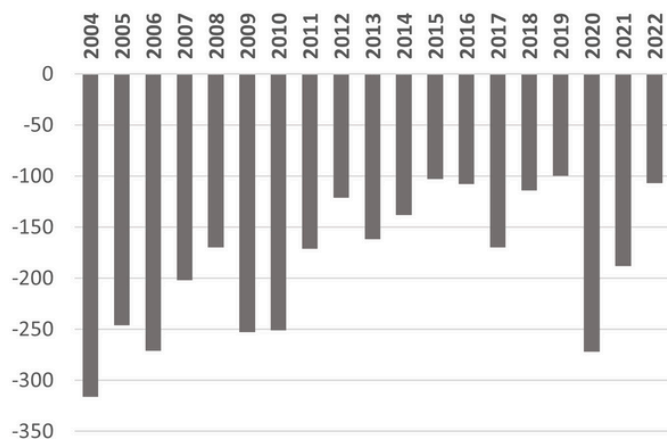
# GOING CONCERN ATTRITION

Going Concern Attrition Distribution

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>GC Improvement</b>	47%	41%	43%	35%	21%	31%	35%	25%	22%	30%	26%	19%	22%	36%	29%	27%	58%	54%	18%
<b>No Subsequent Filing</b>	53%	59%	57%	65%	79%	69%	65%	75%	78%	70%	74%	81%	78%	64%	71%	73%	42%	46%	82%

Prior to FY2020, the leading factor of going concern attrition was companies that had no subsequent filing the year following their going concern opinion. This trend began to reverse during FY2020, where an increased number of companies improved their financial positioning. However, during FY2022, 82% of going concern attrition was due to companies who received a going concern in FY2021 and did not issue an annual report in FY2022. This was the highest rate of no subsequent filings recorded over the 20-year period.

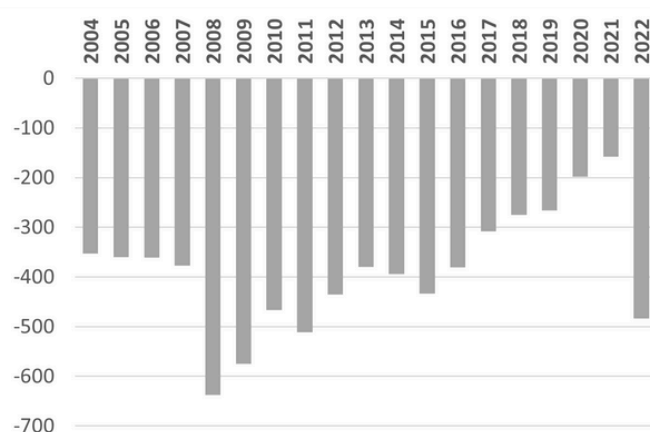
Going Concern Improvements



The number of companies that improved their financial position after receiving a going concern opinion for and earned a clean opinion the following year decreased to 107 companies in FY2022. This 43% decline continued the downward trend in going concern improvements seen since 2020.

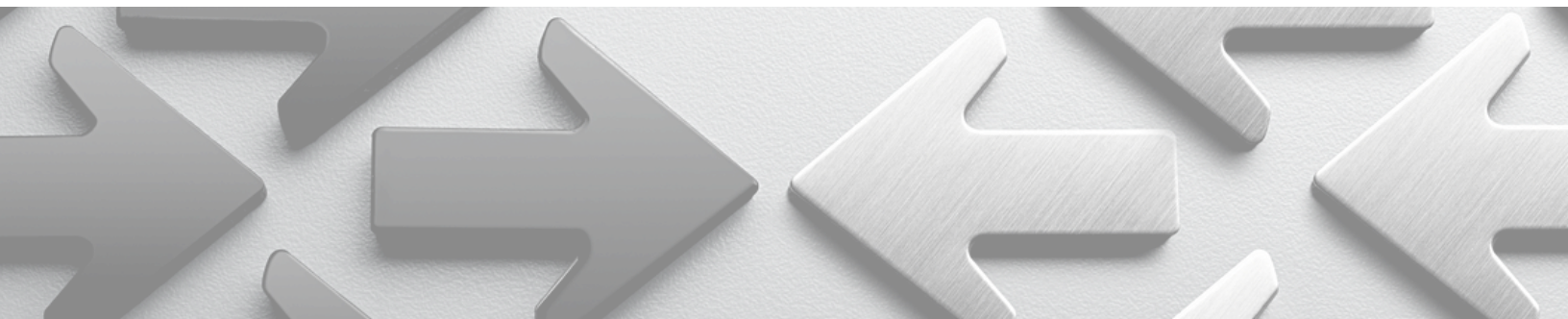
Only 6.2% of companies that received a going concern opinion for FY2021 saw improvements during FY2022.

Going Concern with No Subsequent Filing



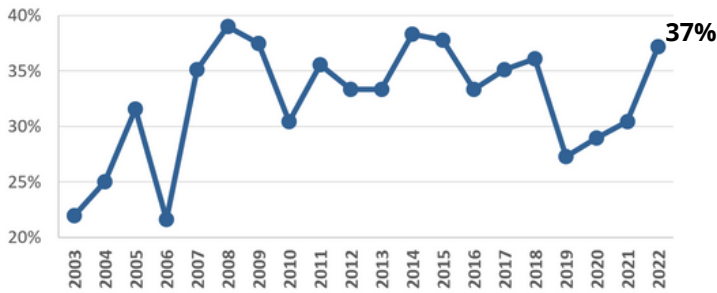
The number of companies that received a going concern opinion during FY2021 and did not issue an annual report for FY2022 spiked to 484. This represents a 206% increase from the number of companies that had no subsequent filing in FY2021.

Of the total companies that received a going concern in FY2021, 28.2% did not file an annual report in FY2022. This was the highest percentage of companies with no subsequent filing over the period.



# INDUSTRY

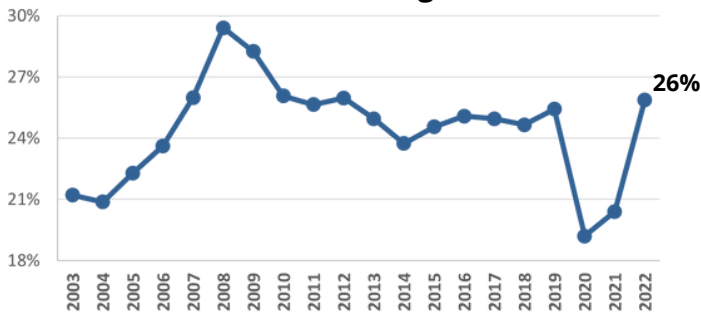
## Agriculture



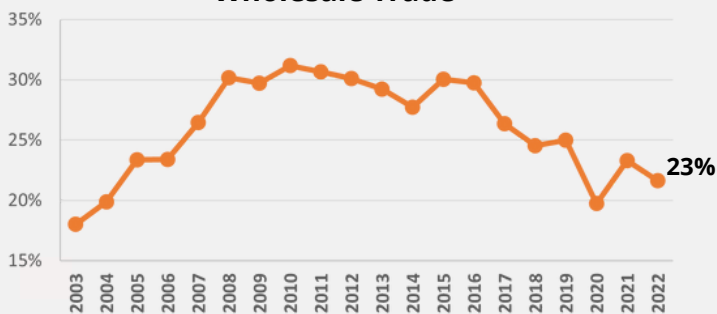
## Services



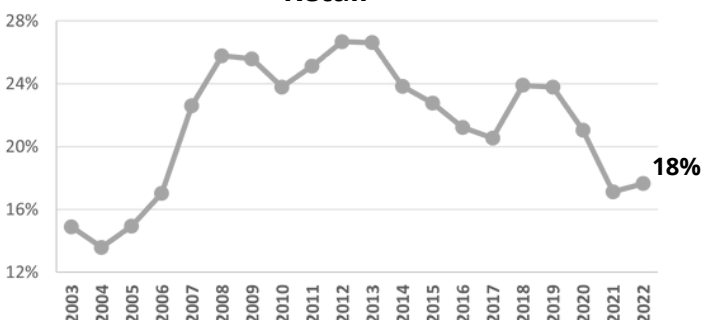
## Manufacturing



## Wholesale Trade



## Retail



## FY2022 Going Concern Trends

### Percentage Point Increase from FY2021



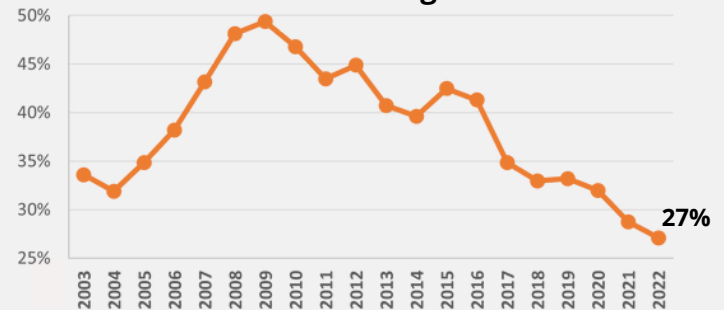
Agriculture	6.8
Construction	6.5
Manufacturing	5.5
Finance	2.2
Services	1.4
Retail Trade	0.5

### Percentage Point Decrease from FY2021

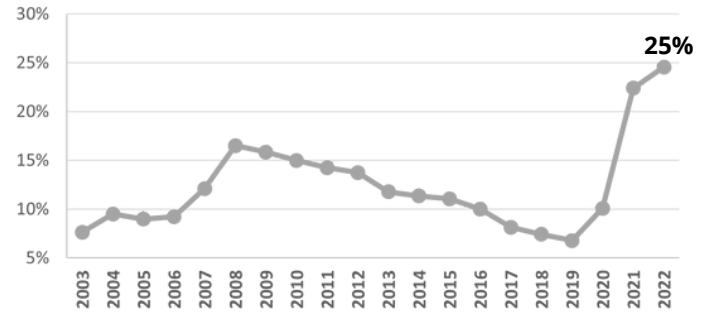
Mining	-1.6
Wholesale Trade	-1.6
Transport. & Comm.	-1.0



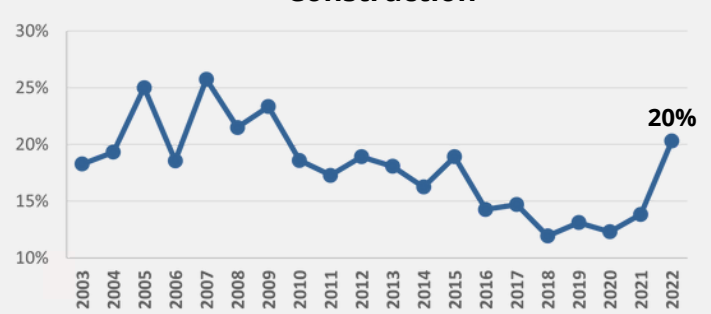
## Mining



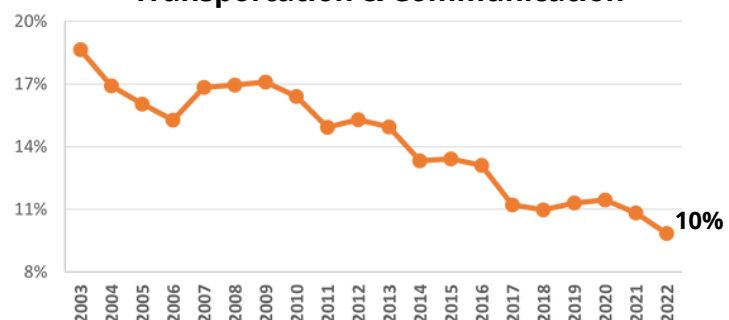
## Finance



## Construction



## Transportation & Communication



## INDUSTRY (cont.)

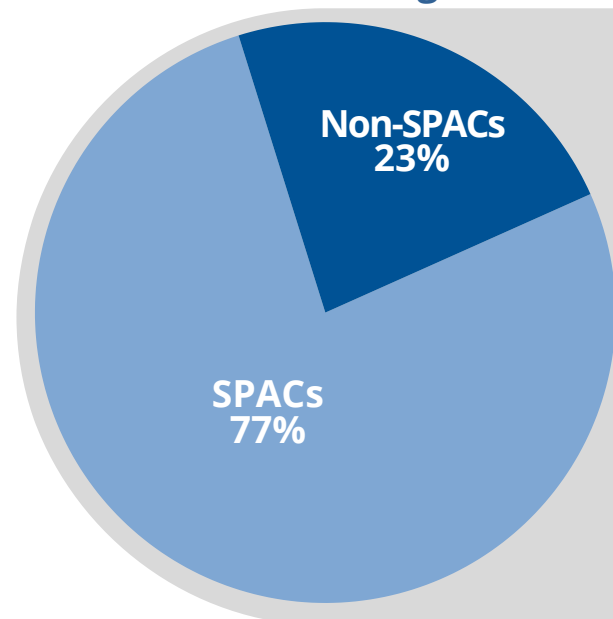
### Finance

Nearly 25% of finance companies received a going concern opinion for FY2022, representing a 2.2 percentage point increase from FY2021. Simultaneously, the total number of financial companies that issued an annual report for FY2022 decreased by 10%.

As highlighted in our **Finance Industry Going Concerns Trend** analysis last year, the spike in going concerns was attributed to an increase in Special Purpose Acquisition Companies (SPACs).

Of the 471 finance companies that received a going concern opinion for FY2022, 362 were SPACs. Of these, 44% were SPACs that also had a going concern in FY2021, 42% were new going concerns, and 14% were SPACs who received a going concern in their first annual report.

### SPAC vs Other Going Concerns



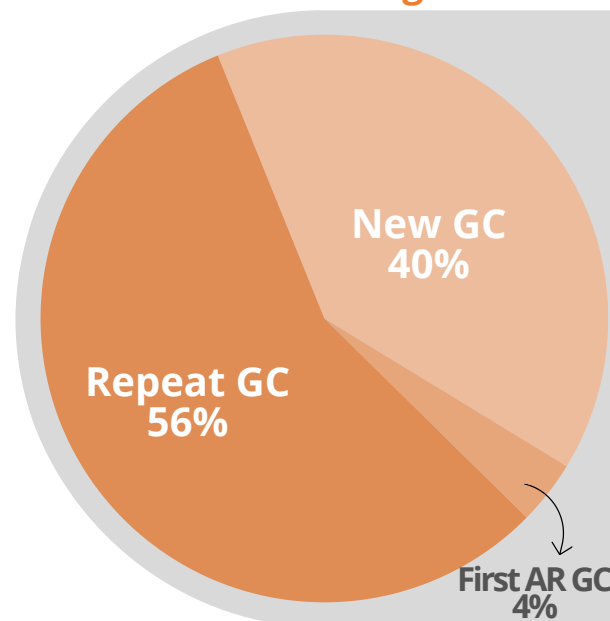
### Manufacturing

The going concern rate of manufacturing companies rose to 26% during FY2022, representing a 5.5 percentage point increase from FY2021. This was the largest increase in the going concern rate for manufacturing companies seen over the 20-year period.

Although the total number of manufacturing company opinions decreased by 3%, the number of going concerns increased 22% during FY2022.

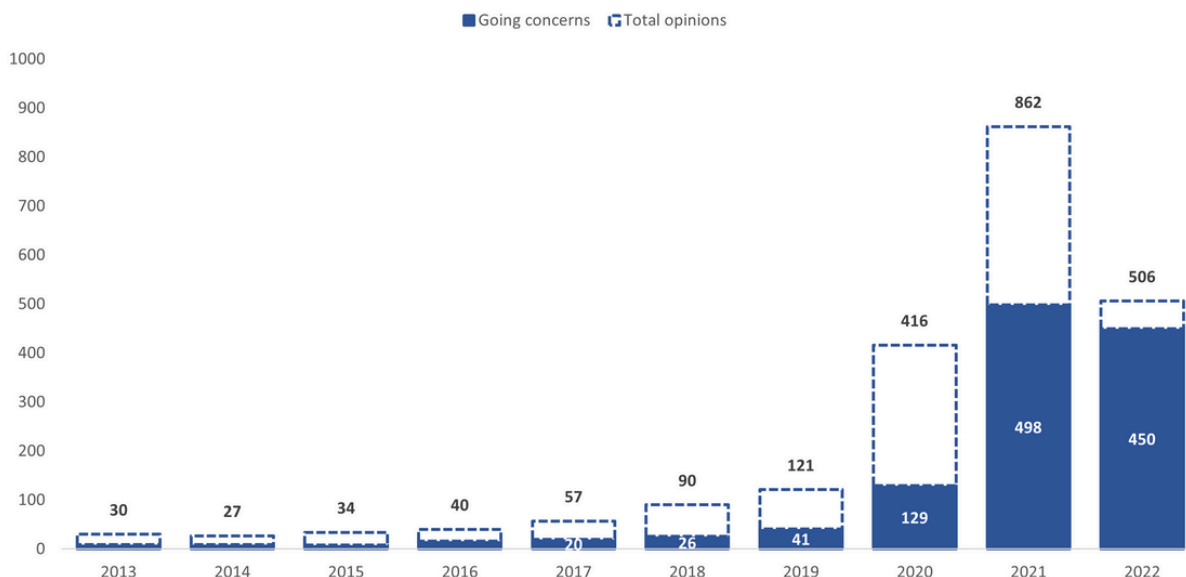
The pharmaceutical preparation sector constituted 35% of the manufacturing industry's going concerns. Within this sector, 40% of pharmaceutical preparation companies filed a new going concern in FY2022.

### Pharmaceutical Preparation Going Concerns



# SPECIAL PURPOSE ACQUISITION COMPANIES (SPACs)

## SPAC Opinions

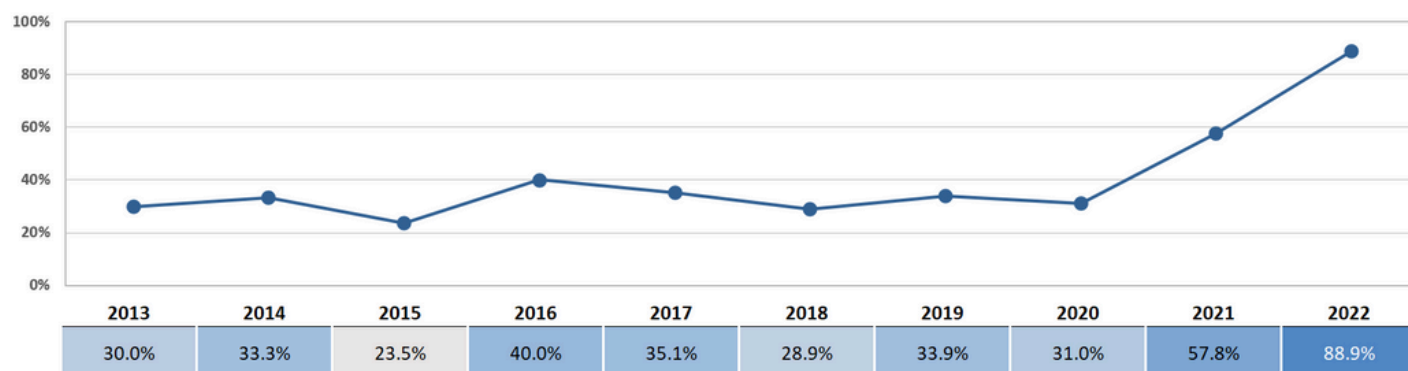


Special Purpose Acquisition Companies (SPACs) have historically constituted a very small portion of public companies. This trend began to change amid the global pandemic and the unprecedented SPAC boom during FY2020 and FY2021. In FY2020, SPAC opinions increased by 244% followed by another 107% increase in FY2021.

The total number of SPACs that filed an annual report decreased to 506 during FY2022, representing a 41% decline from FY2021. In addition, the total number of SPACs that received a going concern opinion during FY2022 decreased by approximately 10% to 450 companies.

The percentage of SPACs that received a going concern opinion reached a 10-year high of 88.9% in FY2022. This is a 31.1 percentage point increase from FY2021, the largest increase in the SPAC going concern rate seen over the period.

## SPAC Going Concern Rate



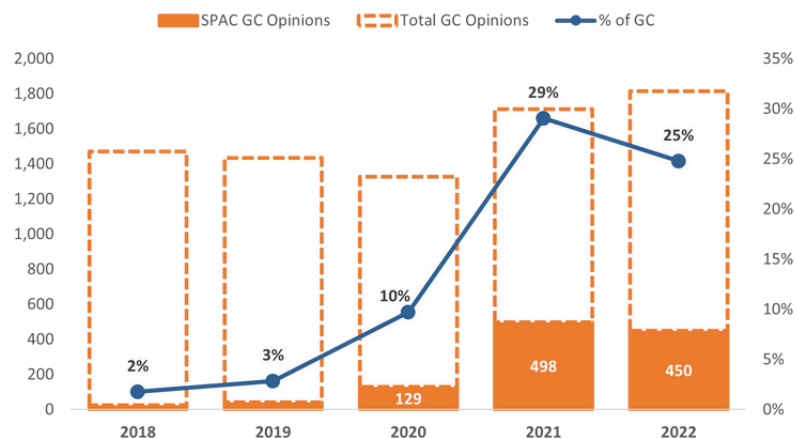


## SPECIAL PURPOSE ACQUISITION COMPANIES (cont.)

The rise in SPACs has greatly contributed to the overall number of going concerns issued within recent years. Prior to FY2020, the percentage of SPAC going concerns in relation to total going concerns was practically insignificant, ranging from 0% to 3% each year. At the height of the SPAC boom seen during FY2021, however, SPACs constituted 29% of all going concern opinions that year.

In FY2022, the total number of going concerns increased while SPAC going concerns declined. As a result, the proportion of SPACs as a percentage of total going concerns fell slightly to 25%, still far exceeding the rates seen prior to FY2021.

SPAC GC % of Total GC

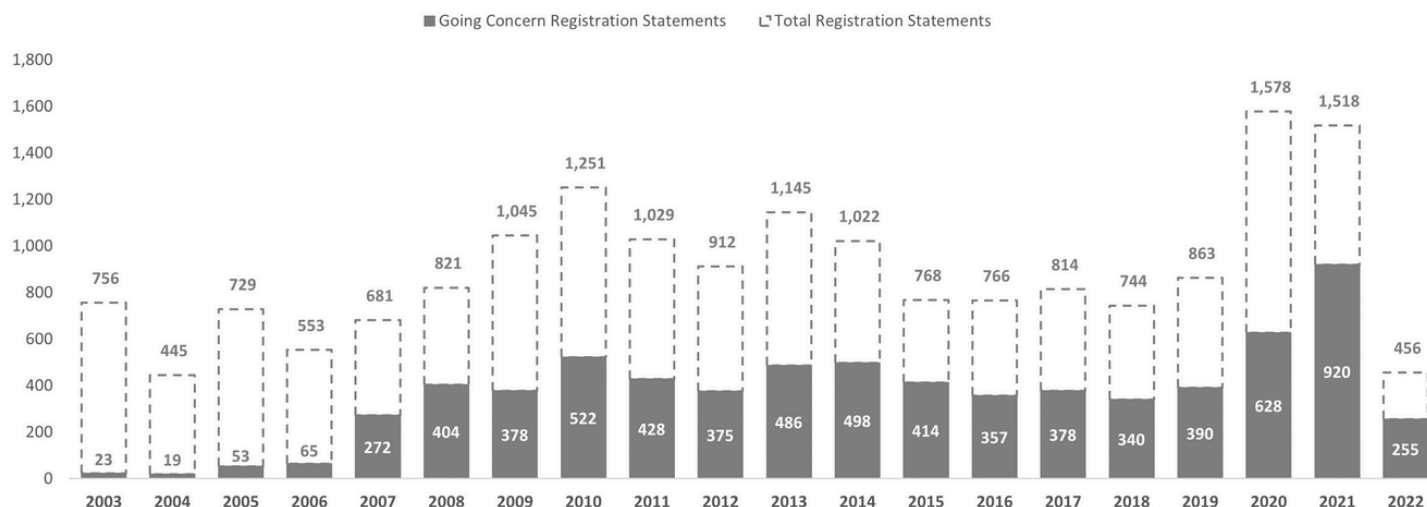




# REGISTRATION STATEMENTS

This section is an analysis of audit opinions issued in forms F-1, F-3, F-4, F-7, F-8, F-9, F-10, F-80, S-1, S-2, S-3, S-4, S-8, and S-11. These are companies that are registering securities under the Securities Act of 1933.

## Registration Statement Opinions



The number of going concern opinions within registration statements decreased by 72% between FY2021 and FY2022. Similarly, the total number of registration statements filed in FY2022 was 456, representing a 70% decline from the 1,518 filed in FY2021. This coincides with our **2022 IPO trend analysis**, revealing a steep downturn in the number of initial public offerings in 2022.

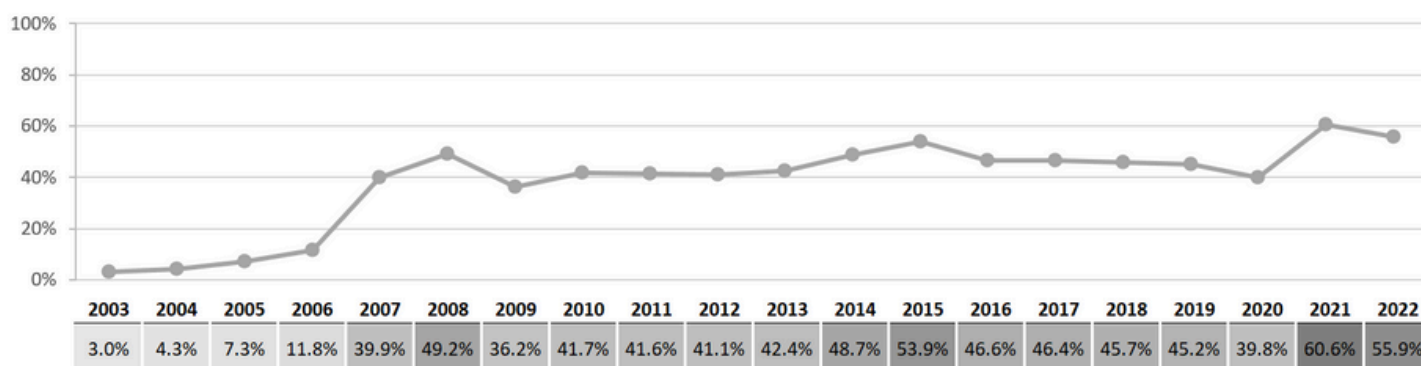
Companies that file a registration statement are more likely to have a going concern opinion than companies that file an annual report. Although the going concern rate of registration statements decreased to 55.9% during FY2022, this is more than double the going concern rate for FY2022 annual reports.

### Registration Statement Forms

Most registration statements that contain an audit opinion are forms S-1. Forms S-1 are typically used to register securities before an initial public offering (IPO).

Other notable registration statement types that include audit opinions are form F-1 for foreign IPOs, form S-4 for mergers and acquisitions, and form F-4 for foreign mergers and acquisitions.

## Registration Statement Going Concern Rate



# DATABASE OVERVIEW AND METHODOLOGY

## OVERVIEW

The Audit Analytics SEC Audit Opinions database can be used to track auditor reports on financial statement disclosures. This database makes it easy to identify the audit firm(s), audit partner(s), and whether a going concern modification expressed doubt about a company's ability to continue as a going concern.

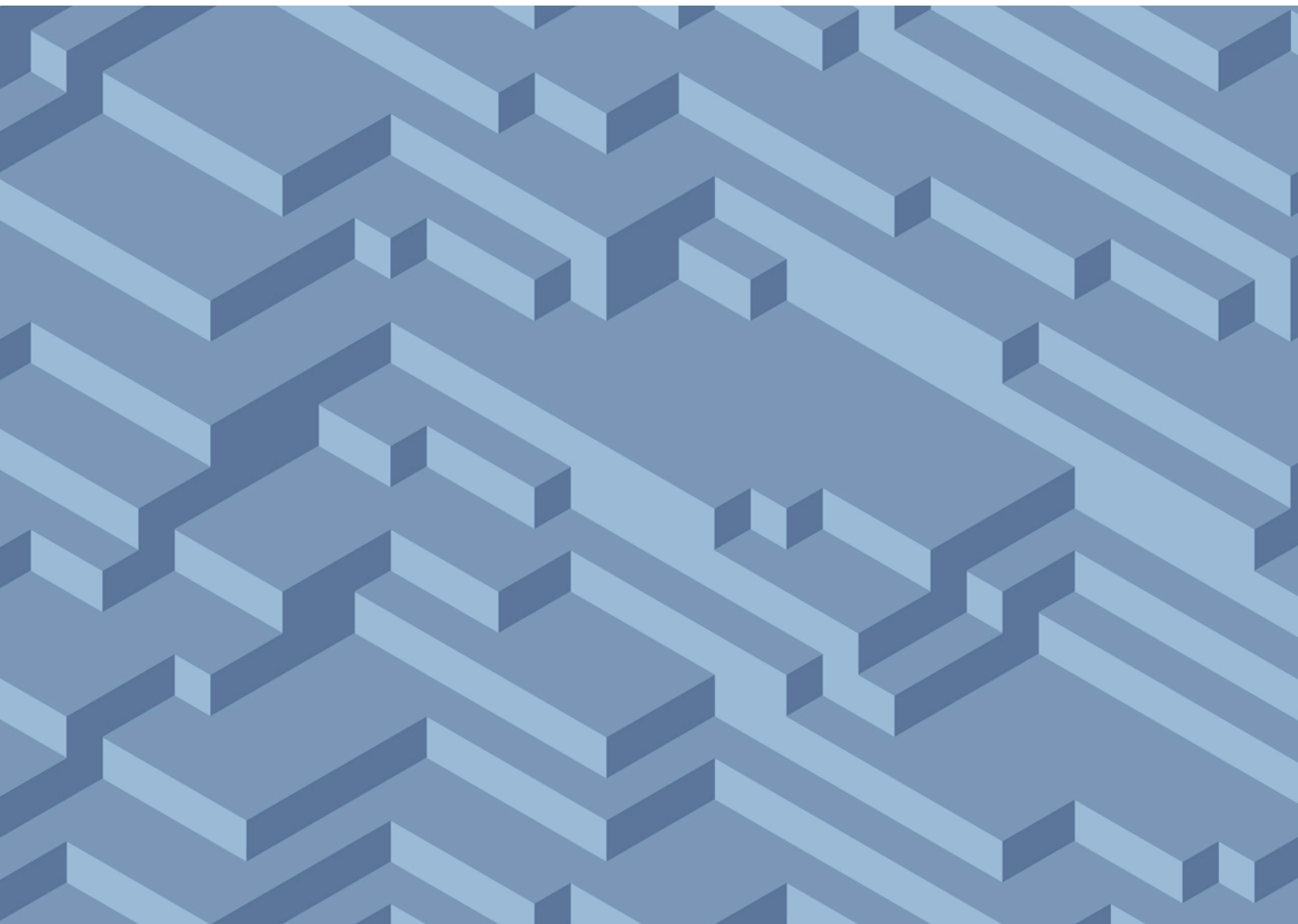
Data covers all '33, '34, and '40 Act filers since 2003. Data is updated daily and can be accessed through the Audit Analytics website, data feeds, or through the Wharton Research Data Services (WRDS).

## METHODOLOGY

This report covers audit opinions filed in Forms 10-K, 10KSB, 10-KT, 20-F, and 40-F; except as identified in the registration statements section.

Companies that do not identify as large accelerated or accelerated filers are classified as non-accelerated filers. This includes non-accelerated filers, smaller reporting companies, and companies that do not disclose a filer status.

SPACs are defined as a company with an IPO of which the proceeds are held in a trust account and include no operations as of the date of IPO. They are classified as a SPAC for any year in which they were a SPAC for at least portion of the year.



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## ABOUT US

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Our expert team meticulously collects, organizes, and analyzes data – making it easy for our customers to find what they need to know. We are trusted to simplify the complex; to illuminate trends; and to reveal actionable insights.

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