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GOING CONCERNS

A 21-YEAR REVIEW

February 2022

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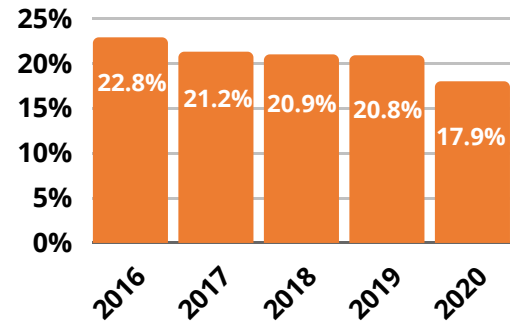
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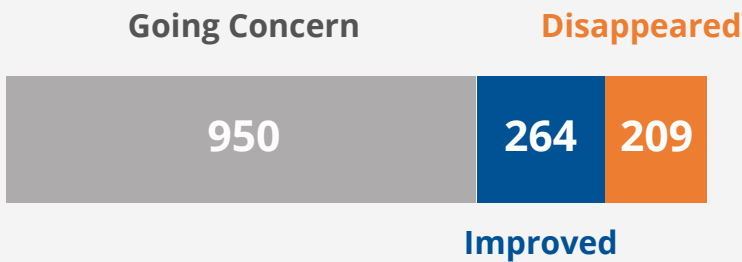
EXECUTIVE SUMMARY

1 Record Low Going Concern Opinions

Just **1,261 (17.9%)** companies received a going concern opinion during FY2020. A decline of 3 percentage points from FY2019 and the lowest number and percentage between FY2000 and FY2020.



2 Improvements Driven by Existing Companies

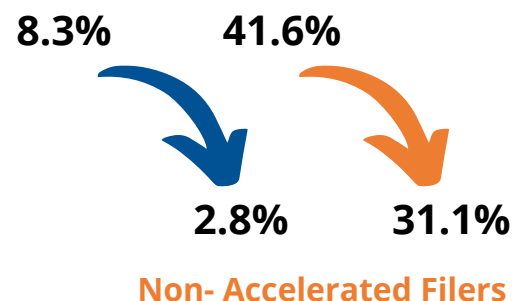


18.6% of companies that received a going concern opinion during FY2019 received a clean opinion during FY2020. The largest improvement of periods reviewed in this report.

3 Non-Accelerated and Accelerated Filers Drive Improvements

There were **92** fewer going concern opinions among accelerated filers and **67** fewer going concern opinions among accelerated filers. This represents a **5.5** and **10.5** percentage point decline, respectively.

Accelerated Filers



INTRODUCTION

Accounting operates on the assumption that a company is a going concern. This means that a company will continue to operate in the future. 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.

In the United States, the Public Company Accounting Oversight Board (PCAOB) is responsible for setting standards for how audit firms determine there is substantial doubt about a company's ability to continue as a going concern. Internationally, the standard is set by the International Auditing and Assurance Standards Board (IAASB).

AS 2415: Considerations of an Entity's ability to Continue as a Going Concern¹

The auditor has a responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, **not to exceed one year** beyond the date of the financial statements being audited.

ISA 570 (Revised): Going Concern²

In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements as defined in ISA 560,4 the auditor shall request management to extend its assessment period to **at least twelve months** from that date.

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. The IAASB defines a period of time for considering a company's ability to continue as a going concern of at least twelve months.

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

The IAASB released a Discussion Paper in September 2020 to solicit feedback about whether the fraud and going concern standards should be updated.³ The discussion paper sought to understand the "expectations gap" between the users of the financial statements and the audit of the financial statements in the wake of several high-profile corporate failures. In the wake of the discussion paper, China's Evergrande fell into default after obtaining a clean opinion in their previous annual report, giving the project even more importance. The going concern project aims to release a project proposal during the first half of 2022.⁴ An exposure draft is anticipated by the end of 2022.

¹ <https://pcaobus.org/oversight/standards/auditing-standards/details/AS2415>

² <https://www.ifac.org/system/files/publications/files/ISA-570-%28Revised%29.pdf>

³ <https://www.iaasb.org/publications/fraud-and-going-concern-audit-financial-statements>

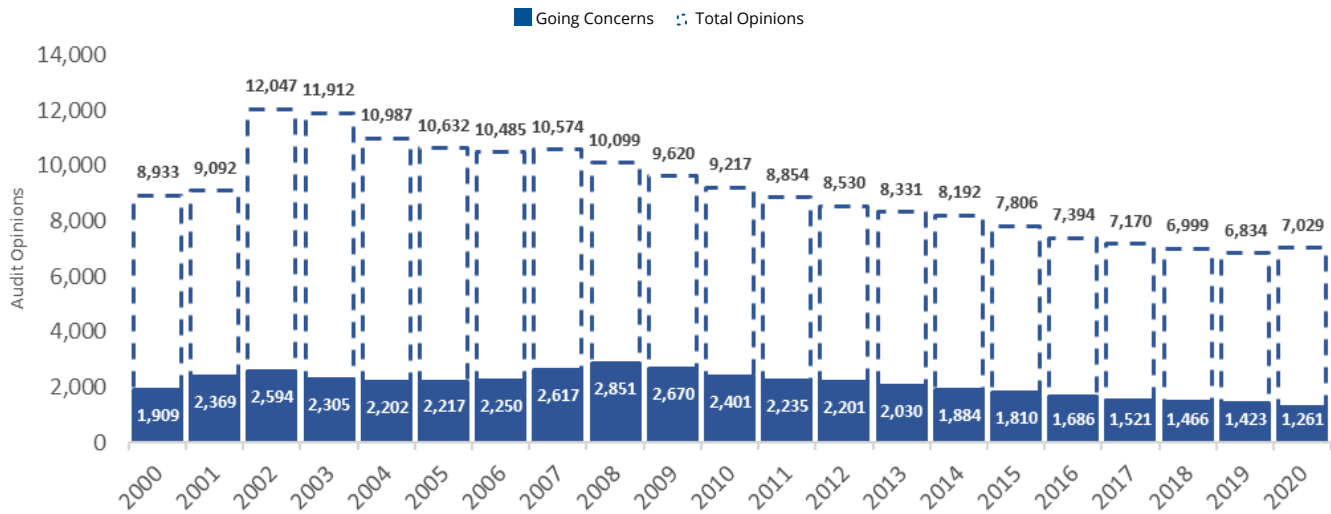
⁴ <https://www.iaasb.org/consultations-projects/going-concern>

TRENDS IN GOING CONCERN OPINIONS

Overview

Report Population

Population is based on the fiscal year end of going concern opinions.



The number of companies that received a going concern opinion during fiscal year (FY) 2020 declined to a record low of just 1,261. The percentage of companies that received a going concern opinion during FY2020 also declined to a record low of 17.9%.

Going concern opinions have been declining since they peaked during FY2008 with 2,851 – during the height of the financial crisis. FY2008 also saw a high of 28.2% of companies receive a going concern opinion.

The gradual decline in going concern opinions since FY2008 had brought the percentage of companies that received a going concern opinion in line with pre-financial crisis figures. But the steepness of the FY2020 decline has brought all new lows.

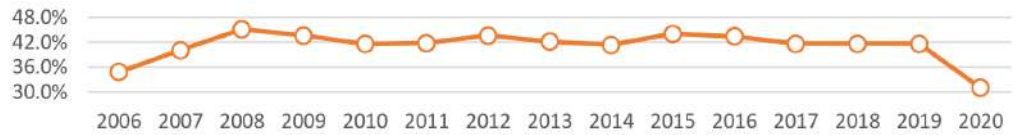
The decline was led by improvements from smaller and mid-size companies. Non-accelerated filers saw a 10.5 percentage point decline, and accelerated filers saw a 5.5 percentage point decline in the percentage of companies that received a going concern opinion during FY2020.



Company Size

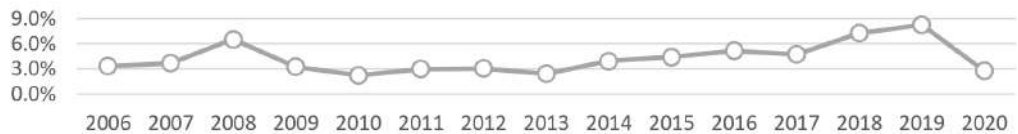
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Non-Accelerated	34.9%	40.1%	45.1%	43.6%	41.6%	41.8%	43.6%	42.1%	41.4%	44.0%	43.4%	41.6%	41.7%	41.6%	31.1%
Accelerated	3.3%	3.7%	6.5%	3.3%	2.2%	3.0%	3.0%	2.4%	3.9%	4.4%	5.2%	4.7%	7.3%	8.3%	2.8%
Large Accelerated	0.2%	0.3%	1.2%	0.4%	0.1%	0.3%	0.3%	0.2%	0.2%	0.6%	0.6%	0.3%	0.3%	0.5%	0.4%

Non-Accelerated Filers



The number of non-accelerated filers that received a going concern opinion declined modestly from 1,294 companies during FY2019 to 1,227 during FY2020. Simultaneously, the total number of non-accelerated filers that issued an annual report with an audit opinion increased dramatically from 3,108 during FY2019 to 3,942 during FY2020. This led to a significant decline in the percentage of non-accelerated filers that received a going concern opinion during FY2020. The 10.5 percentage point decline far surpassed the previous largest decline of 2.0 percentage points between FY2009 and FY2010. The population changes were largely driven by a change in the definition of accelerated filer.

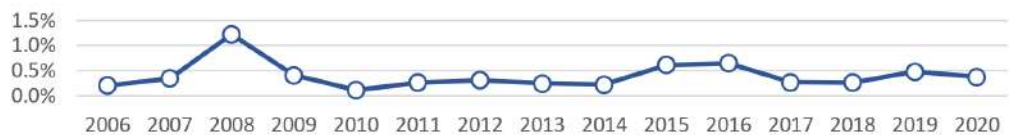
Accelerated Filers



The number of accelerated filers that received a going concern opinion declined considerably from 118 companies during FY2019 to just 26 companies during FY2020. The total number of accelerated filers that issued an annual report with an audit opinion decreased from 1,428 companies during FY2019 to just 938 companies during FY2020.

The shift in population was also largely due to a change in the definition of accelerated filer. Accelerated filers were defined as companies with public float of \$75 million or more but less than \$700 million. Companies with less than \$100 million revenue were excluded from the accelerated filer definition starting during April 2020. More than 500 companies change their filer status from accelerated to non-accelerated filer between FY2019 and FY2020.

Large Accelerated Filers

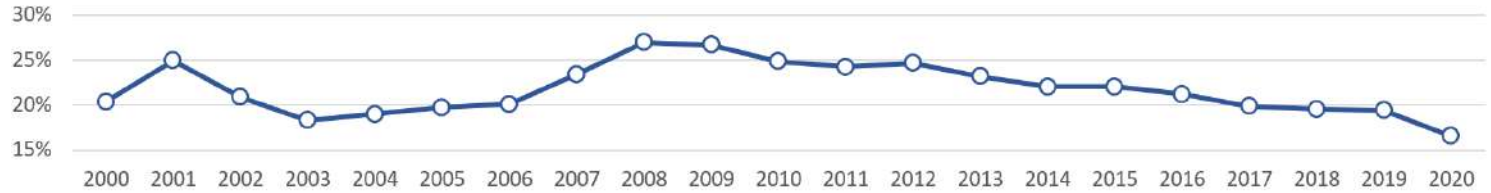


The number of large accelerated filers that received a going concern opinion declined slightly from 11 companies during FY2019 to 8 companies during FY2020. This represented a 0.1 percentage point decline in the percentage of large accelerated filers that received a going concern opinion between FY2019 and FY2020.

The total population of large accelerated filers declined from 2,298 during FY2019 to 2,149 during FY2020. This decline was also due to the change made to filer status definitions. The threshold for determining a transition from a large accelerated filer to an accelerate filer increased from public float of less than \$500 million to public float of less than \$560 million. More than 150 companies changed their filer status from large accelerated to accelerated filer between FY2019 and FY2020.

Company Location

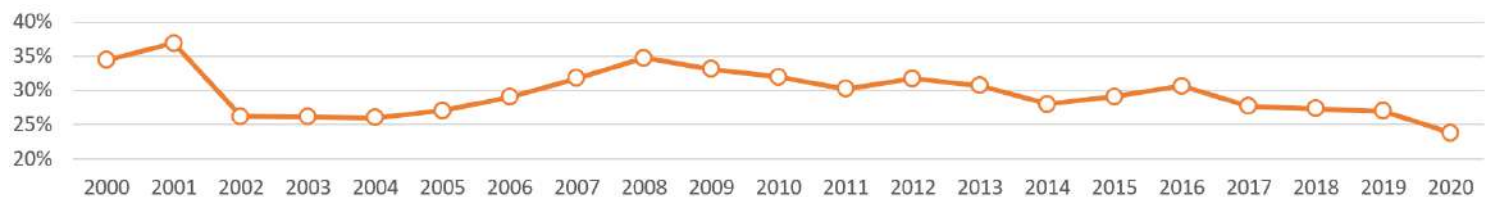
United States



During FY2020, the number of US companies that received a going concern opinion fell below 1,000 for the first time. Just 942 US companies received a going concern opinion, representing 16.6% of all opinions issued for annual reports of US companies.

During FY2017, US companies adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2014-15. ASU 2014-15 – codified as Accounting Standard Codification (ASC) 205 – requires companies to include a footnote in the financial statements concerning whether management believes significant doubt exists about the company's ability to continue as a going concern.⁵ Not only does the standard give financial statement users the perspective of management, but it also gives a timelier assessment. Auditor assessments are reported on an annual basis. ASC 205 requires management to assess and report going concern on a quarterly basis.

Foreign



The number of foreign companies that received a going concern opinion fell to 319 during FY2020. This represented 23.8% of all opinions issued for annual reports of foreign companies.

Foreign companies have historically seen a higher rate of going concern opinions. During FY2020, foreign companies had a 7.2 percentage point higher rate of going concern opinions. This is down from a 9.5 percentage point gap in FY2016.

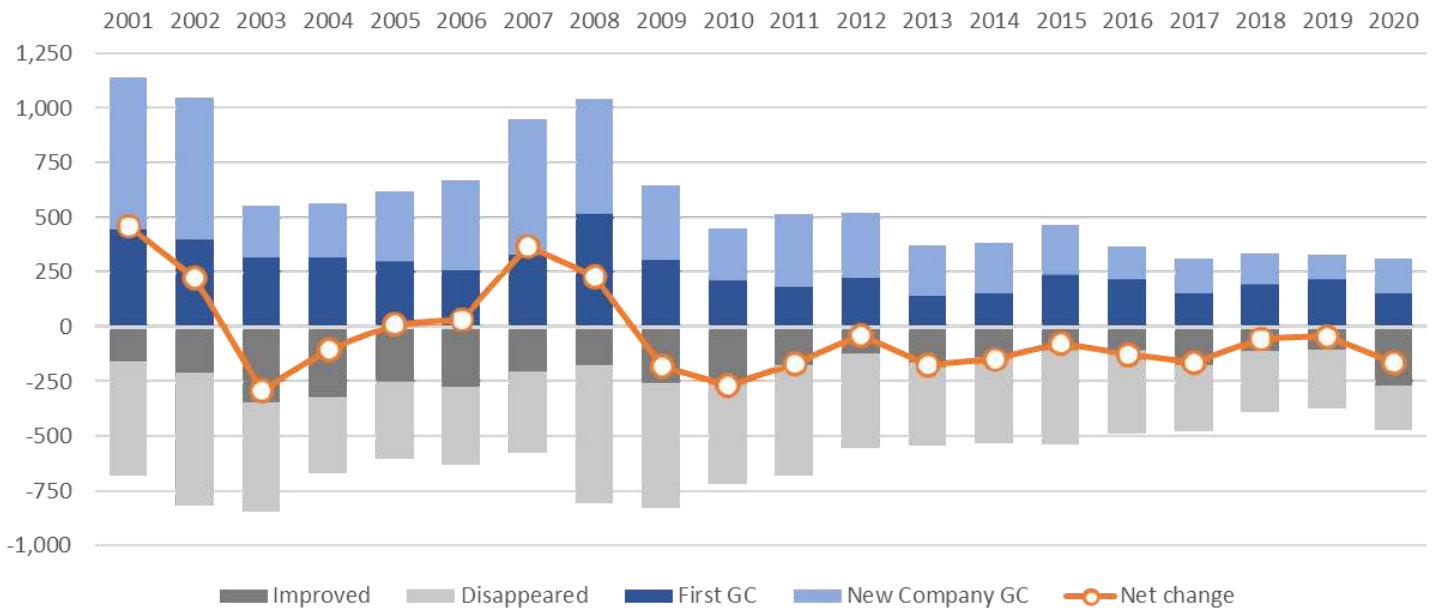
As discussed in the introduction, the international standard for determining whether there is substantial doubt about a company's ability to continue as a going concern is broader than the US standard. This is likely a factor in the higher rate of going concern opinions among foreign companies.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
United States	20.4%	24.9%	20.9%	18.3%	19.0%	19.7%	20.1%	23.4%	27.0%	26.7%	24.8%	24.2%	24.7%	23.2%	22.0%	22.0%	21.2%	19.8%	19.5%	19.4%	16.6%
Foreign	34.4%	36.9%	26.2%	26.1%	26.1%	27.0%	29.0%	31.8%	34.8%	33.1%	32.0%	30.3%	31.8%	30.7%	28.0%	29.1%	30.7%	27.7%	27.3%	27.0%	23.8%

⁵ https://www.fasb.org/cs/ContentServer?cid=1176164329772&d=&pagename=FASB%2FDocument_C%2FDocumentPage

Changes in Going Concern Opinions

Change in Companies with a Going Concern Opinion



The number of going concern opinions declined by 162 between FY2019 and FY2020. As a percentage of FY2019 going concern opinions, this represented an 11.4% improvement. This 11.4% improvement was slightly better than the previous best, an 11.1% improvement seen between FY2002 and FY2003.

The total number of going concern opinions have been declining on a net basis every year since FY2009. However, the decline in total number of going concern opinions has coincided with a decline in the total number of companies issuing annual reports with audit opinions.

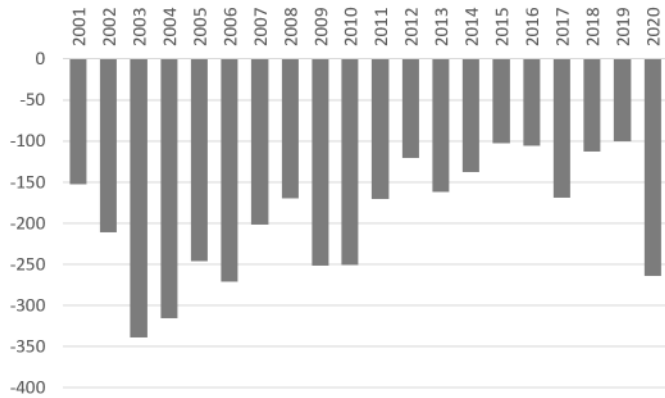
The decline of going concern opinions during FY2020 is notable because the total number of audit opinions increased for the first time since FY2007. During FY2002, there was a high of 12,047 audit opinions. During FY2019, there was a low of 6,834 audit opinions. There were 7,029 audit opinions during FY2020.

Prior to FY2020, the majority of going concern opinion attrition was due to companies that stopped issuing annual reports. During FY2020, 56% of attrition was due to companies that received a clean audit opinion.

Simultaneously, the number of companies that issued their first annual report with a going concern opinion has been declining over the past two decades. During FY2007, 615 companies issued a first annual report with a going concern opinion. During FY2020, just 153 companies issued a first annual report with a going concern opinion.

Reduction of Going Concerns

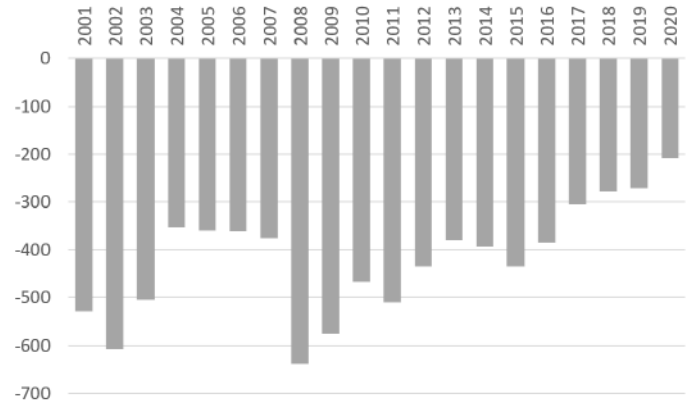
Going Concern Improvements



264 companies received a going concern opinion during FY2019 and a clean opinion during FY2020. FY2020 saw the greatest number of opinion improvements since FY2006.

As a percentage of FY2019 going concern opinions, 18.6% of companies saw improvement during FY2020. This was the highest percentage of improvement on record.

Going Concern Companies that Disappeared

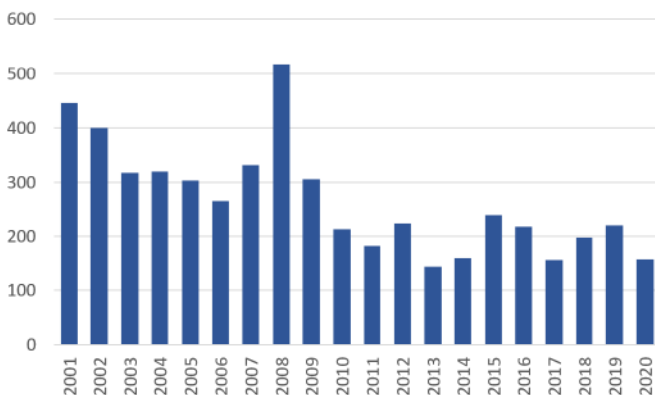


The number of companies that received a going concern opinion during FY2019 and did not issue an annual report with an audit opinion during FY2020 fell to 209.

As a percentage of FY2019 going concern opinions, 14.7% of companies disappeared during FY2020. This was the lowest percentage of companies disappearing on record.

New Going Concerns

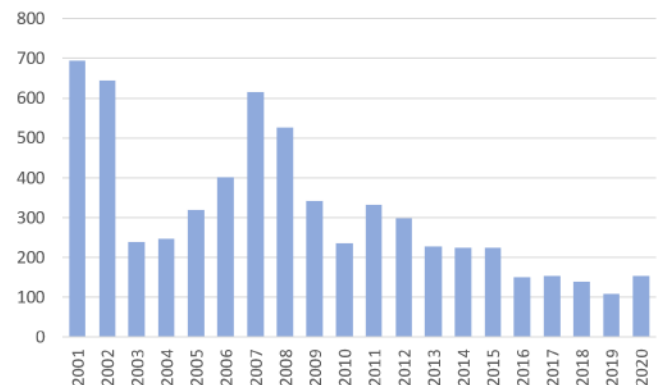
First Going Concern



The number of companies that received a clean opinion during FY2019 and received a going concern opinion during FY2020 fell to 158. This was slightly more than the 144 first time going concern opinions during FY2013.

Companies with first time going concern opinions represented 12.5% of FY2020 going concern opinions.

New Company with Going Concern

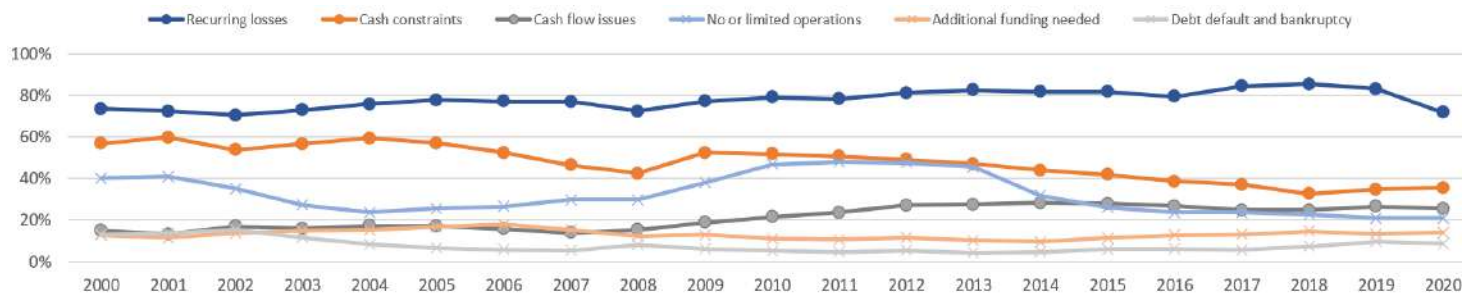


The number of companies that received a going concern opinion in their first annual report opinion during FY2020 climbed to 153.

New companies with a going concern opinion represented 12.1% of FY2020 going concern opinions. This was the highest proportion of new companies with a going concern opinion since FY2015.

Going Concern Issues

Top Going Concern Issues



Recurring losses have continued to outpace all other going concern issues by a wide margin. During FY2018, 85.4% of all going concern opinions cited recurring losses as an issue. That declined to just 71.8% during FY2020. Recurring losses were still cited more than twice as much as cash constraints, the second most cited issue.

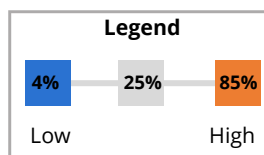
Cash constraints have been the second most cited issue every year reviewed. However, the rate of citation has declined from a high of 59.7% during FY2001 to just 35.7% during FY2020.

Cash flow issues have become more common during the past two decades. During FY2001, just 13.4% of going concern opinions cited cash flow issues. During FY2020, 25.7% of companies cited cash flows.

Surprisingly, no or limited operations have fallen as a percentage of going concern opinions. 48% of going concern opinions cited no or limited operations as an issue during FY2011. That fell to just 21% during FY2020. This is unusual due to the rise of special purpose acquisition companies (SPACs). SPACs are blank check companies that have no operations and are looking for an operating company to take public. Nearly 250 blank check companies issued annual reports with audit opinions during FY2020. But just 29% received a going concern opinion, far less than the 70% during FY2019.

Debt defaults and bankruptcies have begun to increase in the past few years. During FY2013, just 4.4% of going concern opinions cited debt defaults and bankruptcies. During FY2020, that figure had increased to 8.9%.

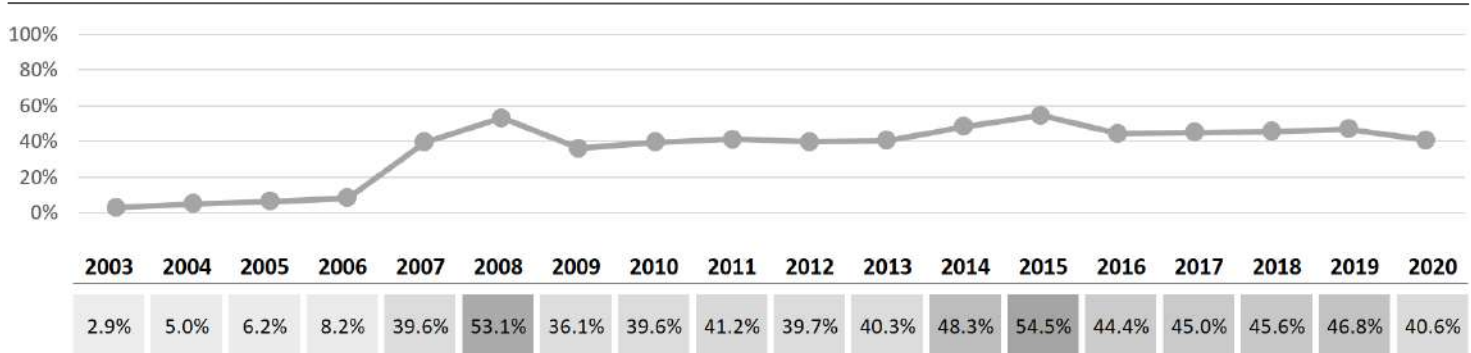
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Recurring losses	73.6%	72.4%	70.4%	73.0%	75.7%	77.7%	77.2%	77.1%	72.5%	77.2%	79.1%	78.4%	81.2%	82.5%	81.7%	81.8%	79.5%	84.4%	85.4%	83.1%	71.8%
Cash constraints	56.8%	59.7%	53.8%	56.7%	59.4%	57.0%	52.6%	46.6%	42.5%	52.4%	52.0%	50.7%	49.2%	47.2%	44.1%	42.0%	38.7%	37.1%	32.8%	34.8%	35.7%
Cash flow issues	15.1%	13.4%	17.0%	16.0%	17.4%	17.2%	15.8%	14.0%	15.4%	18.9%	21.6%	23.8%	27.2%	27.5%	28.3%	28.1%	26.8%	24.8%	24.9%	26.5%	25.7%
No or limited operations	40.2%	40.9%	35.2%	27.3%	23.7%	25.7%	26.7%	29.8%	30.0%	38.1%	46.9%	48.0%	47.6%	45.6%	32.0%	26.2%	23.7%	23.8%	22.8%	21.1%	21.0%
Additional funds needed	12.7%	11.4%	13.8%	14.8%	15.3%	16.9%	18.1%	15.4%	12.4%	13.1%	11.1%	10.6%	11.7%	10.4%	9.6%	11.5%	12.8%	13.3%	14.7%	13.3%	14.1%
Debt default and bankruptcy	13.1%	13.8%	15.5%	11.7%	8.4%	6.6%	5.9%	5.6%	8.2%	6.2%	5.2%	4.8%	5.5%	4.4%	4.8%	6.2%	6.2%	5.7%	7.5%	9.8%	8.9%



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 Going Concern Opinions by Year



Companies that issue a registration statement are more likely to have a going concern opinion than companies that issue an annual report. Since FY2007, the percentage of going concern opinions in registration statements has fluctuated between 35% and 55%.

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 foreign mergers and acquisitions.

Historically, a company's going concern status only changes moderately in the year following the issuance of a registration statement.

During the past few years, raising capital has helped companies avoid going concern opinions. 48% of companies that issued a registration statement during FY2019 and issued an annual report with an audit opinion during FY2020 received a going concern opinion during FY2019. These companies saw a 17.3 percentage point improvement in going concern opinions during FY2020.

No other year saw an improvement of more than 5 percentage points. In 5 of the last 17 years, the frequency of going concern opinions increased during the following year.

Not all companies that issued a registration statement issued an annual report in the following year, so the percentages in the two graphs on this page are not comparable.

Going Concern Following Offering

	Registration Statement	Change	Following Opinion
2003	3.2%	↘ -0.8%	2.4%
2004	5.2%	↗ 2.1%	7.3%
2005	10.1%	↓ -3.2%	7.0%
2006	6.7%	↘ -1.7%	5.0%
2007	45.5%	↑ 9.0%	54.5%
2008	64.4%	↗ 2.3%	66.7%
2009	37.1%	↘ -2.7%	34.4%
2010	43.3%	↑ 3.2%	46.5%
2011	45.3%	↗ 0.8%	46.1%
2012	37.6%	↓ -4.9%	32.7%
2013	39.5%	↓ -3.4%	36.1%
2014	48.9%	↘ -0.7%	48.2%
2015	55.7%	↘ -2.9%	52.8%
2016	45.1%	↘ -2.8%	42.2%
2017	44.6%	↓ -3.6%	41.0%
2018	46.6%	↓ -4.4%	42.2%
2019	48.0%	↓ -17.3%	30.6%

Only includes companies with a registration statement opinion and an opinion in an annual report during the following year.

Investment Companies

This section is an analysis of audit opinions issued in form N-CSR. These are companies that are registered under the Investment Company Act of 1940.

Investment Company Going Concern Opinions by Year

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Going Concern	0	0	0	0	1	0	1	4	1	1	2	0	0	16	2	2	1	0
Clean Opinion	2,397	2,773	2,722	2,658	2,655	2,630	2,509	2,422	2,400	2,385	2,348	2,367	2,344	2,277	2,243	2,175	2,075	2,048

Very few investment companies - mutual funds and ETFs - receive a going concern opinion. Between FY2003 and FY2020, 31 investment companies received a going concern opinion. This represents less than 0.1% of investment company opinions.

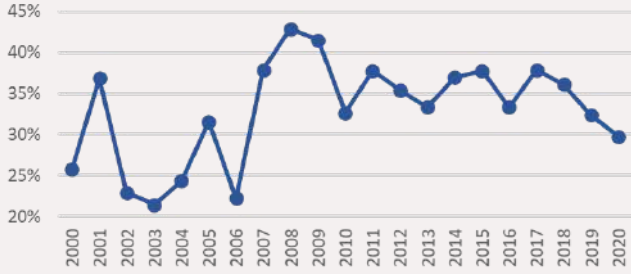
More than half of those going concern opinions were issued in FY2016 alone. Of the 16 going concern opinions in FY2016, 11 were associated with funds that were liquidated by BlackRock.

Liquidations accounted for 18 of the 31 going concern opinions received by investment companies.

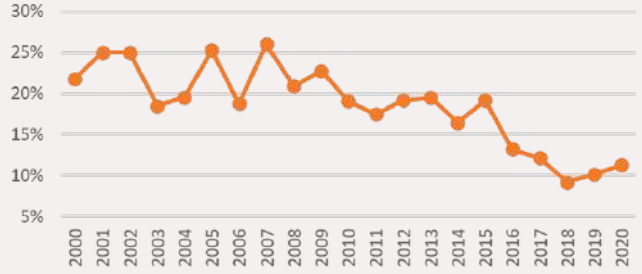


Rate of Going Concern by Industry

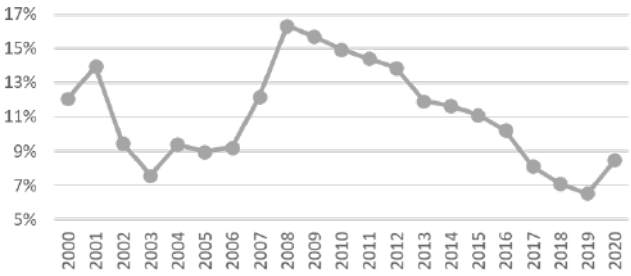
Agriculture



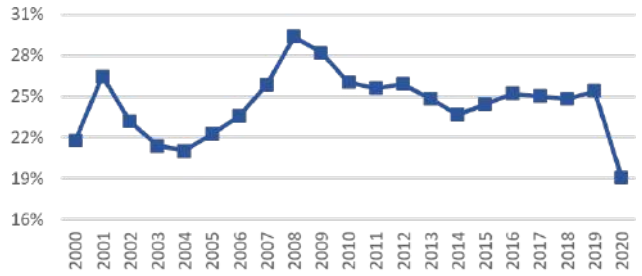
Construction



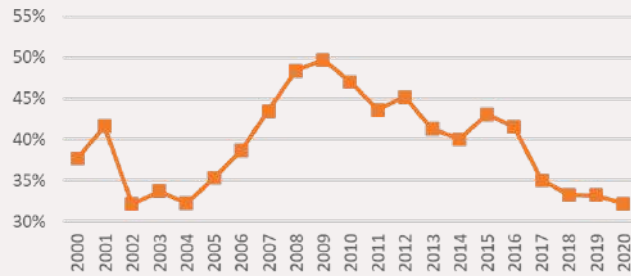
Finance



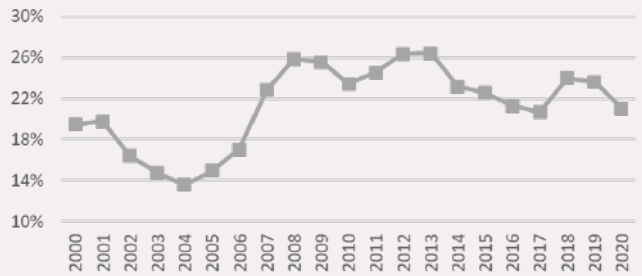
Manufacturing



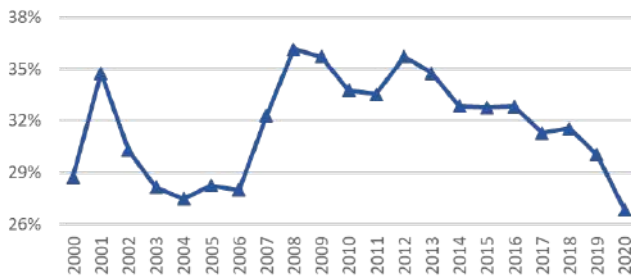
Mining



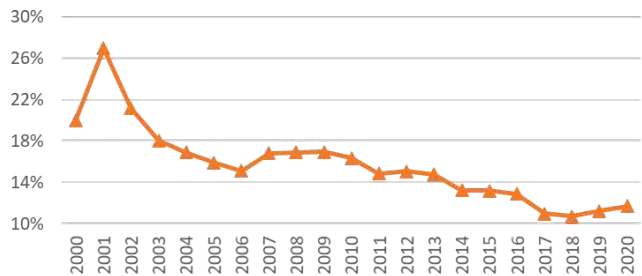
Retail



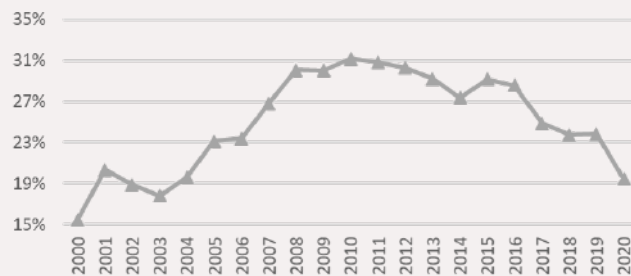
Services



Transportation



Wholesale Trade



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ABOUT US

Whether for market intelligence, risk management, compliance, or research and public policy, Audit Analytics provides the highly structured data you need to make informed decisions.

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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