

DETERMINANTS FACTORS OF A GOING CONCERN AUDIT OPINION: A RISK GOVERNANCE AND REGULATION IMPLICATION

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Abstract

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International Standards on Auditing (ISAs) mandate auditors to evaluate the client's capability to sustain her/his operations for a reasonable period after the financial statement's date (Geiger et al., 2021). The current study examines the determinants predicting going concern audit opinions (GCAOs) for the period from 2018 to 2022. Data was collected manually through the financial reports and the external auditor's report published on the website of the Amman Stock Exchange (ASE). Using binary logistic regression, profitability and liquidity were found to have a significant inverse impact on GCAOs, while leverage showed a positive impact. Unexpectedly, audit lag did not show a significant impact on GCAOs. The findings highlight the important role of financial indicators in evaluating the going concern assumption. The results are robust to concerns the determinants of a going concern audit opinion and provide valuable insights to academics, shareholders, companies, and regulators from a developing market. This study recommends that managers need to take these relationships into account when making strategic decisions.

Keywords: Going Concern Audit Opinion, Audit Lag, External Auditor, Liquidity, Financial Leverage

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1. INTRODUCTION

Business continuity is one of the vital issues that concern auditors. After financial collapses that popped out in companies at the beginning of the 21st century, shareholders' confidence has crumbled due to doubtful accounting practices (Al-Msiedeen et al., 2024; Al-Msiedeen & Al Sawalqa, 2021). The auditors' decision to grant — or not — regarding going concern audit opinion (GCAO) is a matter that requires careful analysis, the release of such opinion is crucial for the company, the stakeholders, and the auditor that it has the capacity to attract public notice. Understanding the factors that influence this decision is at the core of continuous improvement of audit practices.

International Standards on Auditing (ISA) mandate auditors to evaluate, based on their judgment, whether there exists "significant" or "substantial" uncertainty regarding a client's capability to sustain his operations for a fair period following the date of the financial statement (Geiger et al., 2021). Issuing an audit opinion accompanied by going concern modification is of great importance to parties concerned with the financial statements, as it enables them to make sound decisions in accordance with their own interests. Specifically, this opinion contributes significantly to enabling investors to make appropriate decisions regarding their investments. When they intend to make an investment, obtaining accurate information about the firm's financial health is crucial and indispensable, particularly information related to business continuity.

Although the external auditor is not responsible for future events in accordance with international standards, expressing an opinion related to the continuity of the entity is considered a major challenge for the external auditor. If the external auditor evades releasing a GCAO, and the client collapses in the future (type II error), the reputation of the external auditor will be at stake. In contrast, if the external auditor issues a GCAO, but the client continues in the future (type I error), the external auditor's loss for this client will also be inevitable in the future, which may extend to other clients. This opinion is expected to negatively impact investors' confidence, which may lead to the company's liquidation. The external auditor's report contains information of a high degree of importance, which brings the attention of the financial statements users (Geiger et al., 1998; Carey et al., 2008; Geiger et al., 2021).

Over the years, academic research has moved towards exploring the factors that determine auditors' view of business continuity (Al Husban et al., 2022; Al-Taei et al., 2022). These studies have contributed significantly by providing valuable insights into the factors that influence auditors' decisions and directing them toward granting or not granting a qualified opinion. These factors range from in-depth financial analyses to industry-specific factors, as well as the influence of the economic environment, regulatory systems, audit quality, and local and global laws (Averio, 2021).

Several factors may give rise to doubts concerning the continuity of the entity, leading the external auditor to issue a modified GCAO. Previous studies have consistently demonstrated that firms are disposed to receiving a GCAO when they have lower profitability, higher leverage, reduced liquidity, smaller size, a history of defaults in debt, and a previous year GCAO (Geiger et al., 2021; Carson et al., 2013).

Recent research generally reaffirms most of the earlier findings, while also introducing fresh and intriguing insights. For example, a recent survey conducted by Bava and Gromis di Trava (2019) among Italian professionals and scholars concerning the most prominent signals of financial distress that may lead to a GCAO. Their findings pointed to the five most relevant indicators: 1) firms with a net liability, 2) loans approaching maturity with no likelihood of payment, 3) an inability to meet creditor obligations on time, 4) signs of decreased support from lenders, and 5) operational cash flows that are negative. As for researchers, the five leading signs of a weak financial position were: 1) the inability to meet creditor obligations on time, 2) the situation of liability or current liability position, 3) significant operating losses or deterioration, 4) operational cash flow issues, and 5) management turnover.

This paper seeks to analyze and identify the key factors that influence the issuance of GCAO, through a review of previous literature and analysis of representative data. By focusing on financial indicators and audit committee characteristics this research will provide an overview that highlights the challenges and opportunities that may face those concerned with determining the opinion on continuity of operations.

Several reasons support the validity of the research paper. It is asserted that auditors provide a going concern opinion when they have

concerns about a company's financial health. Issuance of a GCAO might negatively affect the company's reputation and potentially signal insolvency. The purpose of this study is to identify the factors that influence the auditor's going concern assessment. Jordan is considered a developing and diversified economy and has. Business success in Jordan depends on financial and economic stability. Therefore, it is very important to understand the factors influencing auditors' opinions regarding business continuity in the Jordanian market. Research in this field can contribute to enhancing confidence between investors, financial institutions, and local and international companies, and thus, can contribute to enhancing investment and stimulating economic growth. Jordan has witnessed developments in recent years in the field of financial and regulatory legislation. Therefore, it becomes important to understand how these changes affect auditors' decisions regarding a going concern opinion.

This paper is organized as follows. Section 2 presents a review of the relevant literature. Section 3 describes the methodology applied in carrying out empirical investigation. Section 4 illustrates the findings, and Section 5 concludes the paper.

2. LITERATURE REVIEW

2.1. Theoretical background

Previous studies cover a wide range of client characteristics associated with issuing a GCAO. One of the key observations from previous studies is the prominent role that publicly available financial information plays in influencing the issuance of GCAO. These financial indicators include aspects such as the firm's profitability, financial leverage, firm's liquidity, firm's size, and previously issued GCAOs. Nonetheless, client-specific variables that go beyond the scope of financial statements are also important (Subedi, 2024; Al Husban et al., 2022). These factors include market operations, strategic initiatives, and governance features (Carson et al., 2013).

Bava and Gromis di Trava (2019) aimed to identify the most important financial indicators that are associated with issuing GCAOs. The study sample consisted of 91 external auditors and 190 academics. The results showed that the most important financial indicators from the point of view of external auditors are negative net assets, the inability to fulfill obligations to creditors the presence of negative net cash flows, and the presence of fixed long-term borrowings, while academics ranked indicators of poor financial performance to the inability to fulfill obligations to lenders, the presence of negative net assets, operating losses, weak financial ratios, and fixed long-term borrowings. Desai et al. (2020, pp. 7-8) investigated the association between issuing GCAOs and the client's bankruptcy. The study sample consisted of 2,921 companies, all of which received a GCAO. The study covered the period from 1999-2015. The results showed that 81% of the GCAO items were related to the profitability. The study also showed that 16.8% of the companies that received GCAOs were bankrupted within one year. In the same context, Desai et al. (2017) investigated the association between the first-time GCAO and the company's financial distress. The results showed that 26% of

the companies that received GCAO were delisted from the financial market within one year and that 50% of those companies were Delisted from the financial market within three years.

Foster and Shastri (2016) examined the most important indicators that increase the probability of issuing GCAOs in the development stage of a company's life. The sample comprised 1025 United States (U.S.) firms for the years 2001–2013. The findings revealed that the size of the client in addition to Big Four audit firms (Ernst & Young [EY], PricewaterhouseCoopers [PwC], KPMG, and Deloitte) will increase the probability that the client will receive GCAO. Hallman (2017) also examined the effect of risk contrast on issuing a GCAO. The study sample consisted of 15,296 distressed U.S. firms for the period from 2000 to 2014. Risk contrast was measured through the difference between the client's z-score and the average z-score for the audit firm's clients. The results indicated a direct relationship between the risk contrast and a GCAO for the clients of the same audit firms. Menon and Williams (2016) investigated the relationship between debt contracts that prevent the client from receiving GCAO and the issuance of GCAO. The study assumed that debt agreements are often affected by factors including an increase in the maturity period and a decrease in the credit score of the borrower. The sample comprised 7,749 U.S. companies for the period from 2003 to 2009. The results found that companies that have GCAO covenants are more inclined to receive GCAO. Debt contracts have direct results also revealed that GCAO covenants are directly proportional to the fees of the external auditor.

In addition to the factors related to the company's financial performance, some studies have examined the relationship between the characteristics of corporate governance and the issuance of a GCAO. Wu et al. (2016) examined the association between audit committee characteristics, non-audit services fees on one side, and the issuance of GCAOs on the other side. The study sample consisted of 116 United Kingdom (UK) distressed companies, for the period from 1997–2010, the results showed that audit committee independence and financial experts among audit committee members would contribute to issuing a GCAO, while the results did not find any relationship between the fees of non-audit services and the issuance of a GCAO.

The independent external auditor plays a vital role as a third party in monitoring management's performance, ensuring that management's actions are consistent with the interests of the principals, as reflected in the financial statements. The main obligation of the external auditors is to provide an independent assessment of the reliability of the financial statements while also identifying any issues related to the company's capacity to sustain its operations in the foreseeable future (ISA 570). Where the going concern of a business entity is in question, an external auditor is required to consider the strategy that the management has adopted. If the management's strategy appears to be workable, then the conditions and events that raise questions about the business entity's continuity must be appropriately disclosed Averio (2021).

2.2. Client's characteristics and going concern audit opinion

2.2.1. The company size and going concern audit opinion

The size of the company will hint at an important pointer on continuity, as large companies have abundant financial resources, which indicates their good financial condition, and are able to withstand economic shocks or crises better than small companies, in other words, big-sized companies often indicate a little likelihood of facing a GCAO (Junaidi & Hartono, 2010). Gama and Astuti (2014) claimed that a company's size has a detrimental impact on whether it receives a GCAO, while Averio (2021) found empirical evidence that the company's size has no effect on the likelihood of receiving a GCAO. This paper thinks that large corporations are often diverse and provide a wide range of products and services. This decreases its sensitivity to market swings in one industry and increases its capacity to respond to changes. Moreover, large corporations often have a wide and diversified client base, implying that they rely on different sources of income and can achieve long-term sales sustainability. In addition, large companies usually have the necessary resources to employ professional expert management. Considering those same factors, the first hypothesis with the opposite null hypothesis may be worded as follows:

H₀: There is no significant relationship between liquidity and the issuance of going concern audit opinions.

H₁: The company size adversely impacts the probability of issuing a going concern audit opinion.

2.2.2. The client's liquidity and going concern audit opinion

The liquidity ratio is an indication of the firm's ability to convert assets quickly into cash without loss of value efficiently. In other words, it is the capability to cope with its short-term financial commitments without resorting to selling its assets at a loss. The company's liquidity represents an essential part of its financial health (Samo & Murad, 2019). If a company has a good level of liquidity ratio, this means that it is able to withstand daily financial challenges and meet its ongoing obligations. On the other hand, in case the company faces difficulties related to fulfilling its obligations, it may be threatened by financial deterioration and serious business problems (Simamora & Hendarjatno, 2019). In general, liquidity is an important indicator of a company's ability to survive and grow in the market, therefore, the liquidity ratio can be considered as an essential factor in the external auditor's assessment of the company's continuity and comprehension of the firm's financial conditions (Averio, 2021, Handayani et al., 2023) empirically concluded that low liquidity levels raise concerns related to the firm's capacity to continue operations, leading auditors to issue a GCAO. This was further supported by the argument by Simamora and Hendarjatno (2019), saying the level

of liquidity does not affect the issuing of GCAO. From the discussion above, it would follow that:

H2: Client liquidity decreases the probability of issuing a going concern audit opinion.

2.2.3. The client's leverage and going concern audit opinion

Financial leverage can be defined as the employment of debt or borrowing to magnify the size of the investment or to facilitate the expansion of business operations, in general, to remunerate the equity owners with greater returns. Typically, financial leverage is defined as the degree of debt-to-equity (D/E) ratio (Samo & Murad, 2019). While debt increases the financial leverage, it simultaneously increases the level of financial risk because the firms have to repay their debts according to the financial contracts irrespective of what comes out of their operating activities. High leverage utilized by an organization is supposed to increase the potential for bankruptcy. According to Simamora and Hendarjatno (2019), companies with high levels of financial leverage have more probability of GCAO.

H3: The client's leverage positively influences the likelihood of issuing a going concern audit opinion.

2.2.4. The client's profitability and going concern audit opinion

Profitability is one of the key important pillars for the long-run sustainability of any organization in this competitive arena. It acts as a useful indicator which could explain the overall health and success of the organization. This depicts how much the organization would be able to improve on its profitability side because of the positive financial gain from its various different activities. Based on Alarussi and Alhaderi (2018), companies which have comparatively lower profitability are regarded to be much prone to receiving a GCAO. As per Averio (2021), the company's probability of GCAO being issued goes down with an increase in the profitability level.

H4: The client's profitability negatively impacts the probability of issuing a going concern audit opinion.

2.2.5. Audit lag and going concern audit opinion

Audit lag is the number of days it takes between financial year-end and the date that the external audit report is issued. It shows how many days the closing date of the audited financial period is in contrast to the end date of the audit. The factors affecting audit lag include the size and complexities of the company, as well as the nature of activity Zhou et al. (2024). Carson et al. (2013) suggested that the opinion could be delayed because the auditor tends to conduct thorough tests,

additionally, if management faces significant uncertainties in the business, negotiation processes may take a long time. The external auditor may choose to postpone issuing the opinion in the hope that management can successfully resolve the issue. An unusually long audit lag would, therefore, indicate that there are serious issues with the overall financial stability of the company and may further put its viability to operate as a going concern into question in the near future, this is, therefore, one particular case where realization can actually lead to a GCAO.

H5: Audit lag positively impacts the likelihood of issuing a going concern audit opinion.

3. RESEARCH METHODOLOGY

3.1. Method and data

This study will use the quantitative approach which is normally used to derive statistical deductions and generalizations about a particular phenomenon, a quantitative study focuses on the methodical gathering, analysis, and interpretation of numerical data. The data for this paper will be mainly collected from the annual financial reports and the external audit report which are disclosed on the Amman Stock Exchange (ASE) market (<https://www.ase.com.jo/en>). Data analysis and hypotheses testing for this study will be performed using Statistical Package for the Social Sciences (SPSS) ver. 23.0. This study used binary logistic regression analysis since the dependent variable is a dichotomous variable. It is a statistical tool that can explain the relationships of a binary dependent variable with other explanatory variables in an analytical procedure (Simamora & Hendarjatno, 2019; Averio, 2021). The questionnaires may be an alternate tool that can be used to collect the views expressed by the external auditors and financial managers regarding the major components and factors that support the issuance of a GCAO.

3.2. Population and sample

The targeted population was all the public shareholding companies listed in the ASE, excluding the financial sector, for the years 2018–2022. Table 1 shows the mechanism for selecting the study sample. The study sample required that the company be listed throughout the study period. It also required that the necessary data be available during the study period. By applying the aforementioned conditions, the study sample reached 72 companies per year. To obtain data for the study, the financial reports were manually examined, reaching a total of 360 financial reports, out of which 63 received a GCAO. Table 2 shows a breakdown of the study sample according to the type of report.

Table 1. The sample selection

<i>Item</i>	<i>Number</i>
Number of listed companies	209
Delisted companies during the study period	37
Financial companies	95
Missing data	5
The study sample/year	72
Total sample for the period (2018–2022)	360

Table 2. Going concern opinion

Year	GCAO	Non-GCAO	Sum
2018 count	10	62	72
% of total	13.8	86.2	100
2019 count	13	59	72
% of total	18	82	100
2020 count	11	61	72
% of total	15.2	84.7	100
2021 count	14	58	72
% of total	19.4	80.6	100
2022 count	15	57	72
% of total	20.8	79.2	100
Total	63	297	360

3.3. Variables definition and measurement

The GCAO represents the dependent variable. This opinion is an amended type of unmodified auditing opinion, stated with professional judgment. This is when an auditor expresses his or her assessment of the existence of a substantial risk that would impact the company's going concern in future periods (Junaidi & Hartono, 2010; Gama & Astuti, 2014). The firms that received a GCAO were coded as 1, while those that did not were coded as 0. This aligns with the assessment of Altawalbeh and Alroud (2023), and Averio (2021).

The independent variables are:

- **Company size.** The company's size of the company is a significant factor in its continuity due to its ability to withstand financial pressures and provide the necessary resources. Larger companies may be more diversified and have the ability to achieve economies of scale (Junaidi &

Hartono, 2010; Gama & Astuti, 2014). Also, according to the social contract theory, large companies are often subject to societal oversight, and, therefore, these companies will seek to provide transparent financial data that reflects the true performance of those companies. The natural logarithm of the company's total assets is used as a proxy for measuring the company size (Junaidi & Hartono, 2010).

- **Liquidity.** It is a financial indicator of an organization's ability to fulfill its short-term liabilities using liquid assets. Liquid assets in this context refer to those which can be turned into cash within one year or less. The liquidity ratio, thus, indicates an ability to meet the requirement of short-term financial obligations without being compelled to sell fixed assets or employ external financing (Samo & Murad, 2019). The liquidity level is effectively depicted by the quick ratio, calculated as follows (Simamora & Hendarjatno, 2019):

$$\text{Quick ratio} = \frac{\text{Total current asset} - \text{Stock/account payable}}{\text{Total current liability}} \quad (1)$$

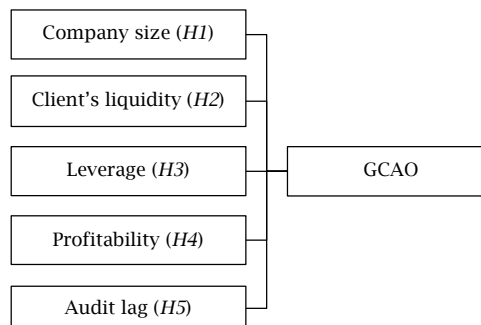
- **Leverage.** Leverage is the indication to which an organization is able to meet its financial obligations, both short and long-term. High financial leverage connotes that the capital of a company is highly representative of debts. It implies that the organization would be very sensitive to managing debt repayment schedules along with interest payable which is very capable of downplaying the financial performance of the organization as a whole (Samo & Murad, 2019). The general way of measuring financial leverage is the total liabilities-to-total asset ratio (Junaidi & Hartono, 2010).

- **Profitability.** It refers to a company's ability to generate a return on investment given its resources. Profitability ratios show the overall performance of a company. Profitability ratios offer a general view of how well the operational activities of the firm generate returns. In essence, they are holistic

assessments of firm performance and help in comparing the ability of the firm to continue operations as a going concern and its competitive advantage. The return on assets (ROA) ratio is going to be used for the computation of profitability (Alarussi & Alhaderi, 2018).

- **Audit lag.** Audit lag refers to the time period between the close of the fiscal year and the date when the external audit report is issued. This time period depends upon factors such as the size of the entity, the nature of the industry in which the business is involved, and economic circumstances. Audit lag can be measured by the number of days taken from the end of the financial period to the date of the audit report issuance (Simamora & Hendarjatno, 2019). Figure 1 shows the conceptual framework.

Figure 1. Conceptual framework



4. FINDINGS AND DISCUSSION

4.1. Descriptive statistics

Table 3 displays the sample descriptive statistics of the 72 companies analyzed during the study period

Table 3. Descriptive statistics

<i>Variables</i>	<i>Observations</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. deviation</i>
<i>Company size</i> (in millions)	360	0.33	536.69	10.62	28.637
<i>Liquidity</i> (%)	360	0.07	4.56	0.763	0.711
<i>Leverage</i> (%)	360	0.091	20.82	2.39	5.84
<i>Profitability</i> (ROA)	360	-63.4	5.33	-12.31	14.51
<i>Audit lag</i>	360	58	355	82.3	51.9
<i>GCAO</i>	360	0	1	0.202	0.431
Valid(N) listwise	360				

Source: Author's data analysis using SPSS 23 software.

The average size of companies in the study sample was 10.62 million Jordanian dinars (JOD), with a standard deviation of 28.637. The minimum value for the *company size* variable was JOD 0.33 million, and the maximum value was JOD 536.69 million. Table 3 also shows that the average *liquidity* ratio for the study sample is 0.763, with a standard deviation of 0.711. The liquidity ratio expresses the ability of the company to liquidate assets into cash. Table 3 shows that the average financial *leverage* is 2.39 with a standard deviation of 5.84. A high degree of leverage ratio may be indicative of over-dependence upon debts in the financing activities, hence elevating the level of risk. Concerning profitability, Table 3 expresses great fluctuation from results: 1) the minimum ROA reached -63.4, while the maximum ROA reached 5.33 with an average of -12.31; and 2) a negative average return reflected on assets means that most companies in the sample showed losses during the study period. Table 3 indicates the time it takes companies to issue the external auditor's report, as companies need, on average, 83 days to issue the external auditor's report. The minimum value was 58 days while the maximum value was 355 days. From Table 3, it was also indicated that a mean of 20.2% of the sample study received a GCAO and the rest of the sample received a non-GCAO. The audit opinion was measured through a dummy variable whereby the number 0 indicates non-GCAO, while the number 1 indicates GCAO.

4.2. Model validity

Goodness-of-fit test, in the context of logistic regression, tends to assess the model-fit of data that is appropriate for the current study. Thus, the test aims to check whether or not the model fits well with the data. Several statistical tests can be used to check the goodness-of-fit including: 1) the Chi-square goodness-of-fit test, which basically compares reality with theoretical expectations regarding data distribution generated by the use of the model under actual data; 2) the Hosmer-Lemeshow (HL) test that divides the data into small groups based on values predicted from the model, and then compares the actual distribution of cases in these groups with the expected distribution; 3) pseudo R-squared which can be used to measure the statistical relevance between data and the model.

projecting indicators of central tendency — in the form of mean and standard deviation — and respective indicators of dispersion (minimum and maximum value).

4.3. Hosmer-Lemeshow test

The Hosmer-Lemeshow test is a statistical test used to evaluate the fit of a logistic model to observed data. This test aims to compare the actual distribution of data with the distribution expected from the model. Given the results presented in Table 4, we can confidently conclude that we do not have enough statistical evidence to reject the hypothesis on the goodness of fit of the logistic model to the observed data. This is because the p-value, that is, the probable value of the alternative hypothesis when H_0 is rejected, stands at 0.203, greater than the normally accepted level of significance at 0.05.

Table 4. Hosmer-Lemeshow test (Step 1)

<i>Chi-square</i>	<i>df</i>	<i>Sig.</i>
12.97	5	0.203

Source: Author's data analysis using SPSS 23 software.

In other words, it can be said that the logistic model represents the data well and is able to predict the actual distribution of the data.

4.4. Pseudo R-squared test

Pseudo R-squared is a measure in regression analysis purporting to indicate the proportion of variance of the dependent variable explained by the changes in the independent variables. The pseudo R-squared test results are shown in Table 5 below. According to Table 5, the value of Nagelkerke R^2 shows 0.686 indicating that changes in independent variables explain 68.6% of the dependent variable variations. In general, these figures show that logistic regression fits the data and used variables in this paper.

Table 5. Pseudo test (Step 1)

<i>-2 log likelihood</i>	<i>Cox and snell R^2</i>	<i>Nagelkerke R^2</i>
81.98	0.473	0.686

Source: Author's data analysis using SPSS 23 software.

4.5. Findings and discussions

The results of the binary logistic regression are shown in Table 6. From the output, the *company size* variable gives a significance level of 0.476, which is above 0.05. Further, from the output, the *liquidity*

variable shows a significance level of 0.003, which is less than 0.05. Also, from the output, the *leverage* variable gives a significance level of 0.001, which is below 0.05. *Profitability* had an outcome of 0.002,

lower than 0.05. Furthermore, the p-value for the *audit lag* variable is $0.352 > 0.05$. Considering all values the logistic regression model may be represented as follows below.

$$\ln \frac{GCAO}{1 - GCAO} = -4.334 + 0.211 \text{ Company size} - 2.991 \text{ Liquidity} + 3.014 \text{ Leverage} - 1.023 \text{ Profitability} + 0.031 \text{ Audit lag} \quad (2)$$

4.5.1. The company size and GCAO

According to Table 6, the result indicated that Company size does not have a significant impact on GCAO because the value of significance is 0.476, which is greater than 0.05. Therefore, *H1* was rejected.

This is in line with results obtained by a few of the most recent studies; for example, Averio (2021) and Hamsyi and Yosevin (2022) did not find any significant effect that could be attributed to company size on the issuance of a GCAO.

Table 6. The logistic regression results

Step1	B	Std. error	Wald	df	Sig.	Exp (B)	95% C.I. for EXP(B)	
							Lower	Upper
Company size	0.211	0.321	0.431	1	0.476	1.092	0.594	2.663
Liquidity	-2.991	0.727	8.922	1	0.003	0.041	0.006	0.401
Leverage	3.014	0.942	10.671	1	0.001	22.458	5.996	160.872
Profitability (ROA)	-1.023	0.041	0.992	1	0.002	0.979	0.942	2.062
Audit lag	0.031	0.021	1.322	1	0.352	1.302	0.988	2.003
Constant	-4.334	3.024	0.655	1	0.421	0.225		

4.5.2. The liquidity and going concern audit opinion

According to the data presented in Table 6, it could be noticed that the GCAO is highly correlated with the ability of the company to pay its debt. The corresponding p-value equals 0.003, regression coefficient -2.991. This highly negative effect aligns with the evidence that the higher the liquidity the lower the likelihood of receiving a GCAO. Liquidity cushions financial distress, improving investors' and creditors' trust and the creditworthiness of stakeholders. This also agrees with Chiaramonte and Casu (2017), who noted that liquidity is an essential ingredient in avoiding financial problems. In this respect, these findings, compared to other related studies by Samo and Murad (2019) and Hamsyi (2022), therefore, confirm more reliability in liquidity aspects as a going concern and stability indicator in financial statements. These results have considerable implications regarding different parties such as auditors, policymakers, and other practitioners, this means that checking liquidity is of much importance when planning and reviewing audits. The results also require the policymakers to incorporate liquidity measures in rules and regulations. This ensures that companies maintain enough liquidity that helps to avoid financial crises through the facilitation of quicker responses. Based on this result we accept the *H2*.

4.5.3. The leverage and going concern audit opinion

The *leverage* variable produces a significance value below 0.001, also less than the level of 0.05, with a B-value of 3.014. This output, therefore, confirms the positive and significant impact of the *leverage* variable on the auditor's opinion in such a way that the higher the *leverage* ratio is, the higher the *probability* of issuing a GCAO. The high debt ratio reflects the company's use of large amounts of debt to finance its activities, which entails financial risks. When a company is highly indebted, it is more exposed to liquidity problems and the ability to repay debts due in a timely manner, which

negatively affects its financial reputation. In addition, pressures from paying interest on debt may increase the financial pressures on the company and reduce profits available to invest in business growth. This result is consistent with previous studies (Simamora & Hendarjatno, 2019; Averio, 2021; Hamsyi, 2022), and accordingly, the *H3* will be accepted.

4.5.4. The profitability and going concern audit opinion

As per Table 6, although the p-value of the *profitability* variable was 0.002, the regression coefficient equals -1.023, testifying to a statistically significant negative link between the variables. Such an outcome strongly supports hypothesis *H4*, stating that the higher level of *profitability* significantly reduces the possibility of issuing a GCAO. In other words, if the company's profitability increases it will contribute to reducing the likelihood of issuing a GCAO. Profitability is a crucial measure of a firm's financial health, measuring the capability to sustainably and increasingly deliver results over time. Improved profitability obliterates not only fears about the sustainability of operations but also strengthens confidence among investors and creditors. This further goes to the extent of securing confidence that the firm is capable of generating enough revenues to pay all debt obligations and support current and future growth initiatives. Improved financial performance also indicates the strength and stability of the company, which reduces financial risks and increases confidence in its ability to survive in the market. This result is consistent with previous studies (Averio, 2021; Hamsyi, 2022), and accordingly, the *H4* will be accepted.

4.5.5. The audit lag and going concern audit opinion

The statistical results in Table 6 above portray that the *audit lag* variable has a significance value of 0.352, which is above the cutoff level of 0.05.

Hence, it would be proper to deduce that *audit lag* is not a significant determinant of issuance of *GCAO* and leads to the rejection of hypothesis *H5*, which proposed a positive relationship between *audit lag* and propensity to issue a *GCAO*. The results do not suggest that the length of the audit period is statistically significant, per se, as a measure of uncertainty associated with a firm's going concern status. Audits should, therefore, be planned and conducted with this perspective in view. This shall highlight that the extension of audit procedures must focus on substantive issues and not merely the overcoming of procedural delays. Findings for regulatory bodies may help in formulating audit scheduling and guidelines and indicate that a single approach may not be fitting for all organizations. This result is consistent with Simamora and Hendarjatno (2019), Averio (2021), and Hamsyi (2022), therefore, *H5* is rejected.

5. CONCLUSION

The findings from the result of logistic regression analysis showed several variables reflecting a significant relationship with the likelihood of issuing a *GCAO*. From the result, it can be derived that both liquidity and profitability reflect the negative effects of issuing a *GCAO*, while financial leverage has a positive influence on the chance of *GCAO* issuance. This study recommends that managers should reduce the probability of receiving a *GCAO* by enhancing financial management. It is basically the improvement in liquidity and profitability. Which can be achieved through effective cash flow management and controls over costs and revenues. Additionally, managers should carefully monitor

financial leverage, ensuring that debt levels remain sustainable. This might involve adjusting capital structure and refinancing existing debt to maintain financial stability. Another key area of risk reduction in going-concern opinions is an enhancement of the corporate governance system. Finally, firms can adopt proactive risk management strategies and scenario planning to prevent or foresee financial distress. By stress-testing financial models regularly and considering a range of economic scenarios, managers can proactively take steps to protect the company's financial health. Such proactive management not only minimizes the probability of receiving a going concern opinion but also readies the organization for long-term stability and growth. Such findings may also be developed in future research by including other factors, like the quality of management and effectiveness of the audit committee, to produce a comprehensive view of the determinants of *GCAOs*. However, this research is not bereft of its limitations, which flag opportunities for further investigation. The prediction model has an explained power of about 68.6%, and the effectiveness of audit committees and quality of governance per se are not taken into view in this study. Further research should be directed into these interactions to develop fuller knowledge regarding how the financial and operational factors interactively affect the audit outcomes. Investigating the interactions can also give more details of how they affect auditors' decisions. Extensions of such studies may lead to a further understanding of the financial indicators concerned with auditing and, at the same time, enhance the models of predictions in the work of auditing so that the latter becomes intelligent and sophisticated.

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