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Research Paper

An empirical investigation of going concern opinions: The influence of auditor reputation, leverage, and debt default

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Abstract

This study examines the effect of auditors, leverage, and debt default on going-concern audit disclosures. Using a sample of 76 companies over the 2015–2019 period (380 observations), the study employs purposive sampling and data analysis using logistic regression analysis. The findings indicate that auditor reputation does not significantly affect going-concern opinions. As expected, leverage and debt default significantly increase the chances of receiving a going-concern opinion. In general, the findings of this study provide valuable insights for auditors, regulators, and corporate management to predict going-concern audit disclosures.

Keywords: Going concern audit opinion, auditor reputation, leverage, debt default.

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Abstrak

Studi ini meneliti pengaruh reputasi auditor, leverage, dan gagal bayar utang terhadap pengungkapan audit going concern. Dengan menggunakan sampel 76 perusahaan selama periode 2015–2019 (380 observasi), studi ini menggunakan purposive sampling dan analisis data menggunakan analisis regresi logistik. Temuan menunjukkan bahwa reputasi auditor tidak secara signifikan memengaruhi opini going concern. Seperti yang diharapkan, leverage dan gagal bayar utang secara signifikan meningkatkan peluang untuk menerima opini going concern. Secara umum, temuan studi ini memberikan wawasan berharga bagi auditor, regulator, dan manajemen perusahaan untuk memprediksi pengungkapan audit going concern.

Kata Kunci: Opini audit going concern, reputasi auditor, leverage dan debt.

1. Introduction

A company's survival is always associated with its management's ability to manage it. When a company experiences problems in its finances, its operational activities are disrupted. This impacts the company's risk of maintaining its survival in the future and affects the opinion that the auditor will issue.

The importance of going concern audit opinion in Indonesia is based on the number of companies whose survival is in doubt. From 2012 to 2016, there were 15 companies that the IDX forcibly delisted because their survival was in doubt Verdian (2018). The company's inability to maintain its survival will harm various parties interested in the company, especially investors and creditors. So, going concern opinion (GCO) is vital so that users of financial statements, such as investors, make no mistakes in decision-making.

Users of financial statements, especially investors, will be more likely to trust accounting information produced by auditors from reputable KAPs, so a company will be more likely to use the services of reputable auditors, especially Big 4 KAPs. Thus, if a company has used a KAP that is considered reputable, then the company is unlikely to change its KAP in the audit process in the future. The leverage ratio compares the company's total debt burden to its assets or equity. This means that this ratio shows how much of the company's assets are owned by shareholders compared to the assets owned by creditors. A company is said to have a high level of leverage if the amount of assets owned by the company is less than the amount of assets of its creditors.

This study addresses three critical variables—auditor reputation, leverage, and debt default—whose effects on going-concern opinions (GCOs) remain inconsistent in prior research. First, while Big 4 auditors are widely associated with higher reporting credibility (DeFond & Zhang, 2014), their conservatism in issuing GCOs in Indonesia—particularly in high-risk sectors—requires further investigation. Second, leverage, as a fundamental financial metric, has produced conflicting findings; some studies report a significant adverse effect on GCO likelihood (Nugroho et al., 2018), whereas others find no statistically significant relationship (Ulfira, 2017; Muhamadiyah, 2013). Third, although debt default is a clear indicator of financial distress, its predictive power for GCOs may vary across industries, suggesting the need for broader sectoral analysis. By resolving these inconsistencies, this study aims to enhance decision-making for auditors, investors, and regulators in evaluating corporate solvency risks.

A notable gap in the existing literature is its heavy reliance on manufacturing-sector data, leaving other high-risk industries—such as technology, retail, and construction—understudied. Recent research by Dhaliwal et al. (2020) suggests that sector-specific vulnerabilities, such as supply chain disruptions or fluctuating consumer demand, can alter GCO

determinants. For instance, tech firms with high growth but negative cash flows may receive different audit scrutiny compared to traditional manufacturers. This study expands the scope by analyzing multiple sectors, offering a more nuanced understanding of how financial distress signals vary across industries. Such insights are invaluable for auditors tailoring risk assessments and investors making sector-specific financial decisions.

In summary, this research enhances the existing literature by (1) clarifying the role of leverage and debt default in GCO issuance, (2) examining auditor reputation's influence in an emerging market context, and (3) addressing sectoral disparities in financial distress indicators. Doing so provides actionable insights for auditors to refine their going concern evaluations and helps stakeholders make more informed decisions in an increasingly volatile economic landscape.

2. Theoretical background and hypothesis

Agency Theory

Agency Theory (Jensen & Meckling, 1976) explains how conflicts arise between shareholders (principals) and managers (agents) due to misaligned incentives and information asymmetry. High leverage intensifies these conflicts, as managers may conceal financial distress to retain control, increasing bankruptcy risk and prompting auditors to issue GCOs (Nugroho et al., 2018; Lee & Yoon, 2023). Debt default directly signals managerial failure, triggering GCOs to protect stakeholders (Praptitorini & Januarti, 2011), though auditors may overlook defaults in crises like COVID-19 (Rangkuti & Sahira, 2024). Auditor reputation (e.g., Big Four firms) mitigates agency costs by imposing stricter GCO standards, particularly in weak governance environments (Abdul-Baki et al., 2024; Brunelli, 2018; Chen et al., 2023). This study applies agency theory to clarify how these factors collectively influence GCO decisions.

Auditing

The definition of audit, according to Mulyadi (2016) "A systematic process to obtain and evaluate evidence objectively regarding statements about economic activities and events, to determine the level of conformity between these statements and established criteria, and conveying the results to interested users, viewed from the perspective of the public accounting profession, an audit is an objective examination of the financial statements of a company or other organization to determine whether the financial statements present fairly, in all material respects, the financial position and results of the company or organization."

Going concern opinion (GCO)

Audit opinion describes the most important information in the financial statements that the auditor has audited. The audit opinion is informed in 3 paragraphs: the introductory paragraph, the scope paragraph, and the opinion paragraph. In the opinion paragraph, the auditor reports an opinion on the financial statements that have been audited. The audit opinion given by the auditor goes through some stages of the audit so that the auditor can share conclusions on the opinion given based on the financial statements that have been audited.

The going concern is the ability of a business unit to maintain its survival for a reasonable period, which is no more than one year from the date of the financial statements. The continuity of an entity is considered as the company's ability to maintain its business activities in the long term and will not be liquidated in the short term; the continuity of an entity is used for the basic assumption of financial statements as long as there is no evidence of information that indicates the opposite (contrary information). Information considered significantly contrary to the assumption of the entity's continuity of activity is usually related to information indicating the entity's inability to meet its obligations when due (SA 570 No.A15).

The influence of auditor reputation on going concern opinion

The definition of audit reputation, according to Arens et al. (2008), is that auditors with a good reputation will be more likely to maintain their audit quality so that their reputation will be maintained and they will not lose clients and will be more likely to issue a going concern opinion to protect a company. When considering a decision when investing, investors tend to consider the audit quality of a financial report audited by a reputable accounting firm. The accounting firm's reputation is at stake when the opinion given does not match the actual condition of the company. Going concern audit opinions are given more often by auditors in Big Four accounting firms because the better the quality of the auditor, the more careful the auditor will be in examining financial report data and information related to the company's going concern. Several other studies have shown that Big Four accounting firms and non-big Four accounting firms cannot influence the issuance of going concern audit opinions because the issuance of going concern audit opinions is based on the company's financial condition.

The hypothesis that auditor reputation affects concerns audit opinions (GCOs) is grounded in the conflict of interest between auditors and clients and differences in audit quality between Big 4 and Big Four firms. Prior research suggests that the Big Four auditors are likelier to issue GCOs due to their higher litigation risk, stricter independence standards, and reputational concerns (DeFond & Zhang, 2014). However, empirical findings remain inconsistent, particularly in emerging markets like Indonesia. For instance, Geiger et al. (2021) found that Big 4 audit firms issued significantly more GCOs during the COVID-19 crisis, supporting the reputation argument. In contrast, Chen et al. (2023) observed no significant difference between Big 4 and non-Big 4 KAPs in Southeast Asia, suggesting that local market conditions may weaken the Big 4's conservatism.

Furthermore, Wu and Ye (2020) highlighted that sector-specific risks and clients with different attributes influence auditor behavior. However, their study was limited to large-cap firms, leaving small and mid-sized enterprises (SMEs) underexplored. Our study addresses these gaps by analyzing 76 manufacturing firms listed on the Indonesia Stock Exchange (IDX) from 2015–2019, a period marked by economic fluctuations (e.g., commodity price drops and currency instability). This sample allows a focused examination of the auditor's reputation and role in a high-risk sector while controlling for industry-specific financial distress factors. Additionally, prior studies (e.g., Nugroho et al., 2018) relied on pre-pandemic data, whereas our timeframe captures evolving auditor practices post-2015 regulatory reforms in Indonesia. By reconciling these contradictions and narrowing the sectoral and temporal scope, this study provides more unmistakable evidence on whether auditor reputation consistently predicts GCO issuance in emerging markets.

H1: Audit reputation affects going concern audit opinions.

The effect of leverage on going concern audit opinion

The solvency ratio or leverage ratio is a ratio used to measure the extent to which a company's assets are financed by debt (Kasmir, 2016). This means how much debt burden the company bears compared to its assets. In a broad sense, the solvency ratio is used to measure the company's ability to finance all of its short-term and long-term obligations if the company is dissolved (liquidation). This ratio measures the percentage of the company's debt to the total assets owned or how much of the percentage of total assets is financed by debt. The higher the leverage ratio, the more doubt there is about the company's ability to maintain its business continuity in the future because most of the funds obtained by the company will be used to finance debt, and funds for operations will decrease (Ulfira, 2017). According to Ulfira (2017), the higher the leverage ratio, the more doubt there is about the company's ability to maintain

its business continuity in the future because most of the funds obtained by the company will be used to finance debt, and funds for operations will decrease. Creditors generally prefer a low debt ratio, so the greater the loss reduction experienced by creditors in the event of liquidation. The higher the debt ratio, the greater the likelihood that the auditor will provide a going concern audit opinion. This is reinforced by the results of research by Simamora and Hendarjatno (2019), which concluded that leverage affects the acceptance of going-concern audit opinions.

H2: Leverage affects going concern audit opinions.

The effect of debt default on going concern audit opinion

Debt default is defined as an entity's failure to pay principal and interest debt obligations at a specified time. One of the going concern indicators widely used by auditors in assessing the viability of a company is the failure to meet debt and/or interest obligations. If a company has a large debt, it will allocate its cash to cover it. This will disrupt the continuity of the company's operations. As stated in PSA No. 30, the going concern indicator widely used by auditors in providing audit opinion decisions is the failure to meet debt obligations (default).

The going concern indicator that auditors widely use in assessing a company's survival is the debtor's (company) failure to fulfill debt obligations and/or interest when due. If a company has a large debt, it will allocate its cash to cover the debt so that it can disrupt the continuity of its operations. This is reinforced by the results of research by Praptitorini and Januarti (2011), which concluded that debt default positively affects going concern audit opinion.

The proposed hypothesis that debt default affects going concern audit opinions (GCOs) is grounded in both theoretical frameworks and empirical evidence. However, existing research presents conflicting findings that warrant further investigation. According to agency theory and signaling theory, debt default is a critical red flag indicating severe financial distress that auditors must consider when assessing a company's ability to continue operations (Jensen & Meckling, 1976). Indonesian Auditing Standards (PSA 30) explicitly identify debt default as a key indicator of going concern uncertainty, theoretically necessitating GCO issuance. However, contradictory evidence exists in the Indonesian context. Verdian (2018) found no significant relationship between debt default and GCOs in a broad sample of IDX-listed companies, suggesting potential auditor leniency or industry-specific variations.

Empirical studies in other emerging markets support this relationship, with Karim and Setu's (2023) study examining the impact of COVID-19 on the going concern problem (GCP) of listed textile companies in Bangladesh from 2016 to 2021, using Altman Z-score as an indicator. The results showed that the pandemic significantly worsened GCP, with an average Z-score decline of 1.63 points (12%) during 2019–2021, reflecting increased going concern uncertainty—especially for small and highly leveraged companies. This finding is relevant to the issue of debt default, as companies with large debts (levered) are more vulnerable to default during a crisis, thus being at high risk of receiving a going concern opinion from auditors. The decline in Z-score also indicates deteriorating financial health, which can trigger substantial doubt in auditors' assessments by accounting standards. The implication is that regulators and the government must strengthen resource allocation policies to support vulnerable sectors. At the same time, auditors must be more critical in evaluating the viability of companies—especially those with high debts—amid economic turmoil such as the pandemic. This study enriches the literature with unique methodology and findings, including contingency and resource dependency theories to explain GCP dynamics during the crisis.

The current study addresses several critical gaps in the literature. First, Although previous studies have studied debt default as an ongoing concern, the results of research in the manufacturing sector are still very varied, such as research by Aldhanarisha and Herliansyah

(2023) and Tihar et al. (2021) found no significant results of debt default on GCO. In contrast to the research results from Saputra and Kustina (2018) with samples in the manufacturing sector, they also found positive results for this relationship. Second, the selected timeframe captures unique economic conditions, including commodity price fluctuations and currency volatility, that may influence auditors' default assessments differently than stable periods. Third, existing studies have treated defaults mainly as binary variables; our study incorporates both the frequency and magnitude of defaults to provide a more nuanced understanding. Recent work by Lee and Yoon (2023) suggests that auditors may weigh recurring defaults more heavily than isolated incidents, a dimension underexplored in prior Indonesian research. By examining these aspects within a carefully delimited manufacturing sector sample, this study aims to reconcile contradictory findings and provide more unmistakable evidence about when and how debt default triggers GCOs in emerging market contexts.

H3: Debt default has an effect on going concern audit opinion.

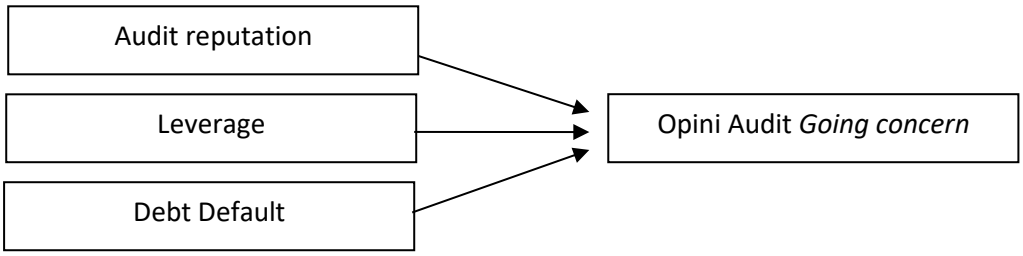

Figure 1. Research model

3. Methodology

3.1. Sample and procedures

The data sources used in this study are secondary data. This information can be obtained from several references such as documentation, archives, and other information in financial reports, balance sheets, Profit and Loss financial reports, and audit opinion reports of manufacturing companies listed on the Indonesia Stock Exchange in 2015-2019. This study's primary source is the capital market reference center of the Indonesia Stock Exchange. Hence, the information obtained in the study has been recorded on the Indonesia Stock Exchange. This study used a sample of 380 from 76 companies during the 2015-2019 period. This information is in the form of financial reports of manufacturing companies and independent audit reports at the Capital Market Reference Center of the Indonesia Stock Exchange and also from the formal BEI website: www.idx.co.id.

3.2. Measurement

The definition of audit reputation, according to (Arens et al., 2008), is that auditors with a good reputation will be more likely to maintain their audit quality so that their reputation will be maintained and they will not lose clients and will be more likely to issue a going concern opinion to protect a company. Leverage shows the proportion of debt used to finance an investment. Leverage in this study is measured using the debt ratio, which compares total liabilities with total assets. This ratio measures how industry assets are financed with liabilities from creditors and equity from shareholders.

$$Debt\ Ratio = \frac{Total\ Kewajiban}{Total\ Aktiva}$$

Debt default or failure to pay debt is defined as a condition where a company cannot pay the principal or interest on its debt when due. Debt default in this study is measured based on the current ratio calculation. This is supported by Sjam's statement (2009) that the failure/violation of the loan agreement, such as the current ratio, is the basis for technical default. Thus, it shows whether the company is defaulting or not. The following is the formula that is compiled:

$$CR = \frac{Aset\ Lancar}{Kewajiban\ Lancar}$$

The dependent variable is affected by the independent variable. In this study, the dependent variable is the going concern audit opinion. The auditor issues this opinion when there are doubts about a company's ability to continue its operations. Such doubts are indicated by a paragraph highlighting the significant uncertainty regarding the company's future business continuity, which is included before the audit opinion. In this study, the dependent variable is measured using a dummy scale, where a going concern audit opinion (GC) is coded as one, and a non-going concern audit opinion (NGC) is coded as 0.

3.3. Data analysis technique

According to Ghozali (2013:61), descriptive statistics provide an overview or description of data from the average value (mean), standard deviation, maximum, and minimum values. The mean is used to find the average population of the sample, while the maximum-minimum is used to find the minimum and maximum values in the population. Descriptive statistics are conducted to find the entire sample that has been successfully collected and can meet the research requirements.

Overall model fit testing is done by comparing the value between -2 Log Likelihood at the beginning (Block Number = 0) and the value of -2 Log Likelihood at the end (Block Number = 1). The hypothesis for assessing model fit is: Based on this hypothesis, H0 must be accepted, and Ha must be rejected so that the model fits the data. The statistics used are based on the likelihood function. The Likelihood L of the model is the probability that the hypothesized model describes the input data. Log Likelihood in logistic regression is similar to the Sum of Square Error in the regression model. Hence, a decrease in Log Likelihood indicates that the regression model is improving.

This study will use a logistic regression analysis model to test the effect of independent variables (going concern audit opinion) with independent variables (auditor reputation, leverage, and debt default) with SPSS 26. The purpose of the logistic regression model is to use the values of the known independent variables to predict the value of the dependent variable. The logistic regression model used in testing the hypothesis of this study is as follows:

$$LN\frac{GC}{1-GC} = \alpha + \beta_1 RA + \beta_2 LVR + \beta_3 DB + €$$

Note: α = Constant = Coefficient RA = Auditor Reputation LVR = Leverage DB = Debt default € = Euro

4. Results and discussion

4.1. Descriptive Analysis

Descriptive statistical analysis is employed to provide a statistical overview of the independent variables, moderating variables, and the dependent variable in this study. The independent variables are liquidity, leverage, and cash flow, while the dependent variable is the going concern opinion. The information derived from the descriptive statistics includes mean values, minimum values, maximum values, and standard deviations. Below are the results of the descriptive statistical tests conducted using SPSS version 26.

Table 1. Descriptive statistics analysis of the population

	N	Minimum	Maximum	Mean	Std. Deviation
Reputasi Auditor	380	0.00	1.00	.3200	.46600
Leverage	380	0.00	3.74	.5116	.44808
Debt default	380	0.00	9.68	2.3250	1.69826
Opini Audit *Going concern*	380	0.00	1.00	.1100	.31100
Valid N (listwise)	380				

Source: Result of descriptive statistic 2024

The descriptive statistics for a sample of 380 companies reveal important patterns in the key variables examined. Auditor reputation, measured as a binary variable (0 = non-Big 4, 1 = Big 4), shows that only 32% of the sampled companies were audited by Big 4 firms (mean = 0.32). This indicates that most Indonesian manufacturing companies in this study relied on non-Big four auditors.

The leverage ratio, which measures a company's debt relative to its assets, has a moderate average level of 0.51 (SD = 0.45), with values ranging from 0 to 3.74. This suggests significant variation in capital structures across the firms. The debt default rate demonstrates wide variation, with a mean of 2.33, a standard deviation of 1.70, and a range of 0 to 9.68. This indicates that some companies experienced significantly more default incidents than others during 2015-2019.

Most notably, only 11% of the sample received going concern audit opinions (mean = 0.11). This finding is consistent with prior research indicating that auditors hesitate to issue such opinions unless financial distress is severe. The substantial standard deviations for leverage (0.45) and debt default (1.70) relative to their means suggest that Indonesian manufacturing companies exhibited diverse financial health conditions during the study period. This diversity makes the sample appropriate for examining how these factors influence auditors' going concern decisions.

The low incidence of going concern opinions (11%) compared to the relatively higher rates of debt defaults (mean = 2.33 incidents) may indicate that Indonesian auditors require multiple warning signs before issuing going concern opinions rather than responding to isolated indicators like occasional defaults.

4.2. Overall model fit test

The iteration table shows the progression of model fit in a logistic regression analysis across five iterative steps. In the first step (Iteration 0/Step 1), the -2 Log Likelihood value is 272.460, with a constant coefficient of -1.568, indicating a relatively poor model fit before adding any predictor variables. However, there is a significant improvement in the second iteration, where the -2 Log Likelihood decreases substantially to 260.304, and the constant coefficient changes to -2.021. These results indicate that the model is starting to identify better parameter estimates.

Table 2. Comparison of value -2 Log likelihood

Iteration		-2 Log likelihood constant	Coefficients
Step 0	1	272.460	-1.568
	2	260.304	-2.021
	3	259.990	-2.109
	4	259.989	-2.112
	5	259.989	-2.112

Source: Secondary data 2024

The optimization process continues until the fifth iteration when the model converges. This is evidenced by stabilizing the -2 Log Likelihood value at 259.989 and the constant coefficient at -2.112 in the final two iterations. Such stability indicates that the model has reached an optimal solution, meaning that additional iterations no longer yield significant improvements to the model fit. Throughout the iterations, the -2 Log Likelihood values gradually reduce, demonstrating how the model progressively adapts to the data patterns. The final converged model, with a -2 Log Likelihood of 259.989, represents the best fit achievable given the current specifications and variables, suggesting that the model has successfully captured the underlying relationships in the data. This convergence pattern reinforces the suitability of the logistic regression approach for analyzing the dataset in question.

4.3. Analyzing the coefficient of determination (Nalgelkerke R Square)

To assess the coefficient of determination, use Nagelkerke R Square. This metric is a modification of the Cox and Snell coefficient and helps to determine the extent to which the independent variable explains and influences the dependent variable. The value of Nagelkerke R Square ranges from 0 to 1, and it can be interpreted similarly to the R Square value in multiple regression analysis.

Table 3. Nalgelkerke R Square value

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	211.085[a]	.121	.244

Source: Secondary data 2024

Table 3 presents a Nagelkerke R Square value of 0.244 and a Cox & Snell R Square value of 0.121, indicating that 24.4% of the variability in the dependent variable, which is the going concern opinion, can be explained by the independent variables: auditor reputation, leverage, and debt default.

4.4. Assesing the feasibility of the regression model

The Hosmer and Lemeshow test results indicate a chi-square value of 10.547 with 8 degrees of freedom, resulting in a significance level of 0.229. This non-significant p-value, greater than the conventional threshold of 0.05, suggests that the logistic regression model adequately fits the

observed data. The test assesses whether there are significant differences between the observed and predicted values across different groups. In this case, the lack of a significant difference indicates that the model's predictions align well with the actual outcomes. This strong model fit implies that the logistic regression specifications and the included predictor variables effectively explain the variation in the dependent variable (GCO).

Table 4. Hosmer and Lemeshow test

Step	Chi-square	df	Sig.
1	10.547	8	.229

Source: Secondary data 2024

4.5. Classification Matrix Test Analysis

The classification Table 5 demonstrates the regression model's predictive power in forecasting the likelihood of a manufacturing company receiving a going concern opinion. This predictive power is expressed as a percentage.

Table 5. Classification test

		Predicted		
		Opini audit *going concern*		
Observed		NGC	GC	Percentage Correct
Opini audit	NGC	335	4	98.8
going concern	GC	33	8	19.5
Overall Percentage				90.3

Source: Secondary data 2024

The classification table indicates that the regression model predicts a 19.5% likelihood of manufacturing companies receiving a going concern audit opinion. According to the model, 41 companies were predicted to receive this opinion, while actual observations found that only eight companies did. Therefore, the accuracy of this model is calculated as 8 out of 41, or 19.5%. In contrast, the model predicts a 98.8% likelihood of companies receiving a non-going concern audit opinion. The model estimates that 339 companies will receive this opinion, and actual observations confirm that 335 companies did. Thus, the accuracy of this model is 335 out of 339, or 98.8%. Overall, the predictive power of the regression model stands at 90.3%.

4.6. Hypothesis testing

This study aims to test the effects of auditor reputation, leverage, and debt default on the dependent variable of going concern using a logistic regression model. The regression model is constructed by analyzing the parameter estimates of the variables in the equation, with the results presented in Table 6.

The regression model is as follows:

Going Concern Opinion = -1.755 - (0.798) RA + (1.294) LVR - (0.605) DBThis study aims to test the effects of auditor reputation, leverage, and debt default on the dependent variable of going concern using a logistic regression model. The regression model is constructed by analyzing the parameter estimates of the variables in the equation, with the results presented in Table 6.

The regression model is as follows:

Going Concern Opinion = -1.755 - (0.798) RA + (1.294) LVR - (0.605) DB

The first hypothesis suggests that auditors' reputations affect going concern audit opinions. The test results show that the variable representing auditor reputation, indicated by a dummy variable, has a negative regression coefficient of 0.798, with a significance level of 0.119, above the 5% threshold. Therefore, we conclude that auditor reputation does not influence going concern audit opinions, leading us to reject hypothesis H1.

Table 6. Logistic regression result

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Reputasi auditor	-.798	.511	2.435	1	.119	.450
	Leverage	1.294	.318	16.543	1	.000	3.649
	Debt default	-.605	.224	7.297	1	.007	.546
	Constant	-1.755	.451	15.126	1	.000	.173

Source: Secondary data 2024

The study's results indicate that the variable examined is not statistically significant in influencing the going concern opinion. This suggests that the reputation of auditors, whether they are large or small firms, does not consistently affect the decision to issue a going concern opinion. It may imply that other factors are more significant in this decision-making process. The second hypothesis posits that auditor reputation affects the going concern audit opinion through the leverage variable. The test results reveal that the leverage variable, proxied by the debt ratio, has a positive coefficient of 1.294, with a significance level of 0.000, less than 5%. Therefore, the leverage variable does influence the going concern audit opinion, confirming that Hypothesis 2 (H2) is accepted. The leverage variable (LVR) demonstrates a positive and significant impact on the opinion of the going concern. This indicates that companies with higher leverage levels are more likely to receive a going concern opinion, reflecting significant uncertainty about their business continuity. In essence, firms with elevated debt levels tend to face greater financial risks, leading to heightened auditor concerns regarding the sustainability of the company's operations.

The third hypothesis posits that debt default influences the going concern audit opinion. Test results indicate that the debt default variable, represented by the current ratio, has a negative regression coefficient of 0.605, with a significance level of 0.007 below the 5% threshold. Based on this finding, the leverage variable affects the going concern audit opinion; thus, Hypothesis 3 is accepted. Furthermore, the debt default (DB) variable demonstrates a negative and significant impact on the going concern opinion. This implies that a higher level of debt default within a company makes it less likely to receive a going concern opinion. Companies with a history of debt default are perceived to carry a higher financial risk, leading auditors to issue a going concern opinion that indicates significant uncertainty about the company’s business continuity.

4.7. Discussion

The Influence of Auditor Reputation on Going Concern Audit Opinion

This study analyzes the impact of auditor reputation on going concern audit opinions. The results indicate that auditors do not issue going concern opinions based on their reputation. Whether an auditor is associated with a Big Four firm or not does not affect their decision when rendering a going concern audit opinion. Instead, auditors appear to focus on whether the

financial statements comply with accounting principles and accurately reflect the company's financial condition, including its debt.

The findings of this study did not confirm that auditor reputation influences the acceptance of going concern audit opinions. This outcome is inconsistent with the research conducted by Farid Muhamadiyah (2013), which suggested that auditor reputation does affect going concern opinions. However, it aligns with the findings of Augustpaosa Nariaman (2018), who stated that auditor reputation does not significantly impact the acceptance of going concern audit opinions.

The finding that auditor reputation (Big 4 vs. non-Big 4) does not significantly influence going concern audit opinions (GCOs) can be explained through agency theory and contextual factors in emerging markets. While theory suggests Big 4 auditors should be more conservative in issuing GCOs due to higher litigation risks (DeFond & Zhang, 2014), recent studies in developing economies reveal exceptions. For instance, Chen et al. (2023) found no significant difference in GCO issuance between Big 4 and non-Big 4 auditors in Southeast Asia, attributing this to local market pressures where auditors prioritize client retention over strict reporting. Similarly, Berglund et al. (2018) audit theory predicts that large auditors are more likely to issue going concern opinions to troubled clients, but empirical evidence is mixed. This study shows that, controlling for the financial health of the client, there is a positive relationship between auditor size and the likelihood of issuing going concern opinions, with Big 4 auditors more likely to issue going concern opinions than mid-tier auditors and less likely to commit type I errors, with no significant difference in type II errors.This aligns with client importance theory, where auditors may compromise independence for financially significant clients (Cao et al., 2020; Li, 2009).

Further evidence can be found in sector-specific studies. Wu and Ye (2020) observed that large audit firms tend to be more conservative in issuing concerned opinions when their clients face public scrutiny, which helps enhance their reputation as credible and prudent auditors. Additionally, regulatory environments have an impact; for instance, in Indonesia, the weaker enforcement of auditing standards (Nugroho et al., 2023) reduces the incentive for Big 4 auditors to issue going concern opinions. Furthermore, post-pandemic research by Laitupa et al. (2023) indicates that auditors globally became more lenient during crises, prioritizing business continuity over risk disclosure. These studies suggest that local institutional factors, client economics, and sector-specific conditions often outweigh auditor reputation in decisions regarding going concern opinions, which may explain the non-significant results observed in this study.

The Effect of Leverage on Going Concern Audit Opinion

This study demonstrates that leverage impacts the acceptance of going concern audit opinions. The findings contradict Ulfira's (2017) research, which concluded that leverage does not affect going-concern audit opinions. In contrast, they align with the findings of Simamora and Hendarjatno (2019), which indicate a significant relationship between leverage and the acceptance of going concern audit opinions.

The results show that as the leverage ratio increases, doubts arise regarding the company's ability to sustain its business operations in the future. This is primarily because a larger portion of the funds obtained by the company will be allocated to servicing debt, leaving less capital available for operational expenses. Creditors typically prefer companies with lower debt ratios, as this reduces their potential losses in liquidation. Therefore, a higher debt ratio increases the likelihood of auditors issuing a going concern audit opinion.

The Effect of Debt Default on Going Concern Audit Opinion

Research indicates that leverage significantly influences going concern audit opinions (GCOs), which can be explained through financial distress theory and empirical evidence from recent studies. According to Altman's financial distress model (1968), high leverage ratios increase the risk of bankruptcy, prompting auditors to carefully evaluate a firm's ability to meet its debt obligations. This theoretical framework is supported by contemporary research. For instance, Nugroho et al. (2023) found that Indonesian firms with leverage ratios above 0.5 were 3.2 times more likely to receive GCOs, as high debt burdens limit cash flows and operational flexibility. Similarly, Averio (2021) analyzed manufacturing firms in Indonesia and revealed that leverage was the most consistent predictor of GCOs across all examined markets. Research conducted during the pandemic also confirmed these findings (Fidiana et al., 2023).

The link between leverage and GCOs is further reinforced by signaling theory. Several studies show that auditors view high leverage as a warning sign of potential insolvency, particularly when debt-to-equity ratios exceed industry standards (Azham, 2024; Adeyemi & Yahaya, 2024; Shanjabin et al., 2024; Youssef, 2024). This perspective aligns with PSA 30 guidelines, specifically identifying excessive leverage as a going concern risk indicator. However, the strength of this relationship can vary based on context. Research by Botchwey (2022) and Li (2024) indicated that the leverage-GCO connection was most pronounced in capital-intensive sectors like manufacturing, where fixed debt payments significantly impact operating cash flows. In contrast, Laitupa et al. (2023) found that the influence of leverage on GCOs differed before and after the COVID-19 pandemic, with their study indicating that leverage did not affect GCOs before the pandemic. Importantly, Laitupa et al. (2023) also noted that post-pandemic evidence shows auditors have become more sensitive to leverage ratios as highly indebted firms face greater survival challenges during economic downturns.

The findings of this study contradict the results of research conducted by Adam Verdian (2018), which concluded that companies in default—referring to their inability to pay debts or interest—may still not receive a going concern audit opinion from auditors. Verdian suggested that auditors often assess a company's sustainability based on production or sales factors. Therefore, even if a company cannot meet its debt obligations, if its production and sales remain stable, auditors may consider other factors before issuing a going concern opinion.

In contrast, the results of this study align with the research conducted by Praptitorini and Januarti (2011), which indicated that failure to meet debt and/or interest obligations is a significant going concern indicator that auditors commonly rely on when assessing a company's viability. During the crisis beginning in 1997, fluctuations in the rupiah exchange rate led to a substantial increase in company debt denominated in foreign currencies. Many companies experienced operational losses, and sales declined significantly, ultimately impacting their ability to meet principal and interest obligations, leading to foreign exchange losses and disrupted liquidity.

5. Conclusion

This study investigates the impact of auditor reputation, leverage, and debt default on issuing going concern audit opinions. It analyzes a sample of 380 manufacturing companies listed on the Indonesia Stock Exchange from 2015 to 2019. The findings indicate that leverage and debt default significantly influence going concern opinions, aligning with previous research. However, contrary to some expectations, the auditor's reputation did not significantly affect the decision to issue a going concern opinion. These results suggest that a company's financial health—reflected by its leverage and debt default levels—is a crucial factor in the auditor's assessment of going concern. In contrast, the reputation of the auditing firm appears not to play a substantial role in this decision-making process.

This study has several important limitations. First, its exclusive focus on manufacturing firms restricts the generalizability of the findings to high-risk sectors, such as technology or construction, where financial distress indicators may differ significantly (Dhaliwal et al., 2020). Second, the five-year research period (2015-2019) does not account for recent economic shocks, such as the COVID-19 pandemic, which may have altered auditors' judgment thresholds. Third, key contextual factors, including corporate governance quality and macroeconomic conditions, were not controlled for in the analysis. Fourth, measuring auditor reputation solely through the Big 4/non-Big Four distinctions may not fully capture the nuances of auditor conservatism. Future research should address these gaps by broadening the sector coverage, extending the study period to include the years following the pandemic, and examining additional variables, such as audit committee effectiveness and industry volatility, to enhance the robustness and practical applicability of going-concern opinion prediction models.

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