

Paper presented
at the IXth Congress
of the Romanian
financial auditor
profession

Can Auditors Predict the Future of a Company? The Audit Opinion and the Certainty of Going Concern Assessment

*Dorotheea Beatrice
Ruxandra CHIOSEA*, Ph. D. Student,
Doctoral School of Economics and Business
Administration, West University of Timisoara, Romania,
e-mail: dorotheea.chiosea99@e-uvt.ro

*Univ. Prof. Habil. Camelia-Daniela
HAȚEGAN*,
West University of Timișoara, Romania,
e-mail: camelia.hategan@e-uvt.ro

Abstract

The continuous existence of a company is one of the most important goals. Because of this, when auditing a company, auditors have to assess the capacity of the company of remaining operational on the market for at least the next subsequent reporting period. This study is purposing to analyze the main factors that should be considered in the audit process, related to the going concern assessment, also highlighting the role of the auditors. The sample used was of 27 companies and 84 audit reports, extracted from Audit Analytics database, for period 2016-2023. The audited companies were mainly from the field of Manufacturing (60%) and in the field of Wholesale and retail trade (15%). The results are pointing out that there are additional factors excepting financial ones, that may be considered, such as the industry, the previous year opinion and so on. The auditor's opinion is of essential importance because it influences the investor confidence and his behavior and the transparency of the financial statements is improved.

Key words: going concern; audit report; audit opinion; uncertainty; risk; bankruptcy;

JEL Classification: M40, M41

To cite this article:

Chiosea, D. B. R., Hațegan, C.-D. (2025), Can Auditors Predict the Future of a Company? The Audit Opinion and the Certainty of Going Concern Assessment, *Audit Financiar*, vol. XXIII, no. 4(180)/2025, pp.801-815, DOI: 10.20869/AUDITF/2025/180/025

To link this article:

<http://dx.doi.org/10.20869/AUDITF/2025/180/025>

Received: 24.07.2025

Revised: 29.07.2025

Accepted: 7.10.2025

Introduction

When establishing a company, the main goal is to gain profit and grow like a healthy entity. However, in some cases, this goal is not achieved and because of this, it is essential for the auditors to highlight when a company may face financial distress periods in their audit report, either qualifying the opinion or stipulating this in KAMs section. Key audit matters (KAMs) are those aspects considered “significant” in the audit process which needs to be communicated to the audit committee because are involving important, elaborated or subjective judgments regarding a material account or disclosure of the financial statements of the current period.

Pham (2022) highlights that the going concern assumption is a fundamental one especially when talking about the preparation of the financial statements. When respecting this principle, the risk that the company will enter liquidation in the next 12 months is negligible (Messier et al., 2017). In the audit process, the auditors are bearing the responsibility of assessing whether the company is facing a substantial doubt regarding its ability of continuing as a going concern for a reasonable period of time. If the assessment is negative, so the company is facing a substantial risk, the auditor may issue a going concern opinion, which is one of the most ambiguous tasks for an auditor. If a company is receiving a going concern opinion it indicates that the entity is unable to sustain its business. It is common for the users of the financial statements, to trust auditors and their assessment of the degree in which the principle of going concern has been fulfilled, so the stakeholders are considering the audit opinion as being of significant importance when making their decisions, because this can lead to alerting significant uncertainties, even bankruptcy.

In their study, Carey et al. (2008), are analyzing a population of Australian companies receiving a modified opinion on going concern basis, for the first time, and a matched sample of companies facing financial distress periods which are registering a non-qualified audit opinion. Their results are pointing out that the auditor switching is positively associated with receiving a going concern qualified opinion. However, they didn't find out empirical evidence of a self-fulfilling prediction of increased probability for the company to fail, after receiving the opinion. Related with the audit fee, the authors are highlighting that auditors which are issuing the qualified opinion related to the going concern assessment, for the

first time, are losing proportionately more fees because they are losing clients through switching or company failure, than companies which are issuing non-qualified audit opinions related to going concern, even for financial distressed firms.

The objective of the paper is to highlight the importance of the auditor's opinion related to the going concern assessment evaluation and also if the auditor can predict the risk of financial distress of even insolvency based on the information provided by the company and also, based on its professional intuition. In order to analyze the auditor's reports on the going concern assessment, have been selected 27 companies listed on Bucharest Stock Exchange (BSE) for the period 2010-2023, thus including also the period before the implementation of the new format of the audit report, making also a comparison between the two approaches.

The paper is structured as it follows: the next section contains a review of the scientific literature on going concern and audit sector, the section three describes the research methodology while the fourth section presents the results obtained and some comments. The last section summaries the paper with the conclusions and limitations of the research.

1. Literature review

The assumption that an entity will continue its activity in the foreseeable future is the basis for elaborating the financial statements according to international and national legislation. at an international level this condition is stipulated by the International Standard of Audit (ISA) 570 Going concern, which affirms that the professionals can't predict such future events or conditions and the inexistence of an explanation referring to the uncertainty of the going concern assessment in the report should not be treated as a guarantee that the company has the ability of continuing its activity without facing going concern risks.

The financial statements as a whole are providing a true and fair view regarding the performance and financial state of a company and the auditors should express their opinion in the matter of respecting all the accounting principles. Because of the negative consequences suffered by a company, when receiving a qualified opinion, more and more auditors are including the uncertainties regarding the going concerns assessment in the section dedicated to key audit matters.

Gallizo and Saladrigues (2016) highlighted in their study the reasons for reticence that may appear after receiving a going concern opinion:

- **Pressure from the client**, who knows that a going concern opinion can endanger the entity's position even further. The cognition of an entity's shareholders about the negative position that a company may have, can generate important consequences, such as a lack of confidence from the shareholders, which may conduct to selling their shares and may generate an important loss in company's capital in a very short term. Because of this, the company will try to persuade the auditors by showing them viability plans that may project a mid-term development in company's position, and by this, delaying the going concern audit opinion.
- **The confidence of the auditor in the entity**, by acting in good faith and rationally, trusting that the company can face the crisis and get out of it. So, he will try to postpone the going concern audit opinion and give them time to recover from the current position. By the time the auditor is determining that the crisis faced by the company is irreversible, the auditor will issue the going concern audit opinion.
- **The development of the audit company**. It can happen that a company which is issuing a significant number of going concern opinions to end up being taken into account as a susceptible to them by the companies which are requesting their services. This can lead to a lower number of contracts because many clients may choose other firms which are less likely to issue going concern audit reports.

There are many audit professionals which proved that issuing a going concern audit opinion is immediately followed by a decrease in entity's financial status. It has been argued that this sudden decline was caused by the auditor's requests, forcing the company to reflect all assets and liabilities in the balance sheet according their value to the valuation rules and principles (Ajona, et al., 2012). In this case, registering a going concern opinion will generate an unexpected effect on the information users, because they are not expecting their accounts to decline without any warning.

The study made by Pham (2022) indicated that the financial status, incurring loss, the delay in issuing the audit report and the frequency of directorial board meeting are remarkably influencing the going concern opinions issued by the independent auditors.

The financial position of an entity it is describing its financial health. The financial statements of an entity are a tool that may be used to evaluate if the company is in financial deficit or surplus. Ross et al. (2015) are indicating that a company which is facing financial distress periods, can indicate future bankruptcy which can be reflected by its operating cashflow as being not enough to cover all the current liabilities. Financial distress appears when a company is registering negative cash flows and poor financial rates and could not repay the debts (Beaver, 1966; Platt & Platt, 2002). Financial distress is often leading to bankruptcy, which means that the going concern assessment is being questionable. Mutchler (1985) is sustaining that the negative financial state of a company can be worse if it receives a going concern audit opinion. When the stability of a company is well established, the probability of continuing its activity is greater. Because of that, the auditors are issuing going concern opinions is the audited entity is in poor financial condition and can't sustain its activity anymore. The most used method in measuring the financial state of a company is by using the Altman model (Gallizo & Saladrigues, 2016).

Also, the going concern audit opinion can be treated reported to many other factors such as: audit report delay, directorial board meetings, the size of auditing firm, financial ratios (leverage, profitability, liquidity) or the size of the company (Pham, 2022). The period from between the closure of the financial year and the date of the audit report issuance, is called the audit report delay period, or the audit lag. As the audit lag is longer, the more signals of registering a going concern opinion are appearing. As Geiger et al (2005) are highlighting, auditors are often issuing going concern opinions when audit reports are late.

There are few studies made related to the directorial board meetings reported to the modified audit opinions, and they are giving mixed and indecisive results (Omer et al., 2020). Farinha and Viana (2009) concluded that the frequency of directorial board meetings is increasing the quality of the financial reporting and also ale reducing the likelihood of registering a modified audit opinion. Omer et al. (2020) are sustaining that statistically documented, there is a positive and significant relationship between directorial board meeting and a modified audit opinion. Their conclusions are highlighting that the frequency of those meetings are not helping reducing the possibility of receiving a going concern audit opinion, because the meetings are not necessarily for discussing financial

issues and financial reporting quality, but more for strategical and legal issues.

Another point of view related to the going concern audit opinions, is the size of the audit firm. Many researchers are having different opinions regarding this subject, but most of them are sustaining that bigger size audit companies are proving more credible audit opinions and their audit mission is qualitative. Because their credibility among the investors, they are more and more sought to accomplish audit missions. Craswell et al. (1995) concluded that the client usually recognizes a higher quality audit reports from large audit companies, this thing being motivated by the fact that they think that the auditors are more trained and are having international recognition and the presence of peer review, traits often being associated with quality. Because the going concern audit opinion is like a signal for financial distressed firms, the management tends to avoid registering such an opinion and it is often tempted to change the auditor and search for a clean audit opinion.

Financial ratios are also addressed in relation with a modified opinion. Carcello and Neal (2000) found that the leverage is materially associated with a modified opinion, especially a going concern one. Feng and Li (2014) are stating that smaller entities with higher rate of the leverage are more likely to register a going concern audit opinion. Also, profitability is an accounting metric that helps evaluating the financial state of a company. As the profit is higher, the confidence of the investor is greater and he is more willing to invest in the entity. Therefore, the companies registering profit, are less likely to be given going concern opinions (Bellovary et al., 2007; Gallizo & Saladrigues, 2016). Liquidity is affecting entity's ability to cover its short-term liabilities (Subramanyam, 2014). The lower company's ability to accomplish its short-term obligations, the greater the likelihood of registering a going concern opinion.

Another treated aspect is connected with the size of the company, which may refer to the total assets, sales and market capitalization. Mutchler (1985) concluded that auditors are more often issuing a going concern opinion for a small entity than for a bigger one, because they tend to believe that larger companies are more capable of resolving their financial problems than the smaller ones. And because of this, bigger companies are more not receiving going concern opinions because they manage themselves and speed the growth, by this discouraging auditor to issue a going concern opinion.

Previous studies are identifying many factors associated with going concern audit opinions, even if they have yielded inconsistent results. Gallizo and Saladrigues (2016) are arguing that the financial decline, loss registering and the audit made by a small audit company are increasing the chances of a company in receiving a going concern audit opinion. Also, Geiger and Raghunandan (2002) are highlighting the entity's financial status as the main explanatory factor for this opinion. Bellovary et al. (2007) indicates profitability, indebtedness and entity's liquidity as being key factors in previous determinacy whether including a going concern paragraph in the opinion or not, while Geiger et al. (2005) are pointing out that a delay in issuing the report is meaningfully associated with the probability of registering a going concern opinion. Other considered factors, for example, the competence of the auditor, the company size, the size of the auditor and the corporate governance are revealing mixed results (Geiger et al., 2019).

In order to reach the proposed objective of the study, the research question of the paper is:

RQ: What factors are influencing the audit opinion regarding the going concern assessment and the potential of the auditors in predicting the financial distress risk?

2. Research methodology

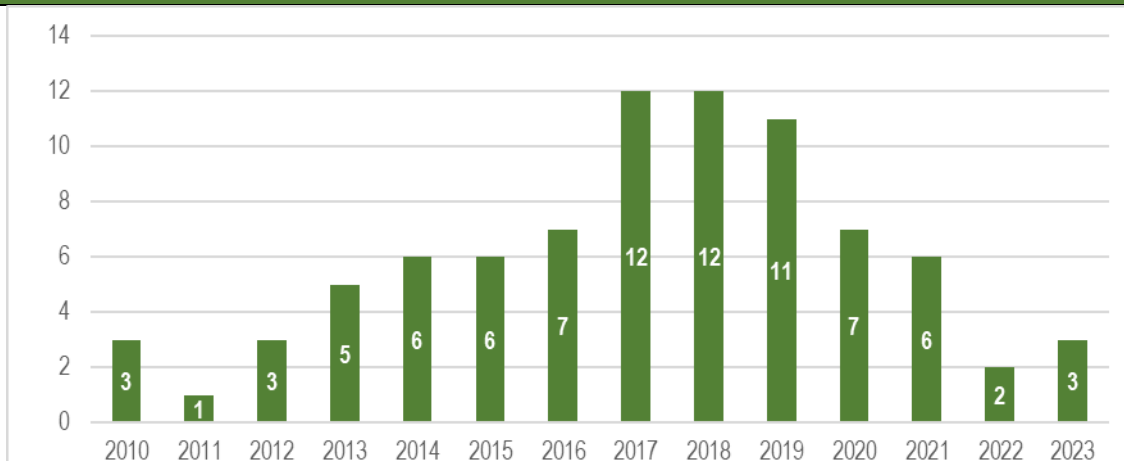
The research methodology is quantitative and involves a descriptive study of audit opinions which will be detailed by the audit years, the stock market on which are listed the companies included in the sample and the fields of activity, in order to make a preview of the studied sample. Also, in section three, the analysis will focus on the correlation between the audit opinion and the auditor type (size), type of the opinion, total KAMs in the opinion, going concern opinion in previous year, type of the report, net profit/loss and equity as financial indicators that may be related with going concern uncertainties.

Data were collected from the Audit Analytics database on May 05, 2025, for the period 2010-2023, the chosen period including the period before implementing the new audit format according to ISA 701, and the period after it. The database contains data about the listed firms on Bucharest Stock Exchange (BSE). The sample selected based on country criteria, namely Romania, and the existence of uncertainties regarding the going concern in

the auditors' report was 28 companies. Because there was a gap regarding available data, a company was

excluded from the sample remaining a final number of 27 companies and 84 opinions during the studied period

Figure no. 1. The audit year



Source: own processing, 2025

2.1 The audit year and the stock market

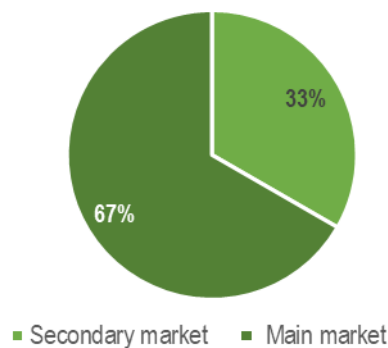
The number of opinions issued in the analyzed period is presented in **Figure no. 1**. As it can be seen, there is an ascending trend in the period 2011-2017, probably being motivated by the 2008 crisis which was a major event that created many uncertainties for the companies especially going concern ones. After the highest point in 2017-2018, the trend was descending, reaching a minimum in 2022, of only 2 going concern opinions. The going concern opinions issued in the period 2017-2018, which also is the moment with most audit opinions present in the analyzed period, according to the opinion basis mentioned in the audit reports, the main causes which led to uncertainties related to going concern are summarized below:

- Reevaluation issues and insufficient data for audit procedures;
- Financial statements and not including depreciation on a fair, reasonable and consistent basis;
- Company's liabilities exceed the current assets;
- Requests for entry into reorganization or bankruptcy proceedings;
- Contracted loans, from affiliated parties without constituting a provision;
- Loans from creditors, unable to be repaid;

- Net assets decreased to less than half the amount of subscribed share capital;
- Low level of liquidity and high level of debt;

An important liquidity criterion is the market in which companies are listed on the BSE, namely the main market and the secondary market (**Figure no. 2**).

Figure no. 2. The distribution of companies by market type at BSE



Source: own processing, 2025

The results show that two thirds of the companies were listed on the main market and one third on the secondary market.

2.2 Fields of activity

Data about the activity sector is of significant importance when analyzing whether a company can respect the economic principle of going concern or not, because the field of activity in which a company is activating can be

more affected than any other fields. As an example, it can be considered the Covid-19 pandemic, an unprecedented crisis, when all branches of the economy were affected in a smaller or greater manner. The studied sample, grouped by fields of activity, with the number of opinions issued, is presented in **Table no. 1**.

Table no. 1. Fields of activity			
NACE code	Industry	Total no. of opinions	Percentage
0510 – 0990	Mining and quarrying	5	6%
1011 – 3320	Manufacturing	50	60%
3511 – 3530	Electricity gas steam and air conditioning supply	1	1%
4110 – 4399	Construction	1	1%
4511 – 4799	Wholesale and retail trade; repair of motor vehicles and motorcycles	13	15%
5510 – 5630	Accommodation and food service activities	4	5%
6411 – 6630	Financial and insurance activities	9	11%
6910 – 7500	Professional scientific and technical activities	1	1%
	Total	84	100%

Source: own processing, 2025

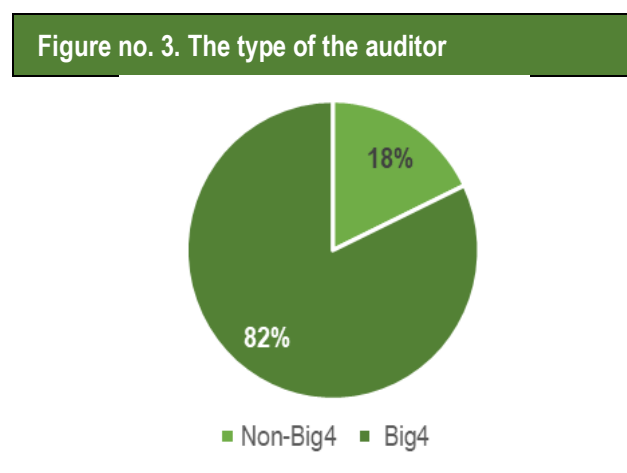
Auditors have issued most opinions related to the going concern assessment for the companies activating in the Manufacturing sector (60%), the manufacturing companies being also a significant part of the studied sample. Other sectors that showed significant percentages are, Wholesale and retail trade (15%), Financial and insurance activities (11%), Mining and quarrying (6%) and Accommodation and Food Services (5%). The other industries reported fewer going concern opinions.

This classification, by fields of activity is helping to identify the economic sectors that were more prone to face financial distress periods and also, their ability of respecting the going concern assessment can be put into question. Also, is very useful when establishing the reasons that led to this economic state, elaborating means for facing the periods of difficulties and also, strategies for avoiding the risk of bankruptcy.

2.3 The type of the auditor, the opinion issued and the KAMs included in the opinion

A factor that should be taken into consideration when analyzing the audit opinion is the type of the auditor

issuing the opinion. There are mixed opinions regarding this subject, some of them being also pointed out in the section destined to the literature review. On the studied sample, following the synthesis of the analyzed data, the graphic distribution of the auditor's type is presented in **Figure no. 3**.



Source: own processing, 2025

As highlighted by **Figure no. 3**, the auditors from non-big4 companies are having a bigger contribution (82%) in issuing the reports of the studied sample. Also, Big4 companies are contributing in auditing the companies, but in a smaller proportion of only 18%.

Referring to the distribution of the Big4 companies (Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers), **Table no. 2** reveals that PricewaterhouseCoopers issued at least 8 opinions from the total of 15, registering a percent of 53%, dominating the rest of Big4 companies. KPMG issued 4 opinions (27%), Deloitte & Touche issued 2 opinions and Ernst & Young issued at least just one opinion among the analyzed sample. The total of Big4 audit opinions is of 15.

Table no. 2. The distribution of Big4 auditors		
Big4	Total number of opinions	Percent
PricewaterhouseCoopers LLP	8	53%
KPMG LLP	4	27%
Deloitte & Touche LLP	2	13%
Ernst & Young LLP	1	7%
Total	15	100%

Source: own processing, 2025

Table no. 3. The distribution of non-Big4 auditors		
Non Big4	Total number of opinions	Percent
BDO Audit SRL	22	32%
JP Auditors & Advisors SRL	8	12%
Mazars Romania SRL	5	7%
Auditor Financiar Daniela Nicolescu	3	4%
Casa De Audit Corvinia SRL Filiala Pitesti	3	4%
Evalex SA	3	4%
Integral Audit Srl	3	4%
MCO CONTAB Consult Srl	3	4%
Prof Consult SRL	2	3%
Roedl & Partner SRL	2	3%
SC ROMBAC Audit si Consultanta SRL	2	3%
Below 2 opinions	13	20%
TOTAL	69	100%

Source: own processing, 2025

Also, because of the significant contribution that non-Big4 companies are having in issuing the audit opinion, it is noteworthy to see their particularly contribution, detailed in **Table no. 3**.

In the category of non-Big4 companies there are 24 auditors that have issued 69 opinions, of which BDO Audit SRL has the greatest proportion of 32%, followed by JP Auditors & Advisors SRL with 12% and the rest of auditors issued below 10% of total number of opinions.

Also, another subject that is of interest, is the type of issued opinion. **Table no. 4** is presenting the total for each type of opinion, which are related to going concern assessment. Moreover, are pointed out the total of KAMs included in the opinion. The importance of KAMs is referring to the fact that, if the company is facing financial distress periods of the risk of insolvency/bankruptcy, the auditor may not qualify the opinion, but include these aspects in the KAMs section, to highlight the financial state of the company, also avoiding the negative consequences that may appear after a qualified opinion.

Table no. 4. Audit opinion		
Opinion type	Total opinions	Total KAMs in opinions
Unqualified Opinion	39 (46%)	47 (51%)
Qualified Opinion	36 (43%)	38 (41%)
Disclaimer of Opinion	7 (8%)	6 (6%)
Adverse Opinion	2 (2%)	2 (2%)
Total	84	93

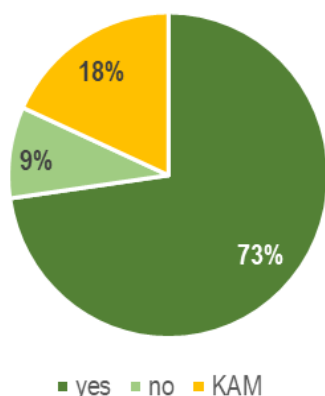
Source: own processing, 2025

In the reports containing the 84 opinions, there were identified at least 93 KAMs, which means that the auditors tend to be more explicit regarding the problems and risks face by the entity, in the KAMs section, than in the opinion one. Therefore, this section became more and more useful for the investors, which are paying much more attention to KAMs section, since it was included in the reports.

2.4 The audit opinion and the going concern opinion in previous year and the report format

The going concern opinion issued in the previous year of insolvency or bankruptcy is highlighting the potential contribution of the auditor in assessing the financial status of the company and signaling potential threats that may affect company's potential of respecting the going concern assessment. **Figure no. 4** is presenting the reaction of the auditors related to the audited company. The companies included in this analysis are just the ones that got insolvent or bankrupt during the studied period, respectively a number of 33 companies.

Figure no. 4. The going concern opinion in previous year



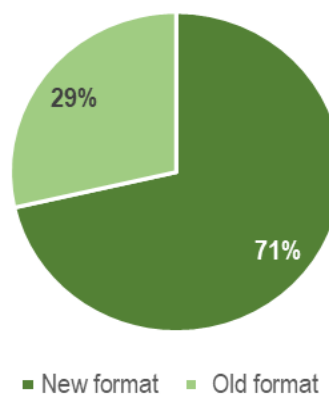
Source: own processing, 2025

As it can be seen, the auditors highlighted the future problems that the entity will face in their opinion. Most of them (73%) issued a going concern opinion, specifying that the company is facing uncertainties regarding its capacity of continuing the activity and maybe giving some advices in order to help the managers and the directorial board face the situation. 9% have issued a clean opinion in the previous year, including the uncertainties in the "other aspects" paragraph, and another 18% specified clearly in the KAMs section the risks and uncertainties regarding the going concern assessment, faced by the company, some of the qualifying the opinion, but some of them not. So, based on this analysis, it is clear that the auditor can predict the future of the company, based on the company's financial statements, its professional

judgement and other factors implied in the audit process, this being an answer to the title question.

Due to the new report format since 2016, which includes the KAMs section, it is important to highlight that before that, the uncertainties were included in the opinion section, which often implies a modified opinion, or in another section, issuing a clean opinion, but with some mentions related to the business continuity. In the analyzed sample, as **Figure no. 5** highlights, there were more reports on the new format of the audit report (71%) and only 29% of the reports were on the old format.

Figure no. 5. The format of the report



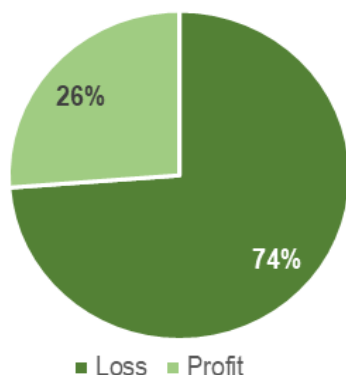
Source: own processing, 2025

2.5 The audit opinion and the financial indicators

As mentioned since introduction and literature review, the financial indicators are playing an important role in identifying if a company is facing financial distress periods or the risk of insolvency or bankruptcy. The net profit is very important because it attracts investors and it is one of the main indicators which are analyzed during decisional process. Because of this, the net loss, may put into question the health of the company and make investors think twice if investing in the company or not. Also, as highlighted in section 2.1. the negative result and negative capital (equity) are main reasons for issuing a going concern opinion and for having serious uncertainties about company's capacity of continuing its business.

In the analyzed sample, **Figure no. 6** highlights the report between companies that registered profit and the ones that registers loss during the studied period.

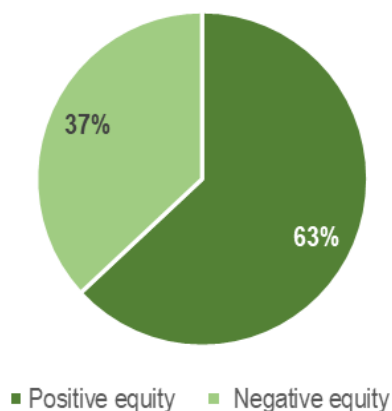
Figure no. 6. The profit/loss



Source: own processing, 2025

As pointed out by the **Figure no. 6**, most companies (74%) registered loss during the analyzed period, supporting the idea that this indicator is one of the best to take into account when studying the perspectives of business continuity. Only 26% of the companies registered profit, but some of them are registering at the same time, negative capitals. This situation is presented in **Figure no. 7** for all companies, not only for the ones with profit.

Figure no. 7. The equity



Source: own processing, 2025

A going concern opinion may have impact on company's cost of equity. If there are doubts about entity's ability as continuing its activity, investors can request a higher rate of return (cost of equity) in order to compensate the

increasing risk of investing in the entity. In the analyzed sample 63% of the companies registered positive equity, but some of them, also loss, and only 37% registered negative equity.

Even if they registered a going concern opinion, most of the companies included in the sample, kept operating on the market for several years after, facing financial distress and many challenges, but still being operational. So, the persistence of the uncertainty over time is an essential factor that has to be considered by the auditor when making the assessment. Because of this, with the scope of identifying which are the influence factors of a going concern opinion, a descriptive statistic and a correlation matrix are carried out in the following.

The description of the used indicators is detailed in **Table no. 5**.

The chosen indicators are based on the particular characteristics involved by the study, but also, related to the ones chosen by other researchers in their studies about the going concern opinions. The measurement value is mostly the same for all indicators, from 0 to 1, except the total KAMs in opinion, which takes into account the KAMs included in the opinion, as a number, which differs from one report to another. And also, the last indicator, the industry, which's range of scores is from 0 to 9 because of the codification of NACE codes.

The indicator for going concern opinion in previous year (GCOP) was chosen in order to highlight the auditor's predictability ability regarding the company's capacity of continuing its business and being operational on the market. The auditor size (A) indicator is pointing out the potential influence of Big4 companies and non-Big4 ones, on the audit opinion, even the going concern one. Total KAMs in opinion (K) indicator is highlighting the potential correlation between a qualified opinion regarding the going concern assessment or an unqualified opinion and a KAM paragraph for going concern risks. The KAMs are auditor's way of avoiding a going concern opinion and because of this fact, it is important to analyze also, the number of KAMs included in the report and their content. The type of the report indicator (R) is useful for determining the usefulness of KAMs inclusion, because starting with year 2016, this became mandatory and it's important to observe if there were any changes of improvements in reporting starting with this obligation.

The opinion type (O) indicator highlights that in the sample, there are few companies which received adverse

opinion or a disclaimer of opinion, even if they received a going concern uncertainty KAM or paragraph. Many companies registered a qualified opinion also, but most of them received an unqualified opinion. And because of this, it is important to see the correlation between the opinion type and the other influence factors, to establish the

reason why companies are receiving going concern opinions or KAMs, in regard with other factors. The status (S) indicator is highlighting the type of companies included in the sample from the market point of view, offering another perspective about the factors that may influence the going concern opinion.

Table no. 5. Description of indicators		
Indicator	Code	Description
Going concern opinion in previous year	GCOP	1 – Yes 0 – No/KAM
Auditor's size	A	1 – Big4 auditor 0 – Non-Big4 auditor
Total KAMs in opinion	K	From 1 to 8, according to the report
Type of the report	R	1 – New format 0 – Old format
Opinion type	O	1 – Unqualified 0 – Other opinions
Status	S	1 – Bankrupt/insolvent/judicial reorganization 0 – Active
Net profit/loss	PL	1 – Profit 0 – Loss
Equity	E	1 – Positive equity 0 – Negative equity
Stock market	SM	1 – Main market 0 – Secondary market
Industry (NACE code key)	I	0-9 According to Nomenclature of Economic Activities, 2-digit codes

Source: own processing, 2025

The net profit/loss (PL) indicator and equity (E) indicators is proving that the financial status of a company can be predicted reported to their financial data. When a company is facing financial distress periods, it clearly reflects in its financials and it can help predicting if the entity may recover from the crisis or not.

Stock market (SM) indicator is important because it shapes the main and second stock market companies and this categorization may be useful to conclude if the stock market on which the company is listed, can contribute to receive rather a going concern opinion or not. The industry (I) indicator was chosen to understand if there are any industries that may be more impacted by going concern assumption risk, or not. Some of these indicators were used by Muñoz-Izquierdo et al. (2024), Goose et al. (2024), Crucean and Hategan (2022) or Hategan and Imbrescu (2021) in their studies. Descriptive statistics data

are presented in **Table no. 6.**

Table no. 6 shows that going concern in previous year (GCOP) indicator was on average 0.09 being closer to the minimum of the range of score meaning, thing that can be interpreted as that the auditors didn't issue a going concern opinion in the previous year of insolvency/bankruptcy. But, according to **Figure no. 4**, most of auditors issued a going concern opinion in the year before insolvency of bankruptcy. This is explained by the fact that the mean value is calculated according to the whole database, but in fact there are only 11 companies that faced insolvency, bankruptcy or judicial reorganization in the analyzed period, and for those ones, it has to be taken into account the previous year analysis. For the 11 companies, there are 8 going concern opinions, one unqualified opinion and 2 unqualified opinions with going concern KAMs.

Table no. 6. Descriptive statistics

Indicator	Observations	Min	Max	Mean	Standard deviation
GCOP	84	0	1	0.0952	0.2953
A	84	0	1	0.1785	0.3852
K	84	0	8	1.1071	1.5524
R	84	0	1	0.7142	0.4544
O	84	0	1	0.4285	0.4978
S	84	0	1	0.3928	0.4913
PL	84	0	1	0.2619	0.4423
E	84	0	1	0.6309	0.4854
SM	84	0	1	0.6666	0.4742
I	84	0	9	34.7261	15.5504

Source: own processing, 2025

The auditor size (A) registered an average of 0.17, being closer to the minimum of the range of score, highlighting that most of the auditors taken into the sample are non-Big4 ones. Also, the indicator for total KAMs in opinion (K) is on average 1.10 which means that most opinions have at least one KAM, and there are few opinions, which have 8 KAMs. The indicator for the type of the report (R) register an average of 0.71 meaning that most reports are on the new format of the auditor's report, after 2016, which implies the inclusion of the KAMs section.

The indicator for opinion type (O) was on average 0.42, being almost halfway between the two limits of the range of score which means, that in the studied period, there were mostly unqualified opinions (46%), fact also confirmed by **Table no. 4**, and cumulated, the other opinion types (qualified, adverse and disclaimer of opinion), are registering the remaining value till 100%. The indicator for status of the company (S), was on average 0.39, which means that most of the companies are still active on the market, in the analyzed period.

The indicator for the net profit or loss (PL) was on average 0.26, meaning that most of the companies included in the sample are registering loss, not profit, because the indicator is closer to the minimum of the range of score. The indicator for the equity (E) was on average 0.63, highlighting that almost half of the companies are registering positive values for equity.

The indicator for the stock market (SM) was on average 0.66, closer to the maximum of the range of score, highlighting that most companies are listed on main stock market. Also, the indicator for the industry (I), was on average 34.72, close to the half of the interval. This

means that all branches of the economy are implicated in the analysis, but especially the ones included in the category of: mining and quarrying, manufacturing, electricity gas steam and air conditioning supply.

The correlation matrix is presented in **Table no. 7**.

The correlation between main indicator, going concern in previous year (GCOP) and auditor size, is invers and low, which means that Big4 audit companies may not issue a going concern opinion in previous year, comparing with the non-Big4 ones. The correlation with the total KAMs in opinion is invers, meaning that there were not many KAMs included in the going concern opinion in the previous year. The correlation with the opinion type is invers and significant, meaning that in the previous year, there were more qualified/adverse or disclaimer of opinions, than unqualified ones. The indicator is weakly correlated with the type of the report and the stock market on which the companies are listed. The correlation with the status of the company is strong, positive and the best correlation that going concern opinion in previous year is registering. This obviously, means that the going concern opinion is influenced by the status of the company, if is facing financial distress periods or not. The correlation with the net profit/loss and equity indicators are invers and significant meaning that most companies which registered going concern opinions in previous year are registering also loss and negative value for equity. The correlation with the industry, represented by NACE code indicator, is invers and significant, which means that going concern opinion in previous year, wasn't issued for companies activating in all economic branches.

Table no. 7. The correlation matrix

	GC previous year	Auditor size	Total KAMs in Opinion	Opinion Type	Type of the report	Status	Net Profit/ Loss	Equity	Stock market	NACE
GC previous year	1									
Auditor size	-0,0454	1								
Total KAMs in Opinion	-0,1539	-0,0928	1							
Opinion Type	-0,1171	0,2871	0,1113	1						
Type of the report	0,0256	-0,462	0,4538	-0,038	1					
Status	0,4033	-0,2478	0,0231	-0,007	0,185	1				
Net Profit/ Loss	-0,1933	0,2171	0,0113	0,1954	-0,1027	-0,2574	1			
Equity	-0,1721	0,3566	0,0371	0,2635	-0,156	-0,4456	0,2311	1		
Stock market	-0,0287	0,1978	-0,0655	0,1021	-0,0559	0	0,0191	-0,2791	1	
NACE	-0,2278	0,6457	-0,1784	0,1881	-0,3794	-0,5188	0,2085	0,4557	-0,0599	1

Source: own processing, 2025

The auditor size (A) indicator is invers and low correlated with the total KAMs in opinion indicator. The indicator is direct, positive and significant correlated with the opinion type indicator, highlighting that Big4 companies are issuing more unqualified opinions related to going concern uncertainties, than non-Big4 ones, most of them including the uncertainties in “other aspects” section. The correlation with the type of the report is invers and strong, meaning that most Big4 companies were rather issuing old format report type, than new one, probably because most Big4 audited companies in the sample, were from the period before 2016. The correlation with the status of the company is invers and significant highlighting that Big4 companies are mostly operating with the active companies included in the sample. The correlation with the net profit or loss indicator is direct and significant, showing that most companies audited by Big4 auditors, registered profit. Also, the correlation with the equity indicator is direct and strong meaning that the companies included in the sample, audited by Big4 companies are registering positive equity values. The correlation with the stock market indicator proves to be direct and significant, most companies audited by Big4 auditors being listed on the main stock market. The indicator is strong, direct and positively correlated with the industry indicator highlighting that Big4 companies are auditing entities from all economic fields, especially the ones from 4 to 9 reference interval. As a previous study related to the correlation of the company’s financial status and the type of the auditor, Gallizo and Saladrigues (2016) conducted a study that

concluded that indicate being audited by a small auditor makes it more likely to obtain a going concern audit opinion. Their results are also pointing out that there is not the unexpected financial decline, but registering losses and being audited by a non-Big4 company, that is making it likely to register a going concern opinion and, to a lesser extent, when the relative size of the client is small. Moreover, the increase in the probability of receiving a going concern audit opinion wouldn’t be based on the abrupt decline of the company’s financial position, but more on the persistence of registering losses. This being the most important reason that puts company’s ability to continue its business, into question, which generate immediate consequences.

The correlation of total KAMs in opinion (K) with the opinion type indicator is direct and significant highlighting that most unqualified opinions are containing KAMs regarding the going concern assessment. The correlation with the type of the report is positive, direct and strong, showing that, as also pointed out in **Figure no. 5**, most reports were issued on the new format, also including key audit matters section. The correlations with the status, net profit/loss, equity and stock market indicators are low and not significant. Also, in report with the industry indicator, the correlation is invers, and significant, proving that the going concern KAMs in opinion, are correlated with codes from the first half of the interval from 0 to 9.

The correlation of opinion type (O) indicator with the type of the report and the status of the company is weak and invers. The correlations with the net profit/loss and equity

indicators are direct and significant, showing that the companies which are registering profit and positive values of equity are receiving unqualified opinions. The indicator is also direct correlated with the stock market indicator, proving that most companies which are registering unqualified opinions are listed on main stock market. The correlation with the industry indicator is direct and significant proving that there are several economic fields that are receiving unqualified opinions, even if they are facing financial distress periods, especially the ones from the second half of the interval from 0 to 9.

The type of the report (R) indicator is direct correlated with the status indicator highlighting that most active companies included in the sample were using the new audit report format. Also, the indicator is invers and significant correlated with net profit/loss and equity indicator, proving that most companies registering loss and negative equities were in the first half of the period interval 2016-2023. The indicator is less and invers correlated with the stock market indicator. A significant and invers correlation has to be highlighted, with the industry indicator, showing that most companies using the new format of the report were from the first half of the interval from 0 to 9.

The status (S) indicator shows an invers and significant correlation with the net profit/loss indicator, and an invers and strong correlation with the equity indicator, proving that companies facing financial distress periods or being insolvent or bankrupt are registering loss and negative equities. The correlation with the stock market is insignificant. The correlation with the industry indicator is invers and strong, proving that companies from many sectors of the economy may become inactive ones, especially the ones from the first half of the reference interval.

The net profit/loss indicator (PL) is direct and significant correlated with the equity indicator proving that between the two indicators is an important relation, both of them being taken into account when assessing the company's ability of continuing as a going concern. The correlation with the stock market indicator is positive but low. The correlation with the industry sector is direct and significant highlighting that companies from many sectors may register profit.

The equity (E) indicator is invers and significant correlated with the stock market indicator, highlighting that the companies listed on the secondary stock market are likely

to register negative equity values. Also, the indicator is direct and strong correlated with the industry indicator meaning that companies from all economic branches may register positive equities, especially the ones from the second half of the reference interval.

Finally, the correlation between stock market (SM) indicator and industry indicator is invers and low, highlighting there is no significant link between the stock market on which a company is listed and the industry from which it takes part, the stock market containing companies from various economic branches.

Previous studies on going concern opinions, were conducted by Gallizo and Saladrighes (2016), their study being mentioned several times in this research. Also, Duc Hieu Pham (2022), studied the determinants of going concern audit opinion, related to a sample of Vietnamese listed companies. Moreover, Geiger, et al. (2005), referred to the recent changes in the association between bankruptcies and prior audit opinions. Also, Hategan and Imbrescu (2021) conducted a study highlighting the evolutions and the diversifications of the going concern uncertainties contained by the auditor's report.

Conclusions

The auditors are issuing a going concern opinion and are evaluating the company's ability in respecting the business continuity principle. The issuance of this opinion may be affected by financial and non-financial factors.

When evaluating the assessment of the going concern principle presented in the financial statements, the auditors have to count on his professional judgement and on the national and international audit standard's requirements. If a company is transparent in its publications, about the risks and uncertainties faced, this will have a positive impact on the stakeholders, they becoming more confident about the value and the relevance of the financial audit.

The proposed objective of the paper was to identify the main factors and reasons that may generate a going concern opinion issued by the independent auditors, and also their predictive ability, regarding the future of an entity. As the results and discussions section pointed out, there are several factors that should be taken into account when assessing a company's ability to respect the going concern principle. This assessment may be treated from many points of view, being especially correlated with the opinion issued by the auditor in the previous year, also the

value of financial indicators such as net profit/loss and equity, that may be a signal when company is facing risks. Also, the industry in which the company is activating is an important subject, because there are many other external factors that may influence the whole industry or a certain part of it. The Covid-19 pandemic, the economic crisis, the availability on the labor market, the government uncertainties, the liquidity risk, the significant amount of the liabilities, may be some influence factors that affect also the industries and their capability of remaining operational on the market in the foreseeable future.

The main conclusion of the paper is that the auditor, by its professional judgement and the tests made through the audit process has the ability to predict the future direction of an entity and also, the auditors can make recommendations about how a company may avoid or face the risks and financial distress periods. These aspects should be taken into consideration by the management, the directorial board and also by other stakeholders.

The paper is contributing to the existing knowledge in the domain on going concern field, regarded from an audit point of view, by adding some insights about the factors that may be taken into account when analyzing the going concern assessment, and may be an informational source for any other researchers in the field of auditing and accounting. Also, the research is pointing out the importance of relevant financial reporting, because many

information contained by them, can signal the risks an entity may face.

The limitations of the study are related to several aspects. First of all, the data were collected from a secondary source, namely the Audit Analytics database, a situation that may distort the results to a small extent. Also, some of the data was hand-gathered, which may also distort the results to a small extent. Moreover, another limitation is methodological, because only a descriptive and correlation analysis of the indicators was carried out without identifying an econometric model to test a series of indicators that reflect the situation of uncertainty of continuity of the companies.

The research is a prerequisite for future research based on a quantitative analysis that may include variables in the study conducting to forming an econometric model of influence factors of going concern assumption and going concern opinion, also taking into consideration detailed factors in order to reach more elaborate conclusions about this topic.

In conclusion, identifying the factors that affect the quality of the audit process and the ability to respect the principle of going concern can guide managers in assessing the resources needed for financial audit missions. In addition, by identifying the critical factors related to audit quality, it is possible to better control and manage the audit process and thus increase the effectiveness and efficiency of the audit.

Bibliography

1. Ajona, L. A., Dallo, F. L., Alegría, S. S., & Barbadillo, E. R. (2012). Las expectativas del usuario ante la salvedad al principio de empresa en funcionamiento. Evidencia empírica del fenómeno de la profecía autocumplida para el caso español. *Spanish Journal of Finance and Accounting/Revista Española de Financiación y Contabilidad*, 41(154), 263-289.
2. Beaver, W. H. (1966). Financial ratios as predictors of failure. *Journal of Accounting Research*, 71-111.
3. Bellovary, J. L., Giacomino, D. E., & Akers, M. D. (2007). A review of bankruptcy prediction studies: 1930 to present. *Journal of Financial Education*, 1-42.
4. Carcello, J. V., & Neal, T. L. (2000). Audit committee composition and auditor reporting. *The Accounting Review*, 75(4), 453-467.
5. Carey, P. J., Geiger, M. A., & O'Connell, B. T. (2008). Costs associated with going-concern-modified audit opinions: an analysis of the Australian audit market. *Abacus*, 44(1), 61-81.
6. Craswell, A. T., Francis, J. R., & Taylor, S. L. (1995). Auditor brand name reputations and industry specializations. *Journal of Accounting and Economics*, 20(3), 297-322.
7. Farinha, J., & Viana, L. F. (2009). Board structure and modified audit opinions: evidence from the Portuguese stock exchange. *International Journal of Auditing*, 13(3), 237-258.
8. Gallizo, J. L., & Saladríguez, R. (2016). An analysis of determinants of going concern audit opinion: Evidence from Spain stock exchange. *Intangible Capital*, 12(1), 1-16.
9. Geiger, M. A., & Raghunandan, K. (2002). Auditor tenure and audit reporting failures. *Auditing: A Journal of Practice & Theory*, 21(1), 67-78.
10. Geiger, M. A., Gold, A., & Wallage, P. (2019). A synthesis of research on auditor reporting on going-concern

- uncertainty: An update and extension. *Foundation for Auditing Research*, 2019, 1-161.
11. Geiger, M. A., Raghunandan, K., & Rama, D. V. (2005). Recent changes in the association between bankruptcies and prior audit opinions. *Auditing: A Journal of Practice & Theory*, 24(1), 21-35.
 12. Hassan Omer, W. K., Salmen Aljaaidi, K., Md Yusof, M. A., & Hisyam Selamat, M. (2020). The associations of board of directors' characteristics with modified audit opinion. *AD-minister*, (37), 5-34.
 13. Hațegan, C. D., & Imbrescu, C. M. (2021). Evolution and diversification of the going concern uncertainties disclosed in the auditor's report. *Audit Financiar*, 19(163), 516-527.
 14. Messier Jr, W. F., Glover, S. M., & Prawitt, D. F. (2017). *Auditing & assurance services: A systematic approach*. McGraw-Hill.
 15. Mutchler, J. F. (1985). A multivariate analysis of the auditor's going-concern opinion decision. *Journal of Accounting research*, 668-682.
 16. Pham, D. H. (2022). Determinants of going-concern audit opinions: evidence from Vietnam stock exchange-listed companies. *Cogent Economics & Finance*, 10(1), 2145749.
 17. Platt, H. D., & Platt, M. B. (2002). Predicting corporate financial distress: Reflections on choice-based sample bias. *Journal of Economics and Finance*, 26(2), 184-199.
 18. Ross, S. (2015). Ebook: *Fundamentals of Corporate Finance*. McGraw Hill.
 19. Subramanyam, K. R. (2014). *Financial statement analysis*. McGraw-Hill.