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Financial Risk and Audit Judgment as a Driver of Going Concern Opinions in Transportation Firms

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Abstract:

Research Aim:
Despite extensive research on going concern opinions, limited evidence compares the relative influence of financial risk and audit-related factors within capital-intensive industries in emerging markets. This study aims to examine how financial risk and audit judgment factors drive the issuance of going concern audit opinions in transportation firms listed on the Indonesia Stock Exchange during 2021–2024.

Design/Methodology/Approach:
A quantitative research design was employed using logistic regression analysis on 100 firm-year observations derived from 25 companies selected through purposive sampling. The data were obtained from audited annual financial statements and independent auditors' reports published by the Indonesia Stock Exchange.

Findings:
The results show that financial risk indicators—particularly leverage and financial distress—significantly increase the likelihood of receiving a going concern audit opinion. In contrast, profitability, audit tenure, and firm size do not exhibit significant effects. These findings indicate that auditors place greater emphasis on solvency-related risk exposure rather than profitability measures or engagement characteristics when forming going concern judgments.

Originality/Value:
This study provides sector-specific evidence from transportation firms, a capital-intensive industry characterized by high financial vulnerability. The findings highlight the dominant role of financial pressure indicators in shaping auditors' professional judgments.

Practical Implications:
The results offer insights for companies, auditors, investors, and regulators in identifying early warning signals of financial instability and strengthening transparency in going concern assessments.

Research Limitations:
The study is limited to one industry sector and a four-year observation period, which may restrict broader generalization.

Keywords: Going concern opinion; Financial risk; Audit judgment; Financial distress; Transportation industry

Introduction

Financial Risk and Auditor Judgment in Transportation Going Concern Assessments In an increasingly volatile business environment, assessing corporate sustainability has become a fundamental concern for auditors and stakeholders. The going concern assumption presumes that a business entity will continue operating in the foreseeable future without the intention or

necessity of liquidation (Fremgen, 1968). When substantial doubt arises regarding a company's ability to sustain its operations for at least twelve months, auditors are required to issue a going concern opinion, which serves as a critical warning signal of financial instability (Tagesson & Öhman, 2015;Uang et al., 2006;Geiger et al., 2014).

The issuance of a going concern opinion reflects a professional judgment grounded in the auditor's assessment of financial risk. Agency theory explains that auditors act as external monitoring mechanisms to reduce information asymmetry and mitigate conflicts between managers and shareholders (Jensen & Meckling, 1976). Meanwhile, signaling theory suggests that financial indicators communicate information about a firm's solvency and future prospects to external stakeholders (Spence, 1973) . Within this framework, leverage and financial distress represent direct measures of solvency pressure and bankruptcy risk, making them central considerations in going concern evaluations.

Extensive empirical research has examined determinants of going concern opinions. Prior studies document that financial ratios, including leverage and distress indicators, significantly influence the likelihood of receiving a going concern opinion (Puspaningsih, 2024;Jouali et al., 2024;Averio, 2021). However, other findings indicate inconsistent or context-dependent effects (Geiger & Raghunandan, 2002;Pham, 2022;Knechel & Vanstraelen, 2007;Detzen & Gold, 2021). Moreover, much of the literature treats financial indicators as independent explanatory variables without explicitly clarifying which dimension of financial risk dominates auditor judgment. As noted by (DeFond & Zhang, 2014), understanding audit quality and judgment requires deeper analysis of risk prioritization rather than simple determinant testing.

The transportation sector represents a particularly relevant context for examining financial risk and auditor judgment. As a capital-intensive industry characterized by high fixed costs and substantial debt dependence, transportation firms are structurally exposed to liquidity pressure and financial instability. Several cases of significant losses and delistings within the sector highlight the presence of elevated financial risk and the importance of rigorous going concern assessments. In such high-volatility environments, auditors may prioritize solvency-related indicators over performance-based measures when evaluating business continuity risk.

Despite the importance of financial risk in audit decision-making, limited research explicitly positions financial distress and leverage as primary drivers of going concern opinions within sector-specific contexts. Sectoral heterogeneity may influence how auditors weigh different financial signals, yet empirical evidence focusing on capital-intensive industries remains limited, particularly in emerging markets (Vanstraelen, 2003;Tepalagul & Lin, 2015;Saleh et al., 2025;Mayasha & Majidah, 2025). This gap suggests the need to reframe going concern assessment as a risk-based audit judgment process.

Accordingly, this study examines financial risk as a driver of going concern opinions in Indonesian transportation firms. By focusing on leverage and financial distress as core solvency indicators while controlling for profitability, audit tenure, and firm size, this research seeks to clarify whether auditors prioritize financial pressure in their going concern judgments. This study contributes to the auditing literature in three ways. First, it conceptually repositions going concern opinions as primarily driven by solvency risk rather than general firm characteristics. Second, it provides sector-specific evidence from a capital-intensive industry structurally

exposed to financial instability. Third, it enriches the emerging market auditing literature by clarifying how financial risk operates as a dominant signal in auditor decision-making.

Theoretical Background

Agency Perspective on Auditor Judgment

The separation between ownership and control creates inherent monitoring challenges within corporations. Managers possess superior information regarding the firm's financial condition, particularly during periods of economic strain, while shareholders and creditors rely on external verification to assess the reliability of reported information (Jensen & Meckling, 1976). When firms experience financial pressure, incentives to delay or soften the disclosure of adverse conditions may increase, intensifying agency conflicts.

Auditors mitigate these conflicts by independently evaluating whether financial statements reflect the firm's underlying economic reality. In the context of going concern assessments, auditor judgment becomes particularly consequential because it determines whether substantial doubt about continuity should be disclosed. Prior literature emphasizes that audit outcomes are shaped by risk evaluation processes rather than mechanical rule application (DeFond & Zhang, 2014). Therefore, financial risk indicators are expected to influence auditor judgment in forming going concern opinions.

Signaling and Financial Risk Indicators

Under signaling theory, financial information functions as a mechanism through which firms communicate their condition to external stakeholders (Spence, 1973). Signals associated with solvency such as high leverage or deteriorating liquiditytend to carry stronger informational content than short-term performance measures. Investors and creditors interpret these signals as indicators of default risk, and auditors incorporate them into continuity assessments. Empirical evidence suggests that solvency-related indicators are more consistently associated with going concern opinions than profitability measures alone (Carson et al., 2013)(Andini & Franita, 2024)(Kristian et al., 2024). This distinction underscores the importance of examining financial risk not merely as one determinant among many, but as a core factor shaping auditor evaluations of business sustainability.

Going Concern Opinions as Risk-Based Judgments

Professional auditing standards require auditors to assess whether material uncertainty exists regarding an entity's ability to continue as a going concern within the foreseeable future (IAASB, 2021). Research shows that going concern opinions are predictive of subsequent financial failure and elicit negative market reactions (Brunelli et al., 2024;Desai et al., 2025;Strickett et al., 2022).

Importantly, going concern decisions involve substantial professional judgment. Auditors must weigh multiple financial indicators and contextual factors in determining whether doubt is significant enough to warrant disclosure. As (Cassell et al., 2022;Glette-Iversen et al., 2023) notes, audit judgment is fundamentally a risk assessment process in which auditors evaluate the

probability and severity of adverse outcomes. Accordingly, financial risk variables are expected to exert meaningful influence on going concern decisions.

Hypotheses Development

Profitability and going concern opinion

Profitability reflects a firm's ability to generate earnings from its operations. Persistent losses may signal financial weakness and increase doubts about long-term viability(Alshehadeh et al., 2024). Under ISA 570 (IAASB, 2021), auditors must evaluate whether adverse financial conditions indicate material uncertainty regarding going concern. From the Audit Risk Model (Arens et al., 2020), declining profitability raises inherent risk, while Agency Theory (Jensen & Meckling, 1976) suggests that poor performance may heighten information asymmetry and managerial opportunism, leading auditors to apply greater professional skepticism.

Empirical evidence generally shows that lower profitability increases the likelihood of receiving a going concern opinion(Adlwa & Sudarma, 2024)(Averio, 2021)(Dhaliwal et al., 2020)..

However, in capital-intensive industries, profitability alone may not fully reflect solvency risk, as firms may continue operating despite temporary earnings volatility (Habib et al., 2013). Accordingly, the following hypothesis is proposed:

H₁: Profitability negatively affects the likelihood of receiving a going concern audit opinion.

Leverage and going concern audit opinion.

Leverage represents the extent to which a firm finances its assets through debt. High leverage increases fixed financial commitments and reduces flexibility during revenue downturns (Li et al., 2020). In industries characterized by substantial capital requirements such as transportation debt financing is common, amplifying exposure to solvency risk.

From the perspective of the **Audit Risk Model**, excessive debt increases inherent risk because it raises the likelihood of covenant violations, liquidity constraints, and potential default. Under **ISA 570 (IAASB, 2021)**, such conditions constitute indicators of material uncertainty related to going concern. Empirical studies consistently document a positive association between leverage and the issuance of going concern opinions (Aldhanarisha & Herliansyah, 2023)(Pham, 2022)(Pham, 2022) (Pham, 2022; Aldhanarisha & Herliansyah, 2023), suggesting that auditors place substantial weight on solvency pressure when forming professional judgments. Accordingly, the following hypothesis is proposed:

H₂: Leverage positively influences the likelihood of receiving a going concern opinion.

Audit Tenure and going concern opinion

Audit tenure reflects the duration of the auditor-client relationship. Extended tenure may enhance client-specific knowledge and improve risk assessment accuracy. However, prolonged engagement may also introduce familiarity threats that impair independence (McClure & Leah, 2021;Fathi & Rashed, 2021)

From an agency perspective (Jensen & Meckling, 1976), audit tenure affects the effectiveness of monitoring and professional skepticism, which are crucial in evaluating going concern uncertainty under ISA 570 (IAASB, 2021). Empirical evidence remains mixed, indicating that the effect of audit tenure depends on the balance between expertise and independence (Al-Asmakh et al., 2024)(Burnett et al., 2026)(Jadiyappa et al., 2021). Within the agency

framework, audit tenure affects the effectiveness of monitoring and may therefore shape continuity assessments. Accordingly, the following hypothesis is proposed:

H₃: Audit tenure influences the likelihood of receiving a going concern opinion.

Financial Distress and going concern opinion.

Financial distress reflects a deteriorating financial condition marked by liquidity shortages, negative cash flows, and increased default risk. Unlike temporary profitability fluctuations, distress captures structural financial instability that directly threatens business continuity. Under ISA 570 (IAASB, 2021)**,** indicators of financial difficulty constitute primary considerations in assessing material uncertainty related to going concern.

From the perspective of the Audit Risk Model, financial distress substantially increases inherent risk because it heightens the probability of insolvency and business failure. Empirical evidence consistently identifies financial distress as one of the strongest predictors of going concern opinions (Habib et al., 2020)(Widiatami et al., 2020)(Brunelli et al., 2024). Distress signals heightened insolvency risk, prompting auditors to reassess management's ability to sustain operations. In transportation firms, where fixed costs and debt commitments are substantial, financial distress may exert particularly strong influence on auditor judgment. Accordingly, the following hypothesis is proposed :

H₄: Financial distress positively influences the likelihood of receiving a going concern opinion.

Company Size and going concern audit opinion.

Firm size reflects organizational scale, resource availability, and access to external financing. Larger firms generally benefit from diversified operations and stronger capital market access, which may reduce perceived continuity risk. From an agency perspective (Jensen & Meckling, 1976), larger firms are also subject to greater monitoring and disclosure requirements, potentially lowering information asymmetry and audit risk.

However, size does not necessarily eliminate solvency pressure, particularly when financial risk exposure is substantial. Under ISA 570 (IAASB, 2021), auditors focus primarily on indicators of financial difficulty rather than organizational scale alone. Empirical findings on the relationship between firm size and going concern opinions remain inconclusive(Pham, 2022)(Fidiana et al., 2023)(Maso et al., 2020), suggesting that size may function as contextual information rather than a primary determinant. Accordingly, the following hypothesis is proposed:

H₅: Company size negatively influences the likelihood of receiving a going concern audit opinion.

Research Method

Research Design and Sample Selection

This study adopts a quantitative research design to examine the relationship between financial risk indicators and the likelihood of receiving a going concern audit opinion. The empirical setting focuses on transportation and logistics firms listed on the Indonesia Stock Exchange

(IDX) over the 2021–2024 period. The transportation sector is selected due to its capital-intensive characteristics and significant reliance on debt financing, which heighten exposure to solvency risk.

The population consists of all firms classified under the transportation and logistics sector on the IDX. A purposive sampling technique is applied to ensure data consistency and comparability. Firms are included in the sample if they: (1) were continuously listed during the observation period, (2) were not delisted, (3) published complete annual financial statements, and (4) disclosed independent auditor reports. Based on these criteria, 25 firms are selected, resulting in 100 firm-year observations. Financial data and audit reports are obtained from audited annual reports published on the official IDX website. All data used in this study are secondary in nature.

Variable Measurement

Going Concern Audit Opinion

A going concern audit opinion is a statement issued by an auditor to assess whether a company has the ability to continue its business in the future (Averio, 2021). The going concern audit opinion is measured using a dummy variable, namely a value of 1 for companies that receive a going concern audit opinion and a value of 0 for companies that receive a non-going concern opinion.

Profitability

Profitability is a ratio used to evaluate a company's ability to generate profits (Rashid, 2021). Profitability is measured using Return on Assets (ROA), which describes a company's ability to generate profits from its total assets. The following is the ROA formula:

$$\text{ROA} = \frac{Net\ Profit}{Total\ Asset} \text{ x } 100\%$$

Leverage

The leverage ratio shows the level of debt financing in a company's capital structure. It is higher than equity sources (Appiah et al., 2020). Leverage is measured using the Debt to Asset Ratio (DAR), which shows the proportion of debt used in relation to total assets, using the following formula:

$$\text{DAR} = \frac{Total\ Debt}{Total\ Aset} \text{ x } 100\%$$

Audit Tenure

Audit tenure is the number of years that a public accounting firm has continuously performed audit duties for the same entity (Riswan et al., 2020). Audit tenure is measured based on the length of the contractual relationship between the public accounting firm and the audited company, calculated from the first year of the contract, which is given a value of 1, and increases by one each subsequent year

Financial Distress

A condition known as financial distress occurs when a company's financial performance deteriorates (Habib et al., 2020). Financial distress is measured using a modified Altman Z-Score model with the following formula:

$$Z = 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4 \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots.1$$

Company Size

The size of a company can be assessed based on its total assets, sales, and market capitalization (Al-Afeef, 2020) . Company size is measured using the natural logarithm of total assets with the formula:

$$\text{Size} = \text{Ln (Total Assets)}$$

Data Analysis Technique

The data are analyzed using binary logistic regression to examine the effect of profitability, leverage, audit tenure, financial distress, and company size on the likelihood of receiving a going concern audit opinion. Logistic regression is appropriate because the dependent variable is dichotomous, coded as 1 for firms receiving a going concern opinion and 0 otherwise, and the method allows estimation of the probability of an event occurring based on multiple predictors (Hosmer Jr et al., 2013). Prior auditing research has also employed logistic regression to model going concern decisions due to its suitability for binary outcomes (Geiger et al., 2014). The model estimates the log-odds that a firm receives a going concern opinion as a function of financial risk indicators and firm characteristics. Model adequacy is assessed using the -2 Log Likelihood statistic to evaluate overall model improvement, the Hosmer and Lemeshow goodness-of-fit test to examine the alignment between predicted and observed classifications, and Nagelkerke R^2 as a pseudo-measure of explanatory power. The statistical significance of regression coefficients is evaluated using the Wald test at a 5 percent significance level, and classification accuracy is reported to assess the predictive capability of the model.

Results

Descriptive Analysis

Descriptive variable analysis is used to describe the characteristics of the research sample and provide general variables regarding the variables used. The data analyzed and processed using descriptive variables displays a description of the data based on the minimum, maximum, mean, and standard deviation of each research variable (Table1)

Table 1. Descriptive Statistical Test Results

Variabel	Min	Maks	Mean	Std. Deviasi
Profitability	-058	2.07	0.0571	0. 25436
Leverage	0.06	2.65	0.5619	0.49014
FD	-60.20	15.43	-2.4694	15.51556
Company Size	24.08	32.40	27.4625	1.84558

Source: Processed Data, 2025

The profitability variable has a minimum value of -0.58 and a maximum of 2.07 with an average of 0.057 and a standard deviation of 0.254. A standard deviation value greater than the average indicates that the spread of profitability data is not good. Meanwhile, the leverage variable has a minimum value of 0.06 and a maximum of 2.65 with an average of 0.561 and a standard deviation of 0.490. Because the average value is greater than the standard deviation, the distribution of leverage data is relatively good.

The financial distress variable has a minimum value of -60.20 and a maximum of 15.43 with an average of -2.469 and a standard deviation of 15.515. A standard deviation greater than the average indicates that the distribution of financial distress data is not good. The company size variable has a minimum value of 24.08 and a maximum of 32.40 with an average of 27.46 and a standard deviation of 1.84, so it can be concluded that the distribution of company size data is relatively good because the average value is greater than the standard deviation.

To complement these descriptive statistics, Table 2 presents the frequency distribution of audit tenure, providing further insight into the duration of auditor–client relationships within the observed firms.

Table 2. Descriptive Frequencies Audit Tenure

	Frequency	Percent	Valid Percent	Cumulative Percent
1	41	41.0	41.0	41.0
2	30	30.0	30.0	30.0
3	15	15.0	15.0	15.0
4	14	14.0	14.0	14.0
Total	100	100	100	100

Source: Processed Data, 2025

The independent variable of audit tenure was measured using an ordinal scale ranging from 1 to 4, reflecting the duration of the audit engagement between a company and the same public accounting firm. A value of 1 represents the first year of engagement, 2 indicates the second year, and 4 reflects the fourth consecutive year of audit. The distribution shows that 41% of the sample firms were audited in their first year of engagement, followed by 30% in the second year, 15% in the third year, and 14% in the fourth year. This pattern suggests that most firms are relatively early in their auditor–client relationship cycle.

Following the description of audit tenure, Table 3 presents the frequency distribution of going concern audit opinions to provide an overview of the proportion of firms receiving such opinions during the observation period.

Table 3. Descriptive Frequencies of Going Concern Audit Opinions

	Frequency	Percent	Valid Percent	Cumulative Percent
Non OAGC	86	86.0	86.0	86.0
OAGC	14	14.0	14.0	14.0
Total	100	100	100	100

Source: Processed Data, 2025

Going concern audit opinion is a nominal scale that uses dummy variables, where companies that receive a going concern audit opinion are coded "1" while companies that do not receive a going concern audit opinion are coded "0". The variables have valid data values because all data has been processed. There were 14 samples or 14% of companies that received a going concern audit opinion, while 86 samples or 86% of companies did not receive a going concern audit opinion.

Overall Model Fit Test

To evaluate the adequacy of the regression model, an Overall Model Fit Test was conducted by comparing the initial and final values of the -2 Log Likelihood (-2LL). A reduction in the -2LL value indicates an improvement in model fit after the independent variables are included in the estimation. The results of this test are presented in Table 4

Table 4. Hasil Uji Overall Model Fit Test

Overall Model -2 Log likelihood	Value
-2 Log likelihood Beginning	80.993
-2 Log likelihood Ending	38.398

Source: Processed Data, 2025

The initial -2 Log Likelihood (-2LL) value at block number = 0 was 80.993, while the final -2LL value at block number = 1 after adding independent variables decreased to 38.398. This decrease in -2LL value indicates that the hypothesized model fits the data and is a good regression model. This means that the addition of the variables of profitability, leverage, audit tenure, financial distress, and company size improved the fit of the research model.

Hosmer and Lomeshow's Goodness of Fit Test
The goodness-of-fit of the logistic regression model is evaluated using the Hosmer and Lemeshow test. The results indicate a Chi-square value of 7.432 with 8 degrees of freedom and a significance level of 0.491. Since the p-value exceeds the conventional 5 percent threshold, the null hypothesis that there is no difference between the observed and predicted classifications cannot be rejected. This finding suggests that the model demonstrates adequate calibration and fits the data reasonably well. The Hosmer and Lemeshow test is widely used in logistic regression analysis to assess whether predicted probabilities are consistent with observed outcomes (Hosmer et al., 2013). Therefore, the results provide statistical support that the proposed model is appropriate for estimating the likelihood of receiving a going concern audit opinion.

Coefficient of Determination (Nagelkerke R Square)
The explanatory power of the logistic regression model is assessed using the Cox and Snell R^2 and Nagelkerke R^2 statistics. The results show a Cox and Snell R^2 of 0.347 and a Nagelkerke R^2 of 0.625. Because the Cox and Snell measure does not reach a maximum value of one, the Nagelkerke R^2 is commonly reported as an adjusted pseudo-coefficient of determination that provides a more interpretable indication of model fit (Hosmer et al., 2013). A Nagelkerke R^2 of 0.625 suggests that the model exhibits relatively strong explanatory capacity in distinguishing

between firms that receive and do not receive going concern opinions. However, as with all pseudo-R² measures in logistic regression, this statistic should be interpreted as an indicator of comparative model fit rather than as a direct proportion of variance explained.

Classification Matrix

As presented in Table 5, the predictive performance of the logistic regression model is assessed using a classification matrix that compares observed outcomes with predicted classifications. The classification matrix evaluates the model's ability to correctly distinguish between firms receiving and not receiving going concern audit opinions. By reporting category-specific accuracy rates as well as the overall percentage of correct predictions, this analysis provides additional evidence regarding the model's discriminative capability beyond goodness-of-fit statistics.

Table 5. Classification Matrix Test Results

Observed		Predicted		
		Opini Audit Going Concern		Percentage Correct
		Non Opini Audit Going Concern	Opini Audit Going Concern	
Opini Audit Going Concern	Non Opini Audit Going Concern	82	4	95.3
	Opini Audit Going Concern	7	7	50.0
Overall Percentage				89.0

Source: Processed Data, 2025

Based on the classification table, the regression model has a predictive ability of 95.3% in predicting companies that do not receive a going concern audit opinion, namely 82 out of 100 samples. Meanwhile, the model's ability to predict companies that receive a going concern audit opinion is 50.0%, namely 7 out of 100 samples. Overall, the overall percentage value of 89% indicates that the accuracy level of the research model is relatively good in predicting company conditions.

Hypothesis Testing

The results of the logistic regression analysis are presented in Table 6, which reports the estimated coefficients (B), standard errors, Wald statistics, significance levels, and odds ratios (Exp(B)) for each explanatory variable. The Wald test is used to evaluate the statistical significance of individual predictors in explaining the likelihood of receiving a going concern audit opinion. The reported coefficients indicate the direction of the relationship, while the odds ratios provide an interpretation of the magnitude of the effect on the probability of issuing a going concern opinion.

Based on the results of the logistic regression analysis in the 6, a logistic regression model can be formed by looking at the parameter estimate values in Variables in The Equation. The

regression model formed based on the parameter estimate values in Variables in The Equation is as follows:

$OAGC = -7,337 + 1,020X_1 + 3,481X_2 -0,744X_3 -0,078X_4 + 0,123X_5 + e$………………………………..1

Table 6. Data Significance Test

	B	S.E.	Wald	df	Sig.	Exp(B)
Profitability	1.020	.984	1.074	1	0.300	2.772
Leverage	3.481	1.236	7.936	1	0.005	32.478
Audit Tenure	-0.744	0.583	1.627	1	0. 202	0. 475
Financial Distress	-0. 078	0. 023	11.314	1	0. 001	0.925
Company Size	0. 123	0. 217	0. 320	1	0. 571	1.130
Constant	-7.337	5.977	1.507	1	0. 220	0. 001

Source: Processed Data, 2025

Discussion

Profitability and Going Concern Opinions

The findings reveal that profitability does not significantly affect the likelihood of receiving a going concern audit opinion. This indicates that operational performance alone is insufficient to shape auditors' continuity judgments once solvency-related risks are taken into account. Although profitability theoretically signals financial health, its relevance diminishes when structural financial exposure is evident. Prior studies similarly document that earnings measures lose explanatory strength after distress indicators are incorporated into the model (Habib et al., 2013; Carson et al., 2013).

From an agency perspective, profitability may be influenced by accounting discretion and short-term managerial incentives, limiting its reliability as a standalone indicator of long-term viability (Jensen & Meckling, 1976). Moreover, signaling theory posits that not all positive signals are equally credible; profitability must be supported by stable cash flows and sound financial structure to meaningfully reduce perceived risk (Spence, 1973). In capital-intensive industries such as transportation, auditors may therefore prioritize solvency exposure over temporary earnings fluctuations.

Leverage and Going Concern Opinions

Leverage exhibits a positive and statistically significant association with going concern opinions. The estimated odds ratio indicates that firms with higher leverage are substantially more likely to receive a going concern opinion, underscoring the economic significance of debt-related risk. This finding aligns with prior evidence demonstrating that leverage increases the probability of going concern modifications (Geiger & Raghunandan, 2002; Knechel & Vanstraelen, 2007).

High leverage amplifies fixed financial commitments and reduces flexibility during revenue downturns. In capital-intensive sectors, debt dependence magnifies exposure to covenant

violations and liquidity shortages. From an agency perspective, elevated debt intensifies monitoring concerns due to heightened default risk (Jensen & Meckling, 1976). Consistent with signaling theory, excessive leverage serves as a negative signal regarding financial stability (Spence, 1973). The findings therefore support the argument that auditors assign substantial weight to structural solvency risk when forming going concern judgments.

Audit Tenure and Going Concern Opinions

Audit tenure does not demonstrate a statistically significant relationship with going concern opinions. This suggests that the length of the auditor-client relationship does not materially alter continuity assessments in this context. Prior literature documents mixed evidence regarding tenure effects, indicating that increased client knowledge may coexist with potential familiarity threats (Daoust & Malsch, 2020).

The absence of significance in this study implies that professional standards and regulatory oversight may mitigate independence concerns associated with extended engagements. In environments characterized by measurable financial risk, objective solvency indicators appear to dominate any relational effects (Eyinade et al., 2025;Eyinade et al., 2025). Auditor judgment in going concern decisions thus remains primarily risk-based rather than relationship-driven.

Financial Distress and Going Concern Opinions

Financial distress is found to significantly influence going concern opinions. The negative coefficient of the Altman Z-score indicates that financially healthier firms (higher Z-scores) are less likely to receive a going concern opinion, whereas firms experiencing greater distress face a higher probability of modification. This result is consistent with extensive empirical evidence identifying financial distress as one of the strongest predictors of going concern reporting (Habib et al., 2020;Gianfelici et al., 2021;Brunelli et al., 2024).

Financial distress captures structural instability, including liquidity constraints and elevated bankruptcy risk, which directly threaten business continuity. From a signaling perspective, distress conveys a credible negative signal to stakeholders (Spence, 1973). From an agency standpoint, deteriorating financial conditions increase monitoring demands, prompting auditors to exercise greater conservatism in their assessments (Jensen & Meckling, 1976). In transportation firms, where debt obligations and fixed operating costs are substantial, distress indicators may exert particularly strong influence on auditor judgment.

Company Size and Going Concern Opinions

Company size does not significantly affect the likelihood of receiving a going concern opinion. Although larger firms often possess greater access to financing and diversified operations, size alone does not eliminate solvency pressure. Prior evidence suggests that while firm size may correlate with stability, it becomes less relevant once financial risk variables are explicitly considered (Carson et al., 2013) .

This finding indicates that auditors prioritize financial viability over organizational scale when evaluating substantial doubt. Even large firms may receive going concern opinions if leverage is excessive or financial distress is evident. Thus, scale does not substitute for financial stability in auditor judgment.

Collectively, the findings demonstrate that auditor judgment in transportation firms' going concern opinions is primarily shaped by financial risk indicators specifically leverage and financial distress rather than by profitability, audit tenure, or firm size. These results are consistent with a risk-prioritization perspective in audit decision-making, whereby auditors focus on solvency exposure and default probability when assessing continuity uncertainty (Bhosale, 2025).

In capital-intensive industries characterized by substantial debt dependence, financial risk emerges as the dominant determinant of going concern outcomes. The evidence therefore supports the view that going concern reporting reflects a structured evaluation of solvency risk rather than a simple response to performance fluctuations or firm characteristics.

Conclusion

This study examines the role of financial risk and related firm characteristics in shaping auditor judgment reflected in going concern opinions among transportation firms listed on the Indonesia Stock Exchange during the 2021–2024 period. The findings indicate that solvency-related indicators—specifically leverage and financial distress—are significant determinants of going concern reporting. Firms with higher leverage and greater financial distress exhibit a substantially higher likelihood of receiving a going concern opinion, suggesting that auditors prioritize structural solvency exposure when assessing business continuity.

In contrast, profitability, audit tenure, and company size do not demonstrate a statistically significant influence on going concern outcomes. These results imply that operational performance, relational duration between auditor and client, and organizational scale are less decisive once financial viability and default risk are explicitly considered. In capital-intensive industries such as transportation, where debt commitments and fixed costs are substantial, auditors appear to focus primarily on indicators that directly capture liquidity pressure and financial instability.

The overall evidence supports a risk-based interpretation of auditor judgment in going concern assessments. Rather than relying on general firm characteristics, auditors concentrate on measurable indicators of financial vulnerability when evaluating substantial doubt about continuity. This finding reinforces the importance of solvency analysis in audit evaluations, particularly within industries characterized by high leverage and operational rigidity.

From a theoretical perspective, the results align with agency theory, which emphasizes the monitoring role of auditors under conditions of heightened financial risk. The findings are also consistent with signaling theory, as financial distress and excessive leverage convey credible negative information regarding sustainability risk. By providing sector-specific evidence from transportation firms, this study extends prior research and contributes to a more refined

understanding of how financial risk shapes going concern reporting in emerging market contexts.

Several limitations should be acknowledged. The study focuses on a single industry and a relatively limited observation period, which may constrain generalizability. Additionally, financial distress is proxied using a specific model, and alternative measures may yield different insights. Future research may expand the analysis across industries, incorporate longer observation periods, or explore additional dimensions of financial risk to further deepen understanding of auditor decision-making processes.

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