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Financial Distress, Institutional Ownership, and Going-Concern Audit Opinion: The Moderating Role of Prior Opinion

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Abstract:
Research Aim: This study examines the effects of financial distress and institutional ownership on going-concern audit opinions, with prior opinion as a moderating variable, among consumer cyclical companies listed on the Indonesia Stock Exchange during 2022–2024.
Methodology: A quantitative approach was employed using logistic regression analysis on 168 firm-year observations from 56 companies selected through purposive sampling. The data were obtained from audited annual financial statements and independent auditor reports published by the Indonesia Stock Exchange.
Findings: The model demonstrates strong explanatory power, with a Nagelkerke R^2 of 82.3%. Financial distress and institutional ownership significantly influence the likelihood of receiving a going-concern audit opinion. However, prior opinion does not moderate the relationships between financial distress or institutional ownership and going-concern audit opinion. These findings indicate that auditors emphasize current financial conditions and critically evaluate management's ability to address business risks rather than relying on previous audit opinions.
Theoretical Contribution: This study extends agency theory by providing evidence that auditors base going-concern judgments primarily on current financial conditions instead of prior audit outcomes. The findings also help explain inconsistent results in previous studies regarding the moderating role of prior opinion and reinforce auditors' function as independent monitoring mechanisms that mitigate information asymmetry between management and shareholders.
Practical Implications: Companies should strengthen financial performance and improve transparency to reduce the likelihood of receiving a going-concern audit opinion.
Research Limitations: This study focuses on two explanatory variables within a single industry sector. Future research should examine additional determinants and broader industry coverage to enhance the generalizability of the findings.
Keywords : Going Concern Opinion, Financial Distress, Institutional Ownership, Prior Opinion.

Introduction

One of the key requirements for companies seeking access to the capital market is the transparency of their financial reporting. Financial statements constitute the primary communication mechanism through which management conveys financial information to shareholders, creditors, and other stakeholders, enabling them to evaluate the firm's financial performance and position (Simamora & Hendarjatno, 2019). For companies listed on the Indonesia Stock Exchange (IDX), audited financial statements also represent an essential instrument for maintaining accountability and strengthening public confidence. Accordingly, financial reporting should faithfully represent the company's actual financial condition while complying with the principles of relevance, reliability, and transparency (Salsabila & Badjuri, 2022).

To ensure that financial statements are presented fairly in accordance with applicable accounting standards, independent auditors perform objective examinations of the financial reports. Their responsibility includes evaluating whether material uncertainties exist that may cast significant doubt on a company's ability to continue operating as a going concern. When management fails to provide adequate disclosures regarding these uncertainties, auditors may issue a going concern audit opinion to inform stakeholders about potential business continuity risks (Zdolšek et al., 2022).

One of the most important aspects of auditing is the evaluation of an entity's ability to continue operating as a going concern. Under the Indonesian Public Accountant Professional Standards (SPAP) SA 570, financial statements are prepared on the assumption that an entity will continue its operations for the foreseeable future. Consequently, a going concern audit opinion reflects the auditor's professional assessment of whether material uncertainties exist that could significantly threaten the company's future operations (Hasanah et al., 2024).

Empirical evidence indicates that going concern issues remain a major concern in the Indonesian capital market. One notable example is PT Saraswati Griya Lestari, which has been placed on the IDX Special Monitoring Board after experiencing a trading suspension exceeding six months (IDX, 2025). Under IDX regulations on delisting and relisting, companies may be delisted if trading suspensions extend beyond 24 months or when financial or legal conditions seriously threaten business continuity without sufficient evidence of recovery (CNBC Indonesia, 2024).

This situation has placed PT Saraswati Griya Lestari, a company operating in the consumer cyclicals sector, among firms facing potential delisting after reaching a 24-month trading suspension by mid-2025. The suspension resulted from the company's failure to comply with listing obligations and concerns regarding its business continuity (CNBC Indonesia, 2023). Several other companies within the same sector have experienced similar circumstances and are also classified as potential delisting candidates, as presented in Table 1.

(Table 1 remains unchanged.)

Based on IDX observations, the consumer cyclicals sector recorded the highest number of companies receiving going concern audit opinions in 2025. Compared with sectors such as energy, property and real estate, and consumer non-cyclicals, this sector experienced a substantially higher frequency of going concern reporting.

At least fourteen companies in the consumer cyclicals sector received going concern audit opinions while simultaneously experiencing prolonged trading suspensions. Some companies, including PT Trikomsel Oke Tbk and PT Sri Rejeki Isman Tbk, received going concern opinions consecutively during the 2022–2024 observation period and were subsequently categorized as firms facing potential delisting.

Furthermore, the collapse of PT Asuransi Jiwa Adisarana Wanaartha demonstrates that an auditor's failure to appropriately identify going concern risk may seriously undermine public confidence in audit quality. This case highlights the importance of auditor independence and professional judgment when evaluating a company's financial viability and long-term sustainability.

Theoretically, auditors consider numerous financial and governance indicators when deciding whether to issue a going concern audit opinion. Financial distress represents one of the most critical indicators because it reflects severe financial difficulties and an increased probability of bankruptcy (Ghardini, 2024). Previous empirical studies, however, report inconsistent findings. While several studies conclude that financial distress significantly increases the likelihood of receiving a going concern opinion (Salim, 2023), others report no statistically significant relationship (Wahyuningtyas et al., 2025).

Institutional ownership has also attracted considerable attention because it functions as an important corporate governance mechanism that strengthens monitoring over managerial decisions and potentially influences auditors' professional judgments (Ashari & Suryani, 2019). Nevertheless, previous findings remain inconclusive, as some studies report that institutional ownership has no significant effect on going concern audit opinions (Sholeha & Handayani, 2024).

Similarly, prior audit opinion has frequently been associated with auditor consistency. Companies receiving a going concern opinion in one period are often expected to receive a similar opinion in subsequent years, particularly when no substantial improvement has occurred in their financial condition (Mutchler, 1984).

Although these variables have been widely examined, previous studies continue to produce inconsistent empirical findings. More importantly, existing research has not reached consensus on whether auditors primarily base their going concern assessments on current financial evidence or whether prior audit opinions continue to influence subsequent audit judgments. This unresolved issue represents an important theoretical gap because it questions the extent to which auditors maintain independent professional judgment when evaluating business continuity.

Unlike previous studies that generally treated prior opinion as an independent explanatory variable, this study examines prior opinion as a moderating variable that may strengthen or weaken the effects of financial distress and institutional ownership on going concern audit opinions. By adopting this perspective, the study provides a more comprehensive explanation of how historical audit outcomes interact with current financial and governance conditions in shaping auditors' decisions.

This study also offers a clearer conceptual contribution to the auditing literature. Specifically, it extends Agency Theory by examining whether auditors maintain objective and independent professional judgment based primarily on current audit evidence rather than relying on historical audit outcomes. If prior opinion does not significantly moderate these relationships, the findings would indicate that auditors reassess each engagement independently and continue to perform their monitoring function by reducing information asymmetry through contemporaneous evidence rather than historical judgments. Consequently, this study contributes to a deeper understanding of auditor independence in the context of going concern assessments.

In addition to its theoretical contribution, the study provides practical value for auditors, corporate managers, investors, and regulators. Identifying the determinants of going concern audit opinions may assist auditors in strengthening professional judgment, encourage management to improve financial stability and corporate governance, support investors in evaluating business continuity risk, and provide regulators with empirical evidence for enhancing financial reporting quality and market transparency.

Based on the foregoing discussion, this study examines the effects of financial distress and institutional ownership on going concern audit opinions by incorporating prior audit opinion as a moderating variable while controlling for profitability and firm growth. The analysis focuses on consumer cyclicals companies listed on the Indonesia Stock Exchange during the 2022–2024 period. Accordingly, this research is expected not only to identify the determinants of going concern audit opinions but also to advance Agency Theory by providing empirical evidence that auditors' decisions are primarily driven by current financial conditions and governance characteristics rather than by historical audit opinions.

Literature Review and Hypothesis Development

Theoretical Framework

This study is grounded in Agency Theory, which explains the contractual relationship between shareholders (principals) and managers (agents) in modern corporations. Because managers are responsible for operating the company while shareholders provide the capital, differences in objectives and unequal access to information often create agency conflicts. Managers generally possess more complete information regarding the firm's financial condition than shareholders, allowing them to pursue actions that may not always align with the interests of the owners. As a result, agency conflicts increase monitoring costs and reduce the efficiency of corporate governance mechanisms (Jensen & Meckling, 1976; Ray & Wulandari, 2024).

Information asymmetry further intensifies these conflicts because managers may delay or selectively disclose unfavorable financial information to protect their personal interests. Such circumstances increase the risk of opportunistic reporting, including earnings manipulation and inadequate disclosure of financial difficulties (Afiqah et al., 2024). Consequently, independent auditors serve as an essential external monitoring mechanism by evaluating whether financial statements fairly represent the company's financial condition. Through the audit process, auditors assess whether material uncertainties exist that could threaten business continuity and communicate their professional judgment through the issuance of an audit opinion (DeFond & Jiambalvo, 1994; Simamora & Hendarjatno, 2019).

Previous studies have consistently shown that high-quality audits improve financial reporting transparency and reduce managerial opportunistic behavior. Nevertheless, an important theoretical question remains unresolved. Existing studies have largely focused on the direct effects of financial and governance variables on going concern audit opinions, while limited attention has been given to whether auditors continue to rely on historical audit opinions when making subsequent judgments. Accordingly, this study extends Agency Theory by examining whether prior audit opinion moderates the influence of financial distress and institutional ownership on going concern audit opinion. This perspective provides a deeper understanding of auditor independence by evaluating whether professional judgments are primarily based on current audit evidence or influenced by historical audit outcomes.

Financial Distress and Going Concern Opinion

Agency Theory suggests that independent auditors play an important monitoring role in reducing information asymmetry between management and shareholders. When a company experiences financial distress, managers may have stronger incentives to conceal deteriorating financial conditions in order to avoid negative market reactions. Consequently, auditors are expected to exercise greater professional skepticism when evaluating the company's ability to continue operating as a going concern (Mariam & Terawati, 2025).

Financial distress refers to a condition in which a company encounters severe financial difficulties, limiting its ability to meet financial obligations and increasing the probability of business failure (Platt & Platt, 2002). Such conditions constitute one of the most important indicators considered by auditors when evaluating going concern uncertainty because financial instability directly threatens business continuity (DeFond & Jiambalvo, 1994).

Previous empirical evidence generally indicates that financial distress increases the likelihood of receiving a going concern audit opinion. Companies experiencing greater financial difficulties are more likely to receive a modified audit opinion because auditors perceive a higher level of uncertainty regarding future operations (Salim, 2023).Based on the above discussion, the following hypothesis is proposed:
H1: **Financial distress has an effect on going concern audit opinion.**

Institutional Ownership and Going Concern Opinion

Agency Theory also emphasizes the importance of monitoring mechanisms in mitigating agency conflicts. One such mechanism is institutional ownership, which represents share ownership by institutional investors such as banks, insurance companies, pension funds, and investment firms. Because institutional investors generally possess greater expertise, resources, and incentives to supervise managerial decisions, they are expected to improve corporate governance quality and strengthen managerial accountability (Ashari & Suryani, 2019; Hasanah et al., 2024).

Effective institutional monitoring may reduce opportunistic managerial behavior, improve financial reporting quality, and enhance corporate transparency. These improvements can lower auditors' concerns regarding business continuity because stronger governance mechanisms generally indicate more effective oversight and lower agency costs.

Empirical studies also support this argument by demonstrating that institutional ownership influences the issuance of going concern audit opinions (Anggraini et al., 2024; Ashari & Suryani, 2019).
Based on the above discussion, the following hypothesis is proposed:
H2: **Institutional ownership has an effect on going concern audit opinion.**

Prior Audit Opinion as a Moderator of the Relationship between Financial Distress and Going Concern Audit Opinion

Prior audit opinion represents the audit opinion issued in the previous reporting period and reflects the auditor's historical assessment of the company's business continuity. From a theoretical perspective, prior audit opinion may influence how auditors evaluate current financial distress. On one hand, previous audit opinions may function as historical indicators of business risk, encouraging consistency in audit judgments when no substantial improvement is observed. On the other hand, professional auditing standards require auditors to reassess current financial evidence independently rather than relying solely on previous audit conclusions (Halim, 2021; Jensen & Meckling, 1976).

Financial distress remains one of the strongest indicators of going concern uncertainty because companies experiencing severe financial difficulties are generally exposed to greater bankruptcy risk (Putra & Annisa, 2024). Nevertheless, the extent to which financial distress influences auditors' decisions may depend on whether prior audit opinions continue to shape professional judgment. Consequently, the moderating role of prior audit opinion remains an empirical issue that warrants further investigation.

Previous studies report that companies receiving going concern opinions in earlier periods are more likely to receive similar opinions when financial and operational conditions do not substantially improve (G. P. Putri et al., 2017; Halim, 2021). Likewise, Mardhatillah (2019) documents a significant relationship between prior audit opinion and subsequent going concern opinion.
Based on the above discussion, the following hypothesis is proposed:
H3: Prior audit opinion moderates the effect of financial distress on going concern audit opinion.

Prior Audit Opinion as a Moderator of the Relationship between Institutional Ownership and Going Concern Audit Opinion

Agency Theory suggests that institutional ownership contributes to reducing agency conflicts through stronger monitoring of managerial activities, thereby improving transparency and reducing information asymmetry (Purba et al., 2024). Under these conditions, auditors may perceive companies with stronger institutional monitoring as having lower business continuity risk.

However, the influence of institutional ownership may vary depending on historical audit outcomes. Prior audit opinion provides information regarding the auditor's previous assessment of the company's financial condition and governance effectiveness. Although previous opinions may influence audit planning and risk assessment, auditors are expected to independently evaluate current governance quality and financial conditions during each audit engagement (Halim, 2021).

Accordingly, prior audit opinion may either strengthen or weaken the relationship between institutional ownership and going concern audit opinion, depending on whether historical audit evidence remains relevant after considering current governance conditions. Previous empirical findings indicate that prior audit opinion significantly affects the likelihood of receiving a going concern audit opinion (Mardhatillah, 2019).

More importantly, this study differs from previous research by positioning prior audit opinion as a contingent factor rather than merely an independent predictor of going concern opinion. By examining its moderating role, this study provides a broader explanation of how current financial conditions, corporate governance mechanisms, and historical audit outcomes jointly influence auditors' professional judgments.

Based on the above discussion, the following hypothesis is proposed:
H4: Prior audit opinion moderates the effect of institutional ownership on going concern audit opinion.

Research Method

Research Design

This study employs a quantitative approach using secondary data obtained from the annual financial statement of consumer cyclicals companies listed on the Indonesia Stock Exchange (IDX) during the 2022-2024 period. The study aims to examine the effect of financial distress and institutional ownership on going concern audit opinion, with prior opinion as a moderating variable**.**

Population and Sample

The population of this study consists of all companies classified under the consumer cyclicals sector listed on the IDX. The sampling method employed is purposive sampling, with the following criteria : (1) consumer cyclicals companies listed on the IDX as of April 16, 2025; (2) companies listed on the IDX prior to January 1, 2022; (3) companies that did not undergo delisting or relisting during the 2022-2024 period; and (4) companies that published complete annual report on the IDX during 2022-2024. Based on these criteria, 56 companies were selected, resulting 168 firm-year observation. Financial data and audit report were obtained from audited annual report published on the official IDX website. All data used in this study are secondary date**.**

Variable Measurement

Going Concern Audit Opinion

According to Puspita et al, (2024) a going concern audit opinion is issued by auditor when there is significant doubt about a company ability to continue its operations. This variable is measured using a dummy variable approach, where companies receiving a going concern audit opinion are coded as 1, while those receiving an unqualified opinion are coded as 0.

Financial Distress

Financial distress refers to a condition in which a company experience severe financial difficulties, characterized by it's inability to meet both short-term and long-term financial obligation. If not addressed promptly, this condition may lead to bankruptcy. To measure financial distress, this study employs the Altman Z-Score model developed by Professor Edward Altman (1968). This model is widely used to assess a company's likelihood of experiencing financial difficulties and potential bankcruptcy, as firms with low profitability are generally more vulnerable to financial failure (Hantono, 2019). The Altman Z-Score formula is presented as follow :

$$Z = 1.2\ Z1 + 1.4\ Z2 + 3.3\ Z3 + 0.6\ Z4 + 0.999\ Z5$$

Where :
Z1 = (Current Assets – Current Liabilities) / Total Assets
Z2 = Retained Earnings / Total Assets
Z3 = Earning Before Interest and Taxes / Total Assets
Z4 = Market Capitalization / Book Value of Liabilities Z5 = Sales / Total Assets

Based on the Altman Z-Score model, a company is considered to be experiencing financial distress when its Z-Score is less than 1,81. A Z-Score ranging from 1,81-2,99 places the company in the grey area, indicating a critical financial condition with potential bankruptcy risk. Conversely, a Z-Score greater than 2,99 suggest that the company is financially sound and has a low probability of bankruptcy (Diakomihalis, 2012).

Institutional Ownership

Institutional Ownership refers to the proportion of a company share held by institutions, such insurance companies, bank, investment firms, and other institutional entities (Ashari and Suryani, 2019). This variable is measured using a ratio approach, with the formula as follow :

$$KI = \frac{Institutional\ Share}{Outstanding\ Share} X\ 100\ \%$$

Prior Opinion

Prior opinion refers to the auditor's opinion on the fairness of an auditee's financial statements obtained in the previous year. This variable is measured using a dummy variable approach, where a value of 1 is assigned to companies that received a going concern audit opinion in the prior year, and 0 is assigned otherwise.

Profitability

Profitability refers to a company's ability to generate profit over a certain period (Zandra and Rahmaita, 2021). It is measured using Return on Assets (ROA), which reflects the company's ability to generate earnings from its total asset. The ROA formula is as follow :

$$ROA = \frac{Earning\ After\ Tax}{Total\ asset}$$

Firm Growth

Firm growth refers to a company's ability to expand and sustain its operation over the long term (Sholeha & Handayani, 2024). It can be measured using the following formula :

$$PP = \frac{PBt-PBt-1}{PBT-1}$$

Where :

PB (t) = Net Sales in the current year

PB (t-1) = Net Sales in the previous

year

Data Analysis Technique

The research data were analyzed using logistic regression to examine the effect of financial distress and institutional ownership on going concern audit opinion, with prior opinion as a moderating variable. This method was selected because the dependent variable is dichotomous, coded as 1 for companies receiving a going concern opinion and 0 otherwise. This approach has been widely used in auditing research, as it is considered appropriate for modeling binary going concern decisions (Geiger et al., 2002).

The model estimates the log-odds of receiving a going concern opinion as a function of financial risk indicator and firm characteristic. Model adequacy was evaluated using several test, including the -2 Log Likelihood to assess model fit improvement, the Hosmer and Lemeshow test to examine the goodness-of-fit between predicted and actual values, and the Nagelkerke R^2 to indicate the model's explanatory power. In addition, the significance of coefficients was tested using the Wald test at a 5% significance level, while classification accuracy was used to assess the model predictive capability.

Results

Descriptive Analysis

Descriptive statistical analysis is used to describe the characteristics of the research sample and to provide a general overview of the variable used. The analyzed data are presented in the form of minimum, maximum, mean, and standard deviation values for each research variable (Table 1)

Table 1. Descriptive Statistical Test Results

	Minimum	Maximum	Mean	Std. Deviation
FD	-0.620	2.590	0.69375	0.570227
IO	0.000	0.972	0.60932	0.257579
Prof	-0.218	0.133	-0.00497	0.061118
PP	-0.921	15.250	0.36233	1.656940
M1	-0.045	2.590	0.34240	0.627490
M2	0.000	0.850	0.14010	0.259420

Source : Processed Data (SPSS), 2026

Table 2 present the descriptive statistics for the financial distress (FD) variable, which has a mean value of 0.69375 and a standard deviation of 0.57023, indicating that the data tend to be positive with a moderate level of dispersion. The minimum FD value is -0.620 and the maximum is 2.590, suggesting some variation, though not extreme. The Institutional ownership (IO) variable has a mean of 0.60932 and a standard deviation of 0.25758. The relatively low standard deviation indicates that the IO data are fairly homogeneous and not widely dispersed from the mean. The minimum IO value is 0.000 and the maximum is 0.972.

The control variable profitability (Prof) show a mean value of -0.00497 with a standard deviation of 0.06112. The minimum value of -0.218 and maximum of 0.133 indicate that profitability varies considerably across firm, ranging from losses to profit. Meanwhile, the firm growth (FG) variable has a mean of 0.36233 and a standard deviation of 1.65694, indicating a relatively high level of dispersion. The minimum FG value is -0.921 and the maximum is

15.250.

For the interaction variable, M1 (FD x PO) has a mean of 0.3424 and a standard deviation of 0.62749, indicating moderate variation, with value ranging from -0.45 to 2.59. Meanwhile, M2 (IO x PO) has a mean of 0.1401 and a standard deviation of 0.2594. The minimum and maximum values of the interaction variable follow those of their main variable, indicatin that the prior opinion (PO) variable is a dummy variable (0 and 1). Overall, the descriptive statistics indicate that the data exhibit sufficient variation and are appropriate for further regression analysis.

To complement these results, Table 2 present the frequency distribution of prior opinion, providing an overview of the proportion of companies that received a going concern opinion in the previous year.

Table 2. Descriptive Frequencies Prior Opinion

	Frequency	Percent	Valid Percent	Cumulative Percent
0	120	71.4	71.4	71.4
1	48	28.6	28.6	100.0
Total	168	100.0	100.0	

Source : Processed Data, 2026

Based on Table 2, it can be described that the moderating variable, namely prior opinion, is measured using a nominal scale in the form of a dummy variable. Companies that received a going concern audit opinion in the previous year are coded as “1”, while those that did not receive such an opinion are coded as “0”.

Out of a total of 168 observation, 120 companies (71.4%) did not receive a going concern audit opinion in the prior period (PO=0), while 48 companies (28.6%) did receive such an opinion (PO=1). The valid percentage are identical to the total percentage, indicating that there are no missing values for this variable. This composition suggest that the PO variable, as a dummy variable, has a sufficiently proportional distribution to be used in moderation regression analysis, although the number of companies with prior opinion is smaller than those without.

Following the discussion of prior opinion, Table 4 present the frequency distribution of going concern audit opinion to provide an overview of the proportion of companies receiving such opinion during the observation period.

Table 3. Descriptive Frequencies of Going Concern Audit Opinion

	Frequency	Percent	Valid Percent	Cumulative Percent
0	115	68.5	68.5	68.5
1	53	31.5	31.5	100.0
Total	168	100.0	100.0	

Source : Processed Data, 2026

Based on table 3, it can be described that the dependent variable, namely going concern audit opinion, is measured using a nominal scale in the form of a dummy variable. Companies that receive a going concern audit opinion are coded as “1”, while those that do not receive such an opinion are coded as “0”.

Out of a total of 168 observation, 115 companies (68.5%) did not receive a going concern audit opinion (coded 0), while 53 companies (31.5%) received a going concern audit opinion (coded 1). The valid percentage are identical to the overall percentage, indicating that there are no missing values for this variable. The proportion of companies receiving a going concern audit opinion (31.5%) is sufficiently representative for further analysis using logistic regression, as both categories in the dummy variable have an adequate number of observations.

Overall Model Fit Test

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

Table 4 : Result of the Overall Model Fit Test

Model Keseluruhan -2 Log Likelihood	Nilai
-2 Log Likelihood Awal	209.467
-2 Log Likelihood Akhir	61.124

Source : Processed Data, 2026

The initial -2 Log Likelihood (-2LL) value in block number = 0 is 209.467, while the final -2LL value in block number = 1 is 61.124. The decrease in the -2 LL value indicates that the hypothesized model fits the data well and represent a good regression model. This implies that the inclusion of financial distress, institutional ownership, profitability, firm growth, prior opinion, and going concern audit opinion variable improves the overall model fit.

Hosmer And Lemeshow Goodness Of Fit Test

Model adequacy was assessed using the hosmer and lemeshow goodness of fit test. This test is commonly used in logistic regeression to evaluate the agreement between predicted probabilities and actual observed outcomes. The result show a Chi-square value of 4.507 with 8 degrees of freedom (df) and a significance value of 0.809. Since the significance value is greater than 0.05 (0.809 > 0.05), the null hypothesis (H0) is accepted. This indicates that there is no significant difference between the model's predictions and the observed data. Therefore, the regression model is considered to have a good fit and is appropriate for further analysis.

Coefficient Of Determination (Nagelkerke R Square)

Nagelkerke R Square is an adjusted version of Cox and Snell's R Square, designed to ensure that its value ranges between 0 and 1. The test result show a Nagelkerke R Square value of 0.823. This indicates that the independent variable in the model explain 82.3% of the variation in the dependent variable, while the remaining 17.7% is influenced by other factor outside the model that were not examined. This value suggests that the model has a very strong explanatory power for the dependent variable.

Classification Matrix

The classification matrix describe the predictive ability of the regression model in estimating the likelihood of companies receiving a going concern audit opinion. The model prediction accuracy for the dependent variable is expressed in percentage terms.

Table 5. Classification Matrix Test Results

Predicted Observed	Opini Audit Non Going Concern	Opini Audit Going Concern	Correct
Opini Audit Non Going Concern	109	6	94.8
Opini Audit Going Concern	6	47	88.7
Overall Percentage			92.9

Source : Processed Data, 2026

Based on table 6, the regression model demonstrates excellent predictive ability in classifying OAGC. For companies that did not receive OAGC (coded 0), the model correctly predicted 109 out of 115 companies, with an accuracy rate of 94.8%. Meanwhile, for companies that received OAGC (coded 1), the model correctly classified 47 out of 53 companies, with an accuracy rate of 88.7%. Overall, the model achieves an accuracy rate of 92.9%. These result indicate that the regression model has a very strong capability in predicting and classifying companies that receive and do not receive OAGC.

Hypothesis Testing

The result of the logistic regression analysis are presented in Table 7, which includes the estimated coefficients (B), standard error, Wald statistic, significance level, and odds ratio (Exp(B)) for each independent variable. The Wald test is used to assess the statistical significance of each variable in explaining the likelihood of a company receiving a going concern audit opinion. The estimated coefficients indicate the direction of the relationship (positive or negative), while the odds ratio provides insight into the magnitude of each variable's effect on the probability of issuing a going concern audit opinion.

Based on the logistic regression results in Table 7, the regression model can be formulated by referring to the estimated parameters presented in the "Variable in the Equation" section. The resulting regression model is as follows :

$$\ln\left(\frac{P(\mathrm{GCO})}{1-P(\mathrm{GCO})}\right) = -3.061+4.791FD-4.960IO+2.000PO-1.660(FD\times PO)+4.264(IO\times PO)+\varepsilon$$

Tabel 7. Data Significance Test

	B	SE	Wald	df	Sig	Exp (B)
FD	4..791	1.340	12.787	1	0.000	120.376
KI	-4.960	1.885	6.926	1	0.008	0.007
PO	2.000	1.946	1.057	1	0.304	7.390
Prof	-11.601	6.306	3.385	1	0.066	0.000
PP	-0.019	0.173	0.012	1	0.914	0.982
M1	-1.660	1.803	0.847	1	0.357	0.190
M2	4.264	2.703	2.489	1	0.115	71.107
Constant	-3.061	1.252	5.978	1	0.014	0.047

Source : Processed Data, 2026

Discussion

Financial Distress and Going Concern Audit Opinion

Based on the logistic regression results, financial distress has a positive coefficient and is statistically significant at the 5% level, indicating that **H1 is supported**. This finding suggests that companies experiencing greater financial distress are more likely to receive a going concern audit opinion. Conversely, companies with stronger financial conditions have a lower probability of receiving such an opinion (Putra & Annisa, 2024).

Financial distress reflects a deterioration in a company's financial capacity, characterized by cash flow constraints, an inability to meet financial obligations, and an increased risk of business failure (Damanhuri & Putra, 2020). Under these circumstances, auditors are expected to exercise greater professional skepticism because financial distress represents one of the strongest indicators of uncertainty regarding business continuity.

From the perspective of Agency Theory, this finding confirms that financial distress intensifies information asymmetry between management and shareholders. Managers facing severe financial pressure may have stronger incentives to delay the disclosure of unfavorable information or present overly optimistic financial prospects. Consequently, auditors strengthen their monitoring role by conducting more rigorous evaluations of business continuity before issuing an audit opinion. This result demonstrates that financial distress functions not only as a financial indicator but also as an important governance signal that assists auditors in reducing information asymmetry through independent assurance.

These findings are consistent with previous studies reporting that financial distress significantly increases the likelihood of receiving a going concern audit opinion (Allaamsyah et al., 2025; Damanhuri & Putra, 2020). Accordingly, financial distress remains one of the most influential determinants of auditors' going concern assessments**.**

Institutional Ownership and Going Concern Audit Opinion

The empirical results indicate that institutional ownership has a negative and statistically significant effect on going concern audit opinion; therefore, **H2 is supported**. This finding implies that companies with higher levels of institutional ownership are less likely to receive a going concern audit opinion.

Institutional ownership serves as an important corporate governance mechanism by strengthening the monitoring of managerial decisions and reducing agency conflicts between management and shareholders (Anggraini et al., 2024; Ashari & Suryani, 2019). Institutional investors generally possess greater expertise, resources, and incentives to supervise management, thereby encouraging improved corporate governance, greater financial transparency, and more sustainable business performance.

These findings further reinforce Agency Theory by demonstrating that effective governance mechanisms complement the auditor's monitoring function. Strong institutional oversight reduces opportunities for opportunistic managerial behavior and enhances the credibility of financial reporting, thereby lowering auditors' concerns regarding business continuity.

Consequently, institutional ownership contributes not only to improving governance quality but also to reducing the likelihood of companies receiving going concern audit opinions.

The findings are consistent with previous research demonstrating that institutional ownership significantly influences the issuance of going concern audit opinions (Anggraini et al., 2024; Ashari & Suryani, 2019). This evidence suggests that ownership structure constitutes an important non-financial factor considered by auditors when evaluating a company's ability to continue as a going concern.

Financial Distress and Going Concern Audit Opinion: The Moderating Role of Prior Audit Opinion

The results indicate that prior audit opinion does not significantly moderate the relationship between financial distress and going concern audit opinion. Therefore, **H3 is rejected**. The insignificant interaction term demonstrates that the influence of financial distress on auditors' decisions remains consistent regardless of the audit opinion issued in the previous period.

The findings suggest that auditors primarily rely on current financial information rather than historical audit outcomes when assessing going concern uncertainty. Financial distress continues to be the dominant factor influencing the issuance of a going concern opinion because it directly reflects the company's current financial condition and operational viability (DeFond & Jiambalvo, 1994).

More importantly, this finding extends Agency Theory by demonstrating that auditors do not mechanically rely on historical audit opinions when making professional judgments. Instead, auditors independently reassess each engagement using current audit evidence, updated financial information, and prevailing business conditions. This dynamic assessment reinforces auditor independence and confirms that the monitoring function prescribed by Agency Theory is based on contemporaneous evidence rather than path-dependent decision making.

Consequently, companies that previously received a going concern opinion are not necessarily expected to receive the same opinion in subsequent years if their financial condition improves significantly (Maharani & Mariani, 2025; Putri, Astika, et al., 2017).

These findings are also consistent with previous studies reporting that prior audit opinion does not moderate the relationship between financial distress and going concern audit opinion (Putri et al., 2017). Accordingly, the assessment of going concern risk should be viewed as a dynamic evaluation process in which auditors prioritize current economic conditions over historical audit outcomes.

Institutional Ownership and Going Concern Audit Opinion: The Moderating Role of Prior Audit Opinion

The empirical findings further indicate that prior audit opinion does not moderate the relationship between institutional ownership and going concern audit opinion. Therefore, **H4 is rejected**. The insignificant interaction effect suggests that previous audit opinions neither strengthen nor weaken the influence of institutional ownership on auditors' going concern decisions.

Institutional ownership remains an effective governance mechanism for reducing agency conflicts through stronger monitoring of management (Halim, 2021; Wulansari & Lawita, 2023). Nevertheless, its effectiveness in influencing audit outcomes is not contingent upon the audit opinion issued in the previous period. Moreover, high institutional ownership alone cannot eliminate going concern risk because business continuity is influenced by various financial, operational, and external factors beyond ownership structure (Anggraini et al., 2024).

This finding also extends Agency Theory by indicating that auditors reassess the effectiveness of current governance mechanisms independently during each audit engagement. Although previous audit opinions may provide useful background information during audit planning, they do not substitute for objective evaluations of current governance quality and financial performance. Consequently, auditors maintain professional independence by emphasizing current audit evidence rather than historical audit conclusions when issuing going concern opinions.

These findings are consistent with previous research indicating that prior audit opinion does not moderate the relationship between institutional ownership and going concern audit opinion (Wulansari & Lawita, 2023; Putri et al., 2017). Overall, the results demonstrate that auditors' judgments remain dynamic and evidence-based, reflecting objective reassessments of each audit engagement rather than automatic reliance on prior audit opinions.

Conclusion

This study investigated the effects of financial distress and institutional ownership on going concern audit opinion, with prior audit opinion examined as a moderating variable, among consumer cyclicals companies listed on the Indonesia Stock Exchange during the 2022–2024 period. The findings demonstrate that financial distress significantly increases the likelihood of receiving a going concern audit opinion, whereas institutional ownership reduces that likelihood through its role as an effective corporate governance mechanism. In contrast, prior audit opinion does not significantly moderate the relationships between financial distress, institutional ownership, and going concern audit opinion. These findings indicate that auditors base their judgments primarily on current financial and governance conditions rather than relying on historical audit opinions. Consequently, the issuance of a going concern audit opinion reflects a dynamic evaluation process that emphasizes contemporaneous audit evidence over previous audit outcomes.

This study contributes to the auditing literature by extending Agency Theory in the context of going concern assessments. Unlike previous studies that primarily examined prior audit opinion as an independent determinant of going concern opinion, this study evaluates its moderating role and finds that historical audit opinions do not materially influence the relationships between financial distress, institutional ownership, and auditors' judgments. These findings suggest that auditors maintain independent professional judgment by reassessing current financial evidence and governance conditions in every audit engagement, thereby reinforcing their monitoring role in reducing information asymmetry between management and shareholders. Accordingly, this study provides additional empirical evidence that supports the dynamic nature of auditor decision-making proposed by Agency Theory.

The findings also provide several practical implications. For auditors, the results highlight the importance of prioritizing current financial conditions and governance quality when assessing going concern uncertainty instead of relying on previous audit opinions. For company management, maintaining financial stability and strengthening corporate governance—particularly through effective institutional monitoring—may reduce the likelihood of receiving a going concern audit opinion. Investors may use financial distress as an early warning indicator when evaluating business continuity risk, while regulators may consider strengthening disclosure requirements and governance oversight to improve financial reporting quality and enhance confidence in capital markets.

This study has several limitations. First, the analysis focuses only on financial distress and institutional ownership as the main explanatory variables, whereas other determinants of going concern audit opinion, such as audit quality, audit tenure, audit committee effectiveness, and board characteristics, were not included in the research model. Second, the study is limited to companies in the consumer cyclicals sector, which may restrict the generalizability of the findings to other industries or institutional settings.

Future research is encouraged to incorporate additional governance and audit-related variables, extend the observation period, and examine companies from different industrial sectors or countries to improve the generalizability of the findings. Further studies may also explore alternative moderating or mediating mechanisms that could provide a more comprehensive understanding of auditors' going concern judgments and further enrich the application of Agency Theory in auditing research**.**

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