

## Audit Tenure and Auditor Reputation on the Going Concern Audit Opinion of Firms on the Indonesian Stock Exchange: Does Audit Quality Mediate?

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### ABSTRACT

The focus of this study is on utilizing audit quality to examine how auditor reputation and audit duration influence audit views that remain concerned. The 17 manufacturing firms included in the research sample were listed on the Indonesia Stock Exchange (IDX) between 2020 and 2024. Smart Partial Least Square (SmartPLS) software was utilized to evaluate the data through logistic regression. The outcomes of hypothesis testing indicate that going concern audit opinions are independent of audit tenure. At this point, the reputation of the auditor affects both the quality of the audit and the going concern audit opinions. The quality of an audit has no bearing on the opinions of a going concern. Additionally, audit quality cannot mediate the impact of auditor reputation and audit duration on going concern audit opinions.

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## **INTRODUCTION**

The basic assumption in preparing financial statements is the going concern assumption (Zdolšek et al., 2022). Pursuant to this assumption, an economic entity will carry on with its business operations for a reasonable amount of time and will not be compelled to liquidate or significantly stop doing so. Financial statement consumers, particularly investors and creditors on the Indonesia Stock Exchange (IDX), use this assumption as the main basis for making investment and credit decisions. Therefore, audited financial statements serve as a reliable source of information regarding the position of a firm as a going concern.

The role of independent auditors in maintaining public trust is very important. In accordance with Auditing Standard (AS) Section 570 (IAPI, 2021), auditors are entirely in charge of evaluating whether a company's ability to sustain business continuity is seriously questioned. The public must be notified of a going concern opinion, which is an early warning mechanism that expresses such doubts.

The Indonesian capital market's business continuity is a significant issue that emphasizes the crucial role auditors play as information oversight organizations. Based on a decision made by the Indonesia Stock Exchange (IDX) in July 2025 to delist PT. Jakarta Kyoei Steel Works Tbk (JKSW) from the exchange, a company that had been listed for 24 years. The IDX made this decision because the company's fundamental conditions were considered a permanent threat to its survival. JKSW showed a significant decline in financial performance, marked by significant operating losses and net losses, negative equity, and no sales activity since 2023. This condition was exacerbated by the suspension of JKSW's stock trading on the Indonesia Stock Exchange for more than 24 months (since May 2019) (Indo Premier Sekuritas, 2025).

The JKSW case adds to the long list of industrial companies facing a similar fate. In 2024, the IDX also delisted several companies, including PT. Eterindo Wahanatama Tbk (ETWA), PT. Prima Alloy Steel Universal Tbk (PRAS), and PT. Panasia Indo Resources Tbk (HDTX) (IDX, 2024). This phenomenon of forced delisting raises fundamental questions about the effectiveness of the audit opinion mechanism in business continuity as an early warning system. If a company is ultimately delisted due to long-term doubts about its business continuity and deteriorating financial condition, this raises the question of whether independent auditors were bold and quick enough in issuing opinions on business continuity in previous years' financial reports. Auditors' delays or hesitations in responding to these financial warning signs can be directly linked to the potential loss of independence due to overly long audit periods, or conversely, to the inaccuracy of audit quality assessments represented by auditor reputation. Consequently, a solid empirical foundation for evaluating the degree to which audit contract lengths and the standing of public accounting firms influence the precision and timeliness of going concern judgments is provided by the going concern issue that resulted in the forced delisting from the Indonesia Stock Exchange.

The significance of the going concern issue emphasizes the necessity of comprehending the elements that affect going concern audit opinions in the interaction between auditees and auditors. In particular, audit tenure, auditor reputation, and audit quality all have an impact on going concern audit decisions. The duration of an auditor's employment and the number of times they have audited a business (Martani et al., 2021). Audit tenure can help auditors detect potential going concern issues earlier. A long audit tenure provides auditors with an understanding and knowledge of the company's survival. However, long-term audit engagements tend to become too emotionally close or overly reliant on information from the auditee, which can reduce objectivity in assessing the going concern situation. Research results Damanhuri & Putra, (2020) and Djoko & Yanti (2019) demonstrate that the issue of a going concern audit opinion is significantly impacted by audit tenure. However, research Putra & Purnamawati (2021) and Simamora & Hendarjatno (2019) shows that audit opinions about going concern are unaffected by audit tenure.

Auditor reputation refers to the perceptions and views of others regarding the quality, integrity, competence, and independence of a particular auditor or Public Accounting Firm (PAF). The acceptance of going concern audit opinions is significantly influenced by the reputation of the auditor. According to Meiryani et al (2021) and Yunus et al (2020), The auditor's reputation has an impact on the going concern audit conclusions. Meanwhile, the results of research Miraningtyas & Yudowati (2019) show that auditor reputation is not significant for going concern audit opinions.

The total likelihood that auditors will stumble upon and disclose major misstatements is known as audit quality (DeAngelo, 1981). This renders it possible for stakeholders to make better judgments regarding the audited organization by ensuring that the audit opinion provided is accurate and trustworthy. Auditors are responsible for evaluating the company's ability to continue as a going concern for a defined period of time and providing an assessment of the fairness of the financial statements that management has provided. Research by Endiana & Suryandari (2021) and Minerva et al (2020) demonstrates that going concern audit opinions are positively impacted by audit quality. However, Juanda & Lamur (2021) The results they found demonstrate that going concern audit opinions are negatively impacted by audit quality.

This study contributes to expanding the scope of existing literature by reviewing the influence of audit period and auditor reputation on audit opinions regarding business continuity through the potential mediating role of audit quality, which plays an important role in discussions about accountability after the mandatory rotation of public accounting firms in Indonesia. Analysis of business continuity opinions (GCO) is urgently needed, especially in the context of current business dynamics. In order to present more accurate, pertinent, and trustworthy financial information signals for all stakeholders, this study intends to improve audit procedures in addition to understanding the elements that impede and impact audit judgments in a company environment that is changing quickly. Manufacturing firms listed on the Indonesia Stock Exchange (IDX) were chosen as the study's research subjects. The selection of this sector was based on

unique characteristics that distinguish it from other industries, such as a clear operational cycle, large capital investment requirements, and the complexity of risks associated with production and inventory management. Because of these traits, manufacturing firms are more likely to experience structured financial problems, necessitating more accuracy from auditors when determining company continuity. As a result, studies conducted in the manufacturing industry might yield more precise and pertinent findings about particular going concern audit opinions.

## LITERATURE REVIEW

### *Agency Theory*

Agency theory (Eisenhardt, 1989) is based on several assumptions about human nature, namely: the pursuit of *self-interest*, *bounded rationality*, and *risk aversion*. These presumptions result in agency conflicts, where managers (agents) frequently act against the interests of shareholders (principals) in order to maximize their own advantages. Therefore, an independent oversight mechanism is needed, namely, independent auditors. In order to lessen information asymmetry between management and stakeholders, auditors serve as middlemen by evaluating the fairness of a company's financial reporting. Auditors' primary responsibilities include expressing serious concerns about the company's ability to continue as a going concern and evaluating the fairness of financial reporting through audit reports. However, the disclosure of these doubts, especially through the issuance of going concern audit opinions, is often in the form of paragraphs with emphasis that can create new conflicts of interest between clients and accounting firms. This is because the assessment of such opinions can have a significant negative economic impact on clients. The consequences include unfavorable market reactions, which have an impact on stock prices, and worsening customer and supplier relationships, which eventually hasten the company's financial downfall. This phenomenon is known as a "self-fulfilling prophecy" (Guiral et al., 2015).

### *Going Concern Audit Opinion*

A going concern audit opinion is an auditor's assessment of whether there are significant worries about a company's ability to maintain its business continuity. According to Saputra & Kustina, (2018) This viewpoint acts as a precursor to possible financial problems. However, going concern opinions often have limited sensitivity as predictors of company failure. This is clear from the fact that several businesses that ultimately filed for bankruptcy did not receive a going concern notice from their auditors (Hopwood et al., 1994). This limitation indicates a gap in the opinion's ability to accurately reflect the actual risk to business continuity. Reports with qualified opinions, reports with disclaimers of opinion, reports with unqualified opinions accompanied by explanatory language, and reports with adverse opinions are all covered by going concern audit opinions.

### ***Audit Tenure on Going Concern Audit Opinions***

While a short audit tenure will undermine the auditor's competence because the auditor had little knowledge of the business environment at the beginning of the audit, a lengthy audit tenure with the auditee can weaken the auditor's independence because it will foster a relationship between management and the auditor (Simamora & Hendarjatno, 2019). Research by Oktaviani & Challen (2020) and Saputra & Kustina (2018) shows a negative correlation between audit tenure and going concern audit opinions. However, research by Dewi & Kusuma (2018); Nursasi & Maria (2015); and Tjahjani & Pudjiastuti (2017) demonstrates that going concern audit evaluations are positively impacted by audit tenure. Long-term client-facing auditors have a thorough awareness of the business's operations.

H1: Audit tenure has a positive effect on going concern audit opinions.

### ***Auditor Reputation on Going Concern Audit Opinions***

Auditor reputation refers to the views or perceptions held by clients, stakeholders, and the general public regarding the credibility, integrity, and quality of work performed by auditors or audit firms. Reputable and well-known auditors can produce higher-quality audits, especially those that reveal going concern problems. However, well-known public accounting firms will bargain to refrain from providing going concern audit conclusions in order to preserve their reputation (Yunus et al 2020). Research by Dewi & Kusuma (2018) and Meiryani et al (2021) indicates that when auditors have a positive reputation, going concern audit conclusions are more likely to be approved. However, Yunus et al (2020) claim that going concern audit opinions are negatively impacted by an auditor's reputation.

H2: Auditor reputation has a negative effect on going concern audit opinions

### ***Audit Quality on Going Concern Audit Opinions***

Audit quality is defined as the combined probability of material misstatements being detected and reported by auditors (DeAngelo, 1981). This helps ensure that the audit opinion provided is accurate and reliable, so that stakeholders have the right information to make better decisions about the audited company. Research by Endiana & Suryandari (2021); Minerva et al (2020); and Prayoga & Titik (2023) illustrates how going concern audit opinions are positively impacted by audit quality. However, research by Juanda & Lamur (2021) and Mutsanna & Sukirno (2020) demonstrates that the acceptance of going concern audit opinions is negatively impacted by audit quality.

H3: Audit quality has a positive effect on going concern audit opinions

### ***Audit Tenure on Audit Quality***

The consecutive period (measured in years) that a public accounting firm (PAF) or audit partner has rendered audit services to the same auditee is known as audit tenure (Martani et al., 2021). The debate regarding audit tenure arises because of its impact on audit quality. An extended engagement term increases efficiency and possible audit quality by giving auditors a deeper understanding of the client's activities and accounting systems (Nugroho, 2018). However, an

overly long tenure can affect the independence and professional skepticism of auditors (*familiarity threat*), which ultimately reduces audit quality. Research conducted by Alsmairat et al (2019); Diyanti & Wijayanti (2019) exhibits the beneficial impact of audit tenure on audit quality. However, the results of this study are inconsistent with the research by Muslim et al (2020) and Pramaswaranda & Astika (2017), It illustrates how audit quality is negatively impacted by audit tenure.

H4: Audit tenure has a negative effect on audit quality

#### ***Auditor Reputation on Audit Quality***

Because Big4 and non-Big4 audit firms differ in terms of auditor independence and quality, auditor reputation is correlated with the size of the public accounting company (Pertiwi et al 2016). A good auditor reputation is an important factor in overcoming conflicts of interest and providing assurance to stakeholders that they will obtain reliable and accurate financial information. Research by Effendi & Ulhaq (2021); Nurhayati & Dwi (2015); and Nursiam et al (2021) illustrates how audit quality is positively impacted by an auditor's reputation since higher audit quality is correlated with an auditor's reputation. However, research by Purnamasari & Negara (2019) illustrates how an auditor's reputation has a detrimental effect on audit quality.

H5: Audit quality is negatively impacted by an auditor's reputation.

#### ***Audit Tenure and Auditor Reputation on Going-Concern Audit Opinions Through Audit Quality***

The dynamics of the connection between principals (business owners) and agents (management or auditors) in managing a business are explained by agency theory. Agency theory is pertinent to auditing since it depends on auditors to confirm financial statements created by agents (management). Potential conflicts of interest arise because agents (managers or auditors) have incentives to act in their own interests, which can affect audit quality and audit opinions. Because audit tenure affects an auditor's independence and objectivity, it can have an impact on audit opinions. Jackson et al (2008) emphasize that auditors' knowledge of a company's performance can improve if they have long-term tenure. Auditor reputation is also considered important because it reflects the quality and integrity of auditors, which can impact going concern audit opinions.

Audit quality is identified as a mediator because a good audit can help reduce conflicts of interest in agency theory. Auditors who conduct audits well and independently can assure company owners and stakeholders that the financial statements are accurate and reliable. Hapsoro & Santoso (2018) and Kurhani et al (2019) state that audit quality can act as a mediator in the relationship between audit tenure and auditor reputation on going concern audit opinions.

H6: The impact of audit tenure on going concern audit opinions is mediated by audit quality.

H7: Going concern audit opinions are influenced by auditor reputation, while audit quality buffers this relationship.

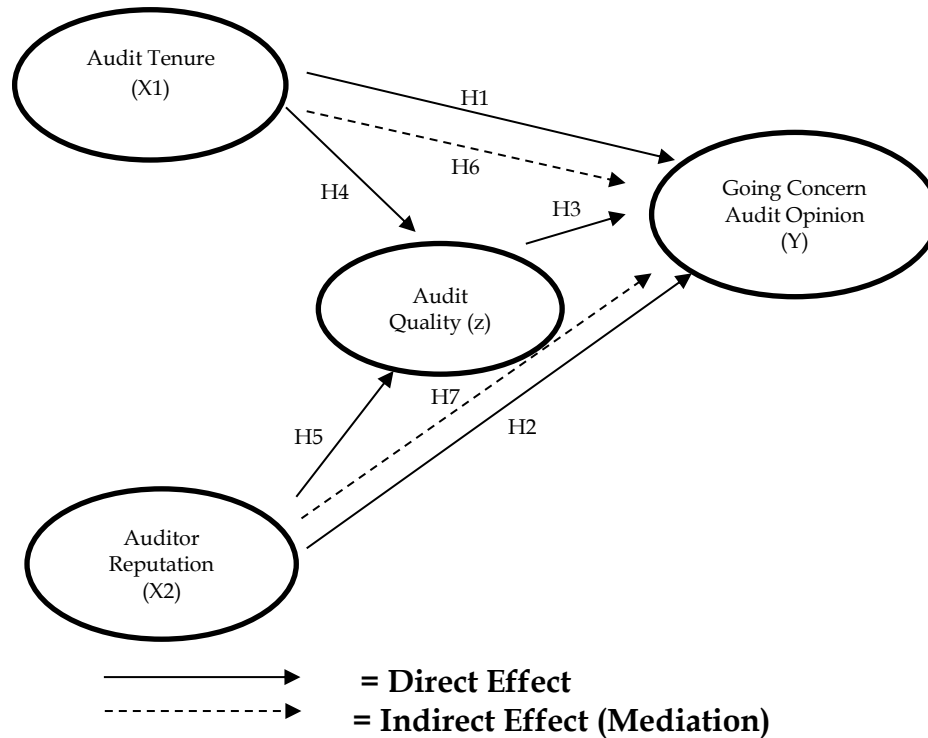


Figure 1. Conceptual Framework

## METHODOLOGY

In an attempt to explain the relationship between variables, this study use explanatory research, which presents produced hypotheses. The Indonesia Stock Exchange (IDX), which publishes certified financial reports, provided secondary data for this study. The study's population consists of all manufacturing companies listed on the Indonesia Stock Exchange between 2020 and 2024. In this study, test data for binary logistic regression is analyzed using Smart-PLS 3 and Smart-PLS 4.

### Research Instruments

- X1: The number of years of engagement is calculated backwards starting from 2022 and continues until the year the client moves to another auditor, starting from 1 (one) in the first year and adding 1 (one) for the following year
- X2: Dummy Variable (Big4 KAP are given a score of 1 and KAPs not audited by the Big4 KAP are given a score of 0)
- Z: Discretionary accrual (mediation variable)
- Y: Dummy variable (Dependent Variable) .

## RESEARCH RESULT

### Outer Model

Table 1. Discriminant Validity

	Audit Tenure (X1)	Auditor Reputation (X2)	Going Concern Audit Opinion (Y)	Audit Quality (z)
Audit Tenure (X1)	1.000			
Auditor Reputation (X2)	0.024	1.000	-0.429	-0.242
Going Concern Audit Opinion (Y)	-0.012		1.000	0.118
Audit Quality (z)	-0.108			1.000

Each construct's AVE root values are higher than the correlations between constructs and other constructs, according to Table 1. Consequently, it can be concluded that each idea in the computed model satisfies the discriminant validity test conditions.

### Inner Model

Table 2. Results of the SRMR Goodness of Fit Test

	Estimated Model
SRMR	0.000

Based on Table 2, the estimated model SRMR value is  $0.000 < 0.08$ , which means the model *fit is acceptable* (Hair et al., 2019).

Table 3. Results of the R-Square and Q-Square Tests

	R-Square	Q <sup>2</sup> -Predict
Audit Quality	0.069	0.071
Going Concern Audit Opinion	0.184	0.154

Based on Table 3, It reveals a weak predictive effect ( $0.158 < 0.25$ ) with an R<sup>2</sup> of 0.069 for the audit tenure and auditor reputation variables on audit quality. This means that the endogenous variable only has an effect of 6.9%, while 93.1% is influenced by other factors in this study. The R<sup>2</sup> value of 18.4 shows a weak effect (18.4%) of the audit tenure and auditor reputation variables and audit quality on the going concern audit opinion, while 81.6% is influenced by other factors. However, the Q<sup>2</sup> value for audit quality is 0.071 ( $< 0$ ) and for going concern audit opinions is 0.154 ( $< 0.25$ ), indicating low prediction accuracy for both (Hair et al., 2019; Rigdon, 2012).

Table 4. PLS Predict Test Results

	PLS		LM	
	RMSE	MAE	RMSE	MAE
Audit Quality	66.083	18.281	66.083	18,281
Going Concern Audit Opinion	0.465	0.419	0.465	0.419

Based on Table 4, the RMSE and MAE values for PLS and LM are the same, so the proposed PLS model has low predictive power (Hair et al., 2019).

**Logistic Regression Analysis**

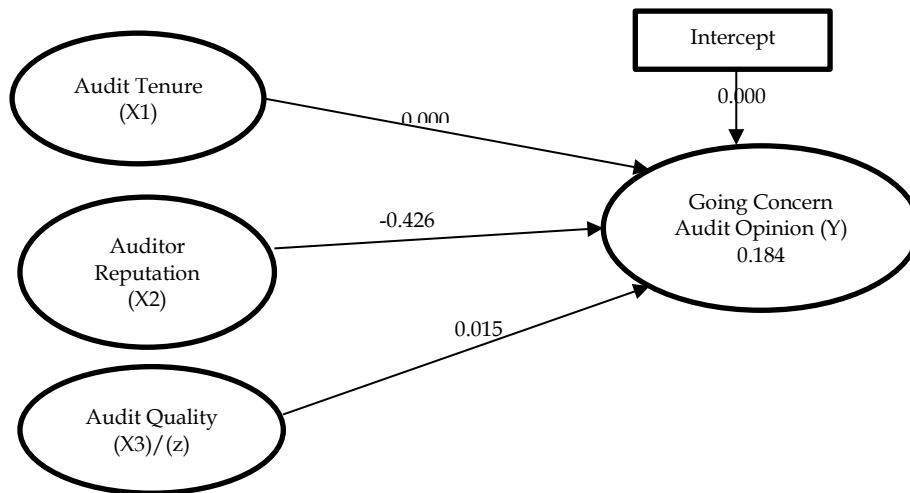


Figure 2. Logistic Regression Model

Table 5. Logistic Regression Model

	Standardized Coefficients	p-Value
Audit Tenure	0.000	1.000
Auditor Reputation	-0.426	0.000
Audit Quality	0.015	0.889
Intercept	0.000	0.000

$$\ln \frac{GC}{1 - GC} = 0,000 - 0,099X_1 + 0,022X_2 - 0,274X_3 + 0,573X_4 + \varepsilon$$

Table 6. Hypothesis Test

	Original Sample (O)	T Statistics ( O/STDEV )	p-Values
Audit Tenure -> Going Concern Audit Opinion	0.000	0.000	1.000
Auditor Reputation -> Going Concern Audit Opinion	-0.426	5,068	0.000
Audit Tenure -> Audit Quality	-0.102	1.090	0.276
Auditor Reputation → Audit Quality	-0.240	2.191	0.029
Audit Quality → Going Concern Audit Opinion	0.015	0.172	0.863
Audit Tenure → Audit Quality → Going Concern Audit Opinion	-0.001	0.070	0.944
Auditor Reputation → Audit Quality → Going Concern Audit Opinion	-0.003	0.224	0.823

**DISCUSSION**

***The Effect of Audit Tenure on Going Concern Audit Opinions***

The test results indicate that the audit tenure variable has a path coefficient of 0.000 and a significance level of 1.000, both of which are greater than  $\alpha = 0.05$ .

This results in the conclusion that the audit tenure variable has a positive and slight effect on the going concern audit opinion (H1 rejected). This suggests that auditors are able to stay impartial and independent when evaluating a company's financial situation. Therefore, without taking into account the duration of the audit engagement between the auditor and the auditee, auditors will continue to offer going concern audit views on organizations whose capacity to maintain business continuity is in question. The discoveries of this investigation are in line with previous research by Martani et al (2021); Putra & Purnamawati (2021); Ramadhan & Sumardjo (2021); and Suherman & Arifin (2023). These studies show that audit tenure has little effect on the granting of going concern audit conclusions. The length of the audit relationship with the audited business has no bearing on an auditor's independence in performing their duties. When performing audits and providing going concern audit views, auditors will continue to exercise professional skepticism if they have concerns about the company's existence. However, research results Damanhuri & Putra (2020) and Saputra & Kustina (2018) demonstrate that going concern audit opinions are impacted by audit tenure.

#### ***The Influence of Auditor Reputation on Going Concern Audit Opinions***

The auditor reputation variable, represented by a dummy variable, has a path coefficient of -0.426 and a significance level of 0.000, which is less than  $\alpha = 0.05$ , according to the test results. This leads to the conclusion that the auditor reputation variable significantly and negatively affects the going concern audit opinion (H3 approved). This study shows that auditors with high reputations (e.g., auditors affiliated with Big4) tend to have auditees that are financially healthier or when face risky clients, auditors are more cautious and better able to detect going concern issues early on. Nonetheless, when it comes to providing going concern audit views, auditors who are not connected to Big Four accounting firms are typically more proactive. The results of this study are consistent with the research by Yunus et al (2020), which tested that auditor reputation has a negative and significant effect on *going concern* audit opinions. Therefore, to maintain their reputation, auditors affiliated with *Big Four* accounting firms may tend to negotiate so as not to issue *going concern* audit opinions, or auditor reputation mitigates risk so that going concern opinions are rarely issued (Yang et al., 2022).

#### ***The Effect of Audit Quality on Going Concern Audit Opinions***

The test conclusions show that the audit quality variable, which is represented by discretionary accruals, has a significance level of 0.863 and a path coefficient of 0.015, both of which are more than  $\alpha = 0.05$ . This leads to the conclusion that the audit quality variable has a positive and insignificant impact on going concern audit opinions, rejecting H3. Businesses that employ discretionary accruals as a metric and have high audit quality can lessen the likelihood that these accruals will be manipulated. If the audit has high quality standards, the ability to recognize or reduce inappropriate or unreasonable discretionary accruals also tends to increase. The study's findings, however, show that audit quality has no bearing on whether a going concern audit opinion

will be issued. There may be other, more important reasons for this. The client's objective financial status (financial challenges) and the auditor's professional judgment have a greater impact on the decision to issue a going concern audit opinion. The results of this study are consistent with studies conducted by (Chandra et al., 2019; B. Effendi, 2019; Zurachman, 2021). However, the results of this study are inconsistent with those of Endiana & Suryandari (2021); Minerva et al (2020); and Prayoga & Titik Aryati (2023). These studies verify that audit judgments about the company's ability to continue as a going concern are positively and significantly impacted by audit quality. These findings suggest that the likelihood of detecting different kinds of fraud that could happen in a corporation increases with audit quality requirements. As a result, there is a greater chance that auditors will express a view regarding the company's viability as a going concern.

### ***The Effect of Audit Tenure on Audit Quality***

The test outcomes show that the audit tenure variable has a path coefficient of -0.102 and a significance level of 0.276, which are more than  $\alpha = 0.05$ . Because the audit tenure variable has a negative and insignificant impact on audit quality, it can be concluded that H4 is rejected. This is precisely the impact of tenure on accountants' complex assessments of business continuity and the overall fairness of financial statements cannot be well captured by discretionary accruals, which act as a stand-in for audit quality. In addition, according to (Aprilia & Kusumawati, 2023), The longer an auditor works for the company, the lower the quality of the audit. On the contrary hand, the quality of the audit increases with tenure. However, an overly long tenure can affect the auditor's independence and professional skepticism (*familiarity threat*), which ultimately reduces audit quality. Government Regulation No. 20 of 2015, Article 11, about Restrictions on Audit Services governs provisions about audit tenure, specifically a maximum of five consecutive years for financial information audit services. The results of this study are in line with the research by Aprilia & Kusumawati, (2023) and Martani et al (2021). However, the results of research by Alsmairat et al (2019); Diyanti & Wijayanti (2019); and Yuniarti et al (2021) , demonstrate how audit quality is positively and significantly impacted by audit tenure. This suggests that an audit's quality increases with the length of time it takes to complete. The ability of auditors to prevent and detect serious errors can be enhanced by ongoing involvement.

### ***The Influence of Auditor Reputation on Audit Quality***

According to the test results, auditor reputation has a significance level of 0.029 and a path coefficient of -0.240, which is less than  $\alpha = 0.05$ . This leads to the conclusion that the auditor reputation variable significantly and negatively affects audit quality; in other words, H5 is approved. Due to variations in auditor independence and quality between Big Four and non-Big Four audit firms, auditor reputation is correlated with the size of the public accounting company (Pertiwi et al, 2016) . The results of this study explain that auditors who are not affiliated with *Big Four* public accounting firms can provide a good level of audit quality. Good audit quality is related to the reliability of reported financial

information and reduces manipulation or discretion in the accounting process. The results of this study are in line with research conducted by Effendi & Ulhaq (2021); Nurhayati & Dwi (2015); and Nursiam et al (2021), which shows that auditor reputation has a positive and significant effect on audit quality. This study proves that auditor reputation has a significant positive effect on audit quality. The influence of auditor reputation on audit quality can stem from the consistency of competence and independence found in auditors from *Big Four* and *non-Big Four* accounting firms when conducting the audit process in companies.

### ***The Influence of Audit Tenure and Audit Reputation on Going Concern Audit Opinions Through Audit Quality***

Audit tenure has a significance value of 0.944, which is higher than  $\alpha = 0.05$ , according to the test results. We conclude that the impact of audit tenure on going concern audit opinions cannot be mediated by audit tenure (Aprilia & Kusumawati, 2023; Martani et al., 2021; Putra & Purnamawati, 2021; Ramadhan & Sumardjo, 2021; Suherman & Arifin, 2023). Finally, the significant value for auditor reputation is 0.823, which is higher than  $\alpha = 0.05$ . This suggests that the impact of auditor reputation on going concern audit opinions cannot be mitigated by audit quality ((Hidayanti & Djamil, 2024; Widyantari et al., 2024)

## **CONCLUSIONS AND RECOMMENDATIONS**

The outcomes of the research show that auditor tenure has little bearing on going concern audit opinions or audit quality. This indicates that auditors typically do not rely their audit decisions on how long the audit engagement lasts. In the meantime, going concern audit opinions and audit quality are influenced by the reputation of the auditor. Additionally, going concern audit opinions are unaffected by audit quality. The impact of auditor tenure and reputation on going concern audit opinions cannot be mitigated by audit quality.

## **ADVANCED RESEARCH**

The period and sample size of this study are limited because certain manufacturing enterprises have not released independent auditor reports, and some companies do not use the rupiah (Rp) as their reporting currency. Additionally, the evaluated structural model exhibits poor predictive power. To assess the impact of going concern audit opinions and audit quality, additional research could include financial indicators including cash flow, debt ratios, and liquidity.

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