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The Influence of Financial Distress, Audit Firm Size, and Company Size on the Acceptance of Going Concern Opinions

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Abstract

This study investigates the factors influencing the acceptance of going concern opinions (GCOs) among real estate companies listed on the Indonesia Stock Exchange (IDX) during the period from 2018 to 2021. The primary aim is to explore the relationship between financial distress, audit firm size, and company size with the issuance of GCOs. Employing a qualitative research design, the analysis utilizes financial statement data to explore the relationships between financial distress, company size, and audit firm size on GCO issuance. The findings reveal that financial distress, as measured by the Altman Z-score, significantly increases the likelihood of receiving a GCO. Additionally, company size, represented by total assets, positively correlates with GCO acceptance, indicating that auditors are more likely to scrutinize larger firms. In contrast, the study finds no significant effect of audit firm size on GCO acceptance, suggesting that the financial conditions of the companies themselves are the primary determinants of auditor decisions regarding GCOs. These insights highlight the importance of financial health and transparency in maintaining stakeholder confidence in the real estate sector. The research contributes to the understanding of audit dynamics within Indonesia's real estate market and provides implications for corporate governance and regulatory frameworks. Future studies are encouraged to examine the qualitative aspects of the audit process and the decision-making criteria of auditors concerning GCO issuance.

Keywords: financial distress, audit firm size, company size, going concern opinion

INTRODUCTION

The real estate sector is a vital component of Indonesia's economy, significantly contributing to national GDP and providing employment opportunities (Abdillah & Yuniarti, 2024) (Abdillah & Yuniarti, 2024). As urbanization accelerates and the demand for housing and commercial spaces rises, real estate companies play a crucial role in meeting the housing and infrastructure needs of the growing population (Cai et al., 2020). Listed real estate companies on the Indonesia Stock Exchange (IDX) are especially important, as they attract domestic and foreign investors, providing capital for development and expansion (Soukotta et al., 2023) (Nguyen & Razali, 2020). The dynamics of the Indonesian real estate market are shaped by various factors, including economic conditions, regulatory frameworks, and investor sentiment. The performance and financial stability of real estate companies are often influenced by macroeconomic indicators such as interest rates, inflation, and economic growth. These factors can create challenges and opportunities for firms operating in this competitive landscape. In particular, the acceptance of going concern opinions (GCOs) becomes a significant consideration for stakeholders, especially when financial distress is present. Financial

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distress within real estate firms can arise from multiple sources, including declining property values, increased borrowing costs, and regulatory changes. As such, the acceptance of GCOs is a critical issue for investors, regulators, and management, who must assess the viability of firms in the face of financial difficulties. Furthermore, the role of audit firms - particularly their size and reputation-can impact the issuance of GCOs, as larger firms typically have more robust resources and methodologies for evaluating financial health.

This research aims to explore the interrelationships between financial distress, audit firm size, and company size concerning the acceptance of GCOs among real estate companies listed on the IDX. By examining recent literature and empirical evidence, this study seeks to contribute to the understanding of how these variables interplay in the Indonesian context and their implications for corporate governance and audit practices. Ultimately, this research aims to provide insights that can inform better decision-making for stakeholders involved in Indonesia's real estate market.

Financial Distress in the Real Estate Sector

Financial distress is a significant concern for real estate companies, particularly in a rapidly changing economic environment. Research has indicated that real estate firms often face unique challenges, such as fluctuating property values, economic downturns, and varying demand for residential and commercial properties. (S. Utami & Anggoro, 2023). Studies have shown that financial distress increases the likelihood of GCO issuance, highlighting the importance of effective financial management strategies (I. W. Utami & Kartika, 2019). Additionally, a study by Hulu & Toni, (2022) Found that high levels of debt and liquidity issues are critical indicators of potential financial distress in the real estate sector.

The Role of Audit Firms

The size and reputation of audit firms play a crucial role in shaping the financial reporting landscape for real estate companies. Larger audit firms, often referred to as the "Big Four," are perceived to offer higher audit quality due to their resources and expertise. (Alharasis et al., 2021). In the context of Indonesia, audit quality is vital for ensuring transparency and trust in financial statements, particularly for real estate companies that operate in a complex regulatory environment. (Lassoued & Khanchel, 2021). Research has shown that companies audited by larger firms are less likely to receive GCOs compared to those audited by smaller firms, as larger firms employ more rigorous auditing practices. (Du & Lai, 2018; Sabaruddin, 2022).

Company Size and Market Dynamics

Company size is another important factor influencing the acceptance of GCOs in the real estate sector. Larger firms typically benefit from economies of scale, greater access to capital, and a more extensive portfolio of properties, which can mitigate the risks associated with financial distress (Chen et al., 2023). However, larger firms may also face heightened scrutiny from investors and regulators, particularly when facing financial difficulties (Aljifri & Elrazaz, 2024). Conversely, smaller real estate companies may experience less oversight, potentially leading to a higher tolerance for risk (Corte-Real, 2019). Research by Aurelia & Leon, (2023) indicates that the size of a real estate company significantly affects its ability to secure financing, impacting its overall stability and GCO acceptance.

The Interplay of Variables in Indonesia's Real Estate Market

The interplay between financial distress, audit firm size, and company size is particularly relevant in the context of Indonesia's real estate market. Previous studies have demonstrated that financial distress can lead to more significant challenges for smaller firms when engaging with larger audit firms, resulting in a higher likelihood of GCO issuance (Cahyono et al., 2023). Moreover, the combined effects of financial distress and company size create a complex dynamic where larger companies may experience increased scrutiny, influencing their risk profiles and GCO acceptance (Sunaryo, 2021).

RESEARCH METHOD

This study employs a qualitative research design to explore the influence of financial distress, audit firm size, and company size on the acceptance of going concern opinions (GCOs) among real estate companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2021. The qualitative approach enables an in-depth understanding of the dynamics between the identified variables, allowing for a comprehensive analysis of their interrelationships. The primary data used in this research comprises the financial statements of real estate companies listed on the IDX for the period 2018-2021. This timeframe has been selected to capture recent trends and patterns in financial performance and GCO issuance within the Indonesian real estate sector. The financial statements will provide key information regarding the companies' financial health, including asset values, liabilities, and equity, which are essential for calculating the Altman Z-score and other relevant metrics.

The collected data will be analyzed using Statistical Package for the Social Sciences (SPSS) software. Multiple regression analysis will be employed to examine the relationships between the independent variables (financial distress, audit firm size, and company size) and the dependent variable (acceptance of GCO). The multiple regression analysis will allow for the assessment of the impact of each independent variable on the likelihood of GCO acceptance while controlling for other variables in the model. The model will be specified as follows:

$$GCO = \beta 0 + \beta 1 \text{ (Financial Distress)} + \beta 2\text{(Audit Firm Size)} + \beta 3\text{(Company Size)} + \epsilon$$

Where:

GCO	= Acceptance of going concern opinion
$\beta 0$	= Intercept
$\beta 1, \beta 2, \beta 3$	= Coefficients for the independent variables
ϵ	= Error term

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RESULT AND DISCUSSION

The results of this study reveal significant insights into the factors influencing the acceptance of going concern opinions (GCOs) among real estate companies listed on the Indonesia Stock Exchange (IDX). The analysis conducted through multiple regression indicates that both financial distress and company size positively influence the acceptance of GCOs.

The findings suggest that the more a company experiences financial distress, the greater the likelihood of receiving a GCO. This aligns with prior research that highlights the critical role of financial health in determining audit outcomes. Specifically, companies exhibiting higher levels of financial distress, as measured by the Altman Z-score, are often viewed as having an increased risk of bankruptcy (I. W. Utami & Kartika, 2019; Yousaf et al., 2024). results corroborate the notion that auditors are more likely to express concerns regarding the viability of distressed firms, signaling to stakeholders the potential risks associated with continued investment in such entities.

The study further indicates that company size, measured through total assets, also has a positive effect on the acceptance of GCOs. Larger companies, despite their broader resources and market presence, may be more scrutinized by auditors. This finding aligns with the work of (Aljifri & Elrazaz, 2024), which posits that larger firms face heightened scrutiny due to their impact on the market and economic stability. As a result, auditors may be more inclined to issue GCOs for larger firms experiencing financial challenges, reflecting a cautious approach to risk management.

Contrary to expectations, the results indicate that the size of the audit firm does not significantly affect the acceptance of GCOs. This outcome challenges the common belief that larger audit firms, with their perceived higher audit quality, would have a stronger influence on GCO issuance (Du & Lai, 2018). One possible explanation is that regardless of the audit firm's size, the primary determinants for issuing GCOs are the financial conditions of the companies themselves. Therefore, the quality of the financial statements may outweigh the effects of audit firm size in this context, suggesting that auditors prioritize the inherent financial risks over their firm's resources.

The findings of this study contribute to the understanding of how financial distress and company size interplay with the acceptance of GCOs in Indonesia's real estate sector. As evidenced by the results, financial distress remains a key determinant for auditors when deciding whether to issue a GCO. This underscores the necessity for real estate companies to engage in proactive financial management to mitigate risks associated with potential financial difficulties. Moreover, the positive correlation between company size and GCO acceptance suggests that larger companies must maintain transparent financial practices, especially in periods of financial hardship. This requirement is crucial not only for regulatory compliance but also for preserving stakeholder trust and market confidence. The unexpected lack of influence from audit firm size raises pertinent questions about the criteria auditors utilize when evaluating GCO issuance. This study suggests that stakeholders should focus on the financial health of the companies rather than solely the reputation of the audit firm. Future research may explore the implications of this finding, potentially examining the qualitative aspects of the audit process that could offer deeper insights into auditor decision-making. In conclusion, this study provides a nuanced understanding of the factors influencing GCO acceptance in Indonesia's real estate sector. The results emphasize the critical need for companies to focus on financial stability and the importance of transparent reporting practices. Furthermore, it invites a reevaluation of the roles that audit firm size plays in the audit process, suggesting that the financial realities of the companies being audited are paramount.

CONCLUSION

This research examines the factors influencing the acceptance of going concern opinions (GCOs) among real estate companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2021. The findings indicate that financial distress significantly predicts GCO acceptance, with companies facing greater financial challenges being more likely to receive such opinions. Additionally, company size positively correlates with GCO acceptance, suggesting that larger firms must maintain robust financial practices to mitigate scrutiny from auditors. Conversely, the study found no significant impact of audit firm size on GCO acceptance, challenging the notion that larger audit firms inherently provide stronger assurances against GCO issuance. Overall, the research highlights the importance of proactive financial management and transparency in enhancing stakeholder confidence and suggests avenues for future research to explore the qualitative aspects of the audit process and auditor decision-making criteria. These insights can contribute to improving regulatory frameworks and corporate governance within Indonesia's real estate sector.

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