

## **Factors Influencing Auditors' Going Concern Opinion of Non-Financial Companies in the Colombo Stock Exchange**

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### **ABSTRACT**

A going concern audit opinion reflects the auditor's assessment of whether a company can continue operating and meet its obligations for the next twelve months. The main aim of this study is to determine the financial and non-financial factors that affect to non-financial companies in the Colombo Stock Exchange of Sri Lanka. It has been stated that in regard for the auditor to provide a truthful and fair view of the entity's viability as a going concern. This study holds significant value for investors, company managers, auditors and regulators by providing critical insights into the factors influencing the going concern audit opinion of non-financial companies. Financial and non-financial factors are significant in determining a company's material uncertainty. As a result, profitability, liquidity, leverage, Audit quality and firm size have been tested to determine whether they impact the going concern audit opinion. The population is all non-financial companies in the Colombo Stock Exchange (CSE) in Sri Lanka. This study does not test financial companies in insurance, banking, and other financial industries. Also, the sample was selected as a purposive sampling method with a sample size comprising 34 companies. When selecting the sample, 2 conditions were formed to satisfy the requirements. (i) The company should have incurred losses for at least 3 years out of the 5-year company data, which has been collected for the study. (ii) The company should have a complete independent audit report and complete financial statements as tested annual reports from 2019 to 2023. The analysis was conducted using the IBM Statistical Package of Social Sciences (SPSS 27). After the results are interpreted and discussed based on descriptive analysis and regression analysis, it can be concluded that profitability, liquidity and firm size negatively influenced the going concern audit opinion. On the other hand, leverage and audit quality did not have a significant impact on the going concern audit opinion.

**Keywords:** Audit quality, firm size, going concern audit opinion, leverage, liquidity, profitability

### **1. INTRODUCTION**

Going concern audit opinion is the auditor's consideration of the entity's ability to maintain its viability (Anggarini & Zulfikar, 2022). It is important to ensure the reliability and transparency of financial reporting. This study addresses the problem of auditors offering an inappropriate opinion about the ability of an organization to continue as a going concern. Investors have criticized auditors for failing to disclose the bankruptcy of public companies like Beverly Hills Savings and Loan, Maxwell Organization and Northland Bank, claiming they didn't acknowledge the company's potential for bankruptcy immediately after the date of the statement of Financial (Cormier et al., 1995). Its goal is to determine the major factors that affect Sri Lankan listed companies' capacity to issue a going concern audit opinion. Particular attention was given to the effects of non-financial variables, audit quality, firm size, financial variables, profitability, liquidity and leverage. The study uses various statistical techniques to analyze data from the annual reports of chosen non-financial companies listed on the CSE from 2019 to 2023. Non-financial companies are outside the financial, insurance, and banking companies. Also, this study's scope is limited to non-financial companies and variables such as profitability, liquidity, leverage, audit quality and firm size. The results hold importance for managers, investors, auditors, and regulators as well, as they provide useful insight into enhancing financial reporting, corporate governance and sustainability in general. Comprehending these associations will aid significant stakeholders in making knowledgeable options concerning the fiscal well-being of enterprises, augmenting transparency and guaranteeing suitable audit determinations (Yi- et al., 2025). To the best of the researchers' knowledge, there is no study on these variables affecting the going concern audit opinion in the Sri Lankan context. However, these variables are with another dependent variable (Pakianathan,

2017). Also, no researchers are doing that with non-financial companies in Sri Lanka. However, there is research on the manufacturing sector (Hewage & Ediriwickrama, 2022). Ultimately, this study provides recommendations for improving the accuracy of going concern evaluations in Sri Lanka.

Specifically, a going concern audit opinion assesses a business's capacity to sustain operations for a minimum of 12 months, guaranteeing that major threats to its survival are mitigated (Haron et al., 2009; O'Reilly, 2009). To determine whether there are significant concerns regarding a company's continuity, auditors evaluate both financial and non-financial factors, such as liquidity, profitability, leverage, firm size and audit quality (Widoretno, 2019). These elements frequently represent both external factors, such as instability in politics or economic recessions, and internal issues, such as operating losses and cash flow deficits (Srimindarti et al., 2019). The results of prior studies on these determinants have been conflicting. According to certain studies, profitability and liquidity are important considerations, but other studies suggest that they are not (Simamora & Hendarjatno, 2019). In the same manner, business size and audit quality are further inconsistent (Putri, 2020). These variations and the lack of studies conducted in Sri Lanka highlight the need to investigate these variables in the local context. To evaluate their impact on going concern audit opinion for Sri Lankan listed non-financial companies, this study focuses on assessing financial factors (profitability, liquidity and leverage) as well as non-financial aspects (audit quality, firm size).

Based on the problem statement, the following research questions are aimed to be addressed in this study. What is the effect of Profitability/liquidity/leverage/audit quality/Firm size on going concern audit opinion of Listed companies in Sri Lanka? After addressing the research questions, the following objectives will be achieved. To identify the impact of Profitability/liquidity/leverage/audit quality/Firm size on Going Concern audit opinion Of Listed companies in Sri Lanka.

## **2. LITERATURE REVIEW**

### **2.1. Concept of Going Concern**

The going concern concept is fundamental in accounting and auditing, indicating a company's ability to continue operations and meet its obligations (Koh & Low, 2004; Kuruppu et al., 2003). The idea has drawbacks since it lacks a strong scientific foundation, although research suggests that auditors access forecasting techniques to support their analysis (Fremgen, 1968). According to SLAUS 570, which establishes standards for assessing material uncertainties related to a company's continuation, auditors in Sri Lanka evaluate management's use of going concern assumptions (Amarasinghe & Darshana, 2016). FASB and IASB standards differ, reflecting different methods; FASB limits assessments to a twelve-month period, while IASB permits extensions based on important considerations (Aronsson & Granstedt, 2021).

### **2.2. Going Concern Audit Opinion**

A going concern audit opinion is critical for internal and external users of financial statements, as it assesses a company's ability to continue operations (Widoretno, 2019). This opinion assesses management's disclosure of assumptions and plans to address substantial uncertainties in accordance with ISA 570 (Brunelli et al., 2024). An unqualified opinion with further explanation may be issued by the auditor if these approaches are found to be effective, otherwise, a qualified or adverse opinion may be issued (Sherlita & Puspita, 2012). Going concern opinions are much more likely to be given to financially distressed companies than to financially stable ones (Mutchler, 1985; Pham, 2022).

### **2.3. Theoretical Review**

This study is highly relevant to several key theoretical frameworks and practical applications.

#### **2.3.1. Agency Theory**

Agency theory, introduced by Ross and Mitnick in the 1970s, describes the relationship between principals (owners) and agents (managers) who act on their behalf (Mitnick, 2006). Due to restrictions on ownership and roles in business management decision-making, principal and agent remain separated (Jensen & Meckling, 1979). When the interest of these parties does not move parallelly a conflict arises which is called an agency problem (Srimindarti et al., 2019). Agents are given powers and rights by one or more principals to carry out

the duties of the principals. Simamora and Hendarjatno (2019) state that the auditor's role is to monitor a manager's work through financial statements and take into account the company's going concern in carrying out its business activities. Managers may manipulate financial reports to present favorable outcomes, especially in contexts like Sri Lanka, where agency issues necessitate robust corporate governance and regulatory oversight (M. W. & Putra & Kawisana, 2019). Therefore, agency conflicts increase the likelihood of a going concern opinion when firms exhibit low profitability, low liquidity or high leverage while high audit quality mitigates this risk by reducing information asymmetry.

### **2.3.2. Signaling Theory**

The concept was introduced by Michael Spence in 1973 (Gambetta, 2008). The purpose of signaling theory is to study how two parties (individuals or organizations) behave when they pursue different types of information. In addition to supporting transparency and honesty in financial reporting, a going concern audit opinion is an essential signal to stakeholders regarding a company's financial viability and may reveal bankruptcy concerns (Isnawati et al., 2016; M. W. & Putra & Kawisana, 2019). Market dynamics, corporate governance procedures and regulatory frameworks all affect how effective these signals are in Sri Lanka, which affects investor confidence and market behavior (Senaratne & Gunaratne, 2008). By ensuring that management's information appropriately shows the situation of the business, auditing helps stakeholders make well-informed decisions (Endiana & Suryandari, 2017, as cited in Winarta & Kuntadi, 2022). Therefore, high profitability/liquidity, low leverage, reputable auditors are less likely to receive a going concern opinion. A high-quality audit serves as a signal of transparency and financial health

### **2.3.3. Prospect Theory**

The prospect theory was developed in 1979 by Tversky and Kahneman (Lavy, 1992). According to Kahneman & Tversky (1979), Prospect Theory is a valuable framework for understanding decision-making under conditions of uncertainty and risk which is directly related to the issuing of going concern audit opinions. Prospect theory integration can offer an enhanced understanding of auditors' judgments (Tversky & Kahneman, 1992). Auditors are more likely to issue a going concern opinion when low liquidity and high leverage increase the perceived loss as auditors are more sensitive to risk.

## **2.4. Empirical Review**

Profitability is the ability of the company to generate profits from its capital, total assets and sales (Ramadhan & Sumardjo, 2021). Profitability plays a critical role in determining the likelihood of receiving a going concern audit opinion, as higher profitability generally reduces doubts about a company's capacity to continue operations (Djunaedi et al., 2022; Jasman & Khairani Shafira, 2023). Research indicates that companies with low profitability or negative profits are more likely to receive a going concern audit opinion due to financial instability and concerns about operational continuity (Anggarini & Zulfikar, 2022; Bava & Trana, 2019). However, some studies argue that profitability has an insignificant impact on the issuance of such opinions, suggesting other factors may hold greater importance (Pratiwi & Trisakti, 2019; Srimindarti et al., 2019). Despite varying perspectives, the general consensus indicates that profitability negatively correlates with the likelihood of receiving a going concern audit opinion, as profitable companies are perceived to have stronger financial health (Gallizo & Saladrigues, 2016; Pham, 2022).

Shafira (2023) defined that the ability of a business to satisfy its short-term financial obligations is impacted by liquidity. As they demonstrate financial stability and the ability to repay short-term obligations, companies with higher liquidity levels are typically less likely to receive such opinions (Swari et al., 2023; Handayani et al., 2023). However, according to other research, going concern opinions are not significantly impacted by liquidity because auditors may still give these opinions to companies with significant liquidity if there are other viability issues (Pham, 2022; Winarta & Kuntadi, 2022).

Putra & Purnamawati (2021) defined leverage as the volume of debt that a company uses to fund its day-to-day operations. Although larger leverage ratios raise financial commitments and insolvency risks, leverage that reflects a company's reliance on debt financing significantly affects the possibility of receiving a going concern audit opinion (Abadi et al., 2019; Ohlson, 1980). Due to challenges in managing debt repayments and

maintaining operations, research shows that companies with high levels of leverage are more likely to be granted a going concern opinion (Swari et al., 2023; Lennox, 2000). Nonetheless, some research indicates that leverage has little bearing on the auditor's judgment, especially for businesses with operational inefficiencies or equity shortfalls (Himam & Masitoh, 2020; Sherlita & Puspita, 2012). In general, auditors offer going concern audit views when high leverage ratios raise questions about a company's financial viability (Gharaghyah et al., 2013; Pratiwi & Trisakti, 2019).

Firm size is defined by Averio (2020) as the size of an entity used as a proxy to represent a company's condition. The possibility of obtaining a going concern audit opinion varies depending on the size of the company; larger companies are typically thought to be better at handling finances and operations, which lowers the likelihood of such opinions (Ballesta & Meca, 2005; Mutchler, 1985). Since auditors base their decisions on financial performance and continuity, regardless of firm size, several studies suggest that firm size has little impact on going concern opinions (Gallizo & Saladrighes, 2016; Widoretno, 2019). While larger companies are frequently viewed as more adaptable, smaller businesses with fewer resources are more likely to experience financial difficulties and, as a result, are more likely to obtain a going concern opinion (Junaidi & Hartono, 2010). However, regardless of the size of the company, auditors provide concerned opinions when business viability is in jeopardy (Winarta & Kuntadi, 2022).

Audit quality is the possibility that an auditor finds and reports a violation in the auditee's accounting system (Deangelo, 1981). While some research suggests addressing financial risks through high audit quality has a positive impact on issuing going concern audit opinions (Anggarini & Zulfikar, 2022; Tania et al., 2021). Others argue that this effect is insignificant because auditors base their opinions on particular financial conditions rather than just the reputation of the audit firm (Himam & Masitoh, 2020; Mukhataruddin et al., 2018). Overall, research indicates that there are both positive and negative effects on the relationship between going-concern audit opinions and audit quality (Handayani et al., 2023; Nurfadilah et al., 2023).

### 3. METHODOLOGY

#### 3.1. Research Design

This study uses the positivist paradigm because it emphasizes quantifiable and observable facts that align with the data analysis's objective to determine the variables impacting going concern audit opinions. The deductive research approach is suitable for this study because it begins with established theories and tests theories on profitability, liquidity, leverage, audit quality and firm size. Since the research applies numerical data from financial reports to identify patterns and relationships, that is quantitative approach is acceptable. Finally, the study focuses on data over five years (2019–2023). Therefore, a cross-sectional time horizon is excellent since it allows for a deeper understanding of patterns across time.

#### 3.2. Population and Sample

The population of this study is non-financial companies in the Colombo Stock Exchange. The number of non-financial companies is 226 as of 31<sup>st</sup> March 2023. The sample is selected by using the purposive sampling method. Therefore, there are two conditions for selecting a sample according to (Averio, 2020) The company should have incurred losses at least during 3 years of the 5 years of 2019 to 2023. Another one is that the company should have a complete annual report and an auditor-independent report. According to the first condition, 56 companies have reported losses for at least three years. Under the second condition, 5 companies have not completed their annual and independent audit reports. Additionally, sales data were unavailable for 8 companies and inventory data were missing for 9 companies as identified during the analysis of income statements and statements of financial position in the annual reports. Based on that, this study selected 34 companies as the sample.

Table 1: Sample selection table

| No | Criteria  | Total |
|----|---|-------|
|    | Total Population  | 226   |
| 1  | Company should not have incurred losses at least 3 years out of 5 years | (170) |

|   |  |     |
|---|--|-----|
| 2 | Company should not have a complete annual report and an independent audit report |     |
|   | Not complete annual report & independent report                                  | (5) |
|   | Unavailability of sales Data (For measuring profitability)                       | (8) |
|   | Unavailability of Inventory Data (For measuring Liquidity)                       | (9) |
|   | Sample companies   | 34  |

Source: Developed by author

### 3.3. Data Collection

This study collects data from the CSE annual reports for 2019-2023. The statement of comprehensive income, the statement of financial position, and the independent auditor report were mainly used for the collection. Thereby, a company is considered as the unit of analysis for this study

### 3.4. Conceptual Framework

The following figure presents the conceptual framework of the study.

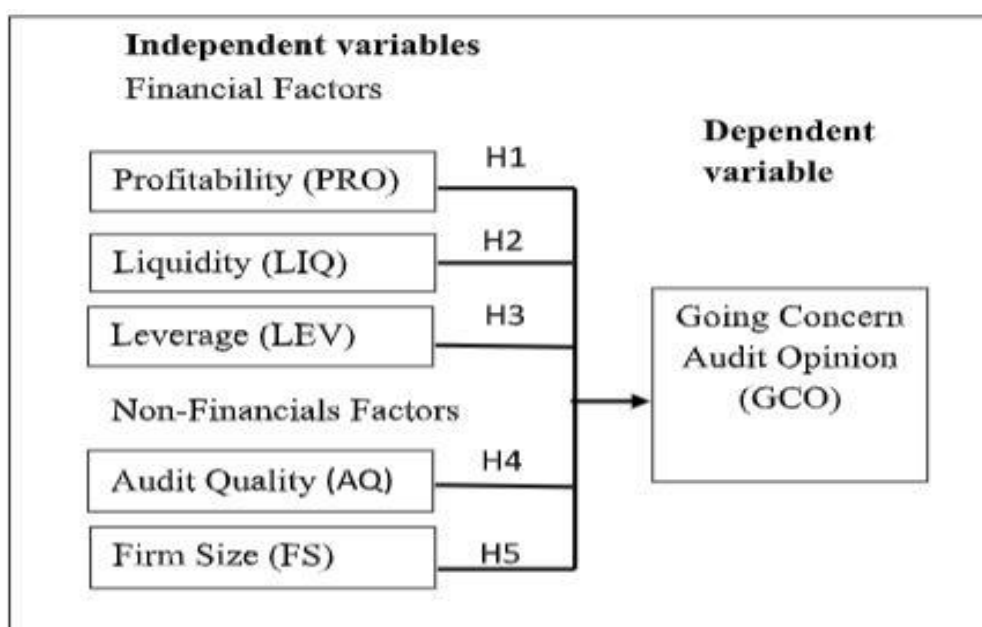


Figure 01: Conceptual framework

Source: Developed by author

The main hypotheses of the study are as follows,

H1: There is a significant impact of Profitability on going concern audit opinion.

H2: There is a significant impact of Liquidity on going concern audit opinion.

H3: There is a significant impact of Leverage on going concern audit opinion.

H4: There is a significant impact of Audit quality on going concern audit opinion.

H5: There is a significant impact of Firm size on going concern audit opinion.

### 3.5. Data Analysis Method

The data analysis methods applied in the present study included Descriptive analysis, Frequency Test, Multicollinearity test, overall model fit test, goodness-of-fit test, determinant coefficient test, logistic regression equation, and hypothesis test. The level of significance in the hypothesis test was 5%.

### 3.6. Operationalization

The operationalization table presents the key variables used in this study along with their measurement methods, indicators and data sources. By detailing how each variable is quantified, the operationalization table enhances the validity and reliability of the study's findings.

Table 2: Operationalization

| Variable                    | Measurement   | Indicator   | Source   |
|-----------------------------|---|---|--|
| Dependent variable          |   |   |  |
| Going Concern opinion (GCO) | This is measure by using the Dummy variable                     | Have GCO-1<br>Have not GCO-0  | (DeFond et al., 2002)                              |
| Independent variables       |   |   |  |
| Profitability               | Net Profit Margin (NPM) is used to measure profitability.       | $NPM = \frac{Net\ Profit}{Net\ sales}$  | (Averio, 2020)                                     |
| Liquidity                   | This variable is measured by Quick Ratio (QR)                   | $QR = \frac{Current\ Asset - Inventory}{Account\ Payables}$                         | (Simamora & Hendarjatno, 2019)                     |
| Leverage                    | Debt-to-Asset Ratio (DAR) is used for leverage                  | $DAR = \frac{Total\ Liabilities}{Total\ Asset}$                                     | (Averio, 2020; Dilshani et al., 2024)              |
| Audit Quality (AQ)          | Dummy variable is using for measure audit quality               | PAF(Public Accounting Firm) affiliated to the Big 4 PAF = 1 and non affiliated = 0. | (Mukhataruddin et al., 2018)                       |
| Firm Size (FS)              | It will be expressed with the Natural logarithm of Total Asset. | Natural Logarithm of Total asset  | (Gallizo & Saladrighes, 2016; Perera et al., 2021) |

Source: Developed by author

Operational table outline the operational definitions and measurement methods for both the dependent and independent variables used in this study. The Going Concern Opinion (GCO) is the dependent variable, measured as a binary dummy variable. The independent variables include Profitability, measured by Net Profit Margin; liquidity, measured using the Quick Ratio; Leverage, assessed through the Debt-to-Asset Ratio; Audit quality, represented by a dummy variable indicating Big 4 affiliation and firm size, measured by the natural logarithm of total assets.

## 4. RESULTS AND DISCUSSION

### 4.1. Descriptive Analysis

Table 3: Descriptive statistics

|                    | N         | Minimum   | Maximum   | Mean      | Std. Deviation |
|--------------------|-----------|-----------|-----------|-----------|----------------|
|                    | Statistic | Statistic | Statistic | Statistic | Statistic      |
| GCO                | 170       | 0         | 1         | 0.41      | 0.493          |
| PRO                | 170       | -11.4327  | 7.9422    | -0.444999 | 1.4125866      |
| LIQ                | 170       | 0.1022    | 73.7272   | 3.372495  | 7.1606974      |
| LEV                | 170       | 0.0549    | 1.5225    | 0.589880  | .3042848       |
| AQ                 | 170       | 0         | 1         | 0.78      | 0.418          |
| FS                 | 170       | 13.9215   | 24.6747   | 19.870574 | 3.0009671      |
| Valid N (listwise) | 170       |           |           |           |                |

Source: Data analysis using SPSS 27

From this information, GCO is the dependent variable that has a binary value of 0 or 1. Profitability is hugely varied, as the minimum value is -11.43 while the maximum is 7.94. Liquidity and Leverage also express variations. The average leverage ratio was close to 59%, with an average of 0.59. The other independent variable was the Firm Size, which had a minimum value of 13.92 and a maximum of 24.67. Also, Audit Quality has binary values.

## 4.2. Frequency Test

Table 5: Frequency table: Going concern opinion

|       |              | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|--------------|-----------|---------|---------------|--------------------|
| Valid | Not have GCO | 101       | 59.4    | 59.4          | 59.4               |
|       | Have GCO     | 69        | 40.6    | 40.6          | 100.0              |
|       | Total        | 170       | 100.0   | 100.0         |                    |

Source: Data Analysis using SPSS 27

Table 6: Frequency table: Audit quality

|       |                      | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------------|-----------|---------|---------------|--------------------|
| Valid | Not Big 4 Audit firm | 38        | 22.4    | 22.4          | 22.4               |
|       | Big 4 Audit Firm     | 132       | 77.6    | 77.6          | 100.0              |
|       | Total                | 170       | 100.0   | 100.0         |                    |

Source: Data analysis using SPSS 27

As per the frequency test, 40.6% of 34 companies received a Going Concern Opinion while 59.4% did not. Big 4 audit firms audited 77.6% of the total while 22.4% did not.

## 4.3. Multicollinearity Test

Table 7: Multicollinearity test

|           | Collinearity Statistics |       |
|-----------|-------------------------|-------|
| Variables | Tolerance               | VIF   |
| PRO       | 0.954                   | 1.048 |
| LIQ       | 0.853                   | 1.172 |
| LEV       | 0.912                   | 1.096 |
| AQ        | 0.884                   | 1.131 |
| FS        | 0.934                   | 1.071 |

Source: Data Analysis using SPSS 27

The collinearity statistics indicate no significant multicollinearity among the independent variables in the regression model, as all tolerance values are near or equal to 1 and VIF values are below 10. This confirms that firm size, audit quality, profitability, liquidity and leverage are not strongly correlated, allowing for an accurate assessment of their individual effects on the going concern audit opinion.

#### 4.4. Logistic Regression Analysis

##### 4.4.1. Coefficient of Determinant

Table 8: Model summary

| Step | -2 Log likelihood    | Cox & Snell R Square | Nagelkerke R Square |
|------|----------------------|----------------------|---------------------|
| 1    | 188.352 <sup>a</sup> | 0.215                | 0.291               |

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than 0.001.

Source: Data analysis using SPSS 27

The coefficient of determination showed that the -2 Log Likelihood value of 188.352 indicates a reasonably good fit between the model and the data. The value of Nagelkerke R<sup>2</sup> of 0.291. It means the independent variables could affect the dependent variable (the going concern audit opinion) for 29.1%, whereas the remaining percentage of 70.9 percent affected other factors outside the variables being studied.

##### 4.4.2. Goodness of Fit Model

Table 9: Omnibus tests of model coefficients

|        | Chi-square | Df | Sig.  |
|--------|------------|----|-------|
| Step 1 | 41.259     | 5  | 0.000 |

Source: Data analysis using SPSS 27

The goodness-of-fit model shown in Omnibus Tests of model coefficients indicated a Chi-square value of 41.259 with 5 degrees of freedom (df) and a p-value of less than 0.05 significant level. It showed that the overall model is significant.

##### 4.4.3. Regression Analysis

Table 10: Variables in the equation

|                     |          | B     | S.E.  | Wald   | Df | Sig. | Exp(B)  |
|---------------------|----------|-------|-------|--------|----|------|---------|
| Step 1 <sup>a</sup> | PRO      | -.503 | .246  | 4.167  | 1  | .041 | .605    |
|                     | LIQ      | -.309 | .102  | 9.138  | 1  | .003 | .734    |
|                     | LEV      | .152  | .617  | .061   | 1  | .805 | 1.165   |
|                     | AQ       | -.343 | .445  | .591   | 1  | .442 | .710    |
|                     | FS       | -.230 | .063  | 13.175 | 1  | .000 | .795    |
|                     | Constant | 4.797 | 1.452 | 10.913 | 1  | .001 | 121.099 |

a. Variable(s) entered on step 1: PRO, LIQ, LEV, AQ, FS.

Source: Data analysis using SPSS 27

As per the regression result, Profitability, Liquidity and Firm Size have a significant impact on the probability of a negative going concern opinion according to the logistic regression analysis with values of -0.503 (p = 0.041), -0.309 (p= 0.003) and -0.230 (p = 0.000) in respectively. This suggests that in the Sri Lankan context, firms with higher profitability and stronger liquidity positions are perceived as financially stable by reducing auditor concerns over going concern issues. Larger firms may benefit from better access to financing,



diversified operations and stronger reputations which can enhance stakeholder confidence and reduce the likelihood of auditors issuing a going concern opinion. On the other hand, Audit Quality's coefficient of -0.343 is equally insignificant ( $p = 0.442$ ) while Leverage demonstrates coefficient of 0.152 is not statistically significant ( $p = 0.805$ ). A baseline for the log odds is provided by the constant term of 4.797 ( $p = 0.001$ ) when all independent variables are present.

#### 4.5. Hypothesis Testing

Table 11: Hypothesis testing

| Hypothesis | P value | Status   |
|------------|---------|----------|
| H1         | 0.041   | Accepted |
| H2         | 0.003   | Accepted |
| H3         | 0.805   | Reject   |
| H4         | 0.442   | Reject   |
| H5         | 0.000   | Accepted |

Source: Developed by author

Based on the Hypothesis testing, Three of the five hypotheses (H1, H2 and H5) were accepted based on the results of the hypothesis testing with statistically significant p-values. This implies that the Going concern audit opinion is significantly impacted by the related factors, which are Profitability(H1), Liquidity(H2), and Firm size(H5) in these hypotheses. The p-values of H3 and H4 show no statistically significant connection with the GCO and exceed the usual significance threshold, which leads to the rejection of these hypotheses: Leverage (H3) and Audit Quality (H4).

As per the Logistic Regression analysis, the Regression Model will be developed as follows,  

$$GCO = 4.797 - 0.503PRO_{it} - 0.309 LIQ_{it} + 0.152 LEV_{it} - 0.343 AQ_{it} - 0.230 FS_{it} + \epsilon_{it}$$

#### 4.6. Findings & Discussion

Profitability significantly impacts the going concern audit opinion, with a negative relationship indicating that higher profitability reduces the likelihood of receiving a going concern opinion. This result aligns with previous studies (Averio, 2020; Bava & Trana, 2019).

Liquidity also significantly affects the going concern audit opinion, showing a negative relationship. Low liquidity raises concerns about a company's ability to meet short-term debts, influencing auditors' assessments, consistent with research by Haron et al.(2009) and (Simamora & Hendarjatno, 2019).

Leverage has no significant impact on the going concern audit opinion, contradicting prior studies (Abadi et al., 2019; Averio, 2020), as the analysis found no relationship between leverage and GCO.

Audit quality does not significantly influence the going concern audit opinion in Sri Lanka, rejecting the hypothesis based on studies by Anggarini & Zulfikar (2022) and Putri (2020).

Firm size significantly impacts the going concern audit opinion, with a negative relationship suggesting that larger firms are more likely to receive a going concern opinion, aligning with findings from Ballesta & García-Meca (2005) and (Mutchler, 1985).

Also, there is a relationship between Profitability, liquidity, Firm Size and the Going Concern Audit Opinion. Leverage and Audit Quality have no relationship with the Going concern Audit Opinion in the Sri Lankan Context

### 5. CONCLUSION

#### 5.1. Summary

Based on the results of the logistic regression analysis to determine influencing factors on the going concern audit opinion with research data of non-financial companies listed on the CSE from 2019 to 2023, it can be concluded that Profitability, Liquidity and Firm Size were negatively associated with the likelihood of receiving a going concern opinion while leverage and audit quality did not.

## 5.2. Implications

Auditors' going concern audit opinion is largely influenced by their judgments of a company's financial condition, which plays a crucial role in their decision. As a result, both potential auditors and users of financial statements users are provided with guidance when assessing the company's future stability. Based on that, they can encourage to analyze profitability, liquidity and Firm Size. Low profitability and liquidity also suggest that a business is doubtful of its ability to pay off its short-term debt and generate profit, which puts the company in danger of collapsing as a going concern. On the other hand, in small firm size, smaller companies are frequently thought to face greater risks of financial instability and operational difficulties, which is also a danger for going concern Audit opinion. The finding that leverage correlated positively but did not significantly predict going concern opinions implies that, although having more leverage may increase the likelihood of obtaining a going concern opinion, the relationship is not statistically significant. Despite a negative correlation, the lack of a significant relationship between going concern opinion and audit quality suggests that, although higher audit quality may be related to fewer negative results, its effect is insufficient to affect the audit opinion statistically effectively.

Additionally, the study has filled an empirical gap in the literature by providing more empirical data relevant to the studied issue in the Sri Lankan context. As no literature or research was available in Sri Lanka, this study will also serve as a map for future researchers.

## 5.3. Recommendations

Considering that these Profitability, Liquidity and Firm size had a negative impact on the going concern audit opinion companies must focus on ensuring sound levels of profitability and liquidity as well as efficient financial control strategies in order to prevent audit distress signals. To enhance profitability, firms can implement cost-reduction measures such as optimizing operational efficiency and renegotiating supplier contracts while exploring new revenue streams through local market expansion or export diversification. For firms facing liquidity issues, improving working capital management such as timely collection of receivables, inventory control and negotiating better credit terms with suppliers can help maintain adequate cash flow. Smaller firms are encouraged to strengthen financial management practices, adopt digital accounting tools and explore government. Although leverage and audit quality did not show a significant impact statistically. However, it is important to maintain prudent debt levels to avoid financial stress and continue prioritizing high-quality audits for accurate financial reporting.

## 5.4. Study limitations and further research

A few of the study's limitations include its focus solely on non-financial enterprises and its exclusion of industrial sectors, which are finance, banking and insurance. It uses secondary data from annual reports and examines just a small number of variables like profitability, liquidity, leverage, audit quality and firm size. It is recommended that future research include qualitative approaches which are Management quality, governance, Audit lag, Audit Tenure, lack of cash, Opinion shopping, previous year audit opinion and comparative studies to obtain a more detailed understanding of the elements influencing going concern opinions and auditor judgments. Also, Future research could benefit from conducting comparative analyses across various sectors such as financial institutions (including banking, insurance and finance companies), manufacturing, hospitality and tourism, agriculture, construction and retail in Sri Lankan context.

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