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Factors Influencing Decision to Issue Going Concern Opinions in the Post-COVID-19 Era: Tales from the Big Four Audit Firms in Malaysia

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Abstract
Assessment of going concern is very important because it reflects the financial conditions of companies. However, the assessment remains one of the auditors' most difficult and ambiguous tasks, especially during crises. The post-Coronavirus Disease of 2019 (COVID-19) era, where companies strive to sustain their businesses, has created a new crisis and further intensified auditors' challenges in assessing going concern opinion. This study aims to identify factors influencing auditors' decision to issue going concern opinions. Applying a qualitative methodology, semi-structured interviews were conducted with auditors from the Big Four audit firms. Findings indicate historical information about the company, industry risk, and firm size are the three influencing factors in deciding the issuance of going concern opinions.
Keywords: Going Concern, Malaysia, Audit Quality, COVID-19, Auditing

Introduction

International Standard on Auditing (ISA 570- Going Concern) stipulates the need for auditors to assess the client's ability as a going concern (IFAC, 2016). Going concern opinion is a warning sign to stakeholders about the company's financial difficulties (Kausar et al., 2015). Although auditors do not expect to predict the future, they must judge the continued viability of the companies they audit (Blay et al., 2011). As a result, auditors are responsible for finding sufficient and appropriate evidence to justify their opinion as to whether they believe that the company will be operating in its current form for an indefinite future, at least within a minimum timeframe of 12 months. If they think the contrary, an audit opinion with a going concern explanatory paragraph needs to be issued.

Failure to assess the going concern status may cause detrimental impacts on companies. One legendary example is the collapse of Enron. In this case, the appointed audit firm has been acting as the auditor for Enron since the company commenced its business. However, the audit firm did not issue going concern opinions throughout the service period, including when Enron had financial difficulties. As a result, it was reported that no signals were given to the company about such situations. As a result, the Enron corporate scandal caused substantial economic loss to shareholders and consequently led to the dissolution of that audit firm. Therefore, going concern opinion is vital in providing awareness to shareholders about the company's financial position because it serves as a warning of potential bankruptcy (Sormunen et al., 2013).

Despite acknowledging the importance of issuing a going concern opinion when substantial doubts exist, the willingness of auditors to give such an opinion has long been debated. For instance, in Malaysia, only 6.3% of financially distressed companies reported receiving the going concern opinion (Abdul Wahab et al., 2013). In a more recent study, the issuance of going concern opinion to the financially distressed Malaysian properties and construction companies was reported only between 11 to 30% (Osman et al., 2016). Interestingly, even with the latest implementation of the revised ISA 570 in December 2016, it was predicted there would not be many changes regarding the issuance rate of going concern opinions in Malaysia (Osman et al., 2018). Similarly, in Indonesia, only a few financially distressed companies were reported to have received going concern opinions (Mulyadi & Budiawan, 2018). Feldmann & Read (2010) concluded that in the US, the tendency to issue going concern opinion increases when the public closely scrutinises audit works, such as immediately after the Enron case. However, auditors tend to be less conservative when public attention towards auditing issues declines. Thus, assessing going concern opinions appears to be one of the auditors' biggest challenges and ambiguous audit tasks around the globe.

Auditors' propensity to issue going concern opinions remains an issue of concern among researchers in normal economic circumstances and during a crisis. Mareque et al. (2017) analysed the impact of the financial crisis on the issuance of going concern reports in Spain. They affirmed that although there was no significant difference between the issuance of reports from the Big Four and non-Big Four audit firms, the issuance rate increased during the crisis period. These findings aligned with the earlier study (Xu et al., 2013) that investigated the impact of the global financial crisis on auditors' behaviour in Australia.

The widespread COVID-19 has caused a direct global destructive impact on the economy (Goodell, 2020). The economic turbulence and market uncertainty have badly affected financial performance and caused various financial distresses to companies around the globe (KPMG, 2020). A few previous studies in the auditing field confirmed that the COVID-19 pandemic has somehow influence audit work including the assessment of going concern opinion (Diab, 2021; Hay et al., 2021). To the extreme, it was argued whether the going concern assumption is still appropriate as a basis for preparing the company's financial statements (KPMG, 2020). Acknowledging that this new economic crisis tends to intensify further the challenges faced by auditors, this study intends to elucidate factors influencing the propensity to issue going concern opinions during the post-COVID-19 era.

This study provides significant contributions in at least three ways. First, although some previous studies have investigated issues regarding the issuance of going concern opinions (Osman et al., 2012; Osman et al., 2018; Mulyadi & Budiawan, 2018) and the impact of such reports during the global financial crisis (Mareque et al., 2017; Xu et al., 2013) these studies were carried out before the outbreak of COVID-19 pandemic. Studies investigating issues on the issuance of going concern opinions during the post-COVID-19 era in Malaysia are still scarce. Thus, the current study, which provides the latest view on factors influencing auditors' decision to issue going concern opinions, is deemed necessary and paved a new avenue of research in such area.

Secondly, many previous findings were derived from the secondary data analyses (Osman et al., 2016; Junaidi & Hartono, 2015 ; Widiatami et al., 2020). The drawback of such studies is that the findings provide a "limited understanding of why things occur or do not occur" (Bryman & Bell, 2011, p.168). Hence, this current study advances literature by applying a constructivist ontology using qualitative methodology. This approach could provide a greater understanding of the "how" and "why" of the respondent's perceptions of the issue under investigation (Brand, 2009). Finally, the findings presented in this paper contribute insights into the factors influencing auditors' decision to issue going concern, considering the aftermath of the COVID-19 pandemic. Thus, the findings provide timely and valuable input to the audit professions and companies.

This paper proceeds as follows. The next section briefly reviews the literature on going concern opinions. The research methodology employed is then described. Next, the findings of this study are presented and discussed. Finally, the paper concludes with conclusions, including the limitations and future research directions.

Literature Review

Auditors and Going Concern Opinions

One of the main functions of auditors is to assess the financial operations and ensure that companies are operating efficiently to meet the interests of the shareholders. In a way, auditors could be viewed as a third party expected to objectively communicate the company's condition to the shareholders and other stakeholders (Sikka, 2009). In performing their function, auditors need to access the client's (company) ability as a going concern (IFAC, 2016). Although the management initially assesses the company's going concern, auditors have a huge responsibility to ensure that they have sufficient evidence to justify and confirm the assessment.

However, the occurrence of various corporate frauds and failures around the globe has triggered scepticism among the public about the competency of auditors in making an accurate judgment about the going concern of companies (Humphrey et al., 2009). Likewise, a high rate of bankrupt companies reported not receiving the going concern opinions was considered audit failures (Francis, 2004). These are among the factors that have eroded trust and tarnished the image of the accounting profession, particularly the auditors.

Previous studies posit that the going concern assessment is one of the most difficult and ambiguous audit tasks (Carcello & Neal, 2000). This is because the assessment of going concern involves making a judgment about the future affairs of companies, which may be uncertain. Hardies et al. (2018) explain that auditors are prone to make two misclassification errors: i) a false positive and ii) a false negative. A false positive occurs when auditors issue a going concern opinion to a firm that survives at least one year beyond the financial statement date. On the other hand, a false negative refers to a situation when auditors fail to issue a going concern opinion to a firm that ceases to exist within one year from the financial statement date. They further stressed that both types of misclassification errors might negatively impact auditors. For example, a false positive possibly leads to client loss and a false negative may tarnish auditors' reputations and expose them to litigation.

Whether to issue or not to issue going concern opinions are influenced by auditors' level of competency and independence (Vanstraelen, 1999). The competency level will influence the auditor's ability to identify going concerns and problems experienced by companies. The issuance of going concerns depends on the independence level of auditors in making such decisions. Given the same audit evidence, different auditors may arrive at different conclusions, suggesting that going concern opinion depends greatly on the auditor's subjective judgment (Kuruppu et al., 2012).

Auditing during Crisis

Providing timely information is very important in performing audit work. Users of accounting information need such timely information to make various decisions. However, a crisis often disrupts the auditing process. Constructing and assessing audit evidence may challenge most auditors during a crisis. For example, during the previous global financial crisis (GFC) between the middle of 2007 and early 2009, many financial institutions either collapsed or needed to be bailed out quickly after getting unqualified audit opinions (Sikka, 2009). Such situations have triggered questions among the public regarding the role and function of external auditors. Although auditors appear to have responded to the GFC accordingly in the sense that they issued more going concern audit opinions (Xu et al., 2013; Geiger et al., 2014), auditors were criticised for having not reached the expected competency level and unable to make independent decisions (Sikka, 2009). Despite the criticisms, evidence showed that auditors charged higher audit fees during and post-financial crises than during pre-financial crises (Alexeyeva & Svanström, 2015; Sikka, 2009; Xu et al., 2013; Zhang & Huang, 2013). Higher fees may reflect more complicated audit work that needs to be carried out by auditors to compensate for the increase in risk.

A recent outbreak of the COVID-19 pandemic has created a new crisis in the auditing field. The movement control orders and the global economic turbulence forced businesses to operate beyond norms, consequently impacting most companies' financial health. The pandemic has reportedly caused a decline in businesses' profit and financial performance in various industries (Devi et al., 2020). On the contrary, the pandemic has catalysed digital transformation in doing business (Lombardi & Secundo, 2021). As a result, auditors were urged to equip themselves with the know-how to face the new challenges of digitalisation (Gould, 2019). For instance, data analytics in performing audits are predicted to bring added value to clients (Lim, 2018).

Once again, auditing professions were in the limelight. When there exists a high degree of economic uncertainties, there will be an increased need for transparent and reliable information to regain trust. Part of that is through reliable financial reporting (Deloitte, 2020). Meanwhile, during the pandemic, auditor roles are predicted to be more important and difficult (Kinder, 2020). In such unprecedented times, failure to obtain adequate audit evidence due to the new norms may influence auditors' going concern opinions. Accuracy of such an opinion is very important because inaccurate audit opinion may cause detrimental impacts on companies. Thus, auditors were further guided to pay more attention to the eight[1] ISA in obtaining sufficient appropriate audit evidence during the pandemic (IAASB, 2020). ISA 570 (Revised) Going Concern is one of them. The revised ISA 570 deals with the auditor's responsibilities in auditing financial statements relating to going concern and the implications for the auditor's report. When auditing during the pandemic, auditors are reminded to remain professionally sceptical throughout the audit, but they need to consider the potential additional challenges the business faces due to COVID-19 (IAASB, 2020).

Methodology

This study adopted a qualitative method by applying semi-structured interviews for data collection. Warren & Karner (2005) argue that such a methodology is appropriate when a question needs to be described and investigated in depth. Other than that, qualitative research focuses on words to increase understanding and knowledge of the research context through exploring social phenomena (Bryman & Bell, 2011).Since professional auditing has long been perceived as a socially constructed and dynamic phenomenon (Andon et al., 2015; Power, 2003) and the objective of this study is to elucidate factors that affect the propensity of auditors to issue going concern opinions, the qualitative method is deemed suitable to be employed.

Semi-structured interviews involve gathering rich and multi-layered information allowing a few prepared questions to form the skeleton of the interview whilst allowing additional questions to emerge during the interview process (Hoggart et al., 2002). The semi-structured interview guide was designed after an extensive literature review. Open-ended questions

[1] The eight ISA includes:
ISA 315 (Revised): Auditor needs to consider new planned audit approach, revision of risk assessment, and changes in auditor's understanding on entity's system of internal control.
ISA 330: Auditor needs to consider on alternative procedures to obtain sufficient evidence, financial statement closing process, and evaluation of overall presentation of financial statement.
ISA 540 (Revised): Auditor needs to consider on the effect of accounting estimates, assumptions on the appropriate applicable financial reporting framework, relevance and reliability of data used, and inherent risk factors especially on uncertainty.
ISA 560: Auditor needs to consider on moving the reporting deadline due to the event after financial year end and the proper disclosure of any material on subsequent events.
ISA 570 (Revised): Auditor needs to consider on the impact of COVID-19on the evaluation of management assertions of going concern and modification of auditor's report.
ISA 600: Group auditor needs to consider reviewing the work of the component auditor especially on the planned procedures and evidence collection.
ISA 700 (Revised) and 701: Auditor needs to consider on key audit matters due to the impact of COVID-19 in the new or changed laws or regulation by the government, matters such as calculation of accounting estimates and further evidence needed on any area of business operation that directly are impacted from the new regulation.
ISA 720 (Revised): Auditor also needs to consider any inconsistency between information provided by the management and financial statement due to the impact of COVID-19.

prevented the respondents from responding 'yes' or 'no'. This approach allows freedom to the respondents to express their experience and helps capture as much understanding about the research phenomenon (Saunders et al., 2012). As for validity assessment, the semi-structured interview guide was reviewed by two experts: an academic from Malaysia's public university and an auditor from one of the audit firms in the northern state of Malaysia. The reviewers were requested to uncover any flaws in the interview guide and provide comments on the suitability and clarity of the questions. Feedback from the reviewing process was incorporated into the interview guides. This validity procedure is considered sufficient to establish the interview's clarity and reliability. According to Stenbacka (2001), reliability is irrelevant when judging the quality of qualitative research.

A total of four interviews were conducted using Google Meet, the platform of a real-time meeting by Google. Online meetings were conducted considering the transmission risk of COVID-19, cost and time inefficiency to travel and conduct personal interviews. The respondents were auditors from the Big Four audit firms in Malaysia. One auditor represents each audit firm. In terms of 'how many' key informants are sufficient, no specific numbers of respondents are applied in the qualitative research (Yin, 2016), and the exact number will depend on the saturation point (Guest et al., 2006). Any number of experts is sufficient as long as it can generate enough in-depth data to illuminate the phenomena' patterns, concepts, categories, properties, and dimensions (Strauss & Corbin, 1998). Therefore, the number of interviews for this study is deemed appropriate because the interviews were conducted with people considered experts in the field and were able to generate more than enough in-depth data.

All the interviews were recorded and transcribed for analysis. Thematic analysis based on an interpretive approach was employed (Braun & Clarke, 2006). The analysis involves encoding qualitative data in the search for patterns and themes that help explain social phenomena (Boyatzis, 1998). To assess validity, the researchers independently made the coding process and compared the findings with the initial results. The researchers collaborate to resolve the anomalies if there are any observed discrepancies. Themes are developed through careful iterative and reflexive examination and re-examining of the raw interview data.

Findings and Discussion

This study elucidates factors influencing the propensity to issue going concern opinions during the post-COVID-19 era. All respondents unanimously agreed that going concern assessment is a pivotal determinant of audit quality and the opinion may have significant impact on the future of a company (Fidiana et al., 2023; Tsipouridou & Spathis, 2014). They ascertained that they need to be extra careful regarding going concern assessments because audit work becomes more complicated and consumes more time with the impact of the COVID-19 pandemic. For instance, respondent two (R2) mentioned, "*audit is still auditing, whether we have a pandemic or not, but of course, we need to take extra precautions when doing our work now*". Likewise, respondent one (R1) declared, "*I have been with the company for eight years…the pandemic forced me to adjust to new things… not only dealing with clients online but I need to spend more time talking to the management as to how they make a going concern assessment*". Respondent four (R4) clearly expressed the complexity of assessing going concerns by saying: "*going-concern assessments have never been as difficult as they are right now under COVID-19*". Their responses aligned with the findings on exploring challenges faced by auditors in Malaysia during the COVID-19 era. Using documentation review, the study (Salleh & Azman, 2021) suggests the complexity of performing audit works has and will increase given that the estimation of clients continued as a going concern is more challenging. Auditors must undergo proper training to avoid a negative impact on audit quality.

Although ISA 570 acts as the term of reference in assessing going concern, auditors' judgment based on their experience plays an important role in finalising their decisions. This is explained by respondent three (R3)

> "*Going concern assessment is always difficult. Even before the pandemic, it has been difficult because it deals with uncertainty. Another factor is that management always puts a positive perspective when they do such assessments. Yup, we have ISA 570 to guide us, but believe me, experience matters*"- (R3)

Furthermore, a few business sectors, such as retail, the creative industry and travel and tourism (REFSA, 2021), were reported to have been hit hard by the pandemic. Thus, confirming the accuracy of the going concern assessment of companies in those sectors would be difficult. R1 put that specific challenge in words:

> "*Of course, we refer to ISA 570, but the impact of COVID-19 differs from company to company. It is unfair we stay rigid using the same or blanket assessment procedures for all companies. Sometimes we need to tweak a little bit to suit the unique situation faced by a company that was badly hit by the pandemic".* – (R1)

Three major factors may influence auditors' decision to issue a going concern opinion. First, historical information or previous performance of a company. In general, all companies face financial difficulties in the post-COVID era. However, the ability of companies to survive during the pandemic and their performances before the pandemic could be used as a point of reference in making a judgment regarding their financial dependency on any funding sources. Although the company currently reported experiencing financial difficulties such as low profit or negative working capital, the positive historical information about the company could discard significant doubt as to whether the company is a going concern for the next financial year. This argument is aligned with the findings of a previous study that confirm financial distress is not significantly related to the going concern audit opinion (Meiryani et al., 2021). R4 addressed this issue

> "*Sometimes we need to investigate their backgrounds…the financial data or cash flow may not be that promising because they lose customers, but other evidence indicates that they are coping well, and they are positive in gaining back customers... we might be ok with the going concern assessment*". – (R4)

Secondly, auditors tend to refer to the industry risk in confirming the management's presentation of the going concern assessment. Industry risk refers to the factors that affect companies' growth, profitability and volatility. A previous study concludes that a low propensity of auditors to issue going concern opinions for charities is due to the lower litigation risk in that sector (Yang et al., 2022). Similarly, companies operating in high-risk industries, such as aviation, are reported to take longer to bounce back on track after being badly hit by the pandemic (Saigol, 2020). As a result, auditors take extra care in assessing such companies' going concerns. R1 responded to this issue: "*the standard state the assessment should cover a period of 12 months, but in some cases, we extend the period. We assess more than 12 months, perhaps 18 months. We have experienced extending the assessment period to 24 months. The additional period ensures that we provide an accurate decision regarding the going concern of such companies*".

Finally, the size of a company may affect the decision whether to issue a going concern opinion. Interestingly, this finding contradicts earlier quantitative findings, which found that firm size did not significantly affect the issuance of going concern opinion (Averio, 2021). The company's size measured by the total assets is claimed not to affect the company's ability to generate profit and sustain in the industry. However, the current study, which employs a qualitative approach, found that auditors consider the company size as an influencing factor in their decision to issue a going concern opinion. Before deciding on issuing a going concern opinion, auditors need to request additional evidence and extensively discuss issues of concern with the management (Behn et al., 2001). The discussion with the management commonly turned out to be a difficult deal (Basioudis et al., 2008). As mentioned by R1, "*nowadays the economic condition is very dynamic, even big companies have cash flow problems, not easy, but we need to find out because we need to be very careful in making the decision*".

However, big companies normally have more constructive and convincing ways of responding to the issues raised by auditors compared to small companies. R2 highlights this fact "*we normally discuss with management, explain to them their current situation and whenever necessary suggest what they need to do. Usually, companies respond, but with the new norms, sometimes smaller ones delay in clarifying their action plans*". Perhaps, for a big company, having a large number of shareholders make them realise that getting going concern opinions may affect a larger group of people if the company ceases its operation. A similar argument in support of this explanation is given by one of the respondents representing the Big Four in a more recent study differentiating the behavioural judgment of going concern opinions among the Big Four and non- Big Four auditors (Desai et al., 2023). Also, going concern opinions were claimed to affect management's remuneration negatively Callaghan et al (2009) and reduce public confidence of the organization (Tarighi et al., 2022). Thus, management in big companies is predicted to be more likely to avoid receiving the going concern opinions.

Conclusion

This paper aims to elucidate factors that affect auditors' decision to issue going concern opinions in the post-COVID era. Four semi-structured interviews were conducted with auditors from Malaysia's Big Four audit firms. Findings indicate three major factors that influence auditors' decisions. The practical implication of these findings is that auditors are not only concerned and examine financial data but also consider non-financial data in making decisions. They acknowledge the need to remain independent and objective in performing their audit work. To enhance the accuracy of the going concern opinion, they will ensure that they get sufficient appropriate evidence before deciding to issue it because auditors realise the disruptive impact such an opinion could bring to companies' future.

Furthermore, although auditors utilised ISA 570 as the platform and guidance in assessing the going concern issues, they confirmed that their work experience is a very important factor that helps them perform their responsibility accurately and efficiently. Having vast experience in handling going concern issues allows them to exercise independence and objective judgment on whether to issue or not to issue such opinions. Theoretically, this study supports the claim that qualitative methodology could enhance understanding of the issue under investigation (Brand, 2009).

This study is not without limitations. The respondents of this study are attached to the Big Four audit firms operating in Malaysia and thus limit the generalisation of the findings. Approaches employed by auditors from non-Big Four companies in Malaysia and other countries may differ. Thus, future research might want to expand this study to include the non-Big Four auditors, and comparative studies between developing countries could be an interesting avenue to explore. Also, as research studies investigating going concern issues in Malaysia are still remarkably underrepresented, further studies are needed. Future studies could embed quantitative and qualitative approaches to derive more rigorous findings.

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