International Journal of Accounting and Management Sciences
Vol.3 No.2, April 2024
Print ISSN: 2834-8923 Online ISSN: 2832-8175
DOI: https://www.doi.org/10.56830/IJAMS042024
THE SCIENCE PUBLISHING HOUSE

Does the Audit Going Concern Opinion Really Matter?

The Case of Egypt.

https://www.doi.org/10.56830/IJAMS04202406

Haitham Ramadan Shehata
Accounting & Auditing Assistant Professor, Faculty of Commerce, Damanhur University.
Haithamramadan@com.dmu.edu.eg
Abdelwahab N. Ali
Accounting & Auditing Professor, Faculty of Business, Alexandria University.

Received: 15 February 2024. Accepted: 27 April 2024. Published: 30 April 2024

Abstract:

The auditor's going concern opinion (GCO) is an opinion given by an auditor about a firm's financial health. This opinion serves as an early warning system for the financial distress of client's firm. The current research aimed to study the impact of the auditor's going concern opinion (GCO) on stock prices in the Egyptian business environment. On a sample of 132 firms listed on the Egyptian Stock Exchange for the period 2016-2022 with a total of 759 firm-year-observations. In addition to the possible effect of two moderating variables associated with the main independent variables. Which is the expectation of GCO and perceived audit quality (AQ). We added the independent and moderating variables to the modified Ohlsen regression model to test for the value relevance of the GCO, and the effects of the moderating variables on the mentioned above relation. We found no evidence of a significant impact of the auditor's GCO on the stock prices of companies listed on the Egyptian Stock Exchange, regardless of whether this opinion is expected or not. On the other hand, for the effect of perceived audit quality, we found a significant negative effect of GCO on stock prices for companies being audited by big 4 audit firms, which could be interpreted because of the reputation effect for such firms.

Keywords: Going Concern Opinion - Financial Health - Audit Quality – Egypt.

International Journal of Accounting and Management Sciences
Vol.3 No.2, April 2024
Print ISSN: 2834-8923 Online ISSN: 2832-8175
DOI: https://www.doi.org/10.56830/IJAMS042024

1. INTRODUCTION

An external audit is defined as a systematic process of compiling and evaluating evidence in order to determine and report on the extent to which the financial statements comply with the applicable financial reporting framework (Arens et a., 2017), and therefore the importance of the auditor's report comes from the fact that it represents a means of communicating the final product of the audit process (Francis, 2011), that is, the auditor's technical opinion on the historical annual financial statements of his client's enterprise . Lots of authors agree (Ethridge & Marsh, 2010); (Eshleman & Guo, 2014); (Wijaya, 2020); Raigan et al., 2021; (Velte, 2022) that the more accurate that opinion is, the more value it adds to the external audit, represented in reducing the level of information risk faced by decision-makers from the company's stakeholders, especially the shareholders. The veracity of an auditor's opinion is the outcome of their efforts executed during the audit process.

The global financial crisis in 2008 cast a shadow over the accounting profession, because even though the multiplicity of causes of the crisis associated with the laws and regulations of the US banking system, auditors were accused of failing to issue audit reports with an GC paragraph for distressed companies and banks (Kandemir, 2013). As EU Commissioner Michael Bernier stated in 2011, the global financial crisis highlighted a weakness in the way the profession operates. This has led to growing criticism from investors and standard-setters towards the way auditors treat corporate GC as an accounting basis (Carson, Fargher, Geiger, Lennox, Raghunandan, & Willekens, 2013), which failed to warn them of the bankruptcy of several companies by issuing a GCO.

Accordingly, professional organizations have revised some auditing standards in the framework of their efforts to continuously develop the profession and protect investors, other users of financial statements and other parties dealing in the financial system, by issuing and amending a set of standards and rules related to the auditor's responsibility regarding the GC of audit clients, where the IAASB issued in 2015 a set of standards: ISA 570 on the auditor's responsibility for the GC of companies in addition to ISA 700 on the formation of the auditor's opinion and the format of the report so that the two standards apply to the financial statements to be audited from December 2016, which supports the credibility of the auditor's report when auditing the financial statements of companies in general, and on their GC in particular. As for the Egyptian professional and accounting practice environment, it is evident that there is a standards gap regarding the auditor's responsibility towards GC, as the Egyptian auditing standards, including standard 570: Going Concern, have since been superseded by the international standard, resulting in the Egyptian standard lagging behind the international standard amendments issued in 2009 and 2015.

For several decades, academic studies have interested (Blay & Geiger, 2001); (Brunelli, Carlino, Castellano, & Giosi, 2021); (Czerney, Schmidt, & Thompson, 2019); (Flees & Mouselli, 2022); Geiger & Kumas, 2018 ; (Chen & Church, 1996); (Myers, Schmidt,

International Journal of Accounting and Management Sciences
Vol.3 No.2, April 2024
Print ISSN: 2834-8923 Online ISSN: 2832-8175
DOI: https://www.doi.org/10.56830/IJAMS042024

& Wilkins, 2014); (Ogneva & Subramanyam, 2007) by analyzing and examining the value relevance of the auditor's opinion on GC. These studies have reached varying conclusions about the relationship between the auditor's opinion on GC and the stock prices, as some studies have found a negative reaction from shareholders to this opinion represented by abnormal negative returns after issuing this opinion (Bar-Hava & Katz, 20116); (Hapsoro & Suryanto, 2017); (Hsieh, Chi, & Lee, 2015); (Brunelli, Carlino, Castellano, & Giosi, 2021), while other studies have found no negative signifcant impact of the auditor's opinion on GC on stock returns ((Ogneva & Subramanyam, 2007); (Flees & Mouselli, 2022).

This research aims to conduct an applied study to examine the effect of GCO on the stock prices using Ohlson value relevance regression model, basing on actual data extracted from the financial statements and accompanying audit reports of a sample of non-financial companies listed in the Egyptian Stock Exchange. Also, methods of descriptive statistics were used such as the mean, median, standard deviation, the highest and lowest value in order to find out the main characteristics of the study variables, and the person correlation coefficient to measure the plausible relations between the study variables.

The current research contribution is as follow: (i) it focuses on an area of relative scarcity of studying the effect of audit GC opinion based on value relevance approach in Egyptian environment, since most of prior studies are conducted as an event studies, (ii) the study provides evidence about the impact of the auditor's opinion in developing countries, as most of the previous ones have been conducted in developed countries: the United States, the United Kingdom and the European Union. (iii) the study analyze the effect of expectation of GCO & perceived audit quality on the shareholders ' reaction to the audit GCO.

The remainder of the study is as follows: section 2 provides a literature review on value relevance of audit & the study moderating variables (expectation of audit GCO & perceived audit quality); section 3 presents the study materials & methods; Section 4 shows the study results; Sections 5 & 6 discusses the findings, research conclusion & recommendations.

2. LITERATURE REVIEW

According to the conceptual framework of the financial reporting (IASB, 2010), the main objective of financial statements is to provide useful information to different categories of stakeholders from current and potential investors, lenders, and others, in order to help in the decision-making process, because stakeholders of different categories need information that helps predict future events, correct or confirm their previous expectations, and is available in a timely manner before they lose their ability to influence various economic decisions (Al-Sabbagh, 2021), which means that the preparation of financial statements is not a goal in itself, but a means to help stakeholders exploit their available resources at optimal face (Badu & Appiah, 2018). The financial statements aim to provide a fair picture of the company's business results, financial position and cash flows, and therefore the quality of the

International Journal of Accounting and Management Sciences
Vol.3 No.2, April 2024
Print ISSN: 2834-8923 Online ISSN: 2832-8175
DOI: https://www.doi.org/10.56830/IJAMS042024

financial statements is related to the useful information they provide through the availability of the basic characteristics of accounting information, represented by suitability and honest representation, and these two characteristics are usually called together the value relevance of Accounting Information (Mohammad, 2021).

It wasn't just accounting data that was taken into account when it came to value relevance research, but extended to include the examination of many value relevant determinants including the auditor's report, because of the confirmatory role played by the audit in certifying the content of financial statements & reports and reducing the information risk. Thus, some studies have tested the impact of the auditor's report and audit quality on the value relevance of accounting information (Abdollahi, Pitenoei, & Gerayli, 2020); (Solikha & Mardijuwono, 2020); Wintari & (Panggabean & Wintari, 2020).

In the current business environment, the external auditor is an intermediary between shareholders and the company's management in order to reduce the risk of information by expressing an opinion on the financial statements. The auditor's report is a general and final summary of the evidence relied on in making his professional judgment on the financial statements (Geiger, M. A.; Kumas, A., 2018). Accordingly, the auditor's opinion on GC is one of the most important topics addressed in previous studies due to its expected impact on audit clients, money markets, users of financial statements and auditors themselves (Geiger, M. A.; Gold, A.; Wallage, P., 2019).

According to previous studies (Azizah & Anisykurlillah, 2014); (Simamora & Hendarjatno, 2019); (Averio, 2020); (Puspaningsih & Analia, 2020) the auditor's GCO can be defined as the opinion that indicates the presence of adverse events or circumstances such as failure to repay debts, continuous decline in operating profits, refusal of suppliers to sell on the account, lawsuits, and other circumstances and events that may cause substantial doubt in the ability of the company to continue to perform its business. In this regard, some believe that the auditor's judgment on the GC of the audit client is the most important professional judgment that the auditor may issue during the audit process, as issuing an opinion requires a study of a large number of complex factors that may not be available to others (Ryu & Roh, 2007); (Kandemir, 2013); (Gutierrez, Krupa, Minutti-Meza, & Vulcheva, 2020).

Recently, a global interest has increased in the auditor's GCO due to the aftereffects of the Covid-19 pandemic, where the pandemic, and the accompanying precautionary measures, which caused restrictions on the movement of people and goods, which led to an increase in uncertainty factors that may adversely affect the GC of companies, and therefore these circumstances and events represent a challenge for the auditor that require continuous follow-up throughout all the engagement phases (Đorđević & Đukić, 2021), and requires an additional effort in order to judge the client’s GC. In addition to the traditional duties of assessing the financial situation, liquidity and financial indicators of the client, the auditor during the pandemic and subsequent periods should consider some other non-financial factors associated with the uncertainty factors accompanying the pandemic such as: change in market and economic conditions, severe decline in demand and customer base, risks associated with supply chains and distribution of goods and services, decrease in government subsidies and other factors.

Many previous studies have been of interest to test the impact of the auditor's GCO (Chen & Church, 1996); (O'Reilly, 2010); (Hsieh, Chi, & Lee, 2015); (Hapsoro & Suryanto, 2017); (Myers, Schmidt, & Wilkins, 2014), and the reaction of investors to this opinion due to its importance as it represents a kind of early warning to stakeholders about the financial health of the audit client's business, because issuing this opinion is a tool for the auditor to report on the client's business risk. The majority of previous studies have agreed that there is a significant negative impact of the auditor's GCO on stock prices (O'Reilly, 2010); (Ruiz-Barbadillo, Guiral, & Choy, 2010); Blay et al., 2011; (Hapsoro & Suryanto, 2017); (Geiger, M. A.; Kumas, A., 2018); (Brunelli, Carlino, Castellano, & Giosi, 2021), since the auditor's GCO leads to negative reactions of equity investors represented by a decrease in stock prices, an increase in unusual negative returns, a decrease in stock trading volume, a decrease in profit response coefficient, as well as a change in investors' valuation of companies, where the market, in its assessment of the market value of distressed companies that received the auditor's GCO, moves to use balance sheet items only as a basis for assessing the potential liquidation value of companies, instead of relying on net income, which is used in assessing future growth opportunities (Ruiz-Barbadillo, E.; Guiral, A., 2019).

On the other hand, other studies such as (Taffler, Lu, & Kausar, 2004); (Ogneva & Subramanyam, 2007); (Flees & Mouselli, 2022) stated the auditor's GCO may not have a significant negative impact on stock prices, and the studies that came to this opinion differed in explaining the reason for the absence that negative impact. (Craswell, 1985) believes that the difference in the results of event studies may be due to the problem of accurately determining the event window, because in studies of the impact of the GCO, specifically, information that may cast doubts about the companies GC may be available through other sources such as management disclosures or analyst opinions, and therefore doubt about the GC of the company may begin before the auditor issues the report (Czerney, Schmidt, & Thompson, 2019). In addition, the auditor's report is issued accompanying the financial statements of companies, and therefore the reactions of the securities markets may be to information or disclosures included in the financial statements and not the result of the auditor's report, in other words, the auditor's report does not provide additional informational content over what the financial ratios provide .

According to (Lennox, Schmidt, & Thompson, 2022), the main reason why behind users' lack of respond to the GCO is the increased complexity of the evidence required to issue such an opinion and the high level of professional judgment required, which may lead to a decrease in the accuracy of the opinion relied on by financial statements' users. The (Flees & Mouselli, 2022) study also attributed the absence of significant negative impact of the

International Journal of Accounting and Management Sciences
Vol.3 No.2, April 2024
Print ISSN: 2834-8923 Online ISSN: 2832-8175
DOI: https://www.doi.org/10.56830/IJAMS042024

auditor's opinion on GC to some behavioral Biase biases such as overconfidence and herd behavior.

In addition to studies that tested the effect of the auditor's GCO on the market value of stocks, several studies ((Ogneva & Subramanyam, 2007); (O'Reilly, 2010); Ruiz & Guiral, 2018) were interested in assessing the impact of the expectation of the auditor's GCO on the relationship between this opinion and stock prices (Ogneva & Subramanyam, 2007) believe that the unusual negative returns resulting from the auditor's GCO depend on the fact that this opinion is unexpected, which is supported by (O'Reilly, 2010), who believes that although the auditor's expected GCO is providing an information content related to the market value of the stock, it is more useful for financial statements' users in case it contradicts market expectations, by finding that the market response to the auditor's GCO in case that this opinion is unexpected. Finally, (Geiger, M. A.; Kumas, A., 2018) found a significant increase in institutional investors ' sales of shares of companies that received an unexpected GCO, which was supported by (Ruiz-Barbadillo, E.; Guiral, A., 2019) in their study, that shows that the market value of companies that receive an unexpected GCO experience a higher decrease in their market value compared with those receiving an expected GCO.

Furthermore, considering the fundamental role played by external audit in improving faithfulness of financial reports and its contribution to the efficient functioning of economy and capital markets, the audit's impact depends on stakeholders' cognizance of the auditor's quality and independence, as the audit report's accuracy is the result of the auditor's efforts and procedures embodied in planning the audit process, collecting and evaluating evidence, his decisions regarding this assessment and professional judgments made (Francis, 2011), which is reflected in the quality of financial reports and their accuracy for decision-making purposes, as the value relevance of profitability and the book value of equity increases, and changes in stock returns increase with higher perceived audit quality (Lee & Lee, 2013). Thus, it can be said that the reaction of investors to the auditor's report depends on their perception of the quality of the service provided and the qualifications of the auditor With regard to the auditor's GCO, the increase in the perceived audit quality through the audit firm partnership of one of the Big Four 4 audit firms increases the ease of the auditor's issuing a GCO, in order to preserve reputation and lesser the consequences of issuing such an opinion for the big 4 compared to non-big 4 audit firms, for whom issuing a GCO is associated with an increased likelihood of client loss (Xu, Carson, Fargher, & Jiang, 2013); (Brunelli, Carlino, Castellano, & Giosi, 2021). Several studies see (Ruiz-Barbadillo et al., 2004; (Berglund, Eshleman, & Guo, 2018); (Guo, Delaney, & Ahmed, 2020) that the auditor's issuance of a GCO depends on some factors related to the quality of the audit, as (Carson, Fargher, Geiger, Lennox, Raghunandan, & Willekens, 2013) that the auditor's issuance of a GCO depends on a set of factors related to the audit firm, some of which are related to the quality of the audit, such as the auditor's professional judgment, economic reliability, the size of the audit firm & industrial specialization. According to some (Geiger & Rama, 2006); (Myers, Schmidt, &

Wilkins, 2014) that the accuracy of the auditor's GCO increases if the auditor is one of the Big 4 compared to smaller audit firms, which may be reflected in the reaction of users of financial statements to the audit report, that may change based on their perception of the quality of service provided by the auditor, which is supported by the study of (Hapsoro & Suryanto, 2017), they found a greater negative impact of the auditor's GCO issued by an industry specialized auditor, the thing that supports the claims that perceived audit quality factors such as the size of the audit firm size & industrial specialization, increase the predictive value of auditor's GCO (Cenciarelli, Greco, & Allegrini, 2018). This is supported by (Mashabet, 2020), which found a positive correlation between the audit quality measured by issuing a GCO by a Big 4 audit firm and the accuracy of the auditor's GCO, which is due to the high reputation risk associated with big 4 and not suffering a fee pressure compared with smaller audit firms. This research explored the value relevance of auditor's GCO, and the effect of audit GCO expectation & the perceived audit quality on that value relevance.

3. MATERIALS AND METHODS

3.1 Research Hypothesis

The auditor's GCO is not a prediction of the bankruptcy of the client's enterprise, but it is an indication of the financial condition of the client's enterprise and an assessment by the auditor of its ability to continue to perform its business in the future, which requires a huge amount of information related to the client's enterprise that enables the auditor to make a professional judgment on GC, which represents information that may help users of financial statements in the decision-making process. And as the GCO could be considered as an adverse information about the client's enterprise, it would be expected that such opinion will have a negative impact on the stock price. As a result, the following first hypothesis is developed:

H_1*- *The auditor's GCO has a significant negative impact on the stock prices of companies Listed on the Egyptian Stock Exchange.

Although most studies indicated that the audit GCO has a value relevance through negatively affecting the stock prices, some other studies found that the is limited to the fact that this opinion is unexpected, in other words, it contradicts stakeholders expectations, the thing that represent additional informational content to the users of financial statements. Therefor the following hypothesis was developed to test for the impact of expectation of GCO on its value relevance:

H_2*- *The unexpected GCO has more negative impact on stock prices than GCO that is expected by the market.

That most of the previous studies have agreed that increasing the perceived audit quality positively affects the accuracy of the auditor's GCO, which would be reflected on the value relevance of that opinion, which may lead to a difference in the expected negative reaction by users of financial statements to the GCO opinion depending on perceived audit quality. Thus the following hypothesis is developed to find the effect of perceived audit quality on the value relevance of audit GCO:

H_3- The GCO that is issued by a big 4 audit firm has larger negative impact on stock prices than the GCO issued by non-Big 4 audit firm.

3.2 Variables Definition

Auditor GCO: The auditor's opinion according to Egyptian Auditing Standard 570 by adding an explanatory paragraph drawing attention on GC if events that causes substantial doubt about the company's ability to continue as GC exists, or modifies his opinion in case that management does not commit to properly disclose any events or circumstances experienced by the company that lead to substantial doubt about GC.

GCO Expectation: The auditor's GCO is expected in case the company is financially distressed and / or the company got in previous year a GCO

Perceived Audit Quality: refers to the perception of audit quality by financial statements users from their point of view as users based on audit quality derivatives such as the audit firm size or industry specialization**.**

Stock Price: refers to the stock exchange closing price for the share at the end of the day.

3.3 Empirical Models

In order to examine the research hypothesis, the modified Ohlson regression model (Ohlson, 1995) will be used as a basic model to measure the value relevance of accounting information, and then the rest of the independent variables will be added later to the model to find out their impact on stock prices as an indicator of the company's value

$$Pit=\beta o+ \beta 1\ BVE+\beta 2\ NI+ \varepsilon \qquad (1)$$

Where,

P: the closing price of the stock on the business day following the auditor's report date.

BVE: book value of equity per share

NI: net income per share.

Then, the independent and moderating variables will be added to the model in order to measure their value relevance. To test hypothesis 1, we will add the audit GCO to Ohlson model as an independent variable as follows:

$$Pit=\beta o+ \beta 1\ BVE+\beta 2\ NI+\beta 3\ GCO+ \varepsilon \qquad (2)$$

Where GCO is a dummy variable equals 1 if the client's company get a GCO & 0 otherwise.

To test hypothesis (2) we will add the expectation of audit GCO as a moderating variable to equation 2 as follow:

$$Pit=\beta o+ \beta 1\ BVE+\beta 2\ NI+\beta 3\ GCO+\beta 4\ Exp+\beta 5\ (Exp * GCO)+ \quad (3)$$

Where,

Exp is a dummy variable equals 1 if the audit GCO is expected & 0 otherwise.

*Exp*GCO* interactive variable refers to the interactive effect between the audit GCO & the expectation of that opinion.

The same is done to test hypothesis (3) through adding the audit quality as a moderating variable to equation 2:

$$Pit=\beta o+ \beta 1\ BVE+\beta 2\ NI+\beta 3\ GCO+\beta 4\ AQ+\beta 5\ (AQ * GCO)+ \varepsilon \quad (4)$$

Where,

AQ is a dummy variable equals 1 if the audit firm is a partner is a partner to one of the Big 4 & 0 otherwise.

*AQ*GCO* interactive variable refer to the interactive effect between the audit GCO & the perceived audit quality.

Regression models would be examined twice, once using the fixed Effect regression model, and then using the random effect regression model. to determine the regression model that best represents the sample data, the Hausman test[1] was used to compare the previous two models. All statistical analysis would be carried out using Stata 15.0 program.

3.4 Data Collection

The study population consists of non-financial companies listed on the Egyptian Stock Exchange, and the sample consists of observations of these companies based on firm-year observation approach. We relied on audit reports and annual financial statements of companies for the period from 2016-2021

Table 1. Number of companies listed in the Egyptian Stock Exchange from 2016-2021*

	2016	2017	2018	2019	2020	2021	**Total**
Nom-financial	176	177	190	175	174	172	**1060**
Financial	46	45	30	44	44	46	**255**
Total	**222**	**222**	**220**	**219**	**218**	**218**	**1315**

***source:** the annual report of the Central Bank of Egypt.

We relied on the data included in the annual financial statements (financial position, income

International Journal of Accounting and Management Sciences
Vol.3 No.2, April 2024
Print ISSN: 2834-8923 Online ISSN: 2832-8175
DOI: https://www.doi.org/10.56830/IJAMS042024

statement, Cash Flow Statement, changes in shareholders' equity, supplementary disclosures) to measure the financial distress of sample companies in order to conclude the expectation of audit GCO, and Auditor's report attached to the financial statements for the opinion, in addition to relying on the information available on the Mubasher Misr website[2] to determine stock prices.

A content analysis of the financial statements of the companies was carried out to extract the necessary data to determine the shares' profitability, the book value of the equity and measure the financial distress using the Altman z-score model to help in deciding the expectation of GCO. The annual audit report was also relied upon in order to determine the auditor's opinion as an independent variable and to determine the perceived audit quality as a moderating variable.

3.5 Sample Size

The optimal sample size was determined according to Godden (2004)[1], the formula was applied to listed companies in 2018, being the largest study period in terms of the number of listed non-financial companies, which amounted to 190 companies according to the table 1.

We relied on a judgmental sample consisting of 132 companies with a total of 759 firm-year-observations, which is more than the number according to the Godden equation (2004) of 127, which helps the sample to be a better representation of society, and helps to generalize the results of the study.

4. RESULTS

4.1 Descriptive Statistics

We used descriptive statistics measures for the study's variable such as mean, median,

---

[1] The sample size of a known population is estimated as follows according to Godden (2004):

$$\text{SS} = \frac{Z^2 \times (P) \times (1-P)}{C^2} = \frac{3.8416 \times 0.5 \times 0.5}{0.0025} = 384 \qquad (1)$$

Where,
Z: 1.96 at a significance level of 5%,
C: indicates a confidence level of confidence level = 5%,
P: expresses the percentage of expectation of the phenomenon in society and is equal to 0.5.
The result of the first SS step indicates the sample size of an unknown population which to 384. In order to calculate the sample size of a known population, the second equation is applied:

$$\text{N} = \frac{SS}{(1+\left(\frac{SS-1}{POP}\right))} = \frac{384}{(1+\left(\frac{384-1}{190}\right))} = 127 \qquad (2)$$

POP: refers to the population size, in our case it is 190 companies, which is the total number of non-financial companies listed on the Egyptian Stock Exchange in 2018.

standard deviation, the highest and lowest value, in order to get a comprehensive view of all variables. The following table shows the results of descriptive statistics our study variables:

Table. 2: descriptive statistics of study variables

Variable	Mean	Std. Dev.	Minimum	Maximum
Pit	18.82563	83.8898	0	1533.94
NI	2.557239	24.07242	-166.904	552.1723
BE	15.82326	1.46992	-19.41133	1049.414
GCO	0.1583113	0.3652737	0	1
Exp	0.1304348	0.3370032	0	1
AQ	0.3201581	0.4668448	0	1
Distress	0.3575198	0.4795861		

Source: based on STATA 15 output

The previous table shows that approximately 15.8% of the sample companies received a GCO, with respect to the ExpGC variable, which indicates the expectation of the auditor's GCO, the mean was 0.1304, which indicates the expectation of the opinion in most cases that received a GCO

With regard to the Distress variable as a measure of financial distress, the percentage of distressed companies amounted to approximately 35.8% of the total sample companies, where the mean was 0.3575198, table 2 shows the distribution of distressed and non-distressed companies over the study years: In addition to the previous descriptive statistics, we conducted the Pearson correlation test between all the variables, where the correlation analysis contributes to inferring the extent of relationships between the study variables and each other. Table 3 shows the results of Pearson's correlation analysis.

In general, it is clear from the correlation matrix in table 3 that most of the values of the correlation coefficients between the variables under study are very low and do not exceed 0.5 for the vast majority of variables. With regard to the auditor's GCO, there is a non-significant inverse relationship between the opinion and the market value of the share, which indicates a weak value relevance of the auditor's GCO, which will be verified later using regression analysis. As for the audit quality, correlation coefficients give contradictory indicators, since they indicate a negative correlation between audit quality and the auditor's GCO. Consequently, we conduct an analysis to verify the quality of the auditor's professional judgment regarding GC, which results is shown in table 4.

Table. 3: Person correlation test results

Variable	Pit	NI	BE	GC	Exp	AQ	Distress
Pit	1						
NI	0.3510	1					
BVE	0.4345	0.6086	1				
GCO	-0.0323	-0.0562	-0.0597	1			
Exp	-0.0262	-0.0534	-0.0530	0.7543	1		
AQ	0.0921	-0.0287	0.0004	-0.1663	-0.1484	1	
Distress	0.0541	-0.0988	0.0010	0.2568	0.2990	0.0420	1

Table 4. GCO Accuracy Analysis.

Total	Auditor GCO		Financial Distress
	1	0	
488	43	445	**0**
271	77	194	**1**
759	120	639	**Total**

Table 4 shows the decrease in the accuracy of the auditor's GCO, where the second type error rate was approximately 71.6%, where only 77 companies out of the total of 271 received a GCO. This is significantly higher than the first type error rate for non-distressed companies to obtain an opinion on continuity, which amounted to 8.81%, and most of first type error is mainly due to the audit reports for the years 2020 and 2021, which included a paragraph drawing attention to the negative circumstances and uncertainty associated with the spread of Covid-19 pandemic and the accompanying precautionary procedures. Table 4, in addition to the results of the Pearson coefficient correlation analysis matrix, is an indication of a problem related to the quality of professional judgment regarding GC, which may be an adverse indicator of the real audit quality.

4.2 Regression Analysis

Table 5 presents the results of regression analysis for equations (2), (3) & (4) to test the three research hypothesis:

Table 5. Regression Analysis Results for Research Hypothesis.

Variable	Panel A Equation (2) H_1		Panel B Equation (3) H_2		Panel C Equation (4) H_3	
	β	P	β	P	β	P
NI	1.350754	0.000	1.349563	0.000	1.344961	0.000
BE	-0.5350026	0.000	-0.5348983	0.000	-0.5318188	0.000
GC	-7.737901	0.147	-3.941044	0.593	-0.2497724	0.967
Exp			-4.060145	0.731		
GC*Exp			-2.891243	0.842		
AQ					15.55922	0.024
GC*AQ					-30.206	0.020
Sig. Prob>F	0.000		0.000		0.000	
R^2(within)	0.3474		0.3482		0.3567	

Table 5 panel A shows the fixed effects regression results of H1 according to the Hausman test, looking at the table, it becomes clear that the significance of the model (prob>f = 0.00), which indicates the validity of the model to test the proposed relationship. The value of $R^2 = 0.3474$, which indicates the ability of the model to explain 34.74% of the changes in the share prices of companies listed on the Egyptian Stock Exchange, and the remaining percentage is due to other factors that may have an impact on stock prices and not addressed by the current research. The regression results at 5% significance level of 5% indicate that there is no significant impact of the auditor's GCO on the market value of shares of companies listed on the Egyptian Stock Exchange, where the P-Value of the GCO variable is (0.147) > (0.05). Hence, hypothesis 1 is not supported.

For H2, Panel B shows that is significant impact of the expectation of the auditor's GCO on the market value of shares of companies listed on the Egyptian Exchange, where the P-Value of both variables Exp and GC*Exp is> (0.05). it equalled (0.731) and (0.842) respectively. Therefore, also H2 is not supported.

Finally, results of testing H3 was disclosed in Panel C. the fixed effects regression results indicate that there is a significant impact of perceived audit quality as a moderating variable on the market value of the shares of companies listed on the Egyptian Stock Exchange, where the P-Value of both variables AQ and GC*AQ was < (0.05), reaching (0.024) for the variable AQ and (0.020) for the interactive effect of perceived audit quality with GCO. The regression coefficient for the variable GC*AQ equals (-30.206), which indicates the presence of a

International Journal of Accounting and Management Sciences
Vol.3 No.2, April 2024
Print ISSN: 2834-8923 Online ISSN: 2832-8175
DOI: https://www.doi.org/10.56830/IJAMS042024

negative significant impact of the GCO issued by a big 4 audit firm on the market value of the shares of companies listed on the Egyptian Stock Exchange.

5. DISCUSSION

Regarding the value relevance of audit GCO, the regression result reveals different outcome from most of previous studies (O'Reilly, 2010); (Ruiz-Barbadillo, Guiral, & Choy, 2010); Blay et al., 2011; Marshall et al.,2011, (Hapsoro & Suryanto, 2017); (Geiger, M. A.; Kumas, A., 2018); (Brunelli, Carlino, Castellano, & Giosi, 2021), which stated a negative significant impact of the auditor's GCO on stock prices. We believe that the absence of such impact is due to several reasons, first, that in the event of the company's financial distress, the information that caused the company to obtain a GCO may be available to the public before the issuance of the auditor's report from other sources such as analysts forecasts & companies interim disclosures. Secondly, the absence of impact may reflect the absence of users ' confidence in the accuracy of the auditor's judgment or their lack of awareness of his responsibility towards assessment and reporting on going concern as a part of audit report, & the meaning of the opinion issued on it, and using other channels that may be more credible for them as an early warning tool on the company's ability to continue.

The same for H2, The test result differs from the results of previous studies (Ogneva & Subramanyam, 2007); Ruiz & Guiral, 2018 ; (Ruiz-Barbadillo, Guiral, & Choy, 2010); (Geiger, M. A.; Kumas, A., 2018); (Blay & Geiger, 2001), which concluded the existence of an increase in the negative impact of the auditor's GCO in case of unexpected opinion, and through the results of the analysis of the research sample, we believes that the absence of the negative impact of the auditor's unexpected GCO is due to the fact that the unexpected GCO is due in all cases to non-distressed companies, and most of them occurred in the period 2019-2021, where most of the auditors in those years had added a paragraph to draw attention to uncertainty related to Covid-19 pandemic and its possible negative impact on the results of business operation, which confirms what we went to in interpreting the results of testing H1, is that users of financial statements depend on other sources of information other than the auditor's report when assessing the financial situation of the company and the likelihood of its continuity or not in the forthcoming future.

When it comes to results of regression analysis for H3, the result is consistent with previous studies (Ruiz-Barbadillo et al., 2004; Berglund, Eshleman, & Guo, 2018); (Guo, Delaney, & Ahmed, 2020), which pointed out that the negative impact of the auditor's GCO differs depending on the perceived audit quality, as it is easier for an auditor belonging to one of the Big Four audit firms to issue a GCO to preserve reputation and not worry about the possibility of losing a client as a result of issuing such an opinion, in addition to the findings of previous studies of increasing the value relevance of accounting numbers by increasing the perceived audit quality. We believe that the change in the response of the financial statements' users to the auditor's GCO in case of issuing that opinion by one of the big four audit firms is mainly due to the reputation held by these entities, this reputation is reflected by their market share in the Egyptian business environment, according to (Amr, 2022), the market share of the Big Four audit firms in 2019 amounted to about 63% of the audit work of companies listed on Egyptian Stock Exchange.

6. CONCLUSIONS

The research aimed to study the impact of the auditor's GCO on stock prices, in a sample of non-financial companies listed on the Egyptian Stock Exchange and the extent to which this relationship is affected by some moderating variables, specifically the expectation of the auditor's opinion and perceived audit quality. The results showed that there was no significant impact of the auditor's GCO on stock prices, which reflects the lack of users confidence in the accuracy of the auditor's judgment or that they aren't aware of his responsibility regarding GC, and the meaning of the opinion issued on it, and depending upon other channels that may be more credible for them as an early warning signal on company's financial health, in addition, the information that caused the company to get a GCO may be publicly available before the issuance of the auditor's opinion through financial ratios and reports of financial analysts. With regard to the impact of the study moderating variables on the above-mentioned relationship, first, the expectation of the auditor's GCO, the results showed that there is no significant impact of the expectation of the auditor's opinion on the relationship between the auditor's GCO and stock prices, which confirms what we concluded that users of financial statements use other sources of information other than the auditor's report when assessing the company's financial situation, and assessing the likelihood of its GC in the near future. Second, As for the impact of the perceived audit quality, the study found that there is a significant negative impact of the auditor's GCO issued by a big 4 audit firm on stock prices, which is due to the reputation held by these firms, which is shown by their market share in Egypt. we endorse the Financial Regulatory Authority (FRA) of Egypt to develop and activate mechanisms aimed at improving the effectiveness of the audit process, pay attention to the qualification and professional development programs for auditors to ensure that they are informed about developments in auditing standards, and activate a periodic inspection of the work of auditors, in order to increase users ' confidence in the quality of financial reports, as external audit is one of the most important means of corporate governance in the current business environment. Also, the FRA should update the Egyptian Audit Standard No. 570 on going concern and the Egyptian Audit Standard No. 700 on the auditor's report to keep pace with the latest developments by the international standards, and adapting them the Egyptian business environment, instead of just translating them as is the current ones, in order to overcome the quantitative & qualitative gaps in the current standards, for the purpose of providing more useful information to investors and other stakeholders.

REFERENCES

Abdollahi, A., Pitenoei, Y. R., & Gerayli, M. S. (2020). Auditor's report, auditor's size and value relevance of accounting information. *Journal of Applied Accounting Research*.

Al-Sabbagh, A. (2021). The effect Value Relevance of interim financial information on the cost of financing. *Alexandria Journal for Accounting Research, Alexandria University.5(3)*, 457-503. Doi: 10.21608/ALJALEXU.2021.206894.

Averio, T. (2020). The analysis of influencing factors on the going concern audit opinion–a study in manufacturing firms in Indonesia. *Asian Journal of Accounting Research, 6(2)*, 152-164.

Azizah, R., & Anisykurlillah, I. (2014). The Effect of Company Size, Debt Default, and Financial Condition of the Company Against Audit Opinion. *Accounting Analysis Journal. 3(4)*, 533–542.

Badu, B., & Appiah, K. O. (2018). Value relevance of accounting information: an emerging country perspective. *Journal of Accounting & Organizational Change. 14(4)*, 473-491.

Bar-Hava, K., & Katz, R. (20116). The Asymmetric Market Reaction of Stockholders and Bondholders to the Implementation of Early-Warnings Pre Going Concern Opinion. *Available at www.ssrn.com*.

Berglund, N. R., Eshleman, J. D., & Guo, P. (2018). Auditor size and going concern reporting. *Auditing: A Journal of Practice & Theory, 37(2)*, 1-25.

Blay, A. D., & Geiger, M. A. (2001). Market expectations for first-time going-concern recipients. *Journal of Accounting, Auditing & Finance, 16(3)*, 209-226.

Brunelli, S., Carlino, C., Castellano, R., & Giosi, A. (2021). Going concern modifications and related disclosures in the Italian stock market: do regulatory improvements help investors in capturing financial distress? *Journal of Management and Governance, 25(2)*, 433-473.

Carson, E., Fargher, N. L., Geiger, M. A., Lennox, C. S., Raghunandan, K., & Willekens, M. (2013). Audit reporting for going-concern uncertainty: A research synthesis. Auditing. *A Journal of Practice & Theory, 32(Supplement 1)*, 353-384.

Cenciarelli, V. G., Greco, G., & Allegrini, M. (2018). External audit and bankruptcy prediction. *Journal of Management and Governance, 22(4)*, 863-890.

Chen, K. C., & Church, B. K. (1996). Going concern opinions and the market's reaction to bankruptcy filings. *Accounting Review*, 117-128.

Craswell, A. (1985). Studies of the information content of qualified audit reports. *Journal of Business Finance & Accounting, 12*, 93-115. https://doi.org/10.1111/j.1468-5957.1985.tb00081.x.

Czerney, K., Schmidt, J. J., & Thompson, A. M. (2019). Do investors respond to explanatory language included in unqualified audit reports? . *Contemporary Accounting Research, 36(1)*, 198-229.

Đorđević, M., & Đukić, T. (2021). Auditors' responsibility in assessing going concern assumption affected by Covid-19. *Economic Themes, 59(1)*, 77-93.

Eshleman, J. D., & Guo, P. (2014). Do Big 4 auditors provide higher audit quality after controlling for the endogenous choice of auditor? . *Auditing:A journal of practice & theory, 33(4),* 197-219.

Ethridge, J. R., & Marsh, T. (2010). User Information Risk: How It Improves Audit Quality. *Journal of Business & Economics Research, 8(2).*

Flees, R. B., & Mouselli, S. (2022). The impact of qualified audit opinion on stock returns: an empirical study at Amman stock exchange. *Journal of Financial Reporting and Accounting*.

Francis, J. (2011). A Framework for Understanding and Researching Audit Quality. *Auditing: A Journal of Practice and Theory, Vol. 30 No. 2*, pp 125-152.

Geiger, M. A., & Rama, D. V. (2006). Audit firm size and going-concern reporting accuracy. *Accounting horizons, 20(1),* 1-17.

Geiger, M. A.; Gold, A.; Wallage, P. (2019). Auditor reporting for going-concern uncertainty: research findings and implications for practitioners. *Available at: foundationforauditingresearch.org*.

Geiger, M. A.; Kumas, A. (2018). Anticipation and reaction to going-concern modified audit opinions by sophisticated investors. *International Journal of Auditing, 22(3),* 522-535.

Guo, Y., Delaney, D., & Ahmed, A. (2020). Is an Auditor's Propensity to Issue Going Concern Opinions a Valid Measure of Audit Quality? *Australian Accounting Review. Vol. 30 Issue. 2,* pp 144-153.

Gutierrez, E., Krupa, J., Minutti-Meza, M., & Vulcheva, M. (2020). Do going concern opinions provide incremental information to predict corporate defaults? *Review of Accounting Studies, 25(4),* 1344-1381.

Hapsoro, D., & Suryanto, T. (2017). Consequences of going concern opinion for financial reports of business firms and capital markets with auditor reputation as a moderation variable: an experimental study. *Available at https://ideas.repec.org/*.

Hsieh, Y.-M., Chi, D.-J., & Lee, K.-H. (2015). The impact of going concern opinions on stock prices: A garch model application. *ICIC Express Letters. 9*, 1227-1234.

Kandemir, H. K. (2013). The EU law on auditing and the role of auditors in the global financial crisis of 2008. *International Journal of Disclosure and Governance, 10(3),* 213-233.

Lee, H. L., & Lee, H. (2013). Do Big 4 audit firms improve the value relevance of earnings and equity? *Managerial Auditing Journal, 28(7)*, 628-646.

Lennox, C. S., Schmidt, J. J., & Thompson, A. M. (2022). Why are expanded audit reports not informative to investors? Evidence from the United Kingdom. *Review of Accounting Studies*, 1-36.

Mashabet, N. (2020). The effect of audit quality on the integrity of the auditor's opinion on going concern. An empirical Study on listed industrial companies in Egypt. *Alexandria Journal for Accounting Research, Alexandria University.4(2)*, 230-289. Doi: 10.21608/aljalexu.2020.105957.

Mohammad, A. (2021). The impact of audit fees and managerial overconfidence on the auditor's opinion accuracy regarding going concern-Evidence from Egypt. *Accounting Thought Journal: Ain Shams University .25(1)*, 476-547. Doi: 10.21608/ATASU.2021.160035.

Myers, L. A., Schmidt, J., & Wilkins, M. (2014). An investigation of recent changes in going concern reporting decisions among Big N and non-Big N auditors. *Review of Quantitative Finance and Accounting, 43(1)*, 155-172.

Ogneva, M., & Subramanyam, K. (2007). Does the Stock Market Underreact to Going Concern Opinions? Evidence from the U.S. and Australia. *Journal of Accounting and Economics. 43*, 439-452.

Ohlson, J. A. (1995). "Earnings, book values, and dividends in equity valuation.". *Contemporary accounting research 11.2*, 661-687.

O'Reilly, D. M. (2010). Do investors perceive the going-concern opinion as useful for pricing stocks? *Managerial Auditing Journal. 25(1)*, 4-16.

Panggabean, R. R., & Wintari, T. (2020). Audit Partner Gender, Audit Quality, Audit Report, Net Income, Book Value of Equity and Value Relevance. *Available at www.ssrn.com*.

Puspaningsih, A., & Analia, A. P. (2020). The Effect of Debt Default, Opinion Shopping, Audit Tenure and Company's Financial Conditions on Going-concern Audit Opinions. *Review of Integrative Business and Economics Research. 9*, 115-127.

Ruiz-Barbadillo, E., Guiral, A., & Choy, H. L. (2010). The value relevance of the qualified going concern opinion. *Available at SSRN.com*.

Ruiz-Barbadillo, E.; Guiral, A. (2019). The value relevance of expected vs. unexpected going concern opinions. *Investment Management & Financial Innovations, 16(2)*, 47.

Ryu, T. G., & Roh, C. Y. (2007). The Auditor's Going-Concern Opinion Decision. *International Journal of Business & Economics, 6(2)*.

International Journal of Accounting and Management Sciences
Vol.3 No.2, April 2024
Print ISSN: 2834-8923 Online ISSN: 2832-8175
DOI: https://www.doi.org/10.56830/IJAMS042024
THE SCIENCE PUBLISHING HOUSE

Simamora, R. A., & Hendarjatno, H. (2019). The effects of audit client tenure, audit lag, opinion shopping, liquidity ratio, and leverage to the going concern audit opinion. *Asian Journal of Accounting Research, 4(1)*, 145-156.

Solikha, E. M., & Mardijuwono, A. W. (2020). The Relationship between Audit Quality, Earnings and Equity Book Value Relevance. *International Journal of Innovation, Creativity and Change, 13(4)*, 610-625.

Taffler, R. J., Lu, J., & Kausar, A. (2004). In denial? Stock market underreaction to going-concern audit report disclosures. *Journal of Accounting and Economics, 38*, 263-296.

Velte, P. (2022). The impact of external auditors on firms' financial restatements: a review of archival studies and implications for future research. *Management Review Quarterly*, 1-27.

Wijaya, A. L. (2020). The effect of audit quality on firm value: A case in Indonesian manufacturing Firm. *Available at: www.um.edu.mt*.

Xu, Y., Carson, E., Fargher, N., & Jiang, L. (2013). Responses by Australian auditors to the global financial crisis. *Accounting & Finance, 53(1)*, 301-338.