

Auditor's Going Concern Opinion Compared with Financial Failure Risk Models

By

Oson Mahmoud Salman Al-Qatarneh

Supervised by

Professor Mohammad Ebrahim Nawaiseh

Al-Zaytoonah University of Jordan, 2024

Abstract

This study aims to determine whether the independent auditors' perspective and Altman's 1968 model can be used to predict the doubt surrounding the failure of public shareholding enterprises in Jordan. To do this, financial data were collected from industrial and service sectors that experienced liquidation five years before the liquidation date. Additional active companies that had been in operation for five years before the chosen year were also considered for the same reason. In the sample of 28 companies, there were sixteen legally liquidated companies and twelve financially sound companies. SPSS – 25 and E-views – 12 Software were used for statistical analysis of the data. The independent auditor's report and Altman's model showed different prediction capacities. When compared to Altman's Z-Score indicator, the auditor's report showed a poorer prediction accuracy for predicting about going concern. This suggests that the process for predicting going concern uncertainty using external audit reports is inappropriate. Moreover, most industrial and service enterprises had their accounts audited by non-Big4 audit firms (70.7%), whereas

the Big4 audit firms made up only 29.3% of the study sample. A doubt was expressed in 32.1% of external audit reports, which raised concerns about continuity and demanded the publication of such views. The study found that the Z-Score model successfully predicts financial failure.

Among the numerous recommendations made by the study is the need for additional research on the use of alternative models in commercial, Islamic, and insurance banks. It is imperative to investigate the effects of different model outcomes on relevant companies. The International Standard on Auditing (ISA) 570 is the one auditor should focus on the most because it deals with the auditor's evaluation of the entity's capacity to function as a going concern. In addition, auditors should focus on models related to forecasting financial ruin or hardship using ISA 520, which includes methods for analysis. The annual plan of the Jordanian Association of Certified Public Accountants should include training sessions emphasizing the application of continuity uncertainty prediction models, including Altman's model, Kida ...etc.

Keywords: financial distress, public shareholding companies, external audit report, and Altman's Model 1968.