

ASSESSING OF GOING CONCERN OPINION: A STUDY BASED ON FINANCIAL AND NON-FINANCIAL INFORMATION

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ABSTRACT

Auditors who find indications of fraud in identifying the Company's financial statements will provide a going concern audit opinion on the Company that is doubtful that it can carry on its business in the future. This research aims to analyse the influence of going concern audit opinion based on the Company's financial condition, company growth, audit quality, and solvency in manufacturing companies in the consumer goods industry sector listed on the Indonesia stock exchange in 2014-2018. The data used are annual financial statements and independent auditor's reports from each Indonesian manufacturing Company listed on Indonesia Stock Exchange. This type of research is explanatory research with a quantitative approach. The data analysis method uses logistic regression. This study showed that financial condition, company growth, is not a significant influence toward going concern opinion. Audit quality has a significant influence and negative relation toward going concern opinion, and solvency has significant influence and positive relation toward going concern opinion.

Keywords: Going Concern, Audit Opinion, Financial Condition, Company Growth, Audit Quality.

INTRODUCTION

An auditor who finds signs of fraud in identifying the Company's financial statements will provide a going concern audit opinion, which means that the Company is doubtful to continue and maintain its business in the following year. This is following the applicable reporting framework for the auditor to have the responsibility to show and detect material uncertainty about the Company's ability to maintain its business continuity within a specified period, which is not more than one year from the date of the financial statements being audited (ISA 700, IAPI 2013). Going concern audit opinion in the auditor's report can be used

to consider users of financial statements to make the right economic decisions. This helps investors be more careful and not take wrong actions or policies in investing.

Observing the condition of manufacturing companies in the consumer goods industry sector in Indonesia, many companies have received going concern audit opinion in recent years. Several companies that received the going concern audit opinion included Indofarma Tbk, PT, Multi Bintang Indonesia Tbk, and PT Bentoel International Investama Tbk. The following are companies that have received a going concern audit opinion, especially for manufacturing companies in the consumer goods industry listed on the IDX in 2014-2018 can see table 1.

Table 1.

List of Manufacturing Companies in the Consumer Goods Industry Sector Listed on the Indonesia Stock Exchange 2014-2018 Receiving a Going Concern Audit Opinion

NO	COMPANY CODE	2014	2015	2016	2017	2018
1	ADES	1	0	0	0	0
2	CINT	0	1	1	1	0
3	DLTA	1	1	1	1	1
4	INAF	1	1	1	1	1
5	KAEF	0	1	1	1	1
6	KICI	0	1	0	0	0
7	LMPI	0	1	1	1	1
8	MLBI	1	1	1	1	1
9	MRAT	0	0	0	1	0
10	PYFA	0	1	0	0	0
11	RMBA	1	1	1	1	1
12	SIDO	1	1	0	1	0
13	SKLT	0	1	0	0	0
14	STTP	0	1	0	1	0
15	TCID	0	1	0	0	0
16	ULTJ	0	0	0	0	1
17	UNVR	1	1	0	0	0
18	WIIM	1	1	1	1	1

Description:

1 = Company that receives a going concern audit opinion

0 = Companies that do not receive a going concern audit opinion

Table 1 above shows that 18 companies received going concern audit opinion for at least one year of observation for five years. The number of samples that got a value of 0 was 40 samples, while those with a value of 1 were 50 samples. The majority of the samples received a value of 1, meaning that 56% of the sample companies received a going concern audit

opinion. The auditor provides a going concern audit opinion because the auditor assesses that there is material uncertainty that results in significant doubt about the Company in maintaining its business continuity in the future. The going concern audit opinion gives a warning to companies to try harder to maintain their business viability.

To maintain its survival, the Company must be able to manage business activities well and have the ability to recognize several factors that can affect overall financial performance, both financial and non-financial factors, to avoid giving going concern audit opinions. Giving a going concern audit opinion can hurt the Company, such as a decline in stock prices, difficulty in increasing loan capital, loss of trust from investors, customers, and employees in company management. The loss of public confidence in the Company's image and company management will profoundly impact the Company's business continuity in the future. The deterioration of the Company's image and the loss of trust from creditors will make it difficult for companies to get potential capital sources.

Performing a proper analysis of financial and non-financial factors that may affect going concern audit opinion is very important. Given that there are still quite a several manufacturing companies in the consumer goods industry sector in Indonesia that receive a going concern audit opinion. Financial and non-financial factors that may affect going concern audit opinion include the Company's financial condition, company growth, audit quality, and solvency (Hendra, 2018; Kristiani & Lusmeida, 2018; Kurnia & Mella, 2018). This study aims to re-analysis and seeks empirical evidence of several financial and non-financial factors that may influence going-concern audit opinion.

LITERATURE REVIEW

AGENCY THEORY

Agency theory explains the agency relationship (agency theory) explains the separation of functions between the agent (company management) and company owner (Jensen & Meckling, 1976). The existence of separation between ownership and management of a company can cause agency problems (agency problems), namely the misalignment of interests between the principal and the agent. The agent has more information than the principal, causing information asymmetry. To minimize this conflict of interest, it is necessary to have a third party in agency theory to ensure accountability in submitting financial reports. This third party is represented by an independent auditor who ensures that accountability, responsibility, fairness, and transparency of financial statements are met according to the standards. An independent auditor is expected to detect fraud and predict the business continuity of the Company being audited.

Financial Conditions

Financial conditions reflect the fundamental level of health of the Company's financial performance, and a healthy company will manage business management well. Companies with good financial conditions are rarely found indicators of going concern problems. Financial conditions that indicate whether the Company is in good or bad condition can be seen in the Company's financial ratios. The better the Company's financial condition, the less

likely it is to get a going concern audit opinion and vice versa. This is in line with research conducted by Kurnia and Mela (2018) and Jalil (2018), which shows that the Company's financial condition has a negative effect going the concern of audit opinion (Jalil, 2018; Kurnia & Mella, 2018). This is because the auditors consider that a company with an excellent financial condition will receive a reasonable opinion and that its future business continuity will not be disturbed. However, contrary to the research of Effendi (2019), Hati and Rosini (2017) show that the Company's financial condition has no effect going concern audit opinion (Effendi, 2019; Hati & Rosini, 2017).

Company Growth

Company growth is an increase or decrease in assets for the Company's business from changes in company operations that show the Company's ability to maintain its business continuity (Niemimaa et al., 2019). A positive company growth ratio indicates that the Company can maintain its viability. The Company's growth which is proxied by the increasing level of sales, provides opportunities for the Company to obtain increased profits. The higher the sales growth ratio, the less likely the auditor will issue a going concern audit opinion. Conversely, a company with negative sales growth indicates that it will go into bankruptcy, so that it cannot continue its operations to get a going concern audit opinion. The research results of Hendra (2018) and Kurniati & Suyanto (2020) found evidence that company growth has a positive effect on going-concern audit opinion (Hendra, 2018; Kurniati & Suryanto, 2020). In contrast to the research results conducted by Purba and Nazir (2019) and Mohd Hussin & Muhammad (2011), they find evidence that company growth has not affected ongoing concern audit opinion (Mohd Hussin & Muhammad, 2011; Purba & Nazir, 2019).

Audit Quality

The public's trust indicates audit quality in the auditors on their performance, where if the auditor's performance is good, the demand for audit services from the auditors will increase. The quality of the audit used by the Company in examining the Company's financial statements will affect public confidence in the credibility of the financial statements produced by the Company. KAP affiliated with Big Four KAP is considered higher quality because these auditors are equipped with a series of training and procedures and have an audit program that is considered more accurate and practical than auditors from non-big Four KAP. The better the audit quality, the better and able to detect and report going concern problems. Research results from Kristiani and Lusmeida (2018) and Khadafi (2015) show that audit quality positively affects going concerned with the audit opinion (Khadafi, 2015; Kristiani & Lusmeida, 2018). Contrary to research conducted by Purba and Nazir (2019) and Badera and Jati (2020), it shows that audit quality does not affect going concern audit opinion (Badera & Jati, 2020; Purba & Nazir, 2019).

Solvency

The solvency ratio is a ratio that measures how far the Company's ability to meet its financial obligations. Solvency refers to calculating the amount of funding that comes from the

Company's debt to creditors. The solvency ratio can be measured using the debt to total assets ratio. A high solvency ratio will hurt the Company's financial condition. This is because the higher the company's solvency ratio, the more uncertainty it will be about the company's sustainability. The above matters can cause the Company to be more likely to get a going concern audit opinion. The research results of Sumantri (2018) show that solvency has a positive effect on ongoing concern audit opinion. Contrary to Ramadhani (2014), it shows that vulnerability does not affect going concern audit opinion (Angel & Sumantri, 2018; Ramadhani & Wulandari, 2014).

METHODOLOGY

This study aims to analyze the effect of going concern audit opinion based on the Company's financial condition, company growth, audit quality and solvency in manufacturing companies in the consumer goods industry sector listed on the Indonesia stock exchange in 2014-2018. The data used are annual financial statements and independent auditor's reports from each sample company published on the website. This type of research is explanatory research with a quantitative approach. The data analysis method uses logistic regression using SPSS version 23. The measurement of a variable can be seen in table 2

Table 2. Measurement Variable: (Hendra, 2018; Kristiani & Lusmeida, 2018; Kurnia & Mella, 2018)

Variable	Measurement	Scale
Going Concern Audit Opinion	Dummy variable Going concern audit opinion gave the value 1 Non going concern audit opinion given the value 0	Nominal
Company Financial Condition	$Z = 0,717Z1 + 0,847Z2 + 3,107Z3 + 0,420Z4 + 0,998Z5$ $Z1 = \text{working capital} / \text{total asset}$ $Z2 = \text{retained earnings} / \text{total asset}$ $Z3 = \text{earnings before interest and taxes} / \text{total asset}$ $Z4 = \text{book value of equity} / \text{book value of debt}$ $Z5 = \text{sales} / \text{total asset}$	Ratio
Company Growth	$RPP = \frac{PBt - PBt-1}{Pt-1}$ Keterangan: RPP = Company Growth Ratio PBt = Current Year Net Sales PBt-1 = Last year's net sales	Ratio
Audit Quality	Dummy variable Audited Company KAP <i>big four</i> given the value 1 Audited Company KAP <i>non-big four</i> given the value 0	Nominal
Solvability	$Debt\ ratio = \frac{Debt}{Asset} \times 100\%$	Ratio

RESULTS

The following is a descriptive statistical table 3 of each variable using SPSS version 23 for windows.

Table 3. Descriptive Statistics

	N	Min.	Max.	Mean	Std. Deviation
Going Concern	145	,00	1,00	,32	,477
Financial Condition	145	,58	7,75	3,14	1,3876
Company Growth	145	-,88	,50	,05	,1897
Audit Quality	145	,00	1,00	,50	,502
Solvabilitas	145	,06	1,25	,39	,1897
Valid N (listwise)	145				

Based on table 3, the descriptive statistics of each variable with 145 samples of manufacturing companies in the consumer goods industry sector. Going Concern variables and Audit Quality are measured using dummy variables. The descriptive statistics show that companies that get going concern opinion are less than those that don't get going concern opinion. This can be found through the mean value of less than 0.5. The audit quality variable has the same portion, namely 50% for the audit quality of One (1) and Zero (0). Judging from the data centre tendency, financial condition and solvency show the characteristics of the data that are not varied. Simultaneously, the company growth variable has variable data movements when viewed through the standard deviation and the mean value. The results regression can be seen in table 4.

Table 4. Hypothesis Test

	B	S.E.	Wald	df	Sig.	(Exp)B
Step 1 ^a FC	.281	.178	2.503	1	.114	1.324
CG	-.937	1.307	.514	1	.473	.392
AQ	-1.076	.413	6.779	1	.009	.341
S	3.356	1.282	6.849	1	.009	28675
Constant	-2.306	.911	6.415	1	.011	.100

Based on table 4, the regression model equation is as follows:

$$\ln \frac{GC}{1-GC} = -2,306 + 0,281 FC - 0,937 CG - 1,076 AQ + 3,356 S + e \quad (1)$$

The test results regarding the correlation coefficient and the coefficient of determination are shown in the following model summary table 5.

Table 5. Model Summary

Step	-2Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	175.379	.076	.0105

Table 5 shows that Nagelkerke's value is 0.105, so the independent variables, namely financial condition, company growth, audit quality, and solvency, contribute 10.5% to the dependent variable going concern audit opinion. The remaining 89.5% is explained by other variables that are not used in this study.

DISCUSSION

The Effect of Financial Conditions on Going Concern Audit Opinions

This study indicates that the Company's financial condition does not affect going-concern audit opinion. Based on the results of hypothesis testing, the Company's financial condition has a significance value of $0.114 > 0.05$. This study's results are in line with research conducted by Efendi (2019) and Hati and Rosini (2017). They found that the Company's financial condition did not affect going concern audit opinion. This study's results are not in line with the research results conducted by Kurnia and Mela (2018) and Jalil (2019), who found that the Company's financial condition hurts going concern audit opinion.

Based on the analysis of research data on the companies sampled, some companies have good financial conditions but get a going concern audit opinion and vice versa. For example, PT Industri Jamu and Pharmacy Sido Muncul Tbk have a relatively good financial condition due to an increase every year during 2014-2018, but in 2014, 2015, and 2017 it received a going concern audit opinion, while PT Akasha Wira International Tbk which has The financial condition is not good enough and unstable due to the increase and decrease in its financial condition during 2014-2018 n only got a going concern audit opinion in 2014. This shows that the Company's financial condition cannot be used as an indicator of the auditor in providing an audit opinion going concerned. The auditors' audit process in the Company follows the procedures and programs that have been made previously. Therefore, in providing a going concern audit opinion, it is not only seen from one side of the Company's financial condition, but an auditor must look comprehensively, objectively, and be independent based on the results of the audit findings in the field so that the Company's financial condition does not affect the auditor in issuing a going concern audit opinion.

The Effect of Company Growth on Going Concern Audit Opinions

The results of this study indicate that company growth does no affect a going concern audit opinion. Based on the results of hypothesis testing, the Company's growth has a significance value of $0.473 > 0.05$. This study's results align with research conducted by Purba and Nazir (2018), who found that company growth does not affect audit opinion. This study's results are

not in line with the results of Hendra (2018), who found that company growth has a positive effect going concern audit opinion.

Based on the analysis of the data on the companies sampled, some companies that have a pretty good company growth but still get going concern audit opinion, but on the other hand, companies with a sales growth rate that are not good enough and tend to experience a decline do not get going concern audit opinion. This can be observed at PT Bentoel International Investama Tbk, which has sales growth that tends to be stable and sound due to increased sales from 2014-2018. Still, during that year, it always gets a going concern audit opinion, while at PT Wilmar Cahaya Indonesia Tbk has a growth which was not good enough. Still, during that period of the year, he did not get a going concern audit opinion. This indicates that company growth cannot be used as an indicator for auditors to provide a going concern audit opinion. Positive sales growth is not the only indicator that positively influences company profits, but operating expenses must also be considered. Operating expenses that are higher than sales will cause the Company to experience losses so that sales growth cannot be interpreted as sustaining its survival. Thus, sales growth is not proven to influence ongoing concern audits.

The Effect of Audit Quality on Going Concern Audit Opinions

This study indicates that audit quality does harm a going concern audit opinion. Based on the hypothesis testing results, it is known that audit quality has a significance value of $0.009 < 0.05$ and the β value on unstandardized coefficients of $-1.076 < 0$. This study's results are in line with research conducted by Kristiani and Lusmeida (2018) and Khadafi (2015), which found that audit quality affects going concern audit opinion. Still, it is not in line with research conducted by Purba and Nazir (2019) and Badera and Jati (2014), which found that audit quality does not affect a going concern audit opinion. Companies that use Big Four KAP services are considered to have better audit quality because their auditors are equipped with a series of training and procedures and have an audit program that is considered better, more accurate, and effective than auditors from non-Big Four KAPs. The better the audit quality, the better and able to detect and report going concern problems.

The Effect of Company Solvency on Going Concern Audit Opinions

The results of this study indicate that solvency has a positive effect on going-concern audit opinion. Based on the hypothesis testing results, it is known that solvency has a significance value of $0.009 < 0.05$ and the β value on unstandardized coefficients of $3.356 > 0$. This study's results are in line with research conducted by Sumantri (2018), who found that solvency has a positive effect on going-concern audit opinion. This study's results are not in line with the results of Ramadhani (2016), who found that solvency has not affected a going concern audit opinion. Companies with high debt levels will use more cash to pay debts so that the impact on the Company's operational activities is disrupted. A high level of debt will increase the risk of the Company's failure to pay its obligations and affect the Company in running its business. The Company's failure to meet its principal debt obligations and maturing interest is

one of the essential indicators used by auditors to assess a business's viability, so the auditor is likely to provide a going concern audit opinion.

CONCLUSION

This research analyzes the effect of the Company's financial condition, company growth, audit quality, and solvency a going concern audit opinion. This research indicates that only one financial factor affects the provision of going concern audit opinion, namely solvency. Meanwhile, other financial factors, financial condition, and company growth hurt not affect a going concern audit opinion. Meanwhile, non-financial factors proxied by using audit quality hurt a negative effect a going concern audit opinion. This means that solvency and audit quality are indicators that need to be considered so that the Company does not get a going concern audit opinion.

The limitation of this research lies in the length of time the research is provided to impact the broad generalization of research results by determining the unit of analysis. In terms of up-to-date research data due to the Covid 19 pandemic, which led to the publication of annual reports for companies selected in the sample. This research only uses data up to 2018, so it may not reflect the current actual conditions. Therefore, further research is expected to increase research results' generalizability by determining the unit of analysis and using the latest research data.

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