

Determinants of Going Concern Audit Opinion

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Abstract—The purpose of this study is to examine and analyze the influence of profitability, leverage and sales growth on going concern audit opinion. The populations of this study are manufacturing companies which were listed in Indonesia stock exchange. The sample selection was done by using purposive sampling method by using criteria. The criteria which used for sampling were: (1) manufacturing companies that listed before January 2014; (2) publishing financial statement; (3) report completely the data about profitability, leverage, sales growth, and annual report. The analysis tool used in this study was logistic regression. The result of this study showed that profitability had not influence on going concern audit opinion, while leverage had a positive influence on going concern audit opinion. However sales growth had not influence on going concern audit opinion. The result of this study have implications for the company's management policy in order to maintain the amount of debt so will not receive going concern audit opinion.

Keywords—going concern audit opinion; profitability; leverage; sales growth

I. INTRODUCTION

At present the capital market is experiencing a very rapid development. An investor buys a number of securities in the hope of obtaining profits from an increase in the price of securities or a number of dividends. Investors have an interest in the survival of the company, because investors expect returns on investments made. The conditions and events experienced by a company can give an indication of the going concern of a company, such as a significant operating loss and can continue to cause doubts about the survival of the company.

The going-concern audit opinion is an opinion issued by the auditor in which there is an explanatory paragraph concerning the continuity of the company's business being audited in the coming year [1]. This opinion essentially contains whether the company is able to maintain its business or not. *Standar Profesional Akuntan Publik* states that going concern audit opinion is an opinion issued by the auditor to ascertain whether the company can maintain its survival [2]. Going Concern (survival) reflects the ability of the entity to maintain its business activities in the long term and will not be liquidated in a short period of time. The auditor's responsibility is to disclose the business continuity of an entity through an audit report. *Standar Profesional Akuntan Publik* requires that the auditor must state explicitly whether the client company will be able to maintain its survival until a year later after reporting [2].

This study based on agency theory. Agency theory was developed by Jensen and Meckling [3]. Agency Theory explained that the separation of company ownership and management has the potential to cause conflict between agents and principals. This conflict occurs because agents have interests that are contrary to the principal. If agents and principals try to maximize their respective utilities, and have different desires and motivations, then there is reason to believe that agents (management) do not always act in accordance with the principal's wishes. Therefore, an auditor is needed as a third party to monitor management action.

Auditors have the role of bridging the interests of users of financial statements and financial report providers by providing an audit opinion on financial statements. The auditor has the responsibility to evaluate the viability of the company in every audit work. Issuance of going concern audit opinion is caused by internal and external factors. The company's internal factors, such as financial distress, are situations where the company's operating cash flow is insufficient to meet its current liabilities and the company is forced to take corrective steps. Negative trends where companies experience operating losses, lack of working capital, and negative cash flows from the company's business activities and employee work strikes and lack of long-term employee commitment. The external factors are more to things from outside the company that are related to the business continuity of the company.

The going concern audit opinion can be influenced by several factors including profitability, leverage, and sales growth. Profitability is a ratio that shows a company's ability to generate profit at certain levels of sales, assets and share capital [4]. The research conducted by Weygandt et al. [5], Untari and Santosa shows that profitability has an influence on the going concern audit opinion [6]. But research conducted by Yuliyani and Erawati [7] shows that profitability does not affect the going concern audit opinion.

Another factor that can affect the going concern audit opinion is leverage. Leverage aims to measure how far the company's ability to meet its financial obligations. Leverage refers to the amount of funding that comes from the company's debt to the creditor. Achyarsyah [8], Ha et al. [9], show that leverage variable has a positive effect on going concern audit opinion. But the research conducted by Sari and Rahayu [10] shows that the leverage variable does not affect the going concern audit opinion.

In addition to profitability and leverage, going concern audit opinions can also be affected by sales growth. This ratio measures how well the company maintains its economic position, both in its industry and in overall economic activity [4]. Company's sales that increase from year to year provide the opportunity for companies to obtain increased profits. Therefore, the higher the company's sales growth ratio, the less likely the auditor is to issue a going concern audit opinion. Research conducted by Ha et al. [9], and Achyarsyah [8], found that corporate growth has a positive effect on going concern audit opinion. However, research conducted by Ariesetiawan shows that company growth does not have an influence on going concern audit opinion [11].

Background of this study was clearly show there are inconsistent result of the researchs before. The phenomena also illustrate that auditor is needed as an independent party to monitor management action. This study aims to examine the effect of profitability, leverage, and sales growth on going concern audit opinion.

A. Hypothesis Development

1) *The effect of profitability on going concern audit opinion:* Profitability shows the company's ability to generate profits by using resources owned by the company, such as assets, capital, or company sales. Poor profitability illustrates that companies experience difficulties in generating profits or even experiencing losses. If this condition persists, then it is perceived that the company will experience difficulties in maintaining its survival. Company losses that occur from year to year will encourage the auditor to provide a going concern audit opinion. Conversely, high profitability shows that companies can manage their current assets into profits, so the chances of the company to survive become even greater. Companies that can demonstrate profitability will result in a decline in the possibility of receiving a going concern audit opinion [5,6].

- H1: Profitability has a negative effect on going concern audit opinion

2) *The effect of leverage on going concern audit opinion:* Leverage ratio is a ratio that measures how far the company's ability to meet its financial obligations. Leverage refers to the amount of funding that comes from debt. The leverage ratio is very potential as one of the determinants of the determination of the company to get a going concern opinion because the more the company's debt, the greater the responsibility of the company to the creditor. The greater the company's debt, the more viable will be its business continuity because most of the funds obtained by the company will be used to finance debt and the funds to operate will decrease. The research by Achyarsyah [8] and Ha et al. [9] found that leverage influence on going concern audit opinion.

- H2: Leverage has a positive effect on going concern audit opinion

3) *The effect of sales growth on going concern audit opinion:* Sales growth measures how well the company maintains its economic position, both in industry and in overall economic activity. Ginting stated that the growth of the company sales indicates the company's ability to maintain its business continuity [12]. A company with positive sales growth gives confidence to others that the company can survive. Therefore, the higher the company's sales growth ratio, the less likely the auditor is to issue a going concern audit opinion. Ha et al. found that sales growth has a positive effect on going concern audit opinion [9].

- H3: Sales growth has negative effect on going concern audit opinion

II. RESEARCH METHOD

A. Types of Research

This research is an explanatory research, that is research that examines the effect of independent variables consisting of profitability, leverage and company growth on going concern opinion as the dependent variable.

B. Population and Sample

The population of this study were manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2014 to 2016. Determination of the sample using purposive sampling method with criteria: (1) issuing audited financial statements during the 2014-2016 research period; (2) complete data about all variables of profitability, leverage and company growth. Based on the criteria that have been established, 336 companies are obtained as the research sample.

C. Source and Data Collection Method

Data sources in the study were obtained from all manufacturing companies listed on the Indonesia Stock Exchange in 2014-2016 which had been published, while data collection methods used documentation.

D. Measurement and Operational Definition

1) *Dependent variables:* The measurement of going concern audit opinion in this study is proxied by using a dummy variable, where category 1 is used for companies that get a going concern audit opinion and category 0 is used for companies that get a non going concern audit opinion.

2) *Independent variable:* Profitability is a company's ability to generate profits within a certain period. Profitability variables in this research are measured by return on assets.

$$ROA = \frac{\text{Profit after Tax X 100\%}}{\text{Total Asset}}$$

Leverage is a ratio that measures how far a company's ability to meet its financial obligations. To measure leverage ratios is used the following formula:

$$\text{Debt Ratio (DR)} = \frac{\text{Total liability}}{\text{Total Asset}}$$

The sales growth (SG) is a scale to measure how well the company maintains its economic position, both in its industry and in overall economic activities. Measurement of sales growth in this study is used the following formula:

$$\text{Sales Growth (SG)} = \frac{\text{Sales of } t - \text{Sales of } t-1}{\text{Sales } t-1}$$

E. Data Analysis Method

Data in this study were analyzed using logistic regression analysis. The research model is as follows:

$$\text{Ln} \frac{GC}{1-GC} = \alpha + \beta_1 \text{ROA} + \beta_2 \text{DR} + \beta_3 \text{SG} + \varepsilon$$

Where:

$\text{Ln} \frac{GC}{1-GC}$	=	Probability receive going concern opinion
α	=	Constant
$\beta_1 - \beta_4$	=	Regression Coefission
ROA	=	Profitability
DR	=	Leverage
SG	=	Sales Growth
ε	=	Error Term

F. Research Model Figure

The empirical model of this study is showed at figure 1:

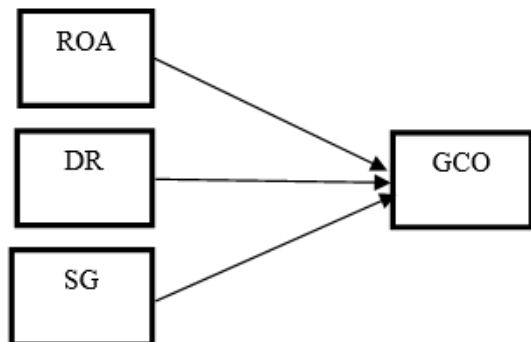


Fig. 1. Research model.

III. RESULTS AND DISCUSSION

A. Descriptive Statistics

Descriptive statistical analysis in table 1 in this study provides an overview or description of data that is seen from the mean, standard deviation, maximum, and minimum values.

TABLE I. THE DESCRIPTIVE STATISTICS

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	336	-3142,00	210,00	-9,0089	211,29094
DR	336	1,00	492,00	55,0446	53,88081
SG	336	-100,00	1384,00	10,3571	86,32118
Valid N (listwise)	336				

Based on table 1 can be seen that the minimum value of ROA was -314,00, the maximum value was 210,00, value of mean was -9,0089 and the value of standard deviation was 211,29094. The description of DR (leverage) show the minimum value was 1,00, while the maximum value was 492,00, the value of mean was 55,0446 and value of standard deviation was 53,88081. The next description about sales Growth (SG) show that the minimum value was -100,00, the maximum value was 492,00, the value of mean was 10,3571 and value of standard deviation was 86,32118.

The next step was model fit testing consist of chi square test, Cox Snell's R Square and Nagelkerke R square. Based on chi square test can be seen the value of block 0 was 335.715, while the value of block 1 was 327.128. It is mean that there was a decrease values in both block. It reflects that improve model fit. The value of Nagelkerke R square was 0,049, it is mean that 4,90 percent variability of going concern opinion can be explained by profitability, leverage, and sales growth. After model fit testing will be conducted hypothesis testing.

B. Hypothesis Testing

The result of hypothesis testing in this study is showed at table 2.

TABLE II. THE RESULT OF HYPOTESIS TESTING

	B	Df	Sig.
ROA	0,000	1	0,668
DR	0,006	1	0,011
SG	0,000	1	0,936
Constant	-0,099	1	0,959

Table 2 clearly shows that the profitability variable (ROA) has a beta coefficient of 0,000 while the significance of value was 0.668 so H1 is rejected and it can be depict that profitability does not affect on going concern audit opinion. Profitability does not affect the going concern audit opinion, explaining that profitability is not the only determining factor in the acceptance of going concern opinion. Even though the company earns a profit but if the amount of debt is high, the profit will be used to pay off the debt first so the funds for operations will be less. This result supports a study by Yuliyani and Erawati [7].

The leverage variable (DR) has a beta coefficient 0.006 with a significance of value was 0.011 so H2 is accepted and it can be illustrated that leverage has a significant positive effect on going concern audit opinion. The influence of leverage on the going concern audit opinion explains that leverage ratio is very potential as one of the determinants of the determination of the company to get going concern audit opinion because the

more debt the company uses for operational activities, the smaller the money used for the company's operational activities. This found supports a research by Achyarsyah [8] and Ha et al. [9].

The sales growth variable (SG) has a beta coefficient of value was 0,000 while the significance of value was 0.936 which greater than the 0.05 level so the H3 is rejected and it means that the sales growth does not affect the going concern audit opinion. The non-influence of sales growth on going concern audit opinion explains that sales growth is not the only factor that determines the acceptance of going concern audit opinion, an auditor will also look at the company's financial position. Although the company's sales increased but if the financial position of the company was not good, it did not rule out the possibility that the auditor would issue a going concern audit opinion. The founding of this research supports a study by Ariesetiawan and Rahayu [11].

IV. CONCLUSION

On the basis of the discussion described above, the following conclusions can be drawn: Profitability does not affect the going concern audit opinion. It is mean that profitability is not the only determining factor in the acceptance of going concern audit opinion. Leverage has a positive effect on going concern audit opinion. This result reflect that the greater leverage, the higher probability to receive going concern audit opinion. sales growth does not affect the going concern audit opinion. It is mean that company growth is not only factor that determines acceptance of going concern audit opinion. The proof of the influence of leverage on going concern audit opinion has implications of the policies that will be made by management. Company's management should maintain the amount of their debt so the largest portion of profit can be used for the company's operations and not to pay off debt. The ability of this model to explain going concern audit opinion is relatively small. Further research can add other variables that are thought influence on going concern audit opinion such as financial condition and company size.

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