

Factors Affecting Audit Opinion Going Concern

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ABSTRACT

This study discusses the effect of firm size, leverage, profitability, liquidity, and audit quality on going concern audit opinions. The sample of this study was obtained using a purposive sampling method with a focus on manufacturing companies listed on the Indonesia Stock Exchange for the 2018-2020 period. Furthermore, this study applied a purposive sampling technique which resulted in 50 companies with a total of 150 research samples. Then the hypothesis is tested by applying logistic regression. Based on the findings of the analysis, it is known that the audit quality variable has a positive effect on going-concern audit opinion. While the variables of firm size, leverage, profitability, and liquidity have no effect on going concern audit opinion

Keywords: *Company size, leverage, profitability, liquidity, audit quality, Going Concern Audit Opinion.*

1. INTRODUCTION

The world of capital markets is currently experiencing rapid development. The existence of the capital market makes investors have tools to measure the performance and financial condition of the company through the company's financial statements which contain information in the form of financial position, financial performance, and cash flows of entities that will later be needed in making investment decisions.

The survival of the company is important for the parties with an interest in the company, especially investors. The existence of a business entity in the long term aims to maintain the company's going concern. Conditions and events experienced by a company can provide an indication of the company's going concern, such as significant operating losses and ongoing events that raise doubts about the company's viability (Foroghi, 2012).

The need for an auditor to confront the interests of users of financial statements with providers of financial statements to provide an audit opinion on the financial statements. The auditor has a responsibility to evaluate the survival status of the company in each of its audit work (Fanny and Saputra, 2005) The issuance of the going concern audit opinion is useful for stakeholders investors and other users of financial statements who

need information about the economic conditions being experienced by the company (Karuniawati and Drs. Muhammad Abdul Aris, 2021)

Previous studies on the factors that influence going concern audit opinions show inconsistent findings and research gaps, so that current research is carried out to improve previous studies according to the relationship between company size, audit quality, profitability, liquidity, leverage and the influence of opinion.

Going concern audit of a company. This study uses manufacturing as the research population because manufacturing companies are large-scale companies in Indonesia compared to other companies and have the highest economic contribution to the country.

2. LITERATURE REVIEW AND HYPOTHESIS

2.1. Agency Theory

According to Jensen and Meckling (1976) that agency theory describes shareholders as principals and management as agents. Management is a party contracted by shareholders to work in the interests of shareholders. For this reason, management is given some power to make decisions in the best interests of shareholders. Therefore, managers must be accountable to

shareholders. The unit of analysis used in agency theory is the contract that underlies the relationship between the principal and the agent. The focus is on determining the most efficient contract that underlies the agent-principal relationship.

2.2. Going Concern Audit Opinion

Going concern audit opinion is the auditor's consideration of the entity's ability to maintain its viability. Going concern is one of the most important concepts underlying financial reporting. It is the main responsibility of the director to determine the feasibility of preparing financial statements using the going concern basis and the auditor's responsibility to ensure that the company's use of the going concern basis is appropriate and adequately disclosed in the financial statements (Dewayanto, 2011).

2.3. Company Size

Company size refers to how big or big a business entity is, which reflects the condition of a company (Warnida, 2011). Firm size can be measured through several proxies, one of which is assets. Large companies imply that companies have good financial conditions so that they are less likely to receive a going concern audit opinion, while small companies indicate that companies have limited resources and higher potential for financial difficulties so that they have a higher potential to receive going concern. audit opinion (Junaidi and Hartono, 2010).

H1. Firm size has a negative effect on the issuance of going-concern audit opinion

2.4. Leverage

Leverage ratio aims to measure how far the company's financial needs are covered by loans (Weston and Brigham, 2001). Companies with a high level of leverage indicate that the source of funding is mainly from loans so that the company has a greater responsibility to manage debt payments and loan interest, which can have an impact on the company's cash flow and profit and loss. Therefore, the auditor may give an audit opinion going concern.

H2. Leverage has a positive effect on the issuance of going concern audit opinion

2.5. Profitability

The company's performance in generating profits is measured using a profitability index, which shows whether a company is currently in good or bad financial condition. Almost all users of financial statements require profitability ratios to determine the entity's ability to generate profits. Companies that have low profitability

are very likely to receive a going concern audit opinion because poor financial conditions raise doubts about their business continuity among investors or auditors. (Bayudi and Wirawati, 2017).

H3. Profitability has a negative effect on the issuance of going concern audit opinion.

2.6. Liquidity

One way the company can maintain its viability in the future is to pay attention to the liquidity ratio. (Hafid Byusi and Fatchan Achyani, 2018) Liquidity Ratio measures a company's ability to meet its short-term financial obligations with its current assets. Companies with high liquidity have good financial conditions and are able to ensure payment of short-term debt so that stakeholders are confident in their sustainability. The liquidity ratio aims to measure the company's ability to meet its current obligations (Weston and Brigham, 2001). Smaller liquidity indicates that the company is experiencing financial difficulties to pay its short-term debt, and this must be paid great attention to by the auditor in issuing a going concern audit opinion on its financial statements.

H4. Liquidity has a negative effect on the issuance of a going concern audit opinion

2.7. Audit Quality

Audit quality is indicated by the size of the KAP. Large accounting firms are more independent and, therefore, will provide higher audit quality (higher. (DeAngelo, 1981) HOOD bigger too tend to disclose existing problems because they are stronger in facing litigation risk, and that means large KAPs have more incentives to detect and report client going concern problems (Khaddafi, 2015) Large accounting firms provide higher audit quality than small accounting firms that do not have a reputation (Mukhtaruddin et al., 2018).

H5. Audit quality has a positive effect on the issuance of going concern audit opinion³

3. METHOD OF STUDY

This research is a quantitative research, which collects numerical data and performs analysis using statistical analysis software, SPSS 20. This research method involves descriptive analytic and associative methods with causal relationships, by collecting data that provides a clear picture of the object of research and then analyzes the data. to test the effect and relationship between one variable with another variable. This study uses secondary data obtained from the IDX (www.idx.co.id), which consists of an annual report and an independent audit report.

3.1. Variable Operation Definition

The variables of this study consist of going concern audit opinion as the dependent variable, and company size, audit quality, profitability, liquidity, leverage as independent variables. Going concern audit opinion using a dummy variable as a proxy, where companies that receive going concern audit opinions are coded 1, while those that do not receive going concern audit opinions are coded 0.

The independent variables of this study are:

1. Company size is measured by the natural logarithm of the company's total assets as proxy
2. Audit quality: Audit quality is measured by using a proxy for the dummy variable, where code 1 is given if the KAP auditing the company is part of the big four group, while code 0 is given if the KAP not part of the big four
3. Profitability is the ability of a company to generate a return on investment based on its resources as compared to alternative investments
4. Liquidity: The liquidity ratio measures the extent to which the company is able to settle its short-term liabilities using its current assets.
5. Leverage: The leverage ratio is assessed through the debt to equity ratio (DER),

test, logistic regression equation and hypothesis testing. The level of significance in hypothesis testing is 5%.

The logistic regression model used to test the hypothesis is as follows:

$$GC = 0 + SIZE + LEV + PROF + LIK + KA + e$$

Description:

GC = Probability of getting a going concern audit opinion

0 = Constant

SIZE = company size

LEV = Leverage

PROF = Profitability

LIKE = Liquidity

KA = Quality Audit

e = Error

4. FINDING AND DISCUSSION

NO	Criteria	total
	The population of companies listed on the IDX until 2020	195
1	Companies not listed during the 2018-2020 research period	-30
2	Companies that do not publish financial statements for the 2018-2020 research period	-7
3	Companies that do not use Rupiah currency	-29
4	Companies that experience losses for 2 periods in the 2018-2020 research period	-79
Research Sample		50
Total research sample (50 x 3 years)		150

Table 1 Sample Selection

3.2. Data Analysis Method

The data analysis methods used in this study include the overall model fit test, fit test, determinant coefficient

4.1. Descriptive Statistics

Aims to provide an overview or description of the variables to be studied. The data used in this study were

taken from the independent auditor's report and the company's financial statements

	N	Minimum	Maximum	mean	Std. Deviation
SIZE	150	22,640	31,510	27.75200	1.522539
LEV	150	-5,210	114.290	2.49373	9.819666
PROF	150	-2,550	8,300	,00580	,734244
LIKE	150	,000	99,830	3.03000	11.332273
KA	150	,000	1,000	,22000	,415634
Valid N (listwise)	150				

Table 2. Descriptive Analysis Output Results

4.2. Regression Model Feasibility Test

The results of testing the similarity of the prediction model with observations obtained a chi square value of 9.186 with a significance of $0.327 > 0.05$. With a significance value greater than 0.05, it means that there is no difference between the estimation data of the logistic regression model and the observation data. This means that the model is correct with no need for model modification.

Table 3. Results of the Hosmer and Lemeshow analysis output

Step	Chi-square	df	Sig.
1	9,186	8	,327

4.3. Assessing the Overall Model

In assessing the overall model on the data, it is done by comparing the value of 2 Log Likelihood at the beginning (result of block 0) with -2 Log Likelihood at the end (result of block 1). If there is a decrease in value, it can be said that the regression model is good. The results of the overall model test fit can be seen as follows

Table 4. Iteration History (Block number =0)

Iteration	-2 Logs likelihood	Coefficients
		Constant
1	170.046	-,987
2	169,790	-1.079
3	169,790	-1.081
4	169,790	-1.081

The Nagelkerke R Square value in this study is 0.227, which means that the variability of the dependent variable which can be explained by the variability of the independent variable is 22.7%, while the remaining 77.3% can be explained by other factors that cannot be included in this study.

Step	-2 Logs likelihood	Cox & Snell R Square	Nagelkerke R Square
1	144.713a	,154	,227

Table 5. Coefficient of determination

Table 6. Iteration history (Block number = 1)

Iteration	-2 Logs likelihood	Coefficients					
		Constant	SIZE	LEV	PROF	LIKE	KA
1	152,699	-1,252	0.014	0.020	-,266	,024	-1.097
2	146,521	-2,997	,074	,024	-,833	0.030	-1,996
3	144.805	-5,192	,151	,024	-1,530	,034	-2.596
4	144.714	-5,310	,155	,024	-1,725	,034	-2,768
5	144.713	-5,308	,155	,024	-1,744	,034	-2,784
6	144.713	-5,308	,155	,024	-1,744	,034	-2,784

The results show that the value of 2Log Likelihood in the initial model (block 0) shows a value of 170.046 while in the final model (block 1) it becomes 144,713 after the independent variable is entered into the model.

This indicates a decrease in the value of -2Log Likelihood from block 0 to block 1 that is equal to $170.046 - 144.713 = 25.333$ this decrease indicates a good regression model or in other words the hypothesized model fits the data

Table 7. Logistics Regression Test

	B	SE	Wald	df	Sig.	Exp(B)
SIZE	,155	,170	,833	1	,361	1,167
LEV	,024	,024	,975	1	,323	1.024
PROF	-1,744	,950	3,370	1	,066	,175
LIKE	,034	,023	2,172	1	,140	1.035
KA	-2,784	1,080	6,642	1	,010	,062
Constant	-5,308	4,685	1,284	1	,257	,005

6. DISCUSSION

The test results show that the variable company size as a proxy for total assets has a significance level of 0.361 which is greater than (5%) with a positive regression coefficient of 0.155. Based on this, it can be concluded that the firm size variable has no effect on going concern audit opinion or in other words the first hypothesis (H1) fails to be rejected. This finding is suitable with Azizah and Anisykurlillah (2014). Company size is not the main indicator for auditors to issue a going concern audit

The test results show the variable (LEV) which is proxied by the debt ratio has a significance level of 0.323 which is greater than (5%) with a positive regression coefficient of 0.024. Based on this, it can be concluded that the leverage variable has no effect on the going concern audit opinion or in other words the second hypothesis (H2) fails to be rejected. The results of this study are not in accordance with research by Lennox (2000) which found that leverage has an effect on going-concern opinions.

The test results show that the profitability variable (PROF) as a proxy for NPM has a significance level of 0.066 which is greater than (5%) with a negative regression coefficient of -1.744. Based on this, it can be concluded that the profitability variable has no effect on the going concern audit opinion or in other words the third hypothesis (H3) fails to be rejected. This result is in line with the statement by Aris Saifudin, and Rina Trisnawati (2016) who found that profitability has no effect on audit opini going concern.

The test results show that the liquidity variable (LIK) which is proxied by the current ratio has a significance level of 0.140 which is greater than (5%) with a positive regression coefficient value of 0.034. Based on this, it can be concluded that the liquidity variable has no effect on the going concern audit opinion or in other words the fourth hypothesis (H4) fails to be rejected. This is in line with the statement by Masyitoh and Ardhariani (2010) where they assert that liquidity does not affect the issuance of a going concern opinion by the auditor.

The test results show that the audit quality variable measured whether or not affiliated with the Big Four KAP has a significance level of 0.010 which is smaller than (5%) with a negative regression coefficient of -2.784. Based on this, it can be concluded that the audit quality variable has a positive effect on going audit opinion concern or in other words the fifth hypothesis (H5) is rejected. This result is in line with Yaqin and Sari (2015) There is a difference in quality between big and non-big four KAPs in issuing going concern audit opinions to company.

7. CONCLUSION AND LIMITATION

Based on the results of logistic regression analysis to determine the factors that influence going concern audit opinions with research data of manufacturing companies listed on the Stock Exchange from 2018 to 2020, it can be concluded that audit quality has a positive effect on going concern audit opinions. This shows that audit quality is indicated by the size of the KAP, companies with KAP [bigger too](#) tend to disclose existing problems because they are stronger in facing litigation risk, and that means large KAPs have more incentives to detect and report client going concern problems. Meanwhile, leverage, profitability, liquidity, and company size have no effect on going concern audit opinions. This study has limitations that can be considered in future research. The variables used in this study are also limited where the value of the determinant coefficient of Nagelkerke R² is 22.7 percent, indicating that there are other factors outside the variables studied at 77.3 percent. Therefore, further research is highly recommended to add more variables in identifying going concern.

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