

HOW TO DETECT GOING CONCERN AUDIT OPINION BY USING FINANCIAL REPORT?

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ABSTRACT

This research aims to examine and analyze the influence of internal factors such as profitability, liquidity, solvency, and cash flow on going concern audit opinion, because companies that accept going concern audit opinion may result in declining stock prices, the fall of the company's image, distrust of creditors, investors, Suppliers, etc. This research uses quantitative descriptive approach with causality relationship between each variable. The data used in this research is secondary data in the form of financial report of manufacturing companies with sampling technique using purposive sampling and data analysis technique used is logistic regression. The result of this research showed that the independent variables simultaneously affect the dependent variables. Partially, solvency, liquidity, and cash flow have an effect on going concern audit opinion, while the profitability has no effect on going concern audit opinion. The research findings show that the financial ratios can be used to detect the giving of going concern audit opinion

Keywords : *Going concern audit opinion, profitability, solvency, liquidity, and cash flow.*

1. INTRODUCTION

The bankruptcy of Enron company is one of the examples of fraud by the management and auditor. In addition to being driven by management, this failure is also considered an important independence of the auditor assessing the company's ability to defend itself, so that the auditor gives the wrong opinion. The implication of this problem makes the user took the wrong decision because the information received doesn't describe the real thing.

Problems arise when there's so many misunderstandings made by the auditor regarding to going concern opinion (Sekar, 2003). Going concern audit opinion is an opinion issued by the auditor to determine whether the company can maintain its life span (SPAP, 341, 2001). Because of the many cases, the AICPA (1988) requires that the auditor should explicitly state whether the client company will be able to maintain its life span until a year later after reporting. Although the auditor is not responsible for the survival of the company, but in auditing should be the auditor's consideration in giving opinion. With the company's doubts to be able to

continue its business, the auditor can give a going concern opinion. The study of going concern audit opinion can be seen from the internal condition of the company, through profitability, liquidity, solvency, and cash flow, where those internal factors are the basis or references for professional judgment in giving going concern audit opinion.

Based on the results of the study, analysis, and research on the factors that influence the going concern audit opinion, the motivation of this research is to re-examine the factors that influence the going concern audit opinion because there's still some contradictory research results (research gap) against the results of previous research on the determinants of going concern audit opinion.

2. THEORETICAL REVIEW AND HYPOTHESES

2.1 Audit Opinion

Audit opinion is opinion submitted by the auditor after auditing a financial report that focuses on the suitability between financial report and generally acceptable accounting standards.

The issued opinion may be (SPAP, 2001):

- a. Unqualified opinion
- b. Unqualified opinion with explanatory language
- c. Fair opinions with exceptions
- d. Unfair opinion
- e. No opinion

2.2 Going Concern Audit Opinion

Going concern is the ability of the entity to maintain its viability for a reasonable period of time, ie no later than one year from the date of the published financial statements (SPAP, 2001). A going concern audit opinion is an opinion given by the auditor to ascertain whether the company can maintain its survival (SPAP, 2001). According to Section 341 paragraph 06, several examples of conditions which may indicate a great doubt about the entity's ability to maintain its survival are as follows:

- a. Negative trend, as an example of repeated operating losses, lack of working capital, negative cash flows from business activities.
- b. Financial difficulties, such as failure to meet its debt obligations.
- c. Internal problems, such as work strikes or labor difficulties.
- d. Complaints of litigation, release of law, or other matters which may jeopardize the ability of the entrepreneur to operate.

2.3 Development of Hypotheses

2.3.1 The Effect of Profitability on Going Concern Audit Opinion

Profitability in this study is proxied with Return On Assets (ROA). Companies that have a negative ROA value indicate that the company suffered losses that could ultimately interfere with the survival of the company. This is in line with Wati (2013), Sutedja (2010), and Kristiana (2012) stating that

profitability has a negative effect on going concern audit opinion. The greater the ratio indicates the greater the company's ability to generate profits so that does not cause the auditors to doubt on the ability of the company to continue its business. Based on the description, the hypothesis is:

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

2.3.2 The Effect of Liquidity on Going Concern Audit Opinion

Liquidity is the company's ability to pay its short-term liabilities. Liquidity in this study is proxied with the current ratio, ie the ability of the company to meet its short-term obligations with the entire current assets owned by the company. The higher the current ratio the greater the company's ability to meet short-term financial obligations. Researches by Kristiana (2012) and Fauziah (2014) stated that liquidity has a significant negative effect on going concern audit opinion. Based on the description, the hypothesis is:

H₂ : Liquidity has a negative effect on going concern audit opinion.

2.3.3 The Effect of Solvency on Going Concern Audit Opinion

According to Sugiarto (2006), solvency is the company's ability to pay all its debts. Solvency in this study is proxied by Debt to total assets (DAR), which is the ratio of total debt to total assets. Companies that are bona fide and can offset all their debts, can survive in carrying out its operations. A research by Lestari and Supadmini (2012) shows that solvency has a positive effect on acceptance of going concern audit opinion. Based on the description, the hypothesis is:

H₃: Solvency has a positive effect on going concern audit opinion.

2.3.4 The Effect of Cash Flow on Going Concern Audit Opinion

In PSAK 2 (Rev 2013) explained that operating cash flow is cash flow derived from the main income generating activities of the entity that includes the activities of production and sale of goods. The amount of cash flows generated from operating activities is an indicator that determines whether a company's operations can generate sufficient cash flows to repay the loan. Masyitoh and Andhariyani (2010) in Widyantari (2011) stated that if the company has adequate cash then the company can avoid the failure to meet the obligations and financial distress so that the company is expected not to accept going concern audit opinion. Based on the description, the hypothesis is:

H₄ : Cash flow has a negative effect on going concern audit opinion.

2.3.5 The Effect of Profitability, Liquidity, Solvency, and Cash Flow on Going Concern Audit Opinion

Internal factors of the company such as: profitability, liquidity, solvency and cash flow are considered as determinant factors of auditors in providing going concern audit opinion. If the internal factors of a company is good, then the possibility of getting going concern audit opinion from the auditor is smaller, because the company is able to run its operational activities well. Based on the description the hypothesis is :

H₆: Profitability, liquidity, solvency and cash flow simultaneously affect the going concern audit opinion.

3 RESEARCH METHODS

3.1 Research Design

This research is quantitative, where the type of relationship between each variable is the effect of causality ie independent variables affect the dependent variables. In proving the hypothesis, this study used logistic regression analysis. The sample was taken by purposive sampling technique with criteria: 1. Manufacturing companies that are listed on the Indonesia Stock Exchange for the period 2012-2016; 2. Publish the complete and audited financial reports; 3. Have positive earnings successively during the observation period.

3.2 Operational Definition And Variable Measurement

3.2.1 Dependent Variable

Dependent variable in the form of going concern audit opinion, measured by dummy scale, where category 1 for companies with going-concern audit opinion and category 0 for companies with non-going concern audit opinion.

3.2.2 Independent Variables

3.2.2.1 Profitability

Profitability measures the ability to generate profits and economic value from sales by utilizing the net assets of the company and its own capital (Raharjaputra, 2009:205). In this research, profitability is proxied by return on assets (ROA) which mathematically formulated as follows:

$$(ROA) = \frac{EBIT}{\text{Total Assets}}$$

3.2.2.2. Liquidity

Liquidity is the ability of a company to meet its financial obligations that must immediately be met (Riyanto, 2008:25). This research uses current ratio which is mathematically formulated as follows:

$$(CR) = \frac{\text{Current Assets}}{\text{Short – term liability}}$$

3.2.2.3. Solvency

Solvency shows the proportion of debt usage to finance its investment (Sartono, 2001:120). Solvency in this research using the debt to asset ratio in order to measure how big the company's assets financed with debt. This ratio can be calculated as follows:

$$(DAR) = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

3.2.2.4. Cash Flow

The cash flow in this study is measured using cash flow to total debt ratio (Mills dan Yamamura, 1998). This ratio can be calculated by the following formula:

$$(CFTDR) = \frac{\text{Operating Cash Flow}}{\text{Total Liabilities}}$$

3.3 Data Analysis Method

3.3.1 Descriptive Statistical Analysis

Descriptive statistics provide an overview or description of data viewed from mean, standard deviation, variance, maximum, minimum, sum, range, kurtosis and skewness (Ghozali, 2013:19).

3.3.2 Data Quality Testing

3.3.2.1 Multicollinearity Test

This test uses correlation matrix between independent variables with correlation coefficient value <0.8 means there is no symptoms of multicollinearity.

3.3.2.2 Assessing the Eligibility of the Regression Model

The eligibility of the regression model was assessed using Hosmer and Lemeshow's Goodness of Fit Test. The basis of this decision is to consider the value of chi-square as follows:

1. H_0 is accepted, if probability > 0,05
2. H_0 is rejected, if probability < 0,05

3.3.2.3. Overall Model Fit

Overall Model Fit by comparing the Log-Likelihood (-2LL) number at the beginning (Block Number = 0) and the Log-Likelihood number at the end (Block Number = 1). The reduction of initial -2LL function with 2LL value in the next step shows that the hypothesized model fit to the data (Ghozali, 2006:232).

3.3.2.3 Coefficient of Determination

The value of the coefficient of determination on the logistic regression model is shown by the value of Nagelkerke R square, it is done to find out how big the independent variable can influence the dependent variable.

3.3.2.4 Hypotheses Testing

Partial test is used to test the effect of each independent variable on the dependent variable. This test is done by comparing t arithmetic and t table or can also use sig. value with criteria:

If the *Probvalue* > α 0,05, then H_0 is accepted which means the independent variable (X) partially does not affect the dependent variable (Y). On the contrary, if the *Probvalue* < α 0,05, then H_a is accepted.

3.3.2.5 Logistic Regression Analysis

This test is done by using logistic regression because the dependent variable data is in the form of category data. Logistic regression model in this study is shown in the following equation:

$$\text{Ln} \text{ ———} = \alpha + \beta_1 \text{ROA} + \beta_2 \text{CR} + \beta_3 \text{DAR} - \beta_4 \text{CFDR} + \varepsilon$$

Annotation : Ln ——— = (Going concern audit opinion); α = Constants; β =Coefficient Regression; Profitability = ROA; Liquidity = CR; Solvency = DAR; Cash flow = CFDR; ε = Error.

4 RESULTS AND DISCUSSION

4.1 General Description of Sample

Based on purposive sampling, then the number of companies that meet the criteria in this study are 58 companies with a total of 232 observational data.

4.2 Descriptive Statistics Test Results

This analysis can be shown in the table below:

Table 1 : Descriptive Statistics

	N	Min	Max	Mean	Std. Dev
ROA	232	,00003	,85390	,137807	,11661711
CR	232	,3478	13,8658	2,70272	2,2567332
DAR	232	,0499	,8809	,402088	,1796279
Arus_Kas	232	-,6690	2,0732	,335591	,4479956
OGC	232	0	1	,03	,183
Valid N (listwise)	232				

Source : Processed date

4.3 Data Quality Test Results

4.3.1 Assessing the Eligibility of the Regression Model

In this case, using the Hosmer and Lemeshow's test.

Table 2 : Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	4,854	8	,773

Source : Data processed

The value of Chi-square is 4.854 with prob sig. 0.773 whose value is well above 0.05. So it can be concluded that the model is acceptable because it matches the observation data (Ghozali, 2013).

4.3.2 Overall Model Fit Test

Based on the -2 Log Likelihood test, the initial value of -2LL is 96,797, after the inclusion of the five independent variables, the final -2LL value decreases to 69,598. The existence of such reductions indicates that the research model fit with the data.

4.3.3 Coefficient of Determination (*Nagelkerke R square*)

The results of the coefficient of determination can be seen in the table below:

Table 3 : Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	43,601 ^a	,106	,409

Nagelkerke R Square test shows Nagelkerke R Square value of 0.409, it means variability of dependent variable that can be explained by independent variable is 40,9%, while the rest equal to 59,1% explained by other variables outside this research model.

4.3.4 Multicollinearity Test

The test results showed no coefficient of correlation value between independent variables greater than 0.8, it can be concluded that there is no indication of multicollinearity between independent variables.

4.3.5 Hypothesis Testing

Hypothesis testing is done by comparing the level of significance (sig) with the error rate (α) = 5%. Partial test results can be seen on the table as follows:

Table 4 : Logistic Regression Analysis Results

		B	S.E.	Wald	df	Sig.	Exp (B)
Step 1 ^a	ROA	-9,287	9,546	,946	1	,331	,000
	CR	-,861	1,150	2,561	1	,045	1,423
	DAR	8,051	3,209	6,297	1	,012	37,425
	Arus_Kas	-,377	3,586	2,357	1	,032	,686
	Constant	-5,502	2,901	3,596	1	,058	,004

Source : Processed data

4.3.5.1 H₁: Effect of profitability on going concern audit opinion

Profitability variable have a sig (0.331) > α (0.05), it can be concluded that the first hypothesis or H₁ in this research is **rejected**, which means that profitability does not affect the going concern audit opinion.

4.3.5.2 H₂:Effect of liquidity on going concern audit opinion

The liquidity variable has sig. (0.454) < α (0.05), it can be concluded that the second hypothesis or H₂ in this research is **accepted**, which means that liquidity affect the going concern audit opinion.

4.3.5.3 H₃:Effect of solvency on going concern audit opinion

The solvency variable has sig (0,012) < α (0,05), it can be concluded that the third hypothesis or H₃ in this research is **accepted**, which means that solvency positively affect the going concern audit opinion.

4.3.5.4 H₄:Effect of cash flow on going concern audit opinion

The cash flow variable has sig.(0,032) > α (0,05), it can be concluded that the fourth hypothesis or H₄ in this research is **accepted**, which means that cash flow affect the going concern audit opinion.

4.3.5.5 H₆:Profitability, liquidity, solvency, and cash flow simultaneously affect the going concern audit opinion

The value of chi-square is 4.854 with the prob rate of 0.773 is greater than 0.05, it can be said that profitability, liquidity, solvency, and cash flow simultaneously affect the going concern audit opinion.

4.4 Logistic Regression Analysis

Based on the test results that can be seen in the previous table, the logistic regression equation can be written as follows:

$$\text{—} = - 5,502 - 9,287\text{ROA} - 0,861\text{CR} + 8,051\text{DAR} - 0,377\text{Arus Kas} + \varepsilon$$

From the results of logistic regression analysis shows that the constant value of - 5,502 which shows the influence of independent variables. If the value of profitability, liquidity, solvency, cash flow and corporate growth 0, the going concern audit opinion is -5,502.

4.5 Discussion of Research Results

4.5.1 The Effect of Profitability on Going Concern Audit Opinion

The result of hypothesis testing shows that profitability has no effect on going concern audit opinion. This indicates that the auditor in giving opinion does not see the level of profitability but rather the ability of the company in carrying out its operations, especially fulfilling its short-term and long-term obligations. As long as the company is able to meet its short-term and long-term obligations, it still has a chance to work more effectively and efficiently so that it can survive and increase its profits.

4.5.2 The Effect of Liquidity on Going Concern Audit Opinion

The result of hypothesis testing shows that liquidity have an effect on going concern audit opinion. The results of this study indicate that auditors in issuing going-concern audit opinion always consider the company's ability to meet its

short-term obligations, including seeing the ability of the company to pay all its obligations. This means that companies with very good liquidity, are less likely to accept going concern audit opinions. These results support the second hypothesis in this study.

4.5.3 The Effect of Solvency on Going Concern Audit Opinion

This indicates that the greater the debt to asset ratio of the company, the more likely the company will accept going concern audit opinion. High solvency will cause the company to focus more on the use of its capital to pay its obligations than to fund its operations. This causes the company's ability to run its operations will be reduced so that it can potentially lead to disruption of the company's survival. The high solvency ratio also shows the smaller the company's assets financed by the owner so that the risk of the company in the form of cost of capital will also be greater. This can lead to the auditor's doubt on the company's ability to run its business in the future. The result of hypothesis testing shows that solvency have positive effect on going concern audit opinion. These results support the third hypothesis in this study.

4.5.4 The Effect of Cash Flow on Going Concern Audit Opinion

Information about a company's cash flow is useful to users of financial statements as an adequate basis for assessing the company's ability to generate cash and cash equivalents and assess the company's need to use the cash flows. Test results show that cash flow have an effect on going concern audit opinion. These results support the fourth hypothesis in this study. This indicates that the auditor in giving a going concern audit opinion is based on the ability of the company to perform operations on the total existing debt in the company, if the cash flow owned by the company is adequate, then the possibility of the company to run its operation will not be disturbed.

5 CONCLUSIONS, AND SUGGESTIONS

5.1 Conclusions

Based on data analysis and discussion that has been done, it can be concluded as follows:

1. Profitability has no effect on going concern audit opinion
2. Liquidity has anegative effect on going concern audit opinion
3. Solvency has a positive effect on going concern audit opinion
4. Cash flow has a negative effect on going concern audit opinion.

5.2 Recommendation

For further research it should increase the number of years of observation, so that it can see the trend of audit opinion by the auditor in the long tern, and can also use samples of companies other than manufacturing companies or do the test on all companies listed on the Indonesia Stock Exchange if possible.

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