Factors influencing the receiving of going concern audit opinion (study in Indonesia)

Factores que influyen en la recepción de la opinión del auditor sobre empresas en marcha (estudio en Indonesia)

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Abstract

This study aims to examine the effect of debt default, company size and audit quality to the acceptance of going concern audit opinions. The type of research in this study is quantitative research. The population in this study are all of the property, real estate, and building construction companies that are listed on the Indonesia Stock Exchange. The sampling method used in this study was purposive sampling, so 16 company samples were obtained for four years (2016-2019). The data were analyzed using descriptive statistics and logistic regression. The results of this study indicate that: (1) debt default does not have an effect on the acceptance of going concern audit opinion; (2) company size has an effect on the acceptance of going concern audit opinion; (3) audit quality doesn't have an effect on the acceptance of going concern audit opinion.

Keywords: debt default, company size, audit quality, going concern audit opinion.

Resumen

Este estudio tiene como objetivo examinar el efecto del incumplimiento de deudas, el tamaño de la empresa y la calidad de la auditoría en la aceptación de opiniones de auditoría sobre empresas en funcionamiento. El tipo de investigación en este estudio es la investigación cuantitativa. La población en este estudio son todas las empresas de propiedad, bienes raíces y construcción de edificios que cotizan en la Bolsa de Valores de Indonesia. El método de muestreo utilizado en este estudio fue el muestreo intencional, por lo que se obtuvieron 16 muestras de empresas durante cuatro años (2016-2019). Los datos se analizaron utilizando estadísticas descriptivas y regresión logística. Los resultados de este estudio indican que: (1) el incumplimiento de deudas no tiene un efecto en la aceptación de opiniones de auditoría sobre empresas en funcionamiento; (2) el tamaño de la empresa tiene un efecto en la aceptación de opiniones de auditoría sobre empresas en funcionamiento; (3) la calidad de la auditoría no tiene un efecto en la aceptación de opiniones de auditoría sobre empresas en funcionamiento.

Palabras clave: incumplimiento de deudas, tamaño de la empresa, calidad de la auditoria, opinión de auditoría sobre empresas en funcionamiento.

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Introduction

The financial reports published by the company are a form of management's responsibility to company owners and other users of financial statements regarding the performance that has been carried out in a certain period. The large number of cases of financial statement manipulation carried out by large companies such as Enron, Worldcom, Xerox has caused the public accounting profession to receive a lot of criticism. The auditor is considered to have participated in providing wrong information, so that many parties feel disadvantaged. It is possible that the cases above also occur in the property, real estate and building construction sectors listed on the Indonesia Stock Exchange (IDX). One of the phenomena found in the property, real estate and building construction sectors was experienced by PT Eureka Prima Jakarta where the company often experienced losses from 2012 to 2018 even though it had made profits in 2014 and 2016 until the company did not distribute dividends to shareholders in 2018 because they still suffered losses in the previous year (Fitria, 2019). However, for the last seven years, PT Eureka Prima Jakarta has received an unqualified opinion. Based on the number of cases, giving an audit opinion with a going concern modification by the auditor is the impact of a company's doubts about being able to maintain the viability of its business. Going concern audit opinion is bad news for users of financial statements. The difficulty of predicting the going concern of a company is a problem that often arises, causing many auditors to experience moral and ethical dilemmas in providing audit opinions with going concern modifications (Januarti and Fitrianasari, 2008). Problems arise when there are many opinion errors (audit failures) made by the auditor regarding the opinion (Mayangsari, 2003).

This study aims to examine the effect of debt default, firm size, and audit quality on acceptance of going concern audit opinions. This study has several differences from previous studies. The difference in this study lies in the variable company size with the reason that this variable has an influence on giving a going concern audit opinion as stated in Butarbutar's research (2017) that company size can describe a company's ability both the ability to fulfill its obligations and the company's ability to generate profits with assets owned so that it can determine the granting of a going concern audit opinion.

Agency theory (agency theory) is a theory that underlies the company's business practices used so far which describes the relationship between two individuals with different interests, namely the principal (business owner or shareholder) and the agent (company management). Jensen and Meckling (1976) state that an agency relationship is an agreed contractual relationship in which one or more principals instruct another person to perform a service on behalf of the principal and authorize the agent to make the best decision for the principal. In relation to agency theory and acceptance of going concern audit opinions, agents are in charge of running the company and producing financial reports as a form of management accountability. These financial statements will later show the company's financial condition and be used by the principal as a basis for making decisions. Agents as parties who produce financial reports, it is possible to manipulate data on the condition of the company. Therefore, to prevent this from happening, an independent party is needed as a mediator between the principal and the agent whose function is to monitor the agent's behavior whether it acts according to the wishes of the principal (Dewayanto, 2011). Auditors must be able to act independently so that the results of monitoring management performance are objective and transparent. The result of this supervision is in the form of receiving an opinion on the fairness of the financial statements made by the agent. Apart from opinions, the auditor must also disclose the company's ability to continue as a going concern. The more qualified the auditor, the greater the possibility for the company to get a going concern opinion because the auditor will be more careful in examining all the events in the financial statements.

Based on agency theory, the principal assesses the performance of the agent through the auditor to determine the condition of the company. The auditor will conduct an examination of the company, especially on debt activities. From the results of research conducted by Praptitorini and Januarti (2011), Dewi and Latrini (2018), Harris and Merianto (2015), and Mughni (2018) show that debt default significantly affects the acceptance of going concern audit opinions. While researchAzizah and Anisykurlillah (2014), and Butarbutar (2017) state that debt default has no effect on acceptance of going concern audit opinion.

When the amount of company debt is very large, then a lot of the company's cash flow is of course allocated to cover the debt so that it will disrupt the continuity of the company's operations. If this debt cannot be repaid, the creditor will give a default status. Thus, it is in accordance with the agency theory that the existence of information asymmetry causes the granting of debt default status to be higher and the possibility of a company getting a going concern audit opinion becomes even greater. Based on the above considerations, the following hypothesis is obtained:

H1: debt default has an effect on going-concern audit opinion

The size of the company proxied by the total assets owned shows the company's ability to maintain business continuity. The higher the total assets owned, the company is considered to have a large size so that it is able to maintain its business continuity. Large companies have better ability to manage the company and produce higher quality financial reports. The smaller the company scale, the smaller the company's ability to manage its business. Based on the results of these studies, the researchers proposed the following hypothesis:

H2: company size has an effect on going concern audit opinion

The auditor is responsible for providing high quality information that will be useful for making decisions for users of financial statements. Auditors who have good audit quality are more likely to issue a going concern audit opinion if their client has problems regarding going concern. An investor or a client will definitely trust accounting data that has been audited or presented more when the report has been audited by an auditor who has high quality (Li, 2004). So it can be assumed that large KAPs will have higher quality standards in terms of auditor experience and international recognition (Dewayanto, 2011).

Based on the results of these studies, the researchers proposed the following hypothesis:

H3: audit quality affects going-concern audit opinion

The type of research used in this research is quantitative research. Quantitative research emphasizes theory testing by measuring research variables with numbers and analyzing data using statistical procedures (Erlina, 2011). This study uses secondary data documented from the company's financial statements through the Indonesian Stock Exchange website and the company's website.

The population is the whole object of research (Hartono, 2013). Population which is used in this study is the whole company the property, real estate and building construction sectors listed on the Indonesia Stock Exchange. The research sample was selected using the purposive sampling method, which is a research sample determination technique with several considerations of certain criteria that aim to make the data obtained more representative (Sugiyono, 2016).

Tests in this study using logistic regression analysis. In logistic regression analysis, normality assumptions, heteroscedasticity tests and autocorrelation tests are no longer needed because logistic regression analysis has conditions that do not require normality assumptions on the independent variables, ignoring heteroscedasticity and autocorrelation (Ghozali, 2009).

The analytical tool used in this research is logistic regression analysis. The reason for using the logistic regression analysis tool is because the dependent variable is in the form of categories 0 and 1 (non-metric) and the independent variables use a combination of continuous variables (metric data) and categorical (non-metric data) which causes the multivariate normal distribution assumptions to be fulfilled (Ghozali, 2018). Therefore, logistic regression analysis does not require data normality tests on the independent variables (Ghozali, 2018).

The regression model formed in this study is as follows:

$$\mathrm{Ln}\left(\frac{GC}{1-GC}\right) = \alpha + \beta_1 DEBT + \beta_2 SIZE + \beta_3 KUALITAS + e$$

Information:

$\mathrm{Ln}\left(\frac{GC}{1-GC}\right)$ = Audit opinion *going concern*
α = Constant
β = Regression coefficient
DEBT = *Default debt*
SIZE = Firm size
QUALITY = Audit quality
e = Errors

Results

The population used in this study are companies from the property, real estate and building construction sectors listed on the Indonesia Stock Exchange in 2018-2021 as many as 86 companies. Sampling was carried out using purposive sampling technique. Of the 86 companies, there were several companies that did not meet the research criteria such as not being listed on the IDX during the observation period, during the observation period they were in the delisting process, did not publish fully audited annual financial statements during the observation period, and did not experience minimal losses once during the observation period. Sampling can be seen in the table below.

Table 1. *Selection of research samples*

No.	Criteria	Amount
1.	Companies in the property, real estate and building construction sectors that have been listed on the IDX 2018-2011	86
2.	Companies in the property, real estate and building construction sectors were delisted during the study period	-3
3.	Companies that do not publish complete financial statements during the study period (2016-2019)	-28
4.	Companies that do not experience a loss for at least one year in the study period (2016-2019)	-39
	Final sample quantity	**16**
	Observation year	**4**
	Number of observations	**64**

Source: *own elaboration from data processing results (2022)*

From table 1 it can be seen that based on predetermined criteria, a sample of 16 companies was obtained with four years of observation. Thus, the number of observations used in this study were 64 research samples. In this study, 52 out of 64 samples were tested, because 12 samples in this study were outlier data.

Classic assumption test

Multicollinearity test

Table 2. *Multicollinearity test*

Variable	tolerance	VIF	Information
Debt	0.978	1.023	There is no multicollinearity
size	0.500	2.001	There is no multicollinearity
Quality	0.496	2.015	There is no multicollinearity

Source: own elaboration from *data processing results (2022)*

Based on the multicollinearity test table above, it shows that the variable debt default, company size, and audit quality do not have a high relationship between the independent variables, this can be seen from the tolerance value of each variable> 0.10 and the value of each VIF <10. Therefore, the regression model is free from multicollinearity symptoms.

Logistic regression analysis results

Table 3. *Test results Hosmer and Lemeshow's goodness of fit test*

Step	Chi-square	df	Sig.
1	12.904	8	0.115

Source: *own elaboration from data processing results (2022)*

Based on the feasibility test of the regression model above, the significance value of the Hosmer and Lemeshow test is 0.115 where the significance value is greater than 0.05. If using the chi square value, the calculated chi square value is 13.187 and the chi square table value is 12.904, which means that the calculated chi square value < chi square table. This shows that Ho's research model is acceptable and the model is feasible to use in explaining the variables in this study.

Hypothesis test

Hypothesis testing in logistic regression can be seen from the table of hypothesis test results by looking at the significant value compared to the significance value used by the researcher, namely α = 5%. Where if the significance level is <0.05 then H1 is accepted or cannot be rejected in other words the independent variable has a significant effect on the occurrence of the dependent variable, if the significance level is > 0.05 then H1 is rejected. The following table 4 describes the results of hypothesis testing using logistic regression:

Table 4. *Logistic regression test results*

		B	SE	Wald	df	Sig.	Exp(B)
Step 1	Debt	-19.172	1123.731	0.000	1	0.999	0.000
	Size	-0.063	0.019	10.558	1	0.001	0.939
	Quality	-19.150	10114.892	0.000	1	0.998	0.000

Source: *own elaboration from data processing results (2022)*

The regression model formed based on the results of the logistic regression coefficient test as shown in table 10 is as follows:

$$Ln\left(\frac{GC}{1-GC}\right) = -19.172\ DEBT - 0.063\ SIZE - 19.150\ KUALITAS + \varepsilon$$

The meaning of the logistic regression equation is as follows:

1. The coefficient value of the debt default variable is -19.172 indicating that every one unit increase in the debt default value will result in a decrease in acceptance of going concern audit opinion by 19.172.
2. The regression coefficient value of the company size variable is -0.063, which means that assuming other variables are constant, every one unit increase in the company size value will result in a decrease in going concern audit opinion receipts of 0.063.
3. The regression coefficient value of the audit quality variable is -19.150 indicating that every one unit increase in the value of audit quality will reduce the probability of receiving a going concern audit opinion by 19.150.

Based on the equation above, it can be interpreted as follows:

Hypothesis testing 1 (H1)

H1 states that debt default has an effect on going concern audit opinion. The default debt which is symbolized by DEBT has a significance value of 0.999 greater than 0.05, so it can be concluded that H1 is rejected. This shows that debt default has no effect on going concern audit opinion.

Testing Hypothesis 2 (H2)

H2 states that company size has an effect on going concern audit opinion. Company size which is symbolized by SIZE has a significance value of 0.001 which is smaller than 0.05, so it can be concluded that H2 is accepted. This shows that company size has an effect on going concern audit opinion.

Hypothesis Testing 3 (H3)

H3 states that audit quality influences going-concern audit opinion. Audit quality, which is symbolized by QUALITY, has a significance value of 0.998, less than 0.05, so it can be concluded that H3 is rejected. This shows that audit quality has no effect on going concern audit opinion.

Influence default debt against acceptance of going concern audit opinion

This study provides empirical evidence that the first hypothesis is not accepted because debt default has no effect on going concern audit opinion. These results indicate that debt default cannot be used as a predictor for auditors in providing going concern audit opinions for companies.

Agency theory as the relationship between the principal and the agent can be implemented more broadly, one of which is the auditor and the auditee. Auditing plays an important role in monitoring contracts and reducing the risk of information asymmetry. In addition, auditing is a way to reduce agency costs caused by moral hazard. According to agency theory, it is indicated that the company will reduce agency problems by increasing debt. The greater the debt owned, the company must reserve more cash to pay interest and loan principal so that it will reduce unused funds. From the shareholder side, the debt policy has an influence on the disciplinary behavior of managers. Debt will reduce agency conflict and increase firm value. An increase in debt will increase the ratio leveraged, thereby increasing the likelihood of financial distress or bankruptcy. This bankruptcy fear drives managers to be more efficient, thus improving agency costs. However, debt will increase the marginal cost. Additional debt funds cause shareholders to be forced to accept riskier projects (Jensen & Meckling, 1976).

Default debt is the company's failure to pay its principal and interest debts when they fall due. When the amount of a company's debt is very large, a lot of the company's cash flow is of course allocated to cover its debts, so that it will disrupt the continuity of the company's operations. If this debt cannot be repaid, the creditor will give default status (Januarti, 2008). Debt default status can increase the likelihood of the auditor issuing a going concern audit opinion. However, based on the results of this test, it shows that debt default has no effect on receiving a going-concern audit opinion. This result is contrary to the hypothesis that has been made by researchers, namely debt default has an effect on going-concern audit opinion.

The absence of debt default on the receipt of a going concern audit opinion also shows that there are other factors used by the auditor in considering the debt default status of a company, such as considering the company's ability to settle in the next period because the company can extend its loan term, and obtain loan facilities from other sources, as contained in the sample of this study, namely inPT. Binakarya Jaya Abadi, Tbk, PT Pikko Land Development, Tbk, PT Nusa Construction Engineering, Tbk. This also shows that the auditor in giving a going concern audit opinion is not only based on the company's failure to pay its principal or interest debt at maturity, but is more likely to look at the company's overall financial condition.

The results of this study support the findings of research conducted by Butarbutar (2017), Astari and Latrini (2017) Azizah and Anisykurlillah (2014), and Irfana and Muid (2012) which state that debt defaults do not affect the going concern audit opinion.

Effect of company size on acceptance of audit opinion going concern

This study provides empirical evidence that company size has an effect on audit opinion going concern. These results indicate that the smaller the size of the company, the greater the likelihood that the auditor will provide a going concern audit opinion to provide information to the public.

According to agency theory, larger firms will have greater agency costs than smaller firms. Agency costs are costs incurred by the owner of the company for monitoring the actions of managers so that they do not act for their own benefit or act on the will of the company. In addition, the larger the company will increase the demand for more information disclosure to the public so that by increasing information disclosure it will further reduce information asymmetry (Jensen & Meckling, 1976).

This study uses the natural logarithm of total assets as a proxy for company size. Company size is a scale that classifies companies into large or small companies. In line with Pradika's research (2017) it is stated that the larger the size of the company, the less likely the company is to receive an audit opinion going concern. In this study, the property, real estate and building construction sector companies with the highest natural logs were 29,977, namely at PT Bukit Darmo Property Tbk and the company is spared from going concern audit opinion.

Companies with high total assets indicate that the company is classified as a large company because the company's cash flow is positive and is considered to have good prospects in a relatively long term. Large companies are seen as capable of preparing supporting facilities such as more advanced technology and stronger management compared to small companies so that large companies have a better ability to solve their financial problems. In addition, large companies also have more access and trust from the public so that they can support the survival of their companies in the future for a long period of time. This causes the auditor to tend not to issue a going concern audit opinion on large companies. The results of this study are supported by Butarbutar (2017), Pradika (2017), Adhityan (2017), and Minerva et al. (2020), which state that company size influences audit opinion going concern.

The influence of audit quality on acceptance of audit opinion going concern

This study provides empirical evidence that audit quality has no effect on audit opinion going concern. The results of this test are contrary to the hypothesis that has been built. This indicates that audit quality is proxied by KAP reputation, indicating that KAPs affiliated with the big four and non-big four KAPs will continue to provide good audit quality and be independent in issuing going-concern audit opinions.

According to agency theory, an auditor with good quality will have the ability to detect irregularities in the accounting system carried out by company management and report them in audited financial statements. The financial statements that have been audited by the auditor are expected to be trusted and used by the principal. KAP that has scaled big four considered to have better audit quality so that if there is an indication the company is getting a going concern audit opinion, the auditor does not hesitate to give it. However, the results of this study indicate that audit quality has no effect on going concern audit opinion.

According to Praptitorini and Januarti (2007) when an auditor already has a good reputation, the auditor will try to maintain his reputation and avoid things that can damage his reputation, so that they are always objective in their work. This explanation can be used to interpret the results of this study because auditor specialization can be used to build auditor reputation. In this study, the majority of companies use audit services from KAP non big four. Out of a total of 52 samples, only 15 samples used the services of the big four KAPs, while the other 37 samples used audit services from non-big four KAPs.

Based on the empirical evidence obtained, it can be concluded that the auditor's scale does not affect the size of the possibility of the auditor to provide an audit opinion going concern. Big four and non big four KAPs will remain objective and maintain independence in giving their audit opinion. This is because every KAP in carrying out an audit of financial statements must be based on the applicable Public Accountant Professional Standards (SPAP) and Financial Accounting Standards (SAK). KAPs that already have a good reputation will continue to strive to improve their audit quality by carefully considering the conditions and events that exist in relation to providing an appropriate audit opinion. Giving an audit opinion that is in accordance with the conditions of the company actually proves that the KAP does indeed maintain the quality of its audit so that it is able to gain the trust of the users of the independent auditor's report. In this way, the KAP's reputation will also increase. Not only the big four KAPs who want to maintain their reputation, but the non-big four KAPs also want to improve their reputation. If a company is indeed in trouble and there is doubt about its ability to maintain its viability, it will be given a going concern audit opinion. The results of this study are supported by Mughni (2018), Astari and Latrini (2017), Praptitorini and Januarti (2011), and Suharsono (2018) which state that audit quality does not affect audit opinion going concern.

Conclusions

This study aims to calculate the effect debt defaults, company size and audit quality on acceptance of going concern audit opinions in property, real estate and building construction sector companies listed on the IDX in 2018-

2021. Based on the data analysis and discussion that has been carried out, the following conclusions can be drawn:

a. Default debt does not affect the acceptance of going concern audit opinion in property, real estate and construction sector companies.
b. Company size influences acceptance of going concern audit opinions in property, real estate and building construction companies.
c. Audit quality has no effect on acceptance of going concern audit opinions in property, real estate and construction companies.

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