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The Acceptance of Going Concern: Does Audit Opinion Matter?

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This research aims to obtain empirical evidence about the influence of debt default, previous year audit opinion and audit lag on the acceptance of going concern audit opinion in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2016–18. Going concern audit opinion is stated by the dummy variable. A total of 87 observations are used in this-research. Hypothesis testing uses logistic-regression analysis techniques and is processed using SPSS 23 software. This research concludes that there was no significant effect between debt default, previous year audit opinion and audit lag partially towards the acceptance of going concern audit opinion. However, there is a significant effect between debt default, previous year audit opinion and audit lag simultaneously towards the acceptance of going concern audit opinion.

Key words: *Debt-default, previous-year audit opinion, audit lag, going concern-audit opinion.*

Introduction

One form of management responsibility to financial statement users – especially investors – is to present financial statements. These are expected to contain reliable information, so in presenting them, management requires the services of auditors as independent assessors of the reasonableness of the financial statements. The main purpose of making financial statements is as a source of information about the company's financial performance to meet the various needs of those who use the reports, one of which is making investment decisions. Investors expect profits from the investments they make if the company is to survive. According to the Decree of Financial Services Authority of Indonesia No. Kep-36/PM/2003, concerning the obligation to submit periodic financial reports, public companies whose effects are listed on the Indonesia Stock Exchange (IDX) must submit periodic financial reports including annual financial reports and semi-annual financial reports. The annual financial reports are submitted in the form of audited financial reports, not more than three months after the date of the annual financial reports. However, certain conditions cause a lag in the submission of financial statements (audit lag or audit delay); among others, the auditor conducts further testing, management negotiates with the auditor, and the auditor slows the issuance of opinion in the hope that the company's management can resolve the problem first.

Audit lag is defined as the timespan of the completion of the audit of financial reports measured by the number of days needed to get an independent auditor's report from the closing date of the book to the date stated in the independent auditor's report (Dura & Nuryatno, 2015). To meet the conditions for submitting financial statements, an audit process is required. The auditor is a third-party that serves as a mediator between the company's management interests and those of the users of financial statements. The auditor examines the financial statements to ensure they are free from material misstatements in accordance with applicable accounting standards. In carrying out their profession, auditors are required to be independent in detecting the possibility of deviant behaviour or fraud committed by the client company in preparing its financial reports. The qualified accountant statement on the reasonable presentation of the financial reports is contained in an audit opinion. According to the Auditing Standard Statement 29 section 508, five types of opinions that can be stated by the auditor: an unqualified opinion, unqualified opinion with an explanatory language, qualified opinion, adverse opinion and disclaimer opinion.

The company certainly expects the auditor's statement to state that there are no material misstatements in the financial reports so company management can remain credible. Someone who uses financial report leans on the auditor's opinion in understanding the company's financial condition and the ability to continue as a going concern (survival) of the company. In particular, investors expect early warning from the auditor about any concerns in the independent qualified accountant's report. The auditor is accountable for evaluating whether there is any uncertainty about the company's capability to continue trading in a rational period of time, no more than one year from the date of the financial statement being audited (SPAP, 2011). When the qualified accountant establishes empirical evidence of doubts about the company's ability to continue its business as a going concern, the auditor will provide an early warning of the failure of the company to maintain its viability within a reasonable period of time for the client's corporate stakeholders. However, the auditor is not responsible for the conditions and events that occur after the audit period. The auditor adds an explanatory paragraph to the audit opinion regarding the auditor's consideration that there is doubt about the viability of the company's capacity to carry out its operation.

In reality, a going concern assurance is not an easy action for the auditor, because it is difficult to predict the viability of the company. This can create a dilemma for the auditor in their decision to give a going concern assurance. A going concern audit assumption expressed by an auditor in the hope of accelerating the rescue of a company that has problems can create new problems. Venuti (2007) states that this tends to be a self-fulfilling prophecy, because if the auditor raises doubts, then there is a possibility that the company will go bankrupt quickly because investors or creditors will bail out.

In Auditing Standards Statement No. 30 (PSA 30), the going concern of an entity is used as a basis in financial reporting where there is no evidence to prove the opposite. Typically, that is significant information contrary to the entity's survival, related to the entity's incapability to meet its (default) at maturity without selling most of the assets to outside parties through ordinary business, debt restructuring, improvement of forced operations from outside and other similar activities. Failure to meet debt or interest obligations is one criterion considered by the auditor in assessing the viability of the company. Provision of a going concern opinion to a client company also considers audit opinions received by client companies in the preceding year, because business activities in the current year are inseparable from business activities that occurred in previous years.

Literature Review and the Development of Hypotheses

Based on agency theory, top management is answerable for the timely preparation of financial reports to avoid delays in the performance of audit opinions by the auditor. The company presents an annual financial report together with an auditor's opinion. The change of time between the presentation of the audited financial report may be caused by the auditor conducting further audits, management negotiating with the auditor and the auditor slowing down the issuance of audit judgements in the hope that management will be able to resolve the existing issues rather than lose the audit opinion.

The Influence of Debt Default on the Acceptance of Going Concern Audit Opinion

Chen and Church (1992) found strong evidence of giving a debt default status to the going concern problem. Default status can add to the probability of the auditor issuing a going concern report. Failure to meet debt or interest obligations as defined in Audit Standard Statement No. 30 section 341 is an indicator that is taken into account by the qualified accountant when assessing the feasibility of the entity. An organisation that fails to meet its principal debt and interest obligations tends to disrupt its operations, as the prioritised allocation of the funds it owns is to the fulfilment of debt obligations. Based on this, the following hypothesis was constructed:

H1: The debt default significantly influences the acceptance of the audit opinion.

The Influence of Previous Year Audit Opinion on the Acceptance of Going Concern Audit Opinion

Entities that have accepted a going concern opinion in the past year tend to accept a going concern opinion in the current year. According to Zulfikar and Syafruddin (2013), the auditor's report from the previous year from the client company for the issuance of the audit opinion for the current year will be an important consideration if the client's financial position shows no signs of improvement or there is no actionable management plan to improve the business problems that can arise because a company's business activities in the current year cannot be separated from the events of the past year's business activities. Based on this, the following hypothesis was constructed:

> H2: The previous year's audit opinion has a significant influence on the acceptance of the current year's audit opinion.

The Influence of Audit Lag on the Acceptance of Going Concern Audit Opinion

Audit lag is defined as the period until the date of the audit, measured in terms of the time required to obtain the opinion of the auditor from the date of the accounts to the date specified in the qualified accountant's report (Daniel, 2017; Dura & Nuryatno, 2015). The late reporting of financial statements can be due to a variety of factors, such as company issues that require the auditor to conduct further audits. The auditor assumes that management has an effective plan for the problem at hand. The longer the publication of annual accounts, the worse the stakeholders of the annual financial report can react. Based on this, the following hypothesis was constructed:

> H3: Audit lag has a significant impact on the acceptance of the audit opinion.

Research Methodology

Population and Sample

This research used secondary data, which were collected using a documentation methodology that emerged from the audited financial reports of the annual reports, which are available on the official website of the Indonesia Stock Exchange (IDX). The study used a non-probability sampling method to obtain samples that met specific criteria:

1. manufacturing companies that were listed or listed on the Indonesian Stock Exchange (IDX) between 2016 and 2018 and have published audited full financial statements during the period under review
2. manufacturing companies with a negative overall result of at least one period for 2016–18

3. use of the rupiah currency by the company for the presentation of the annual financial statements for 2016–18.

Analysis Data

The collected data were tested using the specified data analysis techniques. The phases of observation analysis in this research included descriptive statistical analysis, multicollinearity testing, logistic regression analysis and hypothesis testing. Logistic regression analysis techniques do not require normality, heteroskedasticity, and classical assumptions for independent study variables. See Table 1 for a definition of the variables.

Table 1: Definition of variables

Variables	**Indicator**
Debt default (X_1)	The X_1 variable is forwarded using a dummy variable. Code 1 is given if the entity is in default debt status and 0 if there is no default debt.
Previous year audit opinion (X_2)	The X_2 variable is forwarded using a dummy variable. The going concern audit opinion is coded 1 and does not accept an audit going concern.
Audit lag (X_3)	*Audit lag* = audit report date – date of financial report
Going concern audit opinion (Y)	The dependent variable (Y) is proxied using a dummy variable. Value 1 for going concern opinion and value 0 for non-going concern opinion.

Result
Descriptive statistics

Table 2 shows the descriptive statistics.

Table 2: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. deviation
Y	87	.0	1.0	.161	.3696
X1	87	.0	1.0	.333	.4741
X2	87	.0	1.0	.149	.3586
X3	87	54.0	264.0	88.598	27.2399
Valid N (listwise)	87				

The analysis is described as follows:

1. Going concern audit opinion (Y) for the audit opinion is quantified by a dummy variable. From the 87 samples tested, a minimum of 0 is generated, representing an entity that receives an audit opinion on the audit opinion report for other than going concern opinion,

and a maximum of 1 representing an entity that receives an audit opinion going concern. The average value obtained at the beginning of the audit opinion is 0.161 and the standard deviation is 0.3696.

2. The debt default variable (X_1) is quantified by a dummy variable that is categorised based on the current ratio. The minimum value of the 87 samples tested is 0, which means that the company has no problems meeting its obligations, so it is not classified in the standard status. The maximum of 1 means that the company has trouble meeting its obligations, so it is considered to be in the default state. This variable has an average of 0.333, which can be interpreted to mean that 33.3 per cent of 87 samples (29 samples) are considered to be the default status, while 58 other samples are not considered to be standard. The resulting standard deviation is 0.4741.
3. The previous year audit opinion (X_2) was measured with a guise size. From the 87 samples tested, a minimum score of 0 was determined, which means that the company did not receive an audit opinion in the previous year, and a maximum of 1, which means that the company received the audit opinion. This variable has an average of 0.149, which can be interpreted as meaning that 14.9 per cent of 87 samples (13 samples) received a going concern opinion in the previous year, while 74 other samples in the previous year did not receive a going concern audit. The resulting standard deviation is 0.3586.
4. The audit lag (X_3) gives a minimum value of 54, which means that the company will close the 87 samples tested within 54 days of the closing date of the books – that is, the value of PT Solusi Bangun Indonesia Tbk in 2016. The fastest to submit had a maximum value of 264 companies, which was submitted no later than 264 days after the closing date of the book, which is the value of PT Grand Kartech Tbk in 2018. The average generated is 88.598, which means that the average sample entity submits the financial statements in 89 days from the date of the book's closing and the standard deviation of 27.2933.

Multicollinearity Test

Table 3 shows the results of the multicollinearity test.

Table 3: Multicollinearity test

Correlation matrix					
		Constant	X_1	X_2	X_3
Step 1	Constant	1.000	.000	.000	–.924
	X_1	.000	1.000	–.603	.000
	X_2	.000	–.603	1.000	.000
	X_3	–.924	.000	.000	1.000

Based on Table 3, the biggest correlation occurs between the debt default variable (X_1) and the audit opinion variable of the previous year (X_2) of –0.603. However, the value of –0.063

is smaller than 0.9, so it can be concluded that there is no strong correlation between the independent variables of the study.

Assessment of the feasibility of the regression model

The feasibility test of the logistic regression model was evaluated using the Hosmer and Lemeshow test, which was measured by the chi-squared value. Table 4 presents the results of the regression model feasibility test using the Hosmer and Lemeshow test tables.

Table 4: The feasibility of the regression model

Hosmer and Lemeshow test			
Step	Chi-square	df	Sig.
1	4.053	7	.774

Based on Table 4, the chi-square value of 4.053 is obtained with a significance value of 0.774, which is greater than 0.05, so it could be stated that the null-hypothesis (H_0) is rejected andthe regression model can calculate the observation value.

Assessing the overall model

Assessing the whole model is completed by comparing the value between –2 Log-Likelihood (–2LL) at the beginning (Block Number = 0), where the model only includes constants with the value of –2 Log-Likelihood (-2LL) at the end (Block Number = 1), where the model includes constants and free variables. If the value of –2LL Block Number = 0> value of –2LL Block-Number = 1, this shows a good regression model – in other words, the model hypothesised fits with the data (Imam, 2013). Table 5 assesses the overall model (

Table 5: Assessing the overall model

	–2 Log Likelihood
Block 0	76.767
Block 1	9.930

Based on Table 5, the comparison of the value of 2 log-likelihood (Block Number = 0) to 2 log-likelihood (Block Number = 1), the regression model that initially had a value of –2 log-likelihood 76.767 decreased after entering three independent variables to 9.930. This shows the model is a hypothesised fit with the data.

Coefficient Determination

The magnitude of the coefficient determination in the logistic regression model is indicated by the value of Nagelkerke R^2. The Nagelkerke R^2 value varies between 1 and 0. The closer to the value of 1, the more the independent variables are considered able to explain the dependent variable of research. Table 6 presents the results of testing the coefficient of determination using the summary model.

Table 6: Model summary

Step	–2 Log likelihood	Cox & Snell R^2	Nagelkerke R^2
1	9.930[a]	.536	.915

Based on Table 6, the Nagelkerke R^2 value of 0.915 is obtained, which means that the variability of the dependent variable that can be explained by the independent variables is 91.5 per cent, while 8.5 per cent of the variability of the dependent variable is explained by other variables outside the research.

Matrix Classification

The matrix classification states the prognostic power of the regression model to predict the likelihood of going concern audit opinion. The predictive power of the regression model is used to prophesy the possibility of the dependent variable – that is, going concern audit opinion in percentage (Table 7).

Table 7: Classification table[a,b]

Observed			Predicted		
			Y		
			non GCAO	GCAO	Percentage correct
Step 0	Y	nonGCAO	73	0	100.0
		GCAO	14	0	.0
	Overall percentage				83.9

Based on Table 7, the results of the classification matrix test can be stated as a whole. The predictive power of the possibility of acceptance of going concern audit opinion is 83.9 per cent.

Partial Hypothesis Test (T Test)

Table 8 shows partial hypothesis testing result with significance.

Table 8: Partial hypothesis testing result with significance

Independent variable	B	Sig	α	H_a
Debt default	–16.987	0.998	> 0.05	rejected
Previous year audit opinion	41.670	0.997	> 0.05	rejected
Audit lag	0.005	0.094	> 0.05	rejected

Based on Table 8, the debt default variable has a significance value of 0.998. It can therefore be concluded that the debt default variable has no significant effect on the acceptance of going concern audit opinion, so Hypothesis 1 is rejected.

The audit opinion variable of the previous year has a significance value of 0.997, so it could be concluded that the audit opinion variable of the previous year did not have a significant effect on the going concern audit opinion acceptance. Hypothesis 2 is therefore rejected.

The audit lag variable has a significance value of 0.094. The significance of audit lag is larger than 0.05, so it could be concluded that the audit lag variable has no significant effect on the acceptance of going concern audit opinion. Hypothesis 3 is therefore rejected.

Simultaneous Test Result (F test)

Table 8 shows the simultaneous test result (F test).

Table 8: Simultaneous Test Result (F Test)

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 0	Constant	–1.651	.292	32.036	1	.000	.192

In this study, the significant effect between independent variables was tested: the default of debt default, auditors' report of the previous year and audit delay about the dependent variable, namely the acceptance of the going concern certificate. Significant values below 0.05 were obtained. In this respect, the debt default loss, the previous year's audit verdict and the lag in the audit significantly (simultaneously) significantly influenced the acceptance of the audit opinion of the going concern audit.

Discussion

The debt default variable in this research is mapped using a dummy variable that is categorised on the basis of the current ratio. The test results showed a significance level of 0.998, which is greater than 0.05, and a coefficient of –16.987, so it can be concluded that this independent variable has no significant impact on the maintenance of inventory and the direction of the inventory. Inventory is negatively affected. The negative direction indicates that it is not always companies with debt default that receive an audit opinion. The results of this research do not accept that debt default has a significant impact on the acceptance of the company's opinion. The results of this study support the research findings of A and Nurbaiti (2018). Researchers believe that when issuing an audit opinion, the auditor not only examines the ability of the entity to meet obligations that are due in the near term, but the process also establishes the ability of the entity to meet any obligations.

The audit opinion variable used in this research in the previous year's audit opinion was represented by a dummy variable. The test results gave a significance value of 0.997, which is larger than 0.05 and has a coefficient of 41.670, so it could be concluded that this independent variable does not significantly affect the maintenance of the stocktaking and has a positive impact on the stocktaking. The results of this study do not show that the previous year's auditor's report had a material impact on the acceptance of the going concern audit. The results of this research support the research findings of Syahputra and Yahya (2017), but do not support the research findings of Nainggolan (2016). The auditor believes that they are considering improving the financial performance and management strategies to overcome the problems encountered in the reissuing of audit judgements in the current year.

The audit lag variable used in this study is transmitted using a dummy variable. The test results gave a significance value of 0.09, which is larger than 0.05, and a coefficient value of 0.005, so it could be concluded that this independent variable does not significantly affect the maintenance of the inventory and has a positive impact on the inventory exercise concerns. The results of this study support the research findings of Syahputra and Yahya (2017), but do not support the research of Anita (2017). Companies that have a long audit delay will not necessarily receive an audit opinion; within this period, management negotiates with the auditor and the auditor slows down the audit effort in the hope that management can solve the existing problem.

Conclusion, limitations and future research

Conclusions about the following could be drawn from the results of the examination and analysis of the data: debt default, previous year audit opinion, and audit lag has no significant effect on the acceptance of going concern audit opinion. This study has several limitations.

The sample of companies used is only manufacturing, rather than all business sectors in Indonesia, and the observation period is only three years (2016–18), so no long-term tendency to accept the opinion for companies could be found.

Taking into account the results of the analysis, the conclusions and limitations noted above, the following suggestions can be made. Further investigation should be carried out in all areas of the company listed on the ISX. Further investigations should extend the period of the observation period for investigations to identify long-term trends in the issue of a going concern opinion. Further research should add more variables for the issue of a going concern audit, both in-house and about business continuity on external affairs, since the auditor must take into account plans or strategies that are carried out by the management when reaching their audit opinion.

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