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Determinants of the Acceptance of Going Concern Audit Opinions

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Abstract

A going concern audit opinion is an estimate in a firm's financial statements that can be used to determine whether a company is having trouble staying in business. In this study, the research object is a manufacturing business listed on the Indonesia Stock Exchange in the year 2018-2020. The sampling technique was based on the author's criteria and used a purposive sample approach. A total of 117 samples can be obtained as a result of the sample results. This study's findings reveal that audit quality, debt default, and opinion shopping all have a major impact on going-concern audit opinions.

Keywords
going concern audit opinion; audit quality; debt default; opinion shopping

I. Introduction

According to SA 570, an entity is expected to remain in business for a predictable future era if it is based on the presumption of going concern. Unless management intends to liquidate the firm or cease operations, or there is no feasible alternative to assessing the foregoing events, financial information is universally expected to be presented on a going concern basis. The auditor's job is to gather fairly complete audit evidence about management's use of the business continuity estimate in preparing and presenting the financial statements, as well as to establish whether there is substantial doubt about the industry's capacity to continue operating.

In an industry, financial reports have a very important position and role. Management is responsible for reporting the results of industry operational activities and the financial position of the industry to stakeholders through financial reports. To produce quality financial reports, an auditor is needed to carry out the audit function (Indhra et al., 2022).

The audit report with modifications regarding the going concern is an indication that the research auditor has a risk that the company cannot maintain its viability. From the auditor's point of view, the decision involves several stages of analysis. Auditors must consider various factors to give an opinion about the future of a company (Abbas, 2019).

The Auditing Standards Board (ASB) has recently sought to eliminate subject matter opinions, including those issued for viability uncertainty. Financial statement users expressed strong opposition to this move, in part because they believed that auditors were privy to insider information (Mutchler, 1985).

Going concern opinion is an estimate in the company's financial statements, so that when the company reaches unfavorable conditions for its business continuity, it is possible to estimate that the company is in trouble. The audit report combined with going concern is an indication that makes the auditor think that the company cannot survive on capital, distrust of investors, creditors, clients, and industrial management employees. The loss of public confidence in the ability and management of the company will have a significant impact on its sustainability in the future (Cahyono, 2014).

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This audit quality is the possibility of financial statements containing material errors, then the auditor will detect and then report material errors (DeAngelo, 1981). Audit quality in accordance with the Professional Standards of Public Accountants (SPAP) says that an audit conducted by an auditor is qualified if it meets auditing standards and quality control. If the accounting firm claims to be in a big KAP like the big four KAP, they will continue to try to improve their good name and avoid actions that can destroy their good name (Mustika, 2017).

In PSA 30, going concern that is widely used by auditors in distributing audit opinion decisions is a failure to pay its debts (default). (Chen & Church., 1996) Says that there is a strong relationship between debt default and going concern opinion. Auditors tend to be blamed for not taking the decision to give an opinion on a bankrupt company. Failure to issue an audit opinion on ongoing operations results in higher costs when the business defaults. As a result, it can increase the likelihood that the auditor will issue a going concern audit opinion.

The Securities and Exchange Commission (SEC) defines opinion shopping as an activity aimed at locating an auditor who will support management's accounting treatment in order to meet financial reporting objectives. In Teoh's two strategies, the industry commonly uses auditor switching to avoid going concern opinion recognition (in Lennox 2000). The fear of being exchanged may jeopardize the auditors' independence; as a result, it does not imply that there is a going concern issue. Auditory turnover bluff is the term for this type of argument. Second, when the auditor is independent, the industry will fire a public accountant (auditor) who shares a going-concern viewpoint, or choose an auditor who shares a going-concern viewpoint.

II. Review of Literature

2.1 Agency Theory

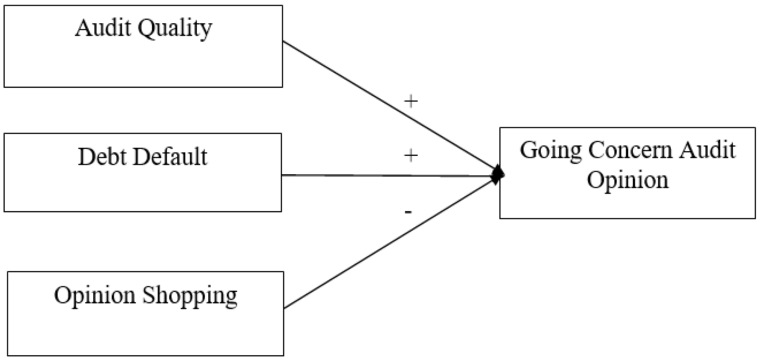
According to Donleavy (2018), modern companies are owned by shareholders but managed by managers, and their economic interests are not the same. Managers are viewed as agents acting on behalf of shareholders, who are viewed as principals. Shareholders, as principals, have a strong desire to see their wealth preserved and expanded, which means they want to see sustainable and growing profits, sustainable and growing dividend rates, and steadily increasing share prices as a result of higher profit substance as well as the non-profit substance of ever-increasing optimism about the company's future.

2.2 Signaling Theory

When making changes within a corporation, companies should consider the consequences of signaling. The changes that occur contain information (signaling) regarding the company's future (Brigham et al., 2020).

The signaling hypothesis, according to Jama'an (in Suantini et al., 2021), describes how an industry gives signals to financial statement consumers. This cue comes in the form of facts supplied in relation to what industrial management has tried. Annual data is one type of data released by the sector that can serve as a reference for stakeholders, particularly investors. The free view signal provided by the Public Accounting Firm (KAP) is an indication of the financial information generated by the audited industry's dependability. The going-concern audit view, in which the auditor has reservations about the client's industry's long-term viability, is one of the perspectives provided by independent auditors to their clients. The independent auditor's release of the going concern audit view is also expected to provide direction for creditors and investors in making installment or capital choices.

2.3 Framework



According to the above Figure, the independent variables of audit quality, debt default, and opinion shopping have a relationship with the dependent variable of going concern audit opinion.

a. Relationship of Audit Quality to Going Concern Audit Opinion

According to De Angelo (1981) audit quality is the ability where an auditor creates and reports on the existence of a violation in his client's accounting system. Audit quality is all the possibilities (probability) where the auditor when auditing the client's financial statements can find violations that occur in the client's accounting system and report them in the audited financial report, where in carrying out their duties the auditor is based on auditing standards and the relevant public accountant code of ethics. Financial performance is a measuring instrument to know the process of implementing the company's financial resources (Ichsan, R. et al. 2021). A large number of studies have used the issuance of going concern opinions as a signal of high audit quality. The increasing use of going concern opinion as a measure of audit quality, most of us believe, that audit quality greatly affects going concern opinion (Geiger et al., 2021).

Auditors who have a large scale or who are in the big four KAPs give more going concern opinions if the company experiences a problem regarding the company's future, because auditors with a large scale will try to maintain their good name and reputation. The higher the scale of an auditor, the greater the opportunity for the audit or to be able to provide a going concern opinion. Auditors with high scale can produce better audit quality than low scale auditors (Sari & Triyani, 2018). This research is supported by (Khaddafi, 2015) who finds evidence that audit quality has a positive effect on going concern audit opinions. Large-scale auditors will provide a going concern audit opinion compared to low-scale auditors.

b. Relationship of Debt Default to Going Concern Audit Opinion

In PSA 30, going concern that is widely used by auditors in sharing audit opinion decisions is the failure to meet debt payments (default). Auditors only need to concentrate on identifying clearer indicators of the ability of going concern problems. In SA 570 it is stated that one of the indicators of going concern that is widely used in reaching an audit opinion is the failure to meet debt obligations (default). So when a company experiences a debt default, it will cause a going concern audit opinion. This research is supported by

(Cahyono, 2014) which states that debt default has a positive effect on going concern audit opinion. If the company is not able to pay its obligations properly, then the company will receive a going concern audit opinion.

c. Relationship of Opinion Shopping to Going Concern Audit Opinion

The Securities and Exchange Commission (SEC) describes opinion shopping as an activity where management is looking for a new auditor. The expectation is that the new auditor will be willing to comply with management's wishes regarding accounting treatment.

According to agency theory, agents usually use auditor turnover to avoid accepting the auditor's opinion on going concern. This is opportunistic on the part of the institution as auditors change from year to year and auditors must first try to understand the client's business. Customer first audits increase the number of things auditors need to know about customers. If the audit was the umpteenth audit of the same client, it would look different.

This research is supported by (Rahim, 2017) proving that the opinion shopping variable has a negative effect on the possibility of receiving a going concern audit opinion. Where companies that change their auditors will get a non-going concern audit opinion.

2.4 Research Hypothesis

After the researchers have presented the theoretical basis and framework of thought, the third phase in the research is to formulate research hypotheses. "The hypothesis is a transitory answer to the framing of the study problem," Sugiyono (2019: 99) says of the hypothesis. The following hypotheses are based on the above-mentioned definition of the research problem:

H1: Audit quality has a positive effect on the acceptance of going-concern audit opinion
H2: Debt default has a positive effect on the acceptance of going-concern audit opinion
H3: Opinion Shopping has a negative effect on the going concern audit opinion acceptance

III. Research Method

The research objects in this study are all publicly traded industries in the manufacturing sector that are listed on the Indonesia Stock Exchange in the years 2018–2020. This study's sample collection approach is to sort the sample by estimation (non-probability sampling). Using a purposive sampling strategy, which means that the sample utilized in this study is an illustration that satisfies specific criteria set by the researcher ahead of time.

The dependent variable in this research is the going concern audit view. The going concern audit opinion is coded “1”, while the non-going concern audit opinion is assigned the “0” category. The independent variables in this study are as follows:

a. Audit quality is the service provided by the auditor to consumers where the auditor must be responsible for preventing the good name or thoughts obtained on good activities so that the confidence of his clients is received. Auditor quality is proxied by KAP dimensions using dummy variables. If the KAP is listed in the big four auditors section it will be marked with “1”, otherwise if it is not listed in the big four auditors section it will be marked “0”.
b. Debt default is defined as the carelessness or failure of the industry to pay off the main debt or interest as it falls due. Debt default is measured by the value of equity by calculating the DER number. This variable uses a dummy variable, "1" if the equity value is negative and "0" if the equity value is positive.

c. This variable is measured by using a dummy variable of “1”, if the auditor changes when he finds a going-concern opinion, then “0” if he does not change the auditor when he finds a going-concern audit opinion.

The conventional first-order regression model can yield an unbiased (valid) estimator before testing the hypothesis or regression assumptions. Multicollinearity and autocorrelation tests were employed in this study as assumption tests. Because the dependent variable is categorical (nominal or non-metric) and the independent variable is non-metric or both (nominal and metric), this study uses logistic regression analysis for hypothesis testing. On the independent variables, this analytical method eliminates the need for normalcy tests and traditional assumption tests (Ghozali, 2018: p.325). The goal of this logistic regression is to see if the independent variable can predict the chance of producing the dependent variable.

IV. Results and Discussion

Logistic regression analysis no longer requires normality tests and classical assumption tests on the independent variables because the dependent variable is categorical (nominal or non-metric) and the independent variable is categorical or a combination of metric and non-metric (Ghozali, 2018). Logistic regression was used to examine the effect of audit quality (KA), debt default (DD), and opinion shopping (OS) on the acceptance of going concern audit opinion (GCAO). This test was carried out at the significance level (α) of 5%. The stages of logistic regression testing are as follows:

The test results show that the entire dependent variable consisting of audit quality, debt default, and opinion shopping is included in the model, so there is a decrease in the value of -2 Log Likelihood from 154.933 to 125.998. There is a decrease in the value of -2 Log Likelihood of 28.935 (154.933 – 125.998), meaning that the hypothesized model fits the data. In other words, it shows a better regression model and the addition of independent variables into this form of logistic regression can improve the regression model to fit.

The results of the feasibility test of the regression model that the value of Hosmer and Lemeshow's Goodness of Fit Test with a significance probability value shows the number 0.275. The significance value obtained is greater than the value of = 5%, then Ho is accepted. This shows that the regression model is feasible to be used in the subsequent analysis, because there is no significant difference between the predicted classification and the observed classification.

The value of Nagelkerke R Square is 0.299, which means that the variability of the dependent variable in the form of going concern audit opinion can be explained by the independent variables consisting of audit quality (KA), debt default (DD), and opinion shopping (OS) of 29.9%. While the remaining 70.1% is explained by the variability of other independent variables not examined outside of this research model.

The predictive power of the regression model to predict the possibility of receiving going concern audit opinions to auditees is 76.7%. This means that by showing the proposed regression model, there are 56 auditees (76.7%) who are predicted to receive a going concern audit opinion from all 73 auditees who receive GCAO. The estimated power of the regression model to predict the possibility of a company not receiving a going concern audit opinion is 75%, which means that with the proposed regression model there are 33 auditees (75%) who are predicted to receive a non-going concern audit opinion out of a total of 44 auditees who receive a non-going concern audit opinion. In general, the regression model can take into account the recognition of going-concern audit opinions and non-going-concern audit opinions with an estimated capacity of 76.1%.

The following logistic regression model can be obtained from the results as follows:

$$\mathrm{Ln}\frac{p}{1-p} = -0.109 - 1.197\ \mathrm{KA} + 1.162\ \mathrm{DD} + 1.569\ \mathrm{OS}$$

A constant of -0.109 in the model means if the independent variables of audit quality, debt default and opinion shopping are considered constant, then the average going concern audit opinion is -0.109.

4.1 Effect of Audit Quality on the Acceptance of Going Concern Audit Opinions

The negative regression coefficient value for the audit quality variable, which is proxied by auditors working in the main four KAPs, is -1.197. Then, because the significant level of 0.005 is less than 0.05 (5 percent), the hypothesis has a partial effect on the going-concern audit opinion. This study agrees with that of (Putri, 2020), which found that audit quality had a negative impact on going concern audit opinions, but differs from that of (Kesumojati et al., 2017), which found that audit quality had no impact on going concern audit opinions.

This is not in accordance with signaling theory, because large-scale auditors are not a good signal for investors, because the regression coefficient results for negative audit quality indicate that companies tend not to obtain going concern opinions when using the services of big four KAPs, while companies that use the services of KAP non big four tend to get a going concern opinion. Because for managers, investors do not pay attention to the audit quality scale in reading audit opinions and considering the viability of a company.

Rational managers then do not choose high-quality auditors because they can pay high fees, then prefer non-big four KAPs to be more efficient for the company. This argument is also based on the assumption that non-big four auditors have good quality so that they are able to provide going-concern audit opinions. This can be seen in PT Jakarta Kyoei Steel Works Tbk which from 2018 to 2020 used auditors who were in non-big four KAPs followed by a going-concern audit opinion.

4.2 Effect of Debt Default on the Acceptance of Going Concern Audit Opinions

The debt default variable which is proxied by the DER value shows that the positive regression coefficient is 1.162. Then the significant level of 0.0045 is smaller than 0.05 (5%), meaning that the hypothesis partially has a significant effect on going-concern audit opinion. This is in line with research conducted by (Khaddafi, 2015) which says that debt default has a positive effect on going-concern audit opinion and disagrees with research from (Putri, 2020) which says that debt default has no effect on going-concern audit opinion.

In accordance with signaling theory, because debt default is a signal that the company will get a going concern audit opinion. As stated in SA Section 341 regarding the situation that the auditor needs to consider in calculating the viability of the industry, it is in one of the values stated if the situation regarding the possibility of a company facing financial distress is a failure to fulfill its debt obligations or uniform agreements. To improve the industry in the face of competition, it is necessary to have funding that can be used to fulfill that desire. In extreme situations, the loss can ruin the industry because it can be prone to bankruptcy and the industry's number will decrease.

Companies that cannot pay off the main loan or interest when it is due will most likely receive a going concern audit opinion. Failure to fulfill the role of debt and or interest is a going concern indicator that is widely used by auditors in calculating the viability of an industry. This can be seen in PT Berlina Tbk where from 2018 to 2020 experienced a debt default which was followed by a going concern audit opinion.

4.3 Effect of Opinion Shopping on the Acceptance of Going Concern Audit Opinions

The positive regression coefficient for the opinion shopping variable, which is proxied by changing auditors, is 1.569, with a significant level of 0.0095 less than 0.05. It signifies that the hypothesis has a considerable impact on the audit opinion on going concern. This is consistent with study from (Syahputra & Rizal, 2017), which found that opinion shopping had a positive impact on going concern audit opinions. However, studies from (Mustika, 2017) and (Putri, 2020) found that opinion shopping has no impact on going concern audit opinions.

Managers who change auditors do not receive a non-going concern, which contradicts agency theory. The manager is entrusted with changing auditors in order to improve performance, but this is not consistent with the findings of this study because the regression coefficient above is positive, implying that the more the auditor turnover, the higher the going concern audit opinion. Managers switch auditors in order to obtain a more favorable view for the company or a non-going concern audit opinion. However, once the manager changed auditors, it was discovered that the new auditor's results were identical to those of the prior auditor, namely a going concern audit opinion.

The manager's fault in changing the auditor in order to acquire a better opinion should be taken into account, because if the company does not choose the correct auditor, the new auditor will not necessarily be able to work well with the existing auditor in order to deliver a better audit opinion. This can be observed in PT Prima Alloy Steel Universal Tbk, which changed auditors from 2018 to 2020 yet still provided a going concern audit opinion.

V. Conclusion

The following conclusions can be drawn from the study of data and reviews:

a. There is adequate evidence that debt default has an impact on the auditors' going concern view.
b. There is enough evidence that opinion shopping influences auditors' approval of going concern audit opinions.

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