THE EFFECT OF FINANCIAL CONDITIONS AND COMPANY SIZE ON THE GOING CONCERN AUDIT OPINION

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This study aims to analyze the effect of financial condition and company size on going concern audit opinion. For the measurement proxy, the independent variable of the study, namely the company's financial condition, is measured by the Revised Altman Z-Score Model, while for company size it is measured by the natural logarithm of total assets. As for the dependent variable of the study, namely the going concern audit opinion measured by a dummy variable based on the financial statements presented by the company in accordance with the disclosure of a going concern audit opinion. The number of observations in this study were 245 observations taken from 49 companies in the mining sector with five years of observation. The sampling technique used was the purposive sampling method by taking samples from S&P Capital IQ for financial data for 2017-2021 which were then processed using STATA ver. 17. The result is empirical evidence that financial conditions have a negative effect on going-concern audit opinions, while company size has a positive effect on going-concern audit opinions. For the control variable, only auditor affiliation has an effect on going concern audit opinion with a negative relationship.

Keywords: Company Financial Condition, Company Size, Going Concern Audit Opinion, Revised Altman Z-Score Model, Total Assets

BACKGROUND

Every business that is formed certainly has the goal of surviving in the business world it is occupied with. However, problems cannot be avoided by companies in carrying out their daily activities. If the problem has had an effect on the company's economic activity, then it is possible that in the future, the company will not be able to carry out economic activities both in the short and long term.

Based on the statements of Junaidi and Nurdiono (2016), one of the assumptions in the financial statements is the going concern assumption and this assumption must be fulfilled by the company, namely the company must be able to maintain the continuity of economic activity within the company, both in carrying out operational activities and in terms of the company's financial condition. The purpose of the going concern assumption is the financial statement assumption which states that the company has no problems in maintaining and carrying on its business, so that if going concern has become a problem for the company, then there is an indication that the company cannot achieve sustainability in its business.

Entrenched on expert statements, according to Altman and McGough (1974), there are two going concern problems experienced by companies, namely those related to financial problems and the next are operational problems. Regarding financial
problems, indications that financial problems are starting to arise are the lack of liquidity and equity of the company, debts that have accumulated, and the company's difficulty in obtaining funds, while the operational problems themselves are related to ongoing losses, doubtful income prospects, and weak operational controls.

With the existence of these two types of problems, there is no doubt that it is difficult for companies to survive and continue their business. Under these conditions, the auditor must pay more attention to the financial statements. According to Junaidi and Nurdiono (2016), the auditor needs to be careful in giving an audit opinion because there are implicit things contained and must be considered, including the continuity of the company. The auditor also has the responsibility to evaluate the possibility of a company surviving or not (Arens et al., 2017).

The going concern phenomenon itself in Indonesia is experienced by several companies in Indonesia, one of which is the largest experienced by PT Sariwangi Agricultural Estate Agency. It started with an investment in plantation technology, namely the development of a watering system (drainage) which did not produce results, even though the amount of funds used for this project was very large. This of course resulted in the emergence of large debts, which reached 1.5 trillion, while the income earned was unable to cover the debts incurred. Finally, Sariwangi's financial condition worsened and the company was also unable to pay off its debts even though it had been granted an extension. Therefore, Sariwangi was declared bankrupt and could no longer maintain its business continuity.

Seeing the phenomenon above, topics related to going concern issues, especially in terms of company finances and their correlation or influence on the disclosure of going concern audit opinions still need to be investigated to find appropriate answers.

Based on previous research, research by Arief, Neni, Primanita, Novika, and Rizki (2021) examined the determination of going concern audit opinions based on empirical studies in Indonesia with the result that liquidity and profitability have a negative effect, audit lag has a positive effect, while leverage, audit tenure, and audit quality have no effect on going concern audit opinions, while research by Sesty and Nazmel (2018) which analyzes the effect of company growth, financial ratios, and auditor quality on going concern audit opinions has the result that only solvency has an effect on disclosure going concern audit opinion, while the ratio of profitability and liquidity has no effect on going concern audit opinion.

Far-sighted the differences in the results of previous studies makes this topic very interesting to raise. In addition, this topic is relatively little researched and needs to be studied more deeply in order to get definite answers based on accurate and complete data.

LITERATURE REVIEW
Agency Theory
Agency theory put forward by Jensen and Meckling (1976) explains the contract between the principal and the agent, in which the owner of the company, which may consist of one or more people, deals with management who will provide services on behalf of the owner of the company. As company owners or principals, they will also give authority to agents in terms of decision making.
Keen-sighted this, of course the two parties will be separated and have different interests in an organization, where both will prioritize their own interests first. That is, the interests of the principal are not a priority. That way, the agent does not do what the principal wants and a conflict will arise which is called the agency problem. The agency problem needs to be studied by obtaining objective evidence and assessments (assertions).

**Company Size**
According to Tanggor Sihombing & Chan Ka Hing (2021), size. Therefore, it is necessary to have an audit process related to economic actions or economic events within the company to be adjusted to the criteria of the principal, namely in this case the criteria of the company owner by carrying out the assessment process in the audit, or what is called an assertion. In this case, management who is "paid" by the company owner certainly has pressure to achieve good company performance (in accordance with the compensation received) and wants to get appreciation from the company owner through his performance, so that when the company owner provides appropriate compensation, management will also provide results in accordance with the rewards given, namely by producing maximum company performance. Positive performance certainly has a positive impact on the company's financial condition, namely a healthy financial condition and can prevent the company from potential going concern problems.

**Financial statements**
Rendering to PSAK 1 (2015:1), financial reports are defined as "a structured presentation of the financial position and financial performance of an entity". From this definition, it can be simplified to mean as a presentation of records by the company whose contents are in the form of company assets and transactions in them in an accounting period, either in a monthly or annual period. The benefit is to notify stakeholders regarding the overall financial condition of the company which will later influence decision making.

There are five types of financial reports, namely income statements, cash flows, changes in capital, balance sheets, and financial notes to provide information on the numbers in the financial statements in order to avoid using inappropriate accounting methods. It can be seen that each of the financial statements above reflects the company’s financial condition in a certain accounting period, both to show a healthy financial condition or in terms of going concern.

Companies can be categorized into three types, namely small, medium and large companies. The measurements used as a reference are total assets, income, and market capitalization. Large companies have large assets, so the cash flow coming from sales is also large. This of course will grow the market value of the company because the company’s brand is increasingly well-known among the public. The greater the assets, income, and market value of a company, the more the company avoids going concern problems, which means that in this case the size of the company is inversely proportional to the going concern audit opinion.

**Going Concern Audit Opinion**
Examination of the financial statements will of course be accompanied by an audit opinion with the aim of assessing whether the information in the financial
statements is accurate or not and also to assess the conformity of the principles or standards applied in the preparation of the financial statements. There are five types of audit opinion, namely the first is called the Unqualified Opinion, meaning that the financial statements are presented in accordance with specified principles and standards. That is, in carrying out the audit process, the auditor finds the required audit evidence in full, and is not limited in terms of scope. The second audit opinion is the Modified Unqualified Opinion, where this opinion arises when the auditor finds that there is an inconsistency in the application of IFRS accounting standards, so that there are irregularities in it. The other factors expressed in this opinion are related to the existence of material changes between the two accounting periods in terms of the application of accounting principles or the presence of financial data that should have been required by BAPEPAM (Capital Market Supervisory Agency), but not stated in the financial statements. The third audit opinion is Qualified Opinion, which means that the financial statements are presented fairly, but there are exceptions, namely the presence of material deviations. These deviations can be due to a lack of audit evidence or scope limitations when the audit process is carried out, as well as the company's incompatibility in applying accounting principles as required. The fourth audit opinion is an Adverse Opinion, where this opinion can be given by the auditor with consideration because the auditor finds that the financial statements are not fair because they are not in accordance with accounting principles. The fifth audit opinion is a Disclaimer Opinion, which means that in the audit process, the auditor is limited in terms of scope. As a result, the auditor is unable to carry out the audit process according to standards and results in the auditor not giving an opinion in the form of an opinion. When the auditor gives a disclaimer opinion, it must be accompanied by an explanation regarding the scope limitation problem that occurred and this explanation will be included when preparing the audit report. Linking with the audit opinion, there are important things that the auditor considers, namely the going concern of the company. Going concern itself is defined by Hany et. al., (2003) as the survival of business entities, which means that companies both in the short and long term can survive to avoid liquidation and to remain sustainable in the business world that the company enters. When a company experiences a going concern problem, this problem will be related to the statement of opinion on the financial statements, because the opinion given by the auditor must certainly consider the company's financial condition. In line with this, as stated by Setyarno et. al., (2006), as an auditor whose job is to audit a company, the auditor must consider the economic conditions of the company because it can have an impact on the company's operating results. In addition, the company's financial (financial) condition will also have an impact on the ability to pay debts. This debt payment can be an indicator of whether the company has potential for liquidation in the future, where if the company has difficulty paying debts, then the potential for liquidation in the future will be even higher. If the company is liquidated, it means that the company is no longer able to continue its business or in other words, the company is experiencing a going concern problem. Based on PSA No. 29 paragraph 11 letter (d), it is also explained that if a company experiences problems in its ability to continue its business, the auditor needs to add
an additional paragraph and consider this, but it does not affect the unqualified audit opinion. Based on the provision of audit opinion, it can be seen that if there is an audit report that includes going concern issues, then it can be indicated in the audit conducted, the auditor found a going concern risk.

The concept of the going concern problem as explained by Altman and McGough (1974) related to the company's financial and operational problems is the basis for disclosing an audit opinion with a going concern modification, where if there is difficulty in paying debts, equity conditions are also negative, funds are difficult to obtain in the operational process, also the existence of ongoing losses must of course be considered more seriously by the auditor in seeing the company's ability to survive in the future, so that a going concern audit opinion is also a consideration to be disclosed by the auditor.

RESEARCH METHOD
This study uses mining companies as observational data with a sampling technique in the form of purposive sampling method. Some of the provisions are (1) the sample companies are listed on the stock exchange, namely at S&P Capital IQ from 2017 to 2021, (2) the company's financial report publications must go through an audit process by a Public Accounting Firm, (3) currency Rupiah is the currency in the financial statements used as research sample data.

Variable Operational Definitions
Dependent Variable
The going concern audit opinion is the dependent variable of this study, where the researcher wants to see whether the going concern audit opinion is influenced by the independent research variable, namely the company's financial condition. The determination of the going concern audit opinion variable refers to the research of Islamiati, R., Julianto, W., & Maulana, A. (2022) which examines the factors related to the determination of going concern audit opinion. If you want to see this effect, then there must be a measurement of this variable, namely by looking at whether the current year's financial statements get a going concern audit opinion or not.

Independent Variable
Company Financial Condition
The determination of the company’s financial condition variable also refers to research by Islamiati, R., Julianto, W., & Maulana, A. (2022) which examines the factors related to the determination of going concern audit opinion. As a result, financial distress affects going-concern audit opinion with a negative correlation. Therefore, the company’s financial condition is used as an independent research variable. Researchers used the measurement of financial conditions with the Revised Altman Z Model method, where the bankruptcy model of the company is measured by four coefficients based on its classification, namely liquidity ratios, profitability, leverage, and market tests.

Company Size
Company size as the second independent variable is based on research by Ardi, F. G., Saputra, I., & Mulyani, S. D. (2019) which also uses this variable as a variable that influences going-concern audit opinion. The method of measurement is the
natural logarithm of total assets. The indication is that a large company's assets, income and market value can reflect that the size of the company is also large. That way, the auditor will also be less likely to give a going concern audit opinion to large companies and vice versa.

**Control Variables**

**BIG 4 - Public Accounting Firm Size/Affiliation**

This variable reflects the size of the auditor-affiliated Public Accountant used by the auditee with the assumption that affiliated KAPs as Big 4 have a larger size than KAPs outside the Big 4 and of course have a different reputation, which is better in terms of quality in conducting audits. This means that companies that use Big 4 KAP audit services are more trusted in presenting the company's actual financial condition in terms of wanting to see whether the company is experiencing a going concern problem or not through the audit opinion provided by the auditor. Determination of the KAP size / affiliation control variable used by the company is based on research by Abadi, K., Purba, D. M., & Fauzia, Q. (2019) which has research results that audit quality with Big-4 KAP affiliation size or Non-Big-KAP affiliation 4 affects the going concern audit opinion. From the results of this study, it can be seen that this control variable can support the measurement of the main independent variables of the study.

**Sales Growth**

The company's Sales Growth reflects how the company's sales are, whether increasing from year to year or decreasing. The sales growth control variable was added in this study due to the going concern problem, one of which is influenced by the level of sales of a company. If the level of sales is high, then the company will be able to maintain its business continuity, including financing daily operations and other obligations, both short and long term obligations, so that it can indicate that the potential for the disclosure of a going concern audit opinion is said to be low. Determination of the control variable for company sales growth is based on research by Sasongko, H., Mulyaningsih, M., & Harefa, O. F. (2020) with the result that going concern audit opinion is influenced by company growth. Based on these results, this control variable can support the measurement of the main independent variables of the study.

**Return on Assets (ROA)**

ROA reflects whether the company is able to use its total assets to the maximum to be used as a net income generator for the company. With reference also to the research of Sasongko, H., Mulyaningsih, M., & Harefa, O.F. (2020) with the result that company growth affects going concern audit opinion, then the ROA control variable is determined, where if the sales growth rate increases, then there is a possibility of profit net is also higher.

**Return on Equity (ROE)**

ROE is a company's ability to generate net profit from its total capital. As is the case with determining the control variable ROA, ROE is also determined with reference to the research of Sasongko, H., Mulyaningsih, M., & Harefa, O.F. (2020) which has research results that high or low company sales growth has an impact on
whether or not a going concern audit opinion is disclosed, where if the sales growth rate increases, then the possibility of net profit also increases.

RESULTS AND DISCUSSION

Descriptive statistics

Table 1 Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Observation</th>
<th>Average</th>
<th>Standard Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Going Concern Audit Opinion</td>
<td>245</td>
<td>0.16</td>
<td>0.37</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Company Financial Condition</td>
<td>245</td>
<td>3.62</td>
<td>10.12</td>
<td>-22.75</td>
<td>107.18</td>
</tr>
<tr>
<td>Company Size</td>
<td>245</td>
<td>15.23</td>
<td>1.82</td>
<td>8.76</td>
<td>18.57</td>
</tr>
<tr>
<td>Auditor Affiliation</td>
<td>245</td>
<td>0.41</td>
<td>0.49</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Sales Growth</td>
<td>245</td>
<td>65.22</td>
<td>466.81</td>
<td>-82.24</td>
<td>6302.04</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>245</td>
<td>5.45</td>
<td>9.80</td>
<td>-30.07</td>
<td>51.75</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>245</td>
<td>-7.16</td>
<td>230.36</td>
<td>-3533.12</td>
<td>214.03</td>
</tr>
</tbody>
</table>

Source: Processed by Researchers (Based on Output STATA Ver. 17)

Based on 245 observational data, the dependent variable going concern audit opinion as measured by the dummy variable, namely 1 for companies with going concern audit opinions and 0 for the opposite shows an average of 0.16 meaning 16% of 49 companies with 245 observations get going audit opinions concern in its financial statements. The minimum value is 0 with 1 as the maximum value and a standard deviation of 0.37.

The company's financial condition (KKP) as measured based on the Revised Altman Z-Score shows an average value of 3.62, meaning that the average sample company is in a healthy financial condition and does not experience potential going concern problems because it is above 2.60 for the Z-score. For distribution, this variable has the smallest value at -22.75 and the largest value at 107.18 with a standard deviation of 10.12.

Firm size (SIZE) in this study is measured by total assets calculated by its natural logarithm. The average shows a number of 15.23, which means that the average company in the sample has a logarithmic total asset worth 15.23. The smallest data distribution is at 8.76 and the largest at 18.57 with a standard deviation of 1.82.

Auditor affiliation (AFF) in this study was measured by a dummy variable, namely 1 for companies with Big-4 KAP audit services and 0 otherwise. Based on the data above, it can be seen that the average shows the number 0.41. This means that as many as 41 percent of companies choose the Big-4 KAPs as KAPs for the audit process, while the remaining 59 percent do not. The smallest value of this variable is 0 with 1 as the largest value and a standard deviation of 0.49.

Sales growth or sales growth (SG) is measured by dividing the current year’s sales that have been reduced by the previous year’s sales by the previous year’s sales. The results show an average of 65.22, meaning that the average sample company has a
growth rate of 65.22. As for the distribution, the lowest sales growth was at -82.24 and the highest at 6302.04 with a standard deviation of 466.81.

Return on assets (ROA) is measured using the net income formula divided by the company's total assets. The average yield is 5.45, which means that the average sample company has a return on assets to net income of 5.45 times. For the distribution of this variable, the lowest number is at -30.07, while the highest is at 51.75 with a standard deviation of 9.80.

Return on investment (ROE) is measured by dividing net income by the total capital owned by the company. The average yield is -7.16, which means that the average sample company in this study has a rate of return from owned capital to net profit of -7.16 times. For the distribution of this variable, the lowest number is at -3533.12, while the highest is at 214.03 with a standard deviation of 230.36.

**Inferential Statistical Analysis**

The measurement of the research regression model for testing the goodness-of-fit test uses the Hosmer and Lemeshow Test with the condition that probability\(> \chi^2\) must be greater than or equal to 0.05 to achieve the fit of the logistic model. Based on the test results and grouping the data, it can be seen that the research model adequately explains the data used. This can be seen from the results of the Hosmer and Lemeshow test which have a value of \(>\) 0.05, which is specific at 0.14, meaning that the research model can explain research data with a confidence level of 95%. Based on this 95% confidence level, the logistic regression model that was carried out has passed the test of the feasibility test of the regression model.

<table>
<thead>
<tr>
<th>Table 2 Goodness-of-fit Test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of observations</strong></td>
</tr>
<tr>
<td><strong>Number of groups</strong></td>
</tr>
<tr>
<td><strong>Hosmer–Lemeshow (\chi^2(3))</strong></td>
</tr>
<tr>
<td><strong>Prob &gt; (\chi^2)</strong></td>
</tr>
</tbody>
</table>

To test the overall regression model (overall model fit), this study uses the Log Likelihood test, Cox & Snell R-Squared, and Wald Test, each of which shows the effect of different numbers and criteria. From the log likelihood test, the results show that the iteration likelihood of zero to six iterations is increasing or the value is getting bigger, from -109.04 to -76.09. This is in accordance with the principle of logistic regression and the criteria of the log likelihood test, where the iteration must produce a maximum likelihood, which means that the longer the first iteration, the longer the likelihood increases until the last iteration or the last estimate. Thus, it can be concluded that the regression model used in this study is fit with the data collected.
Table 3 Log Likelihood Test

<table>
<thead>
<tr>
<th>Iteration</th>
<th>Log Likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>-109.03604</td>
</tr>
<tr>
<td>1</td>
<td>-87.662518</td>
</tr>
<tr>
<td>2</td>
<td>-77.866612</td>
</tr>
<tr>
<td>3</td>
<td>-76.178041</td>
</tr>
<tr>
<td>4</td>
<td>-76.088501</td>
</tr>
<tr>
<td>5</td>
<td>-76.088291</td>
</tr>
<tr>
<td>6</td>
<td>-76.088291</td>
</tr>
</tbody>
</table>

Source: Processed by Researchers (Based on Output STATA Ver. 17)

In testing the coefficient of determination, this study uses the Cox & Snell R-Squared method with the aim of assessing the ability of the explanation given by the logistic regression model for each variable. As a result, the Pseudo R2 indicator is worth 0.30, where the independent variable can only affect the dependent variable by 30%, while the rest is influenced by variables other than in this study.

Table 4 Test of the Coefficient of Determination

<table>
<thead>
<tr>
<th>Jumlah Observasi</th>
<th>245</th>
</tr>
</thead>
<tbody>
<tr>
<td>LR chi2(6)</td>
<td>65.90</td>
</tr>
<tr>
<td>Prob &gt; chi2</td>
<td>0.0000</td>
</tr>
<tr>
<td>Pseudo R2</td>
<td>0.3022</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-76.088291</td>
</tr>
</tbody>
</table>

Source: Processed by Researchers (Based on Output STATA Ver. 17)

The Wald Test is also carried out to see whether the relationship between the independent and dependent variables is significant or not, where the prob > chi2 value must be less than 0.01 to be significant. The test results show a prob > chi2 value which is smaller than 0.01, which is 0.0000, so that it can be said that the effect of the independent variable on the dependent variable is significant.

Table 5 Wald test

<table>
<thead>
<tr>
<th>Number of Observation</th>
<th>245</th>
</tr>
</thead>
<tbody>
<tr>
<td>LR chi2(6)</td>
<td>65.90</td>
</tr>
<tr>
<td>Prob &gt; chi2</td>
<td>0.0000</td>
</tr>
<tr>
<td>Pseudo R2</td>
<td>0.3022</td>
</tr>
</tbody>
</table>
HYPOTHESIS TESTING

Number of obs = 245
LR chi2(6) = 65.90
Prob > chi2 = 0.0000
Pseudo R2 = 0.3022
Log likelihood = -76.088291

In the first hypothesis, empirical evidence was found for the proposed hypothesis. This can be seen from the significance of the company's financial condition variable on going concern audit opinion, where the company's financial condition variable is at a significance level of 1% with the numbers 0.002 and 0.001 for the two tailed test. That is, the effect of the company's financial condition is significant on the giving of a going concern audit opinion by the auditor.
The coefficient of the first independent variable is negative which is in line with the hypothesis submission. This means that the company's financial condition has a negative effect on the going concern audit opinion, where a healthy financial condition minimizes the possibility of the company to obtain a going concern audit opinion from the auditor. This research means that it is in line with previous research which is the reference for research because it has the same results, where research from Arief, Neni, Primanita, Novika, and Rizki (2021) has the result that liquidity and proxies profitability of the company's financial condition in the form of ratios affect opinion going concern audit with negative correlation.

For the second hypothesis, there is no empirical evidence regarding the proposed hypothesis. From its significance, this variable has a significant influence, which is at a significant level of 1% with a number of 0.005 or 0.0025 for the two tailed test. However, the resulting correlation value is positive, while the proposed hypothesis has a negative correlation or influence. Thus, it can be concluded that the second hypothesis proposed in this study is not in accordance with the results of data processing. The results of this test indicate that this research is not in line with previous research, namely the research of Kumalawati, Din, and Qonita (2019) which includes a statement by Mutchler (1997) that company size is negatively correlated with receiving going concern audit opinions.

CONCLUSIONS AND RECOMMENDATIONS
This research shows that the company's financial condition has a negative effect on going-concern audit opinion, where the healthier a company's finances, the less likely the company is to get a going-concern audit opinion. For company size, company size has a positive effect on going-concern audit opinion, where the larger a company is, the higher the probability that the company will receive a going-concern audit opinion.

The limitations experienced are related to the 2020 and 2021 financial reports in the context of the COVID-19 pandemic in these two years, where this pandemic has hit Indonesia, not only in the national scope, but globally has also been affected by this pandemic. Therefore, the possibility of a significant impact from the years before the pandemic and after the pandemic certainly occurred and resulted in significant differences in the numbers in the presentation of the company's financial statements.

Due to the research limitations experienced, further researchers are advised to try to conduct research in the same sector, namely the mining sector by taking a special observation year during the COVID-19 pandemic, namely from 2019 to the current year (if it is still in a pandemic condition). That way, the research results will better describe a commensurate comparison under the same conditions, namely the financial condition when a pandemic occurs.

DAFTAR PUSTAKA


