FINANCIAL AND NON FINANCIAL FACTORS ON GOING-CONCERN OPINION

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ABSTRACT

Company's ability to survive is a fundamental uncertainty faced in the preparation and auditing financial statements. Provision of going-concern opinion on these financial statements the company is still being debated. Public Accountant Professional Standards in section 341 states that the auditor is responsible for evaluating whether there is a major doubt on the ability of entities in the continued survival of the appropriate period of time, not more than one year from the date of the financial statements being audited. This research analyzed the financial and non financial factors that affected the provision of going-concern opinion. This research used samples of 63 companies with 315 observations, taken from years 2005-2009. The logistic regression analysis showed that the company's financial condition variables, mitigating evidence, and disclosure significantly influence the acceptance of going-concern opinion. Enterprise risk was not significant at propensity of going-concern opinion.

Keywords: financial, disclosure, mitigating evidence, risk

ABSTRAK

Kemampuan perusahaan untuk bertahan adalah ketidakpastian mendasar yang dihadapi dalam penyusunan laporan keuangan dan audit. Pemberian opini going concern terhadap laporan keuangan perusahaan masih diperdebatkan. Standar Profesional Akuntan Publik bab 341 menyatakan bahwa auditor bertanggung jawab untuk mengevaluasi apakah ada keraguan besar terhadap kemampuan entitas dalam kelangsungannya dari jangka waktu yang tepat, yang tidak lebih dari satu tahun sejak tanggal laporan keuangan yang diaudit. Penelitian ini menganalisis faktor keuangan dan non keuangan yang mempengaruhi pemberian opini going concern. Penelitian ini menggunakan sampel dari 63 perusahaan dengan 315 observasi yang diambil dari tahun 2005-2009. Hasil analisis regresi logistik menunjukkan bahwa variabel perusahaan kondisi keuangan, bukti yang meringankan, dan pengungkapan berpengaruh signifikan terhadap penerimaan opini going concern. Risiko perusahaan dianggap tidak signifikan pada kecenderungan opini going concern.

Kata kunci: keuangan, pengungkapan, bukti mitigasi, risiko

INTRODUCTION

Provision of going-concern opinion on the company's financial statements is still being debated. Going-concern opinion is an auditor's opinion relating to the ability of the entity to continue efforts in a reasonable period which does not exceed one year after the date the audited financial statements. Issuance of going-concern audit opinion is very useful for users of financial statements to make the right decision in investing that will indirectly affect the audited company. Many management companies worried that the inclusion of company condition either in the notes to the financial statements or in audit opinion would give a bad image for the company.

This paper empirically examined the financial and non financial factors that affect the issuance of going-concern opinion. Previous research have suggested that financial variables, non-financial, and market variables relate to the provision by the auditor's going-concern opinion. A number of researchers has revealed the factors associated with going-concern opinion, namely Altman and McGouch (1974), Mutchler (1984, 1986), Menon and Schwartz (1987), Dopuch et al. (1987), Hian Chye Koh and Sen Suan Tan (1999), Geiger and Raghunandan (2002), Gosh and Moon (2005), Geiger and Rama (2006), and Haron et al. (2009). Mutchler (1984) examined the perceptions of auditor's going-concern opinion decision. He conducted a survey to the auditor's going-concern about the criteria by using 10 financial ratios. Two of the ten ratios that are considered most important on going-concern opinion decision are the ratio of cash flow to total debt and current ratio of debt. Furthermore, Mutchler (1986) examined the relationship going-concern opinion with financial statement information by using the six financial ratios.

Menon and Schwartz (1987) examined whether financial variables can be used to predict, whether the company would receive a going-concern opinion. The results indicated that changes in liquidity and operating loss sustained influence decision-making on opinion qualified and nonqualified. Dopuch, et al. (1987) examined the relationship of five variables and four financial market variables to the audit opinion. The results showed that the nine variables tested were significantly different between the companies that received going-concern opinion and the clean opinion. Hian Chye Koh and Sen Suan Tan (1999) tested the ability of neural network to predict the going-concern status by using the six ratios which were all significant to the going-concern opinion. Haron et al. (2009) tested the effect of financial conditions, the type of evidence and disclosure of going-concern opinion. Multivariate regression analysis showed that the financial indicators, the type of evidence and disclosure affected the going-concern opinion.

Disclosure of financial statements is very important information for the auditor, for example, disclosure of financial information regarding the consistent use of accounting methods in the preparation of financial statements, corporate policies, cooperation with the companies that have a special relationship the company, as well as events after the balance sheet date in terms of opinion going-concern. Adequate disclosure of financial information was a basic one auditor in giving his opinion on the fairness of financial statements (Junaidi and Hartono, 2010).

Another factor considered by the auditor is mitigating evidence. Mitigating evidence is information that can reduce the auditor's doubts about the ability of firms going-concern, that such information about the company's plans or actions to overcome the uncertain economic conditions. Mitigating evidence is necessary when identifying the auditors, the auditors found the going-concern doubts about the company. Auditors need to know whether the risk of the company will create significant doubt or not the company's survival. Significant doubts will affect the auditor in issuing its opinion.

This study tested the effect of disclosure, corporate risk, mitigating evidence, size and financial variables on the issuance of going-concern opinion. Santosa & Wedari (2007), indicated that the going-concern opinion can be influenced by financial conditions when analyzed using a proxy model Altman and The Springate model, the previous year's audit opinion. Furthermore, the study tested the effect of disclosure of going-concern opinion, since only a few studies revealed the effects on going-concern opinion in Indonesia.

Audit Quality

The quality audit-market valuation is the probability that financial statements contain material errors and the auditor will discover and report material errors (DeAngelo, 1981b). According to Chi-Wen Jevons Lee et al. (1999) audit quality is the probability that the auditor will not report the report with an unqualified audit for the financial statements contain material misstatements. The quality of audit prescribed by auditing capabilities to reduce noise and bias and improve the purity of the accounting data (Wallace, 1980 in Watkins et al., 2004). Given the actual audit quality is difficult to be observed outside the company, previous research using a variety of sizes that can be observed as a proxy for actual audit quality. Proxies used include discretionary accruals, debt financing costs, restatement of financial statements, auditor litigation, the tendency of going-concern opinion, and fraud. Kneckel and Vanstraelen (2007) use a measure of the tendency issuance of going-concern opinion as a measure of audit quality.

Going-Concern in Accounting and Auditing

An underlying assumption is that the company's accounting process reporting will continue as a going-concern. Auditor's report adds a qualitative dimension to the information. Auditors are intermediaries between providers and users of financial statements report. Within the limits of GAAP, it is a burden the auditor to conclude the fairness of the financial statements. Users entrust independent auditors to mention the situation they are concerned about the impact on the fairness of presentation of financial statements in conformity with GAAP.

In 1988 the Auditing Standards Board (ASB) issued Statement on Auditing Standards (SAS) No.59: The auditor's consideration of an entity's ability to continue as a going-concern, which require auditors to evaluate whether there is substantial doubt about the ability of the client company to continue as a going-concern. SAS asks the auditor to accumulate and evaluate evidence to determine whether the going-concern status is questionable. Consider issuing an auditor going-concern opinion if he finds a reason for doubt the sustainability of a company based on testing. Going-concern audit opinion is an opinion issued by the auditor to ascertain whether the company can maintain its viability (IAI, 2001).

Financial Factors

Auditor's report adds a qualitative dimension to the information. Auditors are intermediaries between providers and users of financial statements report. Within the limits of GAAP, it is a burden the auditor to conclude the fairness of the financial statements. Users entrust independent auditors to declare the situation they are concerned about the impact on the fairness of presentation of financial statements in conformity with GAAP.

Model of bankruptcy and auditors' report have different but similar functions. The model developed to predict. Auditors did not try to make a prediction. An unqualified opinion does not guarantee that a company will continue as a going-concern, and an exception because the problem is not a going-concern prediction liquidation. An opinion expressing doubt a company's ability to continue business continuity based on the uncertainty over the fairness of presentation of financial statements. It

is possible for the presentation of financial statements that are based on historical cost for fairly presented when the company faces bankruptcy if the residual value of assets of the company's present value of the realization of assets. Altman and McGouch (1974) found that the model predicts 82% of cases of bankruptcy bankruptcy on the last available financial statements prior to bankruptcy. Opinion indicates the auditor going-concern problems in 44% of cases, based on the financial statements are available prior to bankruptcy. Further studies that use financial indicators to measure the going-concern opinion issued by the auditor is Mutchler (1984, 1986); Menon and Schwartz (1987), Dopuch, et al. (1987), Hian Chye Koh and Sen Suan Tan (1999), Santosa & Wedari 2007), indicates that the going-concern opinion can be influenced by financial conditions when analyzed using the Altman model and the Springate model, and the previous year's audit opinion.

One of the importance of analyzing the financial statements of a company is its usefulness to predict continuity or bankruptcy of the company. Previous studies have indicated that statistical models based on financial ratios have tronger explanatory power than the auditor's judgment (Altman & McGough, 1974; Altman, 1968; Hian Chye Koh & Killough, 1990) on the issue of a going-concern opinion. However, another study found that a statistical model of financial ratios has the same predictive ability as the auditor's judgement (Hopwood, McKeown & Mutchler, 1994). Financial indicators used in this study, using a model approach to Altman (1968):

$$Z = 1.2Z_1 + 1.4Z_2 + 3.3Z_3 + 0.6Z_4 + 0.999Z_5$$

Where:

Z_1 = net working capital/total asset
Z_2 = retained earning / total asset
Z_3 = earnings before interest and taxes / total asset
Z_4 = market value of equity / book value of debt
Z_5 = sales / total asset

Company's financial performance based on the model of bankruptcy Altman method:
1. If Zscore value is smaller than 1.8, the company is predicted bankrupt (distress zone)
2. If Zscore value is between 1.8 - 2.99 the company is predicted does not have healthy financial certainty (gray zone)
3. If Zscore value is greater than 2.99, the company is predicted not bankrupt (safe zone)

From these criteria, a company with a low Zscore has great potential to receive the auditor's going-concern opinion, whereas companies with high Zscore potentially should not receive going-concern opinion from the auditors. Therefore, the hypothesis is:
$H0_1$: financial condition does not affect the issuance of going-concern audit opinion.

Mitigating Evidence

Non-financial information is also necessary to consider the auditor in its audit opinion. When identifying the conditions and events, the auditor found the going-concern doubts about the ability of the company, the auditor then should identify and evaluate management plans to mitigate the effect of these events. It is also stated in SPAP (2001) that if, after considering the conditions or events that have been identified as a whole, the auditor believes that there is great skepticism about the ability of entities in the continued survival of the appropriate period, he must weigh the management plan in the face of adverse impacts of condition or event. Considerations relating to the auditor-management plan may include: plans to sell assets, withdrawal plan debt or debt restructuring, plans to reduce or delay expenditures, and owner plans to raise capital.

If the evidence that can convince the auditors that management plans can reduce the auditor's doubts, the going-concern opinion will be not required. However, if the evidence is not able to convince the auditors, the going-concern opinion will be required. Research Bruynseels & Willekens (2006) found evidence that the actions to be performed by companies both short and long term, will reduce the

possibility of the issuance of going-concern opinion. Furthermore, the hypothesis is presented as follows:

H0$_2$: mitigating evidence does not affect the issuance of going-concern audit opinion

Disclosure

Disclosure is conceptually an integral part of financial reporting. Technically, disclosure is the final step in the accounting process is the presentation of information in the form of a full set of financial statements. Disclosure purposes is to provide information to improve understanding of the significance of financial instruments on financial position, performance, and cash flow entities, as well as helpful in assessing the amount, timing, and certainty of future cash flows associated with such instruments (PSAK No. 50, 2009) . Contractual terms and conditions of the financial instrument affect the amount, timing, and certainty of cash receipts and payments in the future by the parties relating to such instruments. If financial instruments are significant, either individually or in groups, against the entity's financial position or results of operations in the future, then all terms and conditions of the instrument disclosed.

Disclosure of financial statements is very important information for the auditor. Adequate disclosure of financial information was a basis of auditor in giving opinion, the financial statements on the fairness of the company (Junaidi and Hartono, 2010). In conjunction with the going-concern opinion, the financial statements should disclose whether there are conditions or events that could cast doubt over the ability of the going-concern company. The existence of such disclosures to make the auditor believes that the company also has a belief that their financial condition will be affected by economic conditions, or in other words, the company also has doubts to continue the effort. Companies that make disclosures in accordance with the standards of disclosureare likely to receive clean opinion. Furthermore, the hypothesis is as follows:

H0$_3$: Disclosure does not affect the issuance of going-concern audit opinion

Risk

Enterprise risk is the risk inherent in the company as it moves in the industry with certain risks. Company's risk can be measured by stock investment risk analysis. Investment risks may include loss of stock and the decline in the exchange rate bonds, failed to receive cash dividends and bond coupons, failed to receive back the principal of bonds because the issuer declared bankruptcy, and failed to receive a return of capital for listed companies to go bankrupt or will not sell their shares because the issuer in question have been excluded from listing on the Stock Exchange. Investment risks are grouped into two major groups namely systematic risk and specific risk. Specific risks affecting only a particular stock or sector. Company's risk can be determined from the value of beta. Beta is a measure of return volatility of a security or portfolio return against the market return. Beta measures the volatility of portfolio returns with market return portfolio. Therefore, beta is a measure of systematic risk of a security or portfolio relative to market risk.

Volatility can be defined as the fluctuations of the return-return of a security or portfolio in a given period of time. Beta of a security can be calculated with estimation techniques that use historical data. Beta is calculated based on historical data can then be used to estimate the beta of the future. Historical beta can be calculated using historical data of market data, and accounting data. Beta is calculated by market data referred to by market beta. Market beta can be calculated using regression techniques. Regression techniques to estimate the beta of a security can be done by using the return-return securities as the dependent variable and return-market return as independent variables. Regression equation used to estimate the beta can be based on a single-index model or models or market using the CAPM model. Therefore, by knowing the risk of the company, the auditor can analyze whether the risk will cause a significant doubts or not the company's survival. Significant doubt, will affect the auditor in issuing an opinion. Furthermore, the hypothesis is presented that is:

$H0_4$: company's risk does not affect the issuance of going-concern audit opinion

METHOD

Sample

The samples are companies listing on Indonesia Stock Exchange from 2005-2009 obtained by purposive sampling, with the following criteria: listed in the year 2005-2009, published financial statements in the year 2005-2009, actively traded stock company until 2009, and published complete data.

Data

This study used secondary data obtained from audited financial statements of manufacturing companies listed on the Stock Exchange in the year 2005-2009 at the corner of the Indonesia Stock Exchange, UTY. The data required in this study were auditor's opinion, company's working capital, total assets, retained earnings, EBIT, the book value of equity, total debt, sales, notes to the financial statements, daily stock price.

Model

$$GC = \alpha + \beta_1 \text{ FIN} + \beta_2 \text{ ME} + \beta_3 \text{ D} + \beta_4 \text{ R} + \beta_5 \text{ TA} + \varepsilon$$

where:
GC   : going-concern opinion (1: going-concern opinion, and 0= clean opinion
α : constanta
β_1- β_4 : Regression coefficients
FIN   : Financial condition of company
ME   : Mitigating Evidence
D   : Disclosure
R   : Risk
TA   : Total assets
ε : error

Operational Definition

Dependent variable in this study is the going-concern opinion. This variable is a dummy variable, in this case a variable worth 1 if the company received a going-concern opinion and is 0 when receiving a nongoing concern opinion. Independent variables in this study include the company's financial condition, mitigating evidence, disclosure, and corporate risk, as follows:

Financial Condition

Financial condition as measured by Altman's bankruptcy prediction model (1968) was
$$Z = 1.2Z_1 + 1.4Z_2 + 3.3Z_3 + 0.6Z_4 + 0.999Z_5$$
where:
Z_1 = net working capital/total asset
Z_2 = retained earning / total asset
Z_3 = earnings before interest and taxes / total asset
Z_4 = market value of equity / book value of debt
Z_5 = sales / total asset

Company's financial performance criteria based on the Altman bankruptcy model are: (1) if the value is smaller Zscore from 1.8 to predict corporate bankruptcy (distress zone); (2) when Zscore value between 1.8 - 2.99 predicted the company does not have to stay healthy financial certainty (gray zone); (3) when Zscore value greater than 2.99 predicted the company is not bankrupt (safe zone).

Mitigating Evidence

Evidence is mitigating a dummy variable. It will be worth 1 if the auditor find any plans that will be done by the company to face the economic conditions. It will be worth 0 when the auditors do not find any mitigating evidence.

Disclosure

Disclosure is a dummy variable. It is worth 1 if the company made the disclosure or to disclose the existence of doubts over the ability of corporate management company going-concern. It is worth 0 if the company does not disclose it.

Risk

Risk is measured by single index model, by the following equation:

$R_i = \alpha + \beta_i R_m + e_i$

where:

R_i = the return on security i

α = constanta

R_m = the return on market index

β_i = a constant measuring the expected change in the independent variable, R_i, given a change in the independent variable, R_m

Control Variable

Variables are used to control the causal relationship in research in order to study the model becomes more complete and better, namely firm size. Firm size is calculated using the natural log of total assets.

Hypothesis

Hypotheses were tested using logistic regression analysis. Logistic regression was part of the regression analysis used when the dependent variable was a dichotomous variable. Dichotomous variable usually consists only of two values that represent the appearance or absence of an event that is usually given a number 0 or 1. Based on the statistical test, p-value of each independent variable will be obtained. If p-value < 5% (α), the null hypothesis is statistically rejected.

RESULTS AND DISCUSSION

Sample

Based on these criteria, we obtained samples from 63 companies as follows (Table 1):

Table 1 Sample

Description	Amount
Manufacturing companies that consistently publish financial statements from the year 2005-2009	163
Incomplete data	100
Number of samples	63

Company Classification

This study analyzed 63 companies listing on the Stock Exchange in 2005 until 2009. Classification results based on the company's audit opinion received from 2005 until 2009 are as follows (Table 2):

Table 2 Classification of samples based on the Auditor's Opinion

Audit opinion	Year					amount
	2005	2006	2007	2008	2009	
Non going concern opinion	34	37	42	48	53	214
Going-concern	29	26	21	15	10	101
Number of firms	63	63	63	63	63	315

Regression Model

Based on Table 3, the value of Cox & Snell R Square was 0.415, and the value of Nagelkerke R Square was 0.586. This means that the dependent variable can be explained by the independent variable of 58.6%.

Table 3 Model Summary

-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
224,189[a]	,419	,586

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than ,001.

Based on Table 4 below, it is noted that the classification accuracy of the logistic regression model has an estimated value of right and wrong. The accuracy of predictive logistic regression model to predict the factors affecting the going-concern opinion on companies that do not get going-concern opinion (coded 0) as much as 92.1% with a prediction error of 7.9%. While the prediction accuracy to predict the factors affecting the going-concern opinion on companies that have going-concern opinion (code 1) was 76.2% with a prediction error was 23.8%. Overall, the prediction accuracy of logistic regression model to predict the factors affecting the going-concern opinion on companies that do not get going-concern opinion and the going-concern opinion was obtained 87%.

Table 4 Classification Table[a]

			Predicted		
	Observed		GC		Percentage Correct
			,00	1,00	
Step 1	GC	,00	197	17	92,1

		24	77	76,2
1,00				
Overall Percentage				87,0

a. The cut value is ,500

This study used logistic regression model to test four hypothesis. The hypothesis test with logistic regression was on Table 5. If the p value less than 5% (α), the null hypothesis is statistically rejected. Based on analytical results obtained the following results were:

Table 5 Variables in the Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1[a]	FIN	-1,523	,266	32,826	1	,000	,218
	ME	1,886	,463	16,636	1	,000	6,596
	D	1,028	,475	4,679	1	,031	2,795
	R	-,452	,352	1,646	1	,199	,637
	TA	,127	,086	2,202	1	,138	1,136
	Constant	-,250	1,119	,050	1	,823	,779

a. Variable(s) entered on step 1: FIN, ME, D, R, TA.

Testing Hypothesis 1

Table 5 showed that the p-value of the financial condition of 0.000 was smaller than 0.05. Therefore statistically the null hypothesis which stated that financial conditions did not affect the going-concern opinion was statistically rejected. Company's financial condition variable coefficient was negative which showed that the better financial condition then it was likely the auditors to issue going-concern opinion getting smaller. Conversely, the poor financial condition likely made going-concern opinion issued by auditor increased.

The survival of companies in the future is something which is uncertain. Prediction of bankruptcy can be used as a reference for users of financial statements to assess the viability of the company in the future. The auditor's going-concern opinion can also be used as a reference for users of financial statements to assess the viability of the company in the future. The business community recognizes that there is no other independent professionals who can understand the client's business situation as well as auditors, because auditors are responsible for evaluating whether there is substantial doubt on the ability of the continued survival of the entity (going-concern) in sufficient time period, not exceeding one year after audited financial statement date. The results of this analysis support the research conducted by Santosa & Wedari (2007) and Haron et al. (2009). They stated that the auditor would only give opinions going-concern if the company was considered bankrupt or difficult to continue their business. This means going-concern opinion and the bankruptcy prediction model has a similarity in predicting the survival of a firm and those two things coexist in providing information about business continuity.

Testing Hypothesis 2

Testing hypothesis 2 aimed to analyze the mitigating evidence at the going-concern opinion. Table 5 showed that the p-value of the mitigating evidence was 0.000 which was smaller than 0.05. Therefore statistically the null hypothesis which stated that the mitigating evidence did not affect the going-concern opinion was statistically rejected. The auditor would consider whether there was mitigating evidence made by a company. Going-concern opinions tend to be given to companies that provide mitigating evidence.

Testing Hypothesis 3

Table 5 showed that the p-value was 0.031 for disclosure which was less than 0.05. Therefore statistically the null hypothesis which stated that the disclosure did not affect the going-concern opinion was statistically rejected. The results of this analysis support the results of research conducted by Junaidi & Hartono (2010) and Haron et al. (2009), which stated that disclosure significantly influence the issuance of going-concern opinion by the auditors.

Testing Hypothesis 4

Testing hypothesis 4 aimed to analyze the company's risk in going-concern opinion. Table 5 showed that the p-value was 0.199 where the corporate risk variable was greater than 0.05. Therefore, statistically the hypothesis stating that risk did not affect the company's going-concern opinion could not be rejected statistically.

Testing Control Variables

Table 5 showed that the p-value was 0.138 for firm size variable which was greater than 0.05. The company's asset growth was not followed by auditees ability to increase its profits so that balance could not reflect the actual state of the company, mainly to survive in their operations. The results of this analysis was different from the research (Santosa & Wedari, 2007; Junaidi & Hartono, 2010) which stated that the size affected the issuance of company going-concern audit opinion.

CONCLUSION

Going-concern opinion is an auditor's opinion about the ability of the entity to continue efforts in a reasonable period of not exceeding one year after the date of audited financial statements. Issuance of going-concern audit opinion is very useful for users of financial statements to make the right decision in investing that will indirectly affect the company being audited. There are several factors that may affect the issuance of going-concern audit opinion, both financial and non financial factors. Based on logistic regression analysis of test results obtained by empirical evidence, the company's financial condition variables as measured by Altman's model, significantly influenced the acceptance of going-concern opinion. Furthermore, based on the empirical evidence obtained, the variables such as mitigating evidence and disclosure, affect the issuance of going-concern opinion. However, based on the results obtained by the analysis of empirical evidence, the company's risk as measured by beta has no significant effect in the publishing company's going-concern opinion. This research has limitations, both the samples and factors included in the research model. Therefore, further research can expand the observations, and include other factors in the model study.

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