

The Effect of Solvability, Company Growth and Income Management on *Going Concern Audit Opinions*

Anggi Dini Puspita¹, Dodik Juliardi², Dhika Maha Putri³

Jurusan Akuntansi, Fakultas Ekonomi, Universitas Negeri Malang^{1,2,3}

Jl. Semarang No.5, Sumbersari, Kec. Lowokwaru, Kota Malang, Jawa Timur 65145

Correspondence Email: dhika.maha.fe@um.ac.id

ABSTRACT

This research aims to determine the influence of solvency, growth of the company, and profit management on the going concern audit opinions. The study used the analysis of the confirmatory factor to test the correlation between variables and logistical regression analyses to test the hypothesis. The selected sample in this study is a service company with the transportation sub-sector listed on the Indonesia Stock Exchange (IDX) in 2014-2018 with purposive sampling technique. The results of this study show that (1) solvency affects the going concern audit opinion, (2) The company growth does not affect the going concern audit opinion, (3) Earnings management does not affect the going concern audit opinion.

Keywords: Company Growth, Earnings Management, Going Concern Audit opinions, Solvency

INTRODUCTION

Business is executed with one of the objectives, namely to maintain his survival (going concern) in order to remain known by the wider community. Going concern indicates the presence of the assumption that the financial statements will be directly influenced when a company can sustain his life (Setiawan in Santosa and Wedari, 2007). The Audit on financial statements plays an important role in creating a quality financial report. In addition to providing audit opinions on the fairness of financial statements, the auditor is also obliged to assess the validity of the company's ability to maintain its business continuity (going concern).

Going concern audit opinions are influenced by several factors, as loss of operations or deficiencies in working capital repeatedly and significantly, the inability of a company to fulfill its obligations to maturity, loss of primary customers, catastrophic that is not guaranteed by insurance, such as earthquakes, floods, or can also be unusual employment problems, court problems, legislation, or other similar things (Arens, elders, 2014). The factors that have been described can reflect the variables that will be examined in relation to the going Concern audit opinion, which reflects the company's growth conditions in some periods, in addition to reflecting the financial performance conditions of a company by calculating its solvability ratio, and other factors will be able to encourage management to perform profit management in order to still benefit from the effort carried out.

In practice until now there are still many cases that arise related to the going concern audit opinions. One of the cases that occurred in 2019 is a case that is being marginated, namely the findings of the financial inspectors for the engineering of financial statements

on the airline Garuda Indonesia. This is attributed to the negligence of the auditors conducting a series of audits on the financial statements of Garuda Indonesia Airlines, so that the auditor is frozen for one year on the incident. From the existing case, it can be said that the financial statements presented by the company are not separated from the audit opinion report produced by the independent auditor. The report is also an important means of communicating financial information to external parties, especially investors.

In accordance with the signalling theory, namely that financial statements can be used an entity to provide positive or negative signals to Investor or other financial report user (Sulistyanto, 2008). In accordance with the above signalling theory can explain about the relationship between the solvency variable with the going concern audit opinions. When the ratio of solvency is higher, it can be said that company assets financed through debt will be higher as well. In addition, signalling theory can also explain the relationship between the company's growth variables on the going concern audit opinions. If a company is experiencing a bad company growth annually will cause the auditor to hesitate to the company's ability to maintain its business continuity (going concern).

While in accordance with the theory of agency, according to Anthony and Govindarajan in Siagian (2011) stated that the concept of agency is the relationship or contract between the manager (agent) and the owner (principal). There are several profit management motivations, namely bonus motivation, contract motivation, political motivation, tax motivation, CEO turnover, initial stock quotes, and capital market motivation (Scott, 2012). It is this motivation that can enlarge the possibility of a manager to do profit management in order to get personal profit. Based on the above agency theory can explain the relationship between the profit management variables on the going concern audit opinions. In this case when a manager (agent) does the profit management cause the information to be submitted through financial statements presented to the owner (principal) becomes inaccurate and this will be detrimental to external parties. This enlarges the possibility of a company getting a going concern audit opinion.

Until now began a lot of research discussing the factors that can influence the acceptance of the audit going concern. Research Lie, Puruwita, and Warsoko (2016) conducted in the manufacturing Company stated that the solvency has a positive influence and is an important influence on the going concern audit opinions. Meanwhile, research conducted by Wibisono (2013) stating that solvency has no effect on the going concern audit opinions.

Another research by Santosa and Wedan (2007) which mentions that the growth of the company has no effect on the audit opinion giving going concern. The research was not in line with the research conducted by Tuanakotta (2013) in his book titled "ISA-based Audit" written that the operating cash flow that is negatively valued will affect the Going concern audit opinions.

There is another study that describes the factors that influence the opinion of the audit going concern, which is research conducted by Ferima (2010) which mentions that the existence of profit management practices that a company will have an impact on the audit opinion giving going concern. This research is in line with the one done by Suryani (2014) by concluding that if there is an increase in the value of profit

management practice, then the possibility of acceptance of the audit of going concern also increases. However, this is in contrast to the research conducted by Haris (2011) which mentions that there is no influence of profit management on the going concern audit opinions.

Still there are cases that occur and the differences in the results of the research above, causing the authors want to research more about the problem that occurs in the going concern audit opinions. In this research the authors use samples in service companies with the transportation sector listed on the Indonesia Stock Exchange (IDX) in 2014-2018. The authors in this study used the solvency variables, the company growth, and the profit management against the going concern audit opinions. Based on the above background, the author is interested to do research with the title "Effect of solvency, growth of company, and profit management against Going concern audit opinions".

Based on the explanation above, it can be hypothesized as follows: H1: Solvency affects the going concern audit opinions.

H2: The company growth affects the going concern audit opinions. H3: Profit management affects the going concern audit opinions.

RESEARCH METHOD

Research uses quantitative methods that will ultimately estimate the results of the influence of variables independent of dependent Variable. This research uses the analysis of the confirmatory factors to reduce and to know whether or not the relationship between variables will be examined. In addition, in this study used a logistic regression analysis as an analysis tool to test the research hypothesis. In this study use secondary data in the form of financial statements published on the Indonesia Stock Exchange (IDX). The data collection techniques used are documentation techniques by looking at past records in the form of financial statements. The sample in this study is a service company with a transportation subsector listed in IDX from 2014-2018 chosen by using purposive sampling technique. The number of companies selected, namely as many as 22 companies for 5 years, so there are 110 data.

The solvency variable is measured using the primary ratio formula indicating the capital adequacy of the company. The company's growth in research is seen through the amount of data on operating cash flows. When the number of operating cash flows is negative it will be given code 1, while the number of operating cash flows positively is coded at 0. Profit management variables are calculated using the discretionary accrual formula. As for the audit opinion variables going concern is a dummy variable with categorical data. Code 1 given to the company with the opinion of audit going concern, while the code 0 is given to the company with the opinion of the audit of non-going concern.

The correlation test between independent variables is carried out using the confirmatory factor analysis technique. To know the presence or absence of significant correlation between independent variables can be seen from the results of the Bartlett Test of Sphericity (Morisson in Puspitasari, Mukid and Sudarno, 2014). Independent variables are said to be free or there is no significant relationship when the significance result in the Bartlett Test of Sphericity is greater than the significance of the (α) 0.05. The hypothesis test was conducted using the logistic regression analysis technique by

viewing the results in the variables in the equation table.

RESULTS AND DISCUSSION

The analysis of the confirmatory factor can be used to test the correlation between independent variables by looking at the results of KMO and Bartlett's Test table:

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,455
Bartlett's Test of Sphericity	Approx. Chi-Square	10,007
	Df	6
	Sig.	,124

According to the table above it can be seen that the significance value of the Bartlett Test of Sphericity is 0.124, so it can be concluded that there is no correlation between the independent variables used in this study. Logistical regression analyses are used to test hypotheses by viewing results from the Variables in the Equation table:

Variables in the Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 ^a	SOLVA	-,406	,174	5,408	1	,020	,667
	PERTUMBUHAN	1,000	,619	2,611	1	,106	2,719
	MANAJEMEN	-,422	,642	,432	1	,511	,656
	Constant	-1,093	,256	18,260	1	,000	,335

a. Variable(s) entered on step 1: SOLVA, PERTUMBUHAN, MANAJEMEN.

Based on the table above can be seen the results of logistic regression test is able to produce regression model as follows:

$$\ln \frac{p}{1-p} = -1,093 - 0,406 \text{SOLVENCY} + 1000 \text{GROWTH} - 0,422 \text{MANAGEMENT} + \varepsilon$$

The results of the hypothesis test can be seen in table 4.9 above with the following conclusions:

1. Hypothesis 1

The test results in the table indicate that the solvency variable has a regression coefficient of -0.406 with a significance level of < 0.05, of 0.020. It shows that the hypothesis 1 was received, so the solvency significantly affected the going concern audit opinions. In addition, with a regression coefficient of negative value, indicating that when the ratio of solvency used to measure capital adequacy is increasingly small and cause the ability of the company to pay off the debt is getting lower, then

the company will be more likely to get going concern audit opinions.

2. Hypothesis 2

Based on the table above can be known that the regression coefficient is 1000 with significance level of > 0.05 , of. 0.106. The result can be concluded that the hypothesis 2 is rejected, so that the company growth seen from the amount of cash flow is negative value has no effect on the going concern audit opinions.

3. Hypothesis 3

If viewed from the table above, the variable regression coefficient value is -0.422 with a significance level of > 0.05 , of. 0.511. It can be deduced from the results that the 3 hypothesis is rejected, so profit management does not affect the going concern audit opinions.

Discussion

1. Effect of solvency on going concern audit opinions

It can be seen in the solvency variable the significance value of < 0.05 , which is 0.020 with a regression coefficient of -0.406 and a coefficient of determination of 0.181. Thus, the results suggest that H1 is accepted stating that the solvency affects the going concern audit opinions. The result of the regression coefficient indicates that the solvency variable has a negative influence on the going concern audit opinions. This means that when the solvency variable has an increasingly higher value, it will cause the company's tendency to acquire the going concern audit opinions getting lower and likewise vice versa. If viewed from Result of coefficient of determination, then it can be said that the effect of solvency to going concern audit opinions is 0.181 or by 18%. So that the audit of going concern variables can be explained by the solvency variable by 18%, while the rest are influenced by other variables outside the variables present in this study.

A solvency variable with a primary ratio proxy is used to measure the capital adequacy of a company (Anggraini, 2014). When the primary ratio is lower, it indicates that capital adequacy in a company is poor, so that the company's ability to pay off long-term and short-term debts will decrease and vice versa. This causes the probability of the company to get the going concern audit opinions increasingly higher.

This research is in accordance with the theory explained, the signalling theory that states that when the company has high debt and poor capital adequacy, it will cause the company to have the ability to pay off the debt that is lower. It can be used as a negative signal by investors or users of other financial reports. In addition, such conditions will pose a doubt the auditor for the ability of a company in maintaining its business continuity, so the more likely that a company get going concern audit opinions.

The results of this test differ from the results of research conducted by Wibisono (2013) stating that solvency has no effect on the going concern audit opinions. The research was in line with the research conducted by Lie, Puruwita, and Warsoko (2016). In his research it is explained that the solvency affects the going concern audit opinions. The research is also aligned with the research conducted by Pasaribu (2015) explaining that the solvency affects the going concern audit opinions.

2. Effect of company growth on going concern audit opinions

Can be seen in the enterprise growth variable value significance > 0.05 , of. 0.106 with a regression coefficient of 1000. Results Testing on the company's growth

variables showed that H2 was rejected, so it can be concluded that the growth of the company has no effect on the going concern audit opinions. This means that when the number of operating cash flows is negative, the probability of the company to acquire the going concern audit opinions is not getting higher and vice versa. It can be proven from the data obtained, ie when the company growth variable is 0, meaning that the amount of operating cash flow is positive, then the audit opinion variable going concern is worth 0. When the value of the company's growth variable rises to 1 which means that the amount of operating cash flows is negative, then the value of the audit opinion variable going concern remains worth 0.

This result is different from the theory expressed by Tuanakotta (2013) stating that the operating cash flow is negatively valued as one of the indicators of doubt on the continuity of a business. The research is also different from the theory explained, the signalling theory. So, it can be concluded that the bad growth of the company does not impact the going concern audit opinions. The difference in the results of this research is due to the operational cash flow data of the transportation Service company taken into a positive value average sample and some operational cash flows that are negatively valued by companies that do not acquire going concern audit opinions.

This test results in line with the research conducted by Santosa and Wedan (2007) which shows that the growth of the company does not affect the going concern audit opinions. Thus, the higher the growth of the company, the less likely the company receives going concern audit opinions. Conversely, the lower the growth of the company, then it is not more likely the company receives a going concern audit opinion.

3. Effect of profit management on going concern audit opinions

Based on the analysis results in chapter IV, it can be seen in the profit management variable significance value > 0.05 , namely at 0.511 with a regression coefficient of -0.422. This indicates that H3 is rejected, so it can be concluded that profit management does not affect the going concern audit opinions. The result indicates that when the company conducts the profit management practice, it will not increase the probability of a company to get going concern audit opinions and likewise vice versa. This can be proved from the data obtained, ie when the profit management variables are worth 0.05, then the audit opinion variable going concern is worth 0. When the profit management variable value rises to 0.07, the value of the audit opinion variable going concern remains worth 0. Likewise, conversely, when the value of the profit management variable decreases to -0.04, the value of the audit opinion variable going concern remains worth 0. The results obtained in this study were not in line with research conducted by Suryani (2014) and Ferima (2010) which showed that there was an influence between the management of profit on the going concern audit opinions. The results of this research also differ from the theories that have been explained, namely agency theory.

So that it can be concluded that the profit management by manipulating the company profit does not impact the going concern audit opinions on a company. This difference is due to profit management variable data selected to be the average sample done by the company who obtained the opinion of non-going concern audit. In addition, the differences can also be caused by the auditors who audit the financial statements of a

company is less transparent in giving his opinion. It is evident from the research conducted by Johl, Jubb, and Houghton (2007) stating that auditors in developing countries can be said to be less transparent and weak than developed countries.

The results of this hypothesis test supported the research conducted by Haris (2011). In his research shows that there is no influence between profit management on the going concern audit opinions. So, the practice of profit management in a company does not increase the probability of a company to get going concern audit opinions and vice versa.

CONCLUSIONS

1. Solvency affects the going concern audit opinions. The results of this study received the first hypothesis stating that the solvency affects the going concern audit opinions. The lower the solvency measured by the primary ratio, the greater the probability that the company gained a going concern audit opinion. Conversely, the higher the solvency, the smaller the probability companies get a going concern audit opinion. The test results are conducted in accordance with the theory described, the signalling theory. The results of the study were in line with the research conducted by Lie, Puruwita, and Warsoko (2016) and Pasaribu (2015).
2. Growth of the company has no effect on the going concern audit opinions. The results of this study rejected the second hypothesis, so it can be concluded that the worse the growth of the company, then does not increase the probability of a company get a going concern audit opinion. Conversely, the better growth of the company, it does not decrease the probability of a company obtaining a going concern audit opinion. This research is not in line with the theory that has been explained, the signalling theory. The results of this study were in line with the research conducted by Santosa and Wedan (2007). However, this study was different from the research conducted by Wibisono (2013). This difference is due to the average company sample has a positive amount of operational cash flow and the amount of operating cash flow that is negatively valued by the company with the opinion of non-going concern audit.
3. Profit management does not affect the going concern audit opinions. The results of this research rejected the third hypothesis, so that the results of this research can be concluded that the practice of profit management, then does not increase the probability of the company to get the going concern audit opinions. Conversely, if a company does not do profit management, it does not decrease the probability of the company to obtain going concern audit opinions. This research does not support the theories described, of. agency theory. The results of this research are in line with the research conducted by Haris (2011). However, the study was not in line with research conducted by Syriac (2014) and Ferima (2010), as well as research from Johl, Jubb, and Houghton (2007). This difference is due to the average profit management conducted by the company with the opinion of non-going concern audit and can also be caused by an auditor who is less transparent in giving his opinion.

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