

The Influence of Profitability and Company Growth Toward Going Concern Audit Opinion on Property Companies in Indonesia

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ABSTRACT

The COVID-19 pandemic that has hit Indonesia since last year has had an impact on the economy and business continuity of companies in Indonesia. Auditors tend to issue a going concern opinion when they doubt the continuity of the company business being audited, especially during the COVID-19 pandemic. According to preliminary studies, a company's financial condition and growth tend to influence auditors' opinions. Therefore, this study aims to examine the factors influencing the issuance of going concern opinion by auditors, especially financial factors such as profitability and company growth. Data were collected from the financial statement of manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2020. The test tool used to determine the influence of independent variables on the dependent variable is the logistic regression. The results showed that the company's profitability influences auditor's going-concern opinion and company's growth do not influence auditors' going-concern opinion. This is because during the pandemic, many property companies hampered in continuing development, thereby reducing the company's revenues and profits, which had an impact on the company's hesitation to continue its business. This study is expected to provide information to users of financial statements that the auditor will give a signal to users of financial statements if there are doubts about the viability of the company in the form of giving a going-concern opinion.

CCS CONCEPTS

• **General and reference** → Document types; General conference proceedings; Social and professional topics; Professional topics; Computing and business; Economic impact.

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1 INTRODUCTION

The COVID-19 pandemic that occurred in Indonesia had an impact on the economy, especially for property companies. Property sector sales decreased, especially in the housing sub-sector by 50-60 percent. The pandemic is estimated to still have an impact on property sector sales for the next 1-2 years. According to the accounting concept approach, information related to financial statements is important to help users make the right decisions [11]. Financial statements contain all the information required by users, such as company data, analysis reports, and voluntary disclosures.

Investors and creditors rely on the fair presentation of financial statements in making decisions. The managerial objective of every company is to obtain large benefits. However, this differs from the investors and creditors that expect high returns. Therefore, there is a need to include a third party's services responsible for the financial statements, i.e., auditors. According to Hayes [5], auditors provide independent financial opinions in line with their competence.

These financial experts did not only focus on the fairness of presenting the statements. Rather they are also responsible for corporate governance issues, such as the sustainability of the company in conducting its business, fraudulent financial reporting, corporate governance, etc [5]. However, this study focuses on going concern opinion issued by auditors.

According to studies, a business entity has the ability to survive despite the issuance of going concern by auditors unless management intends to terminate its activities. The factors affecting this assumption are the level of uncertainty regarding the occurrence of events, complexity, company size, and future considerations [7].

Arrens reported several examples of factors that influence going-concern audit opinion, including the company's operating losses, inability to pay debts, and the loss of many customers [1].

This study analyzes the financial conditions and company growth responsible for an audit opinion. Financial conditions are acquired from the company's statements, such as balance sheets, income statements, and cash flow reports [4]. Financial condition can be measured by looking at the company's profitability. The profitability of the firm is all revenues, expenses, gains, and losses that affected the economic value of the firm [14]. Company growth is analyzed from its increase in sales, which is generally followed by the addition of assets to sell [16].

The going concern case can be seen from the case of Garuda Indonesia which experienced financial distress, so that the company experienced business continuity uncertainty. This also happens in the case of Bakrie Telecom Company (BTCL). Based on IDX data, BTCL shares have been suspended seven times from 2016 to 2019, with the issuance of a disclaimer opinion in 2017 and 2018 because there are doubts about business continuity [12].

Mulhtarudin et al. [8], in their study entitled *Financial Condition, Growth, Audit Quality and Going Concern Opinion: Study on Manufacturing Companies Listed on Indonesia Stock Exchange*, stated that only financial conditions influence going concern opinion. The factors affecting the financial condition and company growth are tested to determine their influence on the going concern opinion issued by the auditor. In another study by Islahuzzaman et al. [9], entitled *The Effect of Profitability and Investment Decisions on Receipt of Going Concern Audit Opinions* stated that profitability and investment decisions does not influence the acceptance of going concern opinion. Wardayati et al. [15] in the research entitled *Impact of Companies Financial Condition and Growth toward Acceptance of Going Concern Audit Opinion: Empirical Study at Company Listed in the Jakarta Islamic Index (JII)* stated that companies' financial condition and growth influence going concern opinion. If sales growth is negative, then the company will find it difficult to make a profit.

Based on the explanation above, this study aims to determine the influence of profitability and company growth toward going concern opinion. This study is expected to contribute to the company in terms of presentation of transparent financial statements and for public accounting firms in issuing audit opinions on the company's survival.

2 LITERATURE REVIEW

2.1 Profitability

The profitability of the firm is all revenues, expenses, gains, and losses that affected the economic value of the firm. Disclosure of segment profitability data is presented in the footnotes to the financial statements [13]. Mulyawan stated that financial statements consist of a balance sheet, an income statement, and a report on changes in financial position [10].

When a company experiences financial difficulties, its internal and external indicators are used to predict bankruptcy. According to Hanafi, the internal indicators are analyzed from the company's cash flow, strategy, financial reports, and sales trends, while the external ones are usually taken from the financial market [4].

2.2 Company Growth

Every company wants to experience an increase in its overall sales. Companies need to add assets to increase sales, however, they need additional sources of funds, assuming their capital is insufficient [16].

Sources of funds are obtained internally and externally. Internal funds come from reserve profits of part of the remaining operating results, consisting of a) company owner's funds, b) profit balances reinvested in the company and c) surplus and accumulated reserved funds, such as book and market value of the assets owned by the company. Meanwhile, external funds come from banks, insurers, and other creditors. It consists of a reduction in current and fixed assets, an increase in each type of debt, a rise in the capital, and a profit from the company's operations [10].

2.3 Going Concern Opinion

The going concern assumption in ISA 570 is defined as an entity's ability to stay in business in the future. The factors that influence these assumptions are the level of uncertainty related to events or conditions that occur, the size and complexity of the entity, and considerations about the future based on the available information [7]. According to the going concern assumption, a business entity has the ability to survive in a predictable future unless management intends to terminate its activities. The factors that influence the going concern assumption in a company are the level of uncertainty over an event, its complexity and size, and events after reporting certain future considerations [7].

The objectives of the auditor regarding the going concern assumption are (a) to obtain sufficient and appropriate evidence regarding its appropriate use in preparing the financial statements, (b) to make conclusions based on a material uncertainty regarding events or conditions that cause doubt significant on the entity's ability, and (c) to determine the impact on the auditor's report [7].

2.4 Hypothesis Development

2.4.1 Profitability and Going Concern Opinion. The company's financial condition is seen from its statements, which contain all information on its state to users. The aim is to provide useful information for users to make the right financial statements [16]. According to Hanafi, financial statements are analyzed from the balance sheet, income, and cash flow statements. Therefore, the better a company's condition, the lower the doubt regarding its continuous existence [4]. This study measures the company's financial condition using profitability. Companies that have high profits will reduce the possibility of the company getting a going concern opinion.

Based on the explanation above, the following hypothesis was proposed: H1: Profitability influences going concern audit opinion.

2.4.2 Company Growth and Going Concern Opinion. The company can be seen to have a desire to grow from its increasing annual sales. This rise in sales is usually followed by increasing company assets and funds [16]. Management needs to decide which funds to use from internal or external sources, and in the short or long term [3]. The better the company's growth, the less likely a going concern audit opinion will be issued.

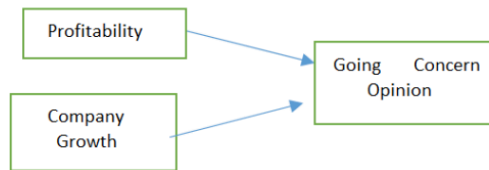


Figure 1: Research Model

4 Based on the explanation above, the following hypothesis was proposed: H2: Company growth influences going concern audit opinion.

3 RESEARCH METHOD

3.1 Research Sample

This study examines the influence of financial conditions and company growth on going concern audit opinion. Data were obtained from the financial data of manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2020. The sample comprises 31 companies engaged in the property sector listed on the Indonesia Stock Exchange.

3.2 Research Variable

The profitability is all revenues, expenses, gains, and losses that affected the economic value of the firm.

Profitability is measured using the profitability ratio, with the following formula: Profitability = Net profit before tax / Net Sales

Company growth is an increase in sales expected by the company. Company growth is measured by a sales growth ratio, using the following formula:

$$\text{Company growth} = \frac{\text{Net Sales}_t - \text{Net Sales}_{t-1}}{\text{Net Sales}_{t-1}}$$

4 Going concern audit opinion is an opinion issued by the auditor if there is doubt about the continuity of a company's business. Going concern opinion is measured by dummy variable, giving zero point for companies that receive a going concern opinion from the auditor and giving one point to companies that do not receive a going concern opinion from the auditor.

3.3 Hypothesis Testing Tool

The logistic regression test tool is used to determine the independent variable's ability to determine the occurrence of the dependent. It is usually used in studies with mixed independent variables such as continuous (metric) and categorical (non-metric) [2]. This study examines the influence of the independent variables of profitability and company growth on the dependent variable of going concern audit opinion.

4 RESULTS AND DISCUSSION

Below are the results of descriptive statistics of 31 companies in the property sector for three years that were used as research samples:

Hypothesis testing used Logistic Regression Analysis where the tested variables consist of two independent variables, i.e., profitability and company growth, and one dependent variable, i.e., going concern opinion. The following are the results of SPSS testing using Logistic Regression:

- 1. Assessing the fit model

The first step is to assess the fit model with the data. The following are the results of the SPSS processing obtained:

Based on the results in the table 2, Hosmer and Lemeshow's Goodness of Fit Test value is 0.561, greater than 0.05. It can be concluded that the model is able to predict the value of observations or the model fits with the data.

- 2. Coefficient of Determination

The next step is to assess how much influence the independent variable has on the dependent variable. The following are the results of the SPSS processing obtained:

Based on the results in the table 3, Nagelkerke R value is 0.090 or 9 percent. It can be concluded that the profitability and company growth influence the going concern opinion by 9 percent, while 91% was influenced by other factors that influence going concern opinion not discussed in this study.

- 3. Predictive Accuracy of Logistic Regression

The next step is to assess predictive accuracy of logistic regression. Below are the results of the SPSS processing obtained:

Based on the results in the table ??, out of 93 companies, the actual company results show that 72 of companies did not receive a going concern opinion. Therefore, it can be concluded that the accuracy of this model is 77.4 percent.

- 4. Hypothesis Test

The hypothesis in this study was tested using logistic regression analysis. The following are the results of the SPSS processing obtained:

Based on table 5, the results of each hypothesis testing are as follows:

1. Hypothesis 1 is accepted, significance value $0.023 \leq 5\%$. This means that there is an influence of profitability on going concern opinion. The result of this study in line with previous studies conducted by Muchtaruddin et al. and Wardayati et

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Table 1: Descriptive Statistics

	N Statistic	Range Statistic	Minimum Statistic	Maximum Statistic	Mean Statistic	Std. Error	Std.Deviation Statistic	Variance Statistic
X1	93	5.10	-2.94	2.16	-.0405	.07953	.76699	.588
X2	93	2.49	-.75	1.75	-.0788	.03783	.36480	.133
Y	93	1.00	.00	1.00	.1935	.04119	.39722	.158
Valid N (listwise)	93							

Table 2: Result of Fit Model(Hosmer and Lemeshow Test)

Step	Chi-square	df	Sig.
1	6.772	8	.561

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al., where their studies show that there is an influence of financial condition on going concern opinion. Companies whose profits are declining will have difficulty continuing their business, thereby increasing the issuance of going concern opinions.

- Hypothesis 2 is rejected, significance value $0.300 > 5\%$. This means that there is no influence of company growth on going-concern opinion. This is because the company's continued decline in sales does not necessarily indicate its inability to continue its business. The result of this study is in line with a previous study conducted by Muchtaruddin et al., in which there is no influence of company growth on going concern opinion.

5 CONCLUSION

Based on the results of hypothesis testing, this study reached the following conclusions:

- Company profitability influences giving going concern opinion. This shows that the declining financial condition of the company will increase the possibility of issuing a going concern opinion because it raises the company's doubt to continue its business activities.
- Company growth does not influence giving going concern opinion. This shows that the increase or decrease in sales is not the basis for determining the sustainability of a company's business. Sales decline does not mean the company cannot continue its business, because there are other factors that influence the continuity of a company's business.

Although the results of this study show that there is profitability influence going concern opinion and company growth has no influence on going concern opinion, the results are expected to be a concern for public accounting firms that there are other factors that influence the provision of going concern opinion, such as audit quality and other factors. This study is expected to contribute to public accounting firms in providing opinions and providing information for users of financial statements about the factors that influence the provision of going concern opinion.

This study is limited to the number of company samples that were statistically tested. Therefore, based on the limitations of the

study, the authors proposed the following suggestions: 1) A sample of companies engaged in other industries, such as garment, needs to be considered for further study; 2) The number of samples needs to be added, in terms of years and number of companies; and 3) Further studies can add other variables that influence going concern opinions such as company size, audit quality, and other variables.

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Table 3: Coefficient of Determination(Model Summary)

Step -2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1 85.977a	.057	.090

a. Estimation terminated at iteration number 4 because parameter estimates changed by less than, .001.

Table 5: Hypotesis Test(Variables in the Equation)

B		S.E.	Wald	df	Sig.	Exp(B)	
Step 1a	X1	-.836	.369	5.133	1	.023	.433
	X2	.756	.729	1.075	1	.300	2.130
	Constant	-1.500	.283	28.066	1	.000	.223

a. Variable(s) entered on step 1: X1, X2.

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