

The Influence of Previous Audit Opinion, Audit Tenure and Liquidity toward Going Concern Opinion in Manufacturing Companies for the Period of 2015-2017

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Abstract

Going Concern Opinion issued by auditor when there is doubt of a company's ability to continue as going concern. This research have the objective to determine the relationship between Previous Audit Opinion, Audit Tenure and Liquidity with Going Concern Opinion in manufacturing companies listed in IDX form years 2015 until 2017. The population of this research is 156 with total of sample are 37 manufacturing companies. The research of data using descriptive statistic and logistic regression analysis method. The result shows that Previous Audit Opinion and Liquidity have significant influence toward Going Concern Opinion and Audit Tenure does not have significant influence toward Going Concern Opinion.

Keywords: audit tenure, going concern, liquidity, manufacturing, previous audit opinion

Abstrak

Opini Going Concern diterbitkan auditor ketika terdapat ketidakpastian perusahaan terhadap keberlangsungan usahanya. Penelitian ini bertujuan untuk mengetahui hubungan antara Opini Audit Tahun Sebelumnya, Tenur Audit, dan Likuiditas dengan Opini Going Concern di perusahaan manufaktur yang telah terdaftar di BEI tahun 2015-2017. Populasi dari penelitian ini adalah 156 perusahaan manufaktur dan menggunakan purposive sampling method. Jumlah sampel yang diperoleh adalah 37 perusahaan; sehingga, didapat 111 unit analisis dari total penelitian selama 3 tahun. Penelitian ini menganalisa data menggunakan statistic dekskriptif dan regresi logistik. Hasil dari analisis menunjukkan bahwa Opini Audit Tahun Sebelumnya dan Likuiditas mempunyai pengaruh signifikan terhadap Opini Going Concern dan Tenur Audit tidak berpengaruh signifikan terhadap Opini Going Concern.

Kata kunci: *tenur audit, going concern, likuiditas, manufaktur, opini audit tahun sebelumnya*

INTRODUCTION

Nowadays, many new business are established, these businesses have the aim to gain as much profit as possible and to maintain their performance so they are able to operate for a long period of time (which is called as going concern). The success of a company affected by many factors. For instance, investment is needed to support company's financial condition and help the company to develop and success. Investment is a commitment over a number of funds or other resources done at this time, with an objective of acquiring a number of advantages in the future (Eduardus, 2010). Based on the definition, investor would likely to make investment in a company that can give them assurance that investors will get high return. Investors rely on the audited financial statements to ensure and give a peek about financial performance of a company and to know whether the company is able to continue as going concern. If an organization has issue in maintaining its ability to continue as going concern, going concern opinion will be issued by external auditors.

Going concern opinion is a bad sign for financial statements users because it shows that the company has difficulties in managing its business. According to Arens, Elder, & Beasley (2009), there are several factors that may cause the going concern assumption such as repetitive large business losses, company's failure in completing its short-term obligations, uninsured disasters (e.g. earthquakes, floods) and court cases. This kind of problem might interfere the operational activities of the organization. In this case, it will affect auditors in giving opinion towards financial statements.

Many studies have discussed about factors that influence going concern opinion in manufacturing companies sector in Indonesia. In 2008, Januarti and Fitrianasari conduct research about financial ratio and non-financial ratio that influence the giving of going concern opinion. Khaddafi (2015) studied about the effect of debt default, audit quality and going concern opinion. Meanwhile, Tandungan and Mertha (2016) have studied about the influence of audit tenure toward going concern opinion. This research is using previous audit opinion, audit tenure and liquidity as the factors influencing going concern opinion.

LITERATURE REVIEW

Agency Theory

Agency theory is a contract relationship between principals (shareholders) and agents (manager) (Jensen and Meckling, 1976). There are two problems in agency relationship which agency theory focuses on resolving, those are: agency problems and problem of risk sharing. Agency problems will occur when there is conflict between the interest of principal and agent, while problem of risk sharing occur when there are differences in attitudes toward risks between principal and agent. (Eisenhardt; 1989). In order to mitigate the problems and meet the interest between principal and agent, external auditor is needed. As stated in ISA 570, auditor as an independent party has the responsibility to obtain sufficient and appropriate evidences to identify whether there is material uncertainty in the company's ability to continue as going concern and disclose it at the financial statements.

Audit Opinion

Based on SA (*Standar Audit*) 700 and 705, types of audit opinions are unqualified opinion, qualified opinion, adverse opinion and disclaimer opinion. Unqualified opinion asserts that financial statements are fairly presented in all material matters, while qualified opinion is given by auditor if it is founded material misstatements in financial statements and auditor could not

obtain sufficient and appropriate evidences to prove that the financial statements are free from material misstatement. Adverse opinion is given when auditor found that financial statements are not fairly presented in all material matters after obtained sufficient and appropriate evidences and lastly, disclaimer of opinion asserts that auditor did not express opinion towards financial statements.

Going Concern

Going concern means that a company has no doubt about its viability, unless the company will be liquidated soon or management has intention to discontinue trading and have no other strategies to overcome it (Gray, Manson, & Crawford, 2015). Both management and auditors have the responsibility in repairing financial statements based on going concern basis. It is management's main responsibility to report assessment of the entity's ability to continue as a going concern and make judgment based on the uncertainty (ISA 570).

Going Concern Opinion

Going concern opinion will be disclosed in independent auditor's report as an explanatory language. An explanatory language refers to a certain condition that is appropriately presented and disclosed in audit reports follows the opinion paragraph (Whittington & Pany, 2014). If auditors found there's doubt in company to continue as going concern, then management should provide strategies to overcome those problems. However, if auditor still has substantial doubt about company's viability even after evaluating those strategies, then appropriate explanatory language should be expressed by auditors, or worse disclaimer opinion. Providing the explanatory language is the most frequent resolution used by auditors.

Audit Tenure

Audit tenure is the length of client-auditor relationship. When auditor has audited a client for years, client is assumed as a source of income for auditors which potentially decrease auditor's independency (Yuvisa, Rohman, & Handayani, 2008). In POJK (*Otoritas Jasa Keuangan*) Indonesia there is new regulation regarding Restriction on The Use of Audit Service in POJK No. 13 year 2017 in Chapter 6 Article 16 that states parties implementing financial services is obliged to limit the use of audit services over the historical financial information from the same audit partner at maximum 3 fiscal years in a row.

Liquidity

According to Weston in Kasmir (2014), liquidity ratio is a ratio that describes the ability of a company to complete all of its liabilities with short-term maturity date. The research use current ratio to measure liquidity, with formula below:

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} \times 100\% = \text{Current Ratio}$$

Theoretical Framework

The relationship between dependent variable and independent variables of the research is as follows:

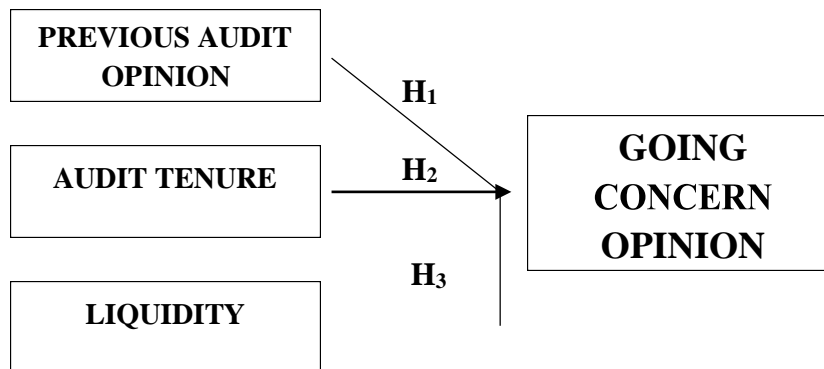


Figure 1. Research Model

Hypothesis Development**The Influence of Previous Audit Opinion toward Going Concern Opinion**

Activities in the current year is affected by previous year activity. Therefore there is bigger possibility for a company to receive going concern opinion from auditor in the current year, if in its prior year the company received going concern opinion and there is no sign of performance development by management. Research by Khadaffi (2015) resulted that previous audit opinion has significant influence toward going concern opinion. Previous audit opinion will be the auditor's judgment in providing audit opinion. Thus, the first hypothesis is formulated as follows:

H₁: Previous audit opinion has significant influence toward going concern opinion

The Influence of Audit Tenure toward Going Concern Opinion

It is auditor's responsibility to make audit report based on the audit evidences they have collected and audit procedures they have performed. At the end of the audit process, auditor should express opinion that is appropriate with the evidences and procedures. Auditor also has to disclose any certain condition that happens during audit process.

According to Mariani (2015) as cited in Yuridiskasari & Rahmatika (2017), the long client-auditor relationship will make auditor understand more about client's condition, both financial and the environment of the client itself. In accordance with Junaidi and Hartono (2010) audit tenure has significant influence toward going concern opinion, because, the longer client-auditor relationship is, the more possibility it can affect independency of the auditor. If the independence of auditor is affected, when the company has problems to continue as going concern, the auditor might help the client not to disclose it in the report. Thus, the second hypothesis of the research is formulated as follow:

H₂: Audit Tenure has significant influence toward going concern opinion

The Influence of Liquidity toward Going Concern Opinion

This research is using current ratio to determine liquidity, current ratio gives gross measurement about company's liquidity ratio. Liquidity ratio determines company's ability in fulfilling their short-term liabilities (Jumingan, 2014). The higher liquidity value of a company, the more likely for a company to be able to pay its short term obligations. Thus, there is no doubt toward company's ability to continue as going concern. According to Januarti and

Fitrianasari (2008), liquidity with current ratio measurement has significant influence toward going concern. The third hypothesis is as follow:

H₃: Liquidity has significant influence toward going concern opinion

RESEARCH METHOD

Population and Sample

Population of this research are 156 manufacturing companies that listed in IDX website with the period of 3 years (2015, 2016, and 2017). From the population, Author gets 37 manufacturing companies that is chosen by purposive sampling. The assessments of research samples are as follow:

- Manufacturing companies which listed in IDX during 2015-2017 and listed before 2015;
- Manufacturing companies that are not delisting during 2015-2017;
- Manufacturing companies that issued and disclosed financial statement and auditor's independent report during 2015-2017;
- Manufacturing companies that experienced negative net income for at least two period of the research period, because auditor tend not to give going concern opinion to company with positive net income.

Variable Measurement

The dependent variable is Going Concern Opinion (Y) and the independent variables (X) are Previous Audit Opinion, Audit Tenure and Liquidity. The measurement of variables are as follow:

Table 1. Variable Measurement

No	Variable	Definition	Indicator	Scale
1.	Previous Audit Opinion (X1)	Audit opinion that the company received in previous year (N-1).	Going concern opinion coded 1. Non going concern opinion coded 0.	Interval
2.	Audit Tenure (X2)	The length of client-auditor relationship (in year).	3 years coded 1. Less than 3 years coded 0.	Interval
3.	Liquidity (X3)	Company's ability to complete its short term obligations.	Current assets/Current Liabilities	Ratio
4.	Going Concern Opinion (Y)	Opinion that received by the company that have going concern issue.	Going concern opinion coded 1. Non going concern opinion coded 0.	Interval

Data Analysis

Classical Assumption Test

This research is using logistic regression analysis. According to Kutner, Nachsteim, & Neter (2004), the violations in logistic regression are error from regression model that cannot be normal distributed, and variance of error is not homogeneous (heteroscedasticity will exist).

Thus, this research performs multicollinearity test and autocorrelation test for the classical assumption.

Overall Model Fit Test

Overall Model Fit Test is used to test whether hypothesized model is already fit with the data. This test is done by Likelihood function where the value of -2 Log Likelihood (-2LL) in the beginning (block number = 0) is compared with the value of -2 Log Likelihood in the end (block number = 1).

Feasibility of Regression Model Test

Hosmer and Lemeshow's Goodness of Fit Test is used in order to determine the Feasibility of Regression Model. If statistical value of Hosmer and Lemeshow's goodness of fit test more than 0.05 indicates that model is able and accepted because it fits with the observation data (Ghozali, 2018).

Coefficient of Determination (R²)

Nagelkerke R square is used to determine value of coefficient of determination. R² value lies between 0 (zero) and 1 (one). Small value of R² indicates that there is limited variation in dependent variable (Ghozali, 2018). When R² value close to 1 (one), indicates that variable independent is able to interpret almost all information needed to predict dependent variable.

Logistic Regression Model

This research is using logistic regression analysis to determine the relationship between independent variables and dependent variables, both partially and simultaneously. Logistic regression model function formed in this research is:

$$\ln \frac{f}{1-f} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

- f : Going Concern Opinion (GCAO)
 α : Constanta
 $\beta_1 - \beta_3$: Coefficient of Regression
 X_1 : Previous Audit Opinion (PREV)
 X_2 : Audit Tenure (TENURS)
 X_3 : Liquidity Ratio (LIQUID)
 ε : Standard Error

Hypotesis Test

Partial test with logistic regression is performed to know the relationship of each independent variables (previous audit opinion, audit tenure and liquidity) towards dependent variable (going concern opinion). The criteria of partial test are:

- The confidence level use is 95% or $\alpha = 0.05$.
- The criteria to either accept or reject hypothesis is based on the p-value. If the value > 0.05 then hypothesis will be rejected, however if the value is < 0.05 then hypothesis will be accepted.

RESULTS AND DISCUSSION

Descriptive Statistic

Table 2. Descriptive Statistic Result

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Going Concern Opinion	111	0	1	0,26	0,441
Previous Audit Opinion	111	0	1	0,21	0,407
Audit Tenure	111	0	1	0,16	0,370
Liquidity	111	0,034	13,349	1,65987	2,000094
Valid N (listwise)	111				

Based on the result in the table 2 above, it can be described as:

From the total of 111 units of observation, the company that received going concern opinion for at least one accounting period is 33. It has minimum value of 0 and maximum value of 1. The mean value for going concern opinion is 0.26 while the standard deviation has value of 0.441. The mean value of 0.26 indicates there is more companies that did not received going concern opinion among the 111-unit samples in the research.

Variable previous audit opinion (PREV) has minimum value of 0 and maximum value of 1 with mean value of 0.21 and standard deviation of 0.407. The 0.21 of mean value indicates that the majority of 111 research samples did not received going concern opinion for the prior year of the research. From 111 unit of observation in manufacturing companies, there are only 27 companies that received going concern opinion in previous year.

Variable audit tenure (TENURS) has minimum value of 0 and maximum value of 1 with mean value of 0.16 and standard deviation of 0.370. The 0.16 of mean value indicates that from 111 research sample, only several companies that have audit tenure for 3 years or more. Based on the research conducted, only 18 companies that audited by the same audit partner for 3 fiscal years in a row during 2015-2017.

Variable liquidity (LIQUID) has minimum value of 0.034 and maximum value of 13.349 with mean value of 1.66 and standard deviation of 2.

Multicollinearity Test

Table 3. Multicollinearity Test Result

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics		
		B	Std Error	Beta	t	Sig.	Tolerance.	VIF
1	(Constant)	0,130	0,047		2,768	0,007		
	Previous Audit Opinion	0,749	0,074	0,691	10,153	0,000	0,930	1,075
	Audit Tenure	0,153	0,080	0,129	1,927	0,057	0,968	1,033
	Liquidity	-0,029	0,015	-0,132	-1,936	0,055	0,927	1,079

a. Dependent Variable: Going Concern Opinion

From the result table above, the value of Tolerance of the three variables is above 0.1 whereas the value of VIF is below 10. Thus, multicollinearity does not exist in the regression model.

Autocorrelation Test

Table 4. Durbin-Watson Autocorrelation Test Result

Model Summary^b					
Model	R	R-Square	Adjusted R-Square	Std. Error of the Estimate	Durbin-Watson
1	.734 ^a	0,539	0,526	0,304	1,640
a. Predictors: (Constant), Liquidity, Audit Tenure, Previous Audit Opinion					
b. Dependent Variable: Going Concern Opinion					

The output of Durbin-Watson value is 1.640. As from Durbin-Watson table with significance level of 0.05 and total sample (n) = 111 with total independent variables (k) = 3 the value of dL is 1.6355 and dU is 1.7463. Thus, value of 1.640 lies between dL and dU, which give uncertainty conclusions.

Because of the uncertainty conclusion from Durbin-Watson method, Run test is performed with result below:

Table 5. Runs Autocorrelation Test Result

Runs-Test	
	Unstandardized Residual
Test Value^a	-.08147
Cases < Test Value-	55
Cases >= Test Value	56
Total Cases	111
Number of Runs	54
Z	-.476
Asymp. Sig. (2-tailed)	.634
a. Median	

From the table 5 above, the output of 2-tailed value is 0.634. The value is greater than 0.05, therefore, autocorrelation is not existing in the regression model.

Overall Model Fit Test

Table 6. 2 Log Likelihood Test Beginning (Block = 0)

Iteration History^{a,b,c}			
Iteration	-2 Log likelihood		Coefficients Constant
Step 0	1	127,665	-0,955
	2	127,511	-1,038
	3	127,511	-1,039
	4	127,511	-1,039
a. Constant is included in the model. b. Initial -2 Log Likelihood: 127,511 c. Estimation terminated at iteration number 4 because parameter estimates changed by less than ,001.			

Table 7. 2 Log Likelihood Test Ending (Block= 1)

Iteration History^{a,b,c,d}						
Iteration	-2 Log likelihood	Coefficients				
		Constant	Previous Audit Opinion	Audit Tenure	Liquidity	
Step 1	1	74,883	-1,482	2,996	0,613	-0,117
	2	65,614	-1,666	3,764	1,043	-0,397
	3	59,191	-1,063	3,899	1,111	-1,099
	4	56,520	-0,526	4,344	1,120	-1,838
	5	56,207	-0,349	4,714	1,164	-2,156
	6	56,201	-0,322	4,787	1,172	-2,207
	7	56,201	-0,321	4,789	1,173	-2,208
	8	56,201	-0,321	4,789	1,173	-2,208
a. Method: Enter b. Constant is included in the model. c. Initial -2 Log Likelihood: 127,511 d. Estimation terminated at iteration number 8 because parameter estimates changed by less than ,001.						

From the results above, -2 Log Likelihood (-2LL) in the beginning shows the amount of 127.511 while -2LL in the ending shows the amount of 56.201. Thus, there is a decrease of 71.310 and it indicates a good regression model, or in other words, the hypothesized data fits with the model.

Feasibility of Regression Model Test**Table 8.** Hosmer and Lemeshow's Goodness of Fit Test Result

Hosmer and Lemeshow Test			
Step	Chi-square	df	Sig.
1.	4,330	8	0,826

The statistical value of Hosmer and Lemeshow's test is 4.330 with the significance value 0.826. The significance value of 0.826 is far more than 0.05 implies that research model is able to predict the observation value.

Coefficient of Determination (R^2)**Table 9.** Nagelkerke R square Result

Model Summary					
Step.	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square		
1.	56.201 ^a	0,474	0,694		
a. Estimation terminated at iteration number 8 because parameter estimates changed by less than ,001.					

From the table 9 above, the result of Nagelkerke R square is 0.694. The value implies that the variability independent variables can predict dependent variable is 69.4%. The rest 30.6% (100% - 69.4%) implies dependent variable can be influenced by other variables outside from the research.

Classification Matrix**Table 10.** Classification Table Result

Classification Table^a					
Observed		Predicted			Percentage. Correct
		Going Concern Opinion		Non-Going concern opinion	
Step1	Going Concern Opinion	Non-Going concern opinion	Going concern opinion		Non-Going concern opinion
	Going Concern Opinion	79	3		96,3
	Non-Going concern opinion	9	20		69,0
Overall Percentage					89,2
a. The cut value is ,500					

Table 10 above shows the overall percentage of 89.2%, it indicates that logistic regression model used is good enough to predict accurately.

Partial Test

Table 11. Partial Test Result

		Variables in the Equation						95% C.I for EXP(B)	
		B.	S.E.	Wald.	df	Sig.	Exp(B)	Lower	Upper
Step 1^a	PREV	4,789	1,071	19,977	1	0,000008	120,196	14,718	981,628
	TENURS	1,173	0,790	2,205	1	0,138	3,231	0,687	15,188
	LIQUID	-2,208	0,738	8,950	1	0,003	0,110	0,026	0,467
	Constant	-0,321	0,739	0,188	1	0,664	0,725		
a. Variable(s) entered on step 1: Previous Audit Opinion, Audit Tenure, Liquidity.									

Based on the table output of logistic regression analysis, the logistic regression model obtained is as follow:

$$\ln \frac{f}{1-f} = -0.321 + 4.789X_1 + 1.173X_2 - 2.208X_3$$

- PREV (X₁) has a value of 0.000008, which is less than 0.05 significance value. It can be concluded that variable previous audit opinion (PREV) has significant influence towards going concern opinion.
- TENURS (X₂) has a value of 0.138, which is more than 0.05 significance value. It can be concluded that variable audit tenure (TENURS) has no significant influence towards going concern opinion.
- LIQUID (X₃) has a value of 0.003, which is less than 0.05 significance value. It can be concluded that variable liquidity ratio (LIQUID) has significant influence towards going concern opinion.

CONCLUSION

1. Previous audit opinion has significant influence toward going concern opinion in manufacturing companies listed in IDX for year 2015-2017. When company received going concern opinion by auditor in its prior year financial report, then the possibility for that company to receive going concern opinion in current year will be higher.
2. Audit tenure does not have significant influence toward going concern opinion in manufacturing companies listed in IDX for year 2015-2017. The length of auditor-client relationship will not affect auditor in giving going concern opinion. The doubt of company's viability depends on the company's performance.
3. Liquidity has significant influence toward going concern opinion in manufacturing companies listed in IDX for year 2015-2017. The higher the liquidity ratio is, the less likely for a company to receive going concern opinion. High value of liquidity means that the company has the ability to complete its short-term liabilities, thus, the company supposed not to have problem with its viability.

Future research may broader the object of the research, for instance, companies' sector other than manufacturing companies should be used to get more broader result about going

concern opinion trend in Indonesia. Second, independent variables used may be added and more explored. Other financial ratios should be used as independent variable.

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