

The analysis of influencing factors on the going concern audit opinion – a study in manufacturing firms in Indonesia

Going concern
audit opinion

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Abstract

Purpose – It is argued that the going concern opinion is issued if auditors have a doubt about financial condition of a company. Provision of the going concern audit opinion may worsen the company in terms of gaining public trust and may even indicate bankruptcy. This study aims to determine the factors that affect the auditor's going concern opinion.

Design/methodology/approach – This research used secondary data obtained from annual reports and independent audit reports published by the Indonesia Stock Exchange. The population of this research included manufacturing firms registered in the Indonesia Stock Exchange from 2015 to 2019. The sample after the purposive sampling technique being applied consisted of 33 companies. The data were analyzed using logistic regression performed in the statistical analysis software, SPSS 24.0.

Findings – The results indicated that leverage positively affected the going concern audit opinion, then the audit quality, profitability and liquidity negatively affected the going concern audit opinion, whereas firm size and audit lag did not affect the going concern audit opinion.

Originality/value – This study is in contrast to several existing studies on the determinants of the auditor's going concern opinion and provides knowledge on developing more factors affecting the auditor's going concern opinion.

Keywords Going concern, Firm size, Audit quality, Profitability, Audit lag, Liquidity, Leverage

Paper type Research paper

Introduction

In Indonesia, the issue of audit reports and their links with the going concern opinion has emerged since 1995. This phenomenon began with the collapse of the Summa Bank that led to its shutdown, although it previously received unqualified opinion from an independent auditor. Furthermore, since the 1997 economic crisis that hit Indonesia, going concern became quite important in Indonesia. Evidences have indicated that 14 companies, which previously gained unqualified opinion from independent auditors in a year before, collapsed in 1997. Likewise, the same phenomena occurred in 15 companies in 1998. One of the newest going concern opinion case in Indonesia was Batavia Air. The case began with the collapse of Batavia Air that led to its shutdown in 2013 because the company was unable to pay its debt due to December 2012, although in 2011, the company still received unqualified opinion from and independent auditor and its audited cash flow showed a good financial condition.

The issuance of audit opinion concerning financial statements of a company is so crucial for stakeholders that the opinion can draw public attention. The issuance of modified going



concern opinion is very useful for users of financial statements to make correct decisions based on the interests of each party, more specifically for investors to make investments, because once they are going to invest, information on the company's financial condition is absolutely essential, especially information about the company's continuity.

Several factors can raise doubts about continuity of an entity being assessed by an auditor so that the auditor issues modified going concern opinion. One of them is the firm size. According to [Warnida \(2011\)](#), firm size is the size of an entity as an indicator that portrays the condition of a company. Company size can be assessed using several proxies, namely, asset, sales and market capitalization. [Gama and Astuti \(2014\)](#) suggested that firm size has a negative effect on receiving the going concern audit opinion, while [Azizah and Anisykurilillah \(2014\)](#) found empirical evidence that firm size has no effect on receiving the going concern audit opinion.

Audit quality is also one of the factors that lead a company to receive the modified going concern audit opinion. [DeAngelo \(1981\)](#) in [Tandungan and Mertha \(2016\)](#) defined audit quality as the probability of which auditors find and report an irregularity, financial condition or fraud in the client's accounting system. The result of their study indicated that the large-scale public accounting firms (PAFs) will try to deliver a better quality audit report than small-scale PAFs. They distinguished the large- and small-scale PAFs based on the affiliation between the local PAFs and the big four PAFs, namely, Ernst and Young, Deloitte Touche Tohmatsu, KPMG and PricewaterhouseCoopers. Furthermore, [Yaqin and Sari \(2015\)](#) and [Tandungan and Mertha \(2016\)](#) pointed out that audit quality has a negative effect on receiving the going concern audit opinion, while according to [Rakatenda and Putra \(2016\)](#) and [Bayudi and Wirawati \(2017\)](#), audit quality does not affect the going concern audit opinion.

The financial condition, particularly the company's performance to generate profits, also largely determines the company's future prospects. The ability of a firm to earn profits is measured using the profitability index that indicates whether the company is in a good or poor condition. Companies with a good financial condition have a high level of profitability and tend to have reasonable financial reports so that they are very likely to receive a good opinion compared to those with a low level of profitability ([Petronela, 2004](#)). [Bayudi and Wirawati \(2017\)](#) noted that profitability has a negative effect on receiving the going concern audit opinion, while [Kartika \(2012\)](#) and [Yuliyani and Erawati \(2017\)](#) argued that profitability has no effect on receiving the going concern audit opinion.

Audit lag or audit delay refers to the time needed to complete financial report audit measured by the number of days it takes from the date of the financial statements to the date of completion of financial statement audit by an independent auditor ([Dura and Nuryanto, 2015](#)). Going public companies are required by the capital market supervisory agency and financial institution to make their audited annual financial statements available to the public no later than the end of the third month after the date of the financial statements or must be audited within 90 days. [Gama and Astuti \(2014\)](#) asserted that audit lag has a positive effect on the going concern audit opinion, which means that the longer time required for auditors to complete auditing process indicates that the company has serious problems, especially in relation to its financial conditions and going concern. On the contrary, findings by [Simamora and Hendarjatno \(2019\)](#) showed that audit lag does not affect the going concern audit opinion because delays in the audit process can occur due to several external factors beyond the company's financial factors.

The issuance of the going concern audit opinion also has a relationship with the company's financial condition, namely, liquidity ratio and leverage. The liquidity ratio indicates the company's ability to meet its short-term financial obligations. Companies that have a high level of liquidity indicate that the company has a good financial condition and is able to ensure payment of all short-term debts so that stakeholders do not need to worry about the company's continuity. By contrast, according to [Simamora and Hendarjatno \(2019\)](#), the smaller liquidity of a company indicates its financial difficulties to pay short-term debts,

which become the company's financial obligation, and this needs to be highly regarded by the auditor in his/her duty to issue an audit opinion in the financial statements. [Januarti and Fitrianasari \(2008\)](#) suggested that liquidity has a negative effect on receiving the going concern audit opinion, while [Simamora and Hendarjatno \(2019\)](#) contended that liquidity has no effect on receiving the going concern audit opinion.

The other company's financial condition is the level of leverage. Leverage can be an indicator that determines the company's ability to meet both short- and long-term financial obligations. The leverage ratio is measured through a debt ratio, which compares total liabilities to total asset ([Rakatenda and Putra, 2016](#)). A high level of leverage indicates that corporate finance is dominated by loans so that the company has a more obligation to manage debt payments and loan interest, which can affect cash flow, as well as profit and loss of the company. Therefore, this needs to be the concern of the auditors in carrying out their audit tasks. [Aryantika et al. \(2015\)](#) and [Simamora and Hendarjatno \(2019\)](#) found that companies with a high level of leverage have a high potential for receiving the going concern audit opinion, while [Rakatenda and Putra \(2016\)](#) found that the level of leverage has no significant effect for the companies to receive the going concern audit opinion.

The previous studies about factors affected the going concern audit opinion showed inconsistent findings and research gap, so this research or present study was done to improve the previous studies in accordance with the relationship of firm size, audit quality, profitability, audit lag, liquidity and leverage to the going concern audit opinion of a company. This research used manufacturing firms registered in the Indonesia Stock Exchange (IDX) from 2015 to 2019 as research population because manufacturing firms were big-scale firms in Indonesia compared to other firms and have the highest economic contribution for the country. The results of the study indicated that the variables of the leverage positively affected the going concern audit opinion, then the audit quality, profitability and liquidity negatively affected the going concern audit opinion, whereas firm size and audit lag did not affect the going concern audit opinion.

The next section of the paper will present the literature review and hypothesis formulation, methods of study, the findings and discussions and the last section consisting of conclusion, research implications, limitations and suggestion of study.

Literature review and hypothesis formulation

Agency theory

[Jensen and Meckling \(1976\)](#) stated that the agency theory deals with incongruence between the interests of principals and their agents. This theory entails the relationship between company personnel, namely, the principals and agents. The principals are those who assign duties to the agents, where they also act to make decisions. In this study, managers who act as agents will certainly try to optimize the company's financial performance by presenting attractive financial reports to the principals. Both the principals and the agents are assumed to be economically rational and are motivated solely by their self-interest. This can trigger agency conflicts. For this reason, there should be an independent third party to mediate the relationship between the principals and the agents. Auditors are those who are considered capable of bridging the gap between the interests of the principals (shareholders) and the agents (managers) in managing company finances ([Setiawan, 2006](#) in [Praptitorini and Januarti, 2007](#)). An auditor as an independent third party is needed to supervise management's performance whether managements have acted in accordance with the principal's interests confirmed through financial statements. The primary responsibility of auditors is to provide an opinion on the fairness of the company's financial statements and express going concern issues of the company if they raise doubts in the company's ability to sustain its survival.

Going concern audit opinion

The audit report with a modified going concern is an indication that from the auditor's assessment, there is a risk that the company will not survive in its business. The Public Accountant Professional Standards (SPAP), section 341 (Ikatan Akuntan Indonesia, 2001) states that if auditors are not convinced with the ability of a business entity to maintain its survival in the long run, they are obliged to evaluate the management plan. If the management plan is likely to be effective to execute, the auditors should adequately disclose the nature, effects of conditions and events that originally led them to put doubts about continuity of a business entity. In this case, they will express unqualified opinion with modified going concern, which means that the auditors raise doubts about the entity's ability to survive.

The effect of firm size on the going concern audit opinion

Firm size refers to how big or large a business entity is, which reflects the condition of a company (Warnida, 2011). Firm size can be measured through some proxies, one of which is asset. Ballesta and Garcia (2005) argue that big companies have better management in managing the company, especially for financial management, better financial condition and better ability to produce quality financial statements than small companies. Big companies imply that the company has such a good financial condition that it has less likelihood to receive going concern audit opinion, meanwhile small companies indicate that the company has such limited resources and higher financial trouble potential that it has a higher potential to receive going concern audit opinion (Junaidi and Hartono, 2010).

H1. Firm size negatively affected the issuance of going concern audit opinion.

The effect of audit quality on the going concern audit opinion

Audit quality is indicated by the size of the PAF. According to DeAngelo (1981), big accounting firms are more independent, and therefore, will provide a higher quality of audits. Krishnan and Schauer (2000) classify that the PAF is big accounting firms if the PAF included in the big six accounting firms that now become big four accounting firms, and small accounting firms are not included in the big four accounting firms. Khaddafi (2015) stated that big accounting firms are also more likely to express existing problems because they are stronger to face the risk of litigation, and it means that big accounting firms have more incentive to detect and report clients' going concern problems. Big accounting firms provide a higher audit quality than the small accounting firms, which have no reputation (Mukhtaruddin *et al.*, 2018).

H2. Audit quality positively affected the issuance of going concern audit opinion.

The effect of profitability on the going concern audit opinion

Company's performance to generate profits is measured using profitability index, which indicates whether a company is currently under a good or poor financial condition. Companies with the good financial condition have high profitability and tend to have such fair financial statements that they are more likely to receive good opinion than those with low profitability (Petronela, 2004). Companies that have low profitability are highly likely to receive the going concern audit opinion as a poor financial condition raise doubts on their business continuity among investors or auditor (Bayudi and Wirawati, 2017).

H3. Profitability negatively affected the issuance of going concern audit opinion.

The effect of audit lag on the going concern audit opinion

Audit lag is the time lag between the fiscal date of the financial statements and the date when the auditor completes the auditing activities and issues an audit opinion on the report (Dura and Nuryanto, 2015). The longer the audit lag indicates that the company has serious problems concerning its financial condition and continuity so that this can lead the company to receive the going concern audit opinion (Gama and Astuti, 2014).

H4. Audit lag positively affected the issuance of going concern audit opinion.

The effect of liquidity on the going concern audit opinion

Liquidity ratio represents the ability of companies to meet their short-term financial obligations with their current asset. Companies with high liquidity have a good financial condition and are able to ensure payment on short-term debts so that stakeholders are convinced with their continuity. By contrast, according to Simamora and Hendarjatno (2019), a smaller liquidity indicates that the companies have financial difficulties to pay their short-term debts, and this should be highly regarded by the auditor in issuing going concern audit opinion on their financial reports.

H5. Liquidity negatively affected the issuance of going concern audit opinion.

The effect of leverage on the going concern audit opinion

Leverage can be an indicator to determine the company's ability to meet both short- and long-term financial obligations. The leverage ratio is assessed through a debt ratio, which is total liabilities divided by total asset (Rakatenda and Putra, 2016). Companies with a high level of leverage indicate that their sources of funding are mainly from loans so that the company has greater responsibility to manage debt payments and loan interest, which can have an impact on the company's cash flow and profit and loss. Therefore, the company is very likely to receive the going concern audit opinion (Simamora and Hendarjatno, 2019).

H6. Leverage positively affected the issuance of going concern audit opinion.

Methods of study

Research approach, type and data sources

This study is a quantitative study, which collects numeric data and conducts analysis using statistical analysis software, SPSS 24.0. The method of this study involved descriptive-analytical and associative methods with causal relationships, by collecting data that provide a clear depiction of the study object and subsequently analyzing the data to examine the effect and relationship between one variable and another. The present study used secondary data obtained from the IDX, consisting of annual reports and independent audit reports.

Population and sample

This study used data from manufacturing firms from 2015 to 2019 with a total population of 178 companies. As for the sampling technique, this study employed a purposive sampling method by selecting a sample based on certain considerations or criteria. The sample criteria involved manufacturing firms that conducted an initial public offering (IPO) before 2015, suffered a loss of at least during three years of the five-year-research period and had a complete annual report and independent audit report. Based on the sample selection criteria, the total samples of this study were 33 companies with 165 data.

Variables of study

Variables of this study consist of going concern audit opinion as the dependent variable, and firm size, audit quality, profitability, audit lag, liquidity, leverage as the independent variables.

The variable operational definition. The dependent variable is the going concern audit opinion. Going concern audit opinion is a modified audit opinion given by the auditor's judgment and is an indication that from the auditor's assessment, there is a risk that the company will not survive in its business. [Junaidi and Hartono \(2010\)](#) measured going concern audit opinion by using a dummy variable as a proxy, with which companies receiving going concern audit opinion were coded with 1, while those non-receiving going concern audit opinion were coded with 0.

The independent variables of the study are:

- (1) Firm size: Firm size can be seen from the company's financial condition such as the amount of total asset ([Junaidi and Hartono, 2010](#)). Big firms tend to have better financial management and ability to produce quality financial statements than small firms. Firm size is measured by the natural logarithm of the company's total asset as a proxy ([Junaidi and Hartono, 2010](#)).
- (2) Audit quality: Audit quality produced by the auditor affects investors in making decisions ([Khaddafi, 2015](#)). PAFs that are affiliated to the big four are reliable to present better audit quality compared to small-scale PAFs. Audit quality is measured using a proxy of a dummy variable, where code 1 is given if the PAF that audited the company is part of the big four group, while code 0 is given if the PAF was not part of the big four group ([Mukhtaruddin et al., 2018](#)).
- (3) Profitability: Profitability is a company's ability to produce a return on an investment based on its resources in comparison with an alternate investment. A company with high profitability tends to have such fair financial statements that they are more likely to receive good opinion than those with low profitability ([Petronela, 2004](#)). Profitability is assessed using a proxy of net profit margin (NPM), which is the net profit before tax divided by net sales.
- (4) Audit lag: Audit lag is the number of days between the end date of the financial statement and the issuance date of the audit report ([Ryu and Roh, 2007](#)). The longer the audit lag indicates that the company has serious problems concerning its financial condition and continuity so that this can lead the company to receive the going concern audit opinion ([Gama and Astuti, 2014](#)). Audit lag is measured using the number of days from the end date of financial statements to the issuance date of the audit report ([Simamora and Hendarjatno, 2019](#)).
- (5) Liquidity: A company liquidity is defined as a company's ability to carry out their current liabilities ([Munawir, 2001](#)). The smaller the liquidity of a company shows that the company only has a few assets to fulfill to pay the current liabilities, whereas the higher the liquidity of a company shows that the company has capability to pay their short-term debts. Liquidity is assessed through the quick ratio as a proxy. According to [Simamora and Hendarjatno \(2019\)](#), quick ratio is formulated in the following:
$$\text{Quick Ratio} = (\text{Total Current Asset} - \text{inventory}) / \text{Account Payable}$$
- (6) Leverage: Leverage can be an indicator to determine the company's ability to meet both short- and long-term debts. Companies with a high level of leverage indicate that their sources of funding are mainly from loans so that the company has greater responsibility to manage debt payments and loan interest, which can have an impact on the company's cash flow and profit and loss. The leverage ratio is assessed through the debt to asset ratio (DAR), which is total liabilities divided by total asset ([Rakatenda and Putra, 2016](#)).

Data analysis method

The data analysis method applied in the present study included the overall model fit test, the goodness-of-fit test, the determinant coefficient test, the logistic regression equation and the hypothesis test. The level of significance in the hypothesis test was 5%.

Findings and discussion

Data and sample of study

The following table presents the result of purposive sampling on manufacturing firms listed on the IDX from 2015 to 2019 and consisted of a total sample of 33 companies (Table 1).

The descriptive statistical analysis

The following table presents the results of descriptive statistics on 33 manufacturing companies listed on the IDX from 2015 to 2019.

Firm size. The descriptive statistics in Table 2 indicated that the average of natural logarithm of total asset was 28.13, with the deviation standard of 1.43, and the minimum of 22.76 and maximum of 31.71.

Audit quality. The descriptive statistics in Table 2 indicated that the average of companies being audited by big four PAFs were 0.37 or 37%, and the rest were audited by non-big four PAFs with the deviation standard of 0.48. The audit quality variable was measured by using a dummy variable, the minimum of 0 and maximum of 1 means there are companies that audited by big four PAFs coded with 1 and non-big four PAFs coded with 0.

Profitability. The descriptive statistics in Table 2 indicated that the average of profitability that measured by NPM was -2.20, and it showed most of the companies in this research samples were having loss for years. The deviation standard was 24.23, with the minimum of -310.46 and maximum of 6.21.

Audit lag. The descriptive statistics in Table 2 indicated that the time needed by PAFs to complete the audit report from the end date of financial statements was, on average,

No	Sample criterion	Total
1	Manufacturing firms listed on the IDX during 2015–2019	178
2	Go public after 2015	(42)
3	Companies did not experience loss at least 3 years during the study period	(99)
4	Incomplete annual or independent auditor reports	(4)
Total sample per year		33
Total sample during the study period (2015–2019)		165

Table 1.
Research sample
framework

	N	Minimum	Maximum	Mean	Standard deviation
Firm size	165	22.7577	31.7136	28.125380	1.4256453
Audit quality	165	0	1	0.37	0.484
NPM	165	-310.4578	6.2124	-2.201322	24.2336009
Audit lag	165	53	209	93.03	27.732
Quick ratio	165	0.0154	5.0634	0.832463	0.8749740
DAR	165	0.0758	5.0733	0.833608	0.9094473
Going concern audit opinion	165	0	1	0.25	0.433
Valid N (listwise)	165				

Table 2.
Statistics description

Source(s): Data analysis using SPSS 24, 2020

93.03 days, the minimum duration was 53 days and maximum duration was 209 days, with the deviation standard of 27.73.

Liquidity. The descriptive statistics in Table 2 indicated that the average of the company liquidity level measured by quick ratio was 0.83, with the deviation standard of 0.87, and the minimum and maximum liquidity levels were 0.02 and 5.06, respectively.

Leverage. The descriptive statistics in Table 2 indicated that the average of the company leverage measured by DAR was 0.83, with the deviation standard of 0.91, and the minimum and maximum company leverage were 0.08 and 5.07, respectively.

Going concern audit opinion

The descriptive statistics in Table 2 indicated that the average of companies received going concern audit opinion were 0.25 or 25%, and the rest were received non-going concern audit opinion by auditors. Going concern audit opinion was measured by using dummy variable, the minimum of 0 and maximum of 1 means there are companies that received going concern audit opinion clean opinion coded with 1 and companies that received non-going concern audit opinion coded with 0.

Overall model fit

The estimation of overall model fit for this study model was conducted based on the likelihood function L . The likelihood L of the model is the probability that the hypothesized model describes the input data. The results of the overall fit model test can be seen in the following table (Table 3).

Based on output of SPSS for the overall model fit test presented on above table, the value of last likelihood on $-2 \log$ likelihood was 85.133. This value decreased by 99.886 from the initial value of likelihood of 185.019. The decrease in the value indicated that the model fitted with the data.

Testing goodness of fit for the regression model

Testing the regression model fit was performed using Hosmer and Lemeshow's goodness-of-fit test. This model aims to test the hypothesis that the empirical data fit the model (no difference between the model and the data means the model is fit). The result of the test can be seen on the following table (Table 4).

Based on the results of the Hosmer and Lemeshow goodness of fit of the regression model in the table above, the chi-square value was 11.422, with a significance of 0.179. From this result, as the significance value is greater than 0.05, it can be concluded that the model was able to predict the its observed value.

Determinant coefficient (R^2)

The result of determinant coefficient in this study is presented in the following table (Table 5).

Based on the results of the determinant coefficient test described in the table above, the value of *Nagelkerke* R^2 was 0.674, which means that the independent variables explained variability in the dependent variable by 67.4%, while remaining 32.6% of variability is explained by other variables beyond this research model.

Classification matrices

The results of logistic regression test to determine the relationship between the independent and the dependent variables can be seen in the following classification matrix table (Table 6).

Based on the result of the logistic regression test presented in the above table, with $\alpha = 5$, the following regression equation was obtained:

Iteration	-2 log likelihood	Constant	Firm size	Coefficients			Audit lag	Quick ratio	DAR	Going concern audit opinion
				Auditor quality	NPM					
Step 1	1	122.345	-2.603	0.026	-1.013	-0.003	0.009	-0.331	0.821	
	2	99.967	-3.395	0.038	-1.807	-0.004	0.011	-0.838	1.522	
	3	89.110	-5.128	0.086	-2.441	-0.003	0.011	-1.626	2.444	
	4	85.597	-7.035	0.145	-2.839	-0.003	0.012	-2.528	3.164	
	5	85.143	-7.942	0.174	-2.969	-0.003	0.012	-3.014	3.528	
	6	85.134	-8.050	0.177	-2.984	-0.003	0.012	-3.095	3.592	
	7	85.133	-8.051	0.177	-2.984	-0.003	0.012	-3.097	3.594	
	8	85.133	-8.051	0.177	-2.984	-0.003	0.012	-3.097	3.594	

Note(s): ^amethod: Enter; ^bconstant is included in the model; ^cinitial -2 log likelihood: 185.019; ^destimation terminated at iteration number 8 because parameter estimates changed by less than 0.001

Source(s): Data analysis using SPSS 24, 2020

Table 3.
Overall model fit test

Step	Chi-square	df	Significance
1	11.422	8	0.179

Source(s): Data analysis using SPSS 24, 2020

Table 4.
Hosmer and Lemeshow test

Step	-2 log likelihood	Cox and Snell R^2	Nagelkerke R^2
1	85.133 ^a	0.454	0.674

Note(s): ^aEstimation terminated at iteration number 8 because parameter estimates changed by less than 0.001

Source(s): Data analysis SPSS 24, 2020

Table 5.
Determinant coefficient

$$\text{Ln} \frac{\text{GC}}{1 - \text{GC}} = -8,051 + 0.177\text{FS} - 2,984\text{AQ} - 0.003\text{NPM} + 0.012\text{AL} - 3,097\text{QR} + 3,594\text{DAR} + \epsilon$$

From the model test of this study, it can be revealed that firm size has a significance value greater than 0.05, indicating that firm size did not significantly affect the going concern audit opinion. Based on this result, **H1** was rejected. This finding is consistent with [Azizah and Anisykurlillah \(2014\)](#). Firm size is not a primary indicator for auditor to issue the going concern audit opinion because the size of the company, as measured from the total asset, does not reflect the company's performance in generating profits or the company's ability to sustain its business continuity.

Based on the model test of this study, audit quality had a significance value smaller than 0.05, with $\beta = -2.984$, indicating that audit quality negatively affected going concern audit opinion. Based on this result, **H2** was accepted. This result is in line with [Yaqin and Sari \(2015\)](#) and [Tandungan and Mertha \(2016\)](#). There is a different quality between the big and the non-big four PAFs in issuing going concern audit opinions to companies. The result of this study

		B	SE	Wald	df	Sig	Exp (B)	95% CI for EXP (B)	
								Lower	Upper
Step 1 ^a	Firm size	0.177	0.311	0.324	1	0.569	1.194	0.649	2.197
	Audit quality	-2.984	0.971	9.446	1	0.002	0.051	0.008	0.339
	NPM	-0.003	0.031	0.012	1	0.004	0.997	0.939	1.058
	Audit lag	0.012	0.010	1.414	1	0.234	1.012	0.992	1.033
	Quick ratio	-3.097	0.972	10.153	1	0.001	0.045	0.007	0.304
	DAR	3.594	0.849	17.932	1	0.000	36.377	6.893	191.979
	Constant	-8.051	9.169	0.771	1	0.380	0.000		

Table 6. Classification matrices **Note(s):** ^aVariable(s) entered on step 1: firm size, audit quality, NPM, audit lag, quick ratio, DAR **Source(s):** Data analysis using SPSS 24, 2020

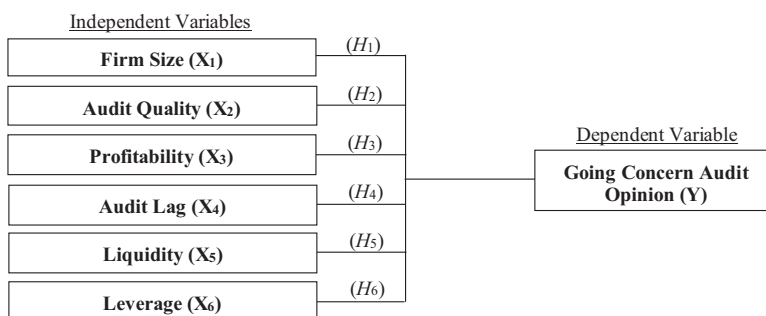


Figure 1. Conceptual framework

showed that non-big four PAFs tend to issue the going concern audit opinion more frequently to the auditees compared to the big four PAFs. Companies that are willing to be audited by the big four PAFs are more confident in receiving unqualified opinion and without modification regarding going concern so that there are only few going concern audit opinions issued by the big four PAFs. By contrast, lower-middle companies are more likely to use non-big four PAF services, so the non-big four PAFs issue more going concern opinions than the big four.

Based on the model test, profitability measured through NPM had a significance value less than 0.05, with $\beta = -0.003$, indicating that profitability negatively affected going concern audit opinion. Based on the result of the model test, H3 was accepted. This result agrees with Bayudi and Wirawati (2017). Low-level profitability indicates that the company has a disappointing performance, and this can raise doubts about the company’s ability to sustain its survival. Therefore, auditors in carrying out their duties are likely to issue modified unqualified audit opinion regarding the company’s going concern.

From the model test, audit lag had a significance value of greater than 0.05, indicating that audit lag did not affect the going concern audit opinion. Based on the result of the test, H4 was rejected. This result is in line with Simamora and Hendarjatno (2019). The time needed to complete an audit on a company’s financial statement cannot be used as an indicator to estimate whether the company has a poor ability to maintain its business continuity. A longer time required to complete financial statement audit may be caused by obstacles in the audit process, incomplete reports or others.

From the model test, it is revealed that liquidity ratio measured through quick ratio had a significance value smaller than 0.05, with $\beta = -3.097$, indicating that liquidity had a negative effect on the going concern audit opinion. From this result, H5 was accepted. This result is in

agreement with [Januarti and Fitrianasari \(2008\)](#). A low level of liquidity indicates that in the short run, the company cannot ensure debt payment that becomes its financial obligations, and this indicates that the company has such a poor financial condition. Financial conditions with low liquidity levels cause doubts about the company's ability to maintain its survival so that auditors in performing their duties are likely to issue modified unqualified audit opinion on the company's going concern.

Based on the model test, leverage, which was measured using DAR, had a significance value of smaller than 0.05, with $\beta = 3.594$, indicating that leverage has a positive effect on the going concern audit opinion. From this result, **H6** was accepted. This finding is consistent with the finding of [Aryantika et al. \(2015\)](#) and [Simamora and Hendarjatno \(2019\)](#). High debt ratio indicates that the corporate finance is mainly sourced from loans, and this is extremely risky. If the company is not supported by good financial performance, the company will very likely fail to pay their debts so that this can raise doubts about the company's ability to maintain its continuity. Thus, auditors will tend to issue modified unqualified opinion for going concern of the company.

Conclusions

Summary

Based on the results of the logistic regression analysis to determine influencing factors on the going concern audit opinion with research data of manufacturing firms listed on the IDX from 2015 to 2019, it can be concluded that leverage was positively affected the going concern audit opinion. This indicates that companies with high debt ratio are very likely to suffer financial and continuity difficulties. Audit quality, profitability and liquidity negatively affected the going concern audit opinion, while firm size and audit lag did not affect the going concern audit opinion.

Implications

The going concern audit opinion given by auditors is based on some judgments, especially financial condition, which has a very important role for the judgment. A company with poor financial condition like a high leverage level implies that the company is dominated by loans so that the company has more obligation to manage debt payments and loan interest, which can affect cash flow, as well as profit and loss of the company. On the same side, low profitability and liquidity also imply that a company has a doubt to guarantee its short-term debt and low ability to earn profit, which put the company on the going concern problem. Those factors are important for investors for investment analysis and for auditors in carrying out its duties. This research findings also prove the previous studies on determining factors affect the going concern audit opinion.

Study limitations and further research

This study has some limitations that can be addressed by another author in future studies. First, audit quality can be measured using another proxy, besides the big four PAF, such as auditor expertise or the Herfindahl-Hirschman Index. Furthermore, this research only involved six independent variables, and it is suggested for future studies to include more independent variables such as opinion shopping, financial distress and so on. Finally, the object of this study is limited to manufacturing firms in Indonesia.

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