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The Effect of Financial Ratio, Company Size, Previous Audit Opinion, and Auditor's Reputation on Going Concern Audit Opinion on Mining Companies Listed on the Indonesia Stock Exchange 2014-2018

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ABSTRACT

The Objective of this research is to examine and analyze the effect of financial ratios, company size, previous year's audit opinion, and auditor's reputation on going concern audit opinions on mining companies listed on the Indonesian stock exchange in 2014-2018. A total of 15 mining companies were studied in this study. The sample selection used purposive sampling method. Data were analyzed using logistic regression. The results obtained are simultaneously, liquidity, profitability ratios, leverage ratios, company size, previous year's audit opinion and auditor's reputation affect going concern audit opinions, while partially, liquidity ratios, profitability ratios, leverage ratios, company size and auditor's reputation s have no effect on going concern audit opinion. The previous year's audit opinion has an effect on going concern audit opinion.

Keywords: Financial ratio, Company Size, Previous Year's Audit Opinion, Auditor Reputation, Going Concern Audit Opinion

INTRODUCTION

Going concern is one of the principles that every company needs to adhere to as a business entity. In accounting, going concern means that the company will survive and operate for an indefinite period of time, while in auditing, the going concern assumption means that there is a justification that the company cannot maintain its viability. With the going concern, a business entity is considered to be able to maintain its business activities in the long term, will not be liquidated (for companies per company) in the short term. Going concern is used as an assumption in financial reporting as long as it is not proven that there is information indicating the opposite (Muttaqin and Sudarno, 2011).

Mining companies in 2015 recorded a collective net loss (US$27 billion). Pricewaterhouse Coopers (PwC) said that 2015 was a bad year and full of challenges for companies operating in the mining sector. PWC said that as many as 40 global mining companies suffered the largest losses in history in 2015 with a total loss of US$ 27 billion or equivalent to around Rp. 364.5 trillion at an exchange rate of Rp. 13,500 per US dollar and there was a decline in mining commodity prices by 25 percent compared to the previous year. Then in order to survive, mining companies must strive to increase their productivity, some of which struggle to survive followed by asset disposal or business closures (Kompas.com, 2016).

This condition of course also has an impact on mining companies in Indonesia. The overall market capitalization of mining companies listed on the IDX decreased from Rp. 255 trillion in 2014 to Rp. 161

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trillion in 2015. This was due to falling commodity prices as well as declining demand from China and other developing countries, resulting in a significant decline in the financial performance of mining companies in Indonesia (Kompas. com, 2016). This decline in financial performance causes losses for the company which in turn will have an impact on doubts about the company's business continuity expressed by the auditor in the audit opinion.

Going concern issues are important things to know and disclose in the independent auditor's report on the company's financial statements, so that management can take appropriate action to maintain their business and avoid bankruptcy (Tjahyani and Pudjiastuti, 2017). There are various factors that can influence the auditor in issuing a going concern audit opinion, namely there are financial factors and non-financial factors. Financial factors that can affect the issuance of going concern audit opinion are liquidity ratios, profitability ratios, and leverage ratios. While the non-financial factors are the size of the company, the previous year's audit opinion and the reputation of the auditor.

Liquidity is defined as an indicator of the company's ability to pay its short-term obligations as they fall due. If the company does not have the ability to pay off its short-term obligations, the company's operations will be disrupted. Because this inability can cause the auditor to doubt the company's ability to maintain its business continuity.

Profit is often used as an assessment of the performance of a company. Profitability is used as an indicator of whether the company can survive or not for the next period. The company's profitability will also greatly influence the business decisions of investors/creditors (Lie and Pikir, 2016).

The leverage ratio is used to measure the extent to which the company's assets are financed with debt. This ratio emphasizes the important role of debt financing for companies by showing the percentage of company assets that are supported by debt financing. If the amount of debt exceeds the amount of assets, the company will experience a capital deficiency or a negative equity balance (Anita, 2017). Companies that have asset values that are smaller than their debts will face the danger of bankruptcy (Susanto, 2009).

Companies with positive growth provide a sign that the size of the company is growing and reduces the tendency towards bankruptcy. Mutchler (1985) in Dewayanto (2011) states that auditors more often issue going concern audit opinions on smaller companies, because auditors believe that larger companies can solve the financial difficulties they face than smaller companies.

Giving going concern opinion by the auditor is inseparable from the previous year's audit opinion. The previous year's audit opinion is defined as the audit opinion received by the auditee in the previous year. If the company received a going concern audit opinion in the previous year, the company must show a significant improvement by increasing business operations or by carrying out the management plan that has been given. However, if the company is not able to improve conditions and health related to business viability in the following year, then in the current year the possibility of getting a going concern audit opinion again will be even greater.

Giving an opinion on a company's financial statements is not an easy matter, especially giving going concern status. The auditor in providing a going concern audit opinion has several considerations on the conditions and events that can give rise to a going concern audit opinion to the company. An auditor must be careful when giving a going concern audit opinion to a client. An auditor's reputation in a public accounting firm is at stake when the auditor gives an opinion on the actual financial condition. Auditors must be responsible for their profession so that the opinions expressed by the auditors are objective and have strong integrity (Hidayanti and Sukirman, 2014).

LITERATURE REVIEW

Going Concern Audit Opinion

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Going concern audit opinion is an opinion issued by the auditor to ascertain whether the company is able to maintain its viability. The issuance of this going concern audit opinion is very useful for users of financial statements to make the right decisions in investing, because when an investor is going to make an investment it is necessary to know the company's financial condition, especially regarding the survival of the company (Siregar and Nurmala, 2019).

The audit report with a modified going concern opinion indicates that in the auditor's assessment there is a risk that the company cannot survive in business (Praptitorini and Januarti, 2011). Therefore, this report is used to find out the conditions that will occur in the company so that it can be anticipated immediately.

Liquidity Ratio

Liquidity is an indicator to measure the company's ability to pay all short-term financial obligations at maturity using available current assets. A high level of liquidity indicates a company's level of efficiency. According to Subramanyam and Wild (2010:10), liquidity is a company's ability to generate cash in the short term to meet its obligations and depends on the company's cash flows and components of current assets and liabilities. This means that if the company is billed, the company will be able to meet the debt, especially debt that is due. This ratio can be made in the form of a number of times or in the form of a percentage. If the current ratio is 1:1 or 100%, it means that current assets can cover all current liabilities. A safer current ratio is if it is above 1 or above 100% (Harahap, 2010:299). This means that the amount of current assets must be greater than the amount of current debt.

Profitability Ratio

Profit is obtained from the net income of the company minus the expenses incurred in the period concerned. Profitability is used as an indicator of whether the company can survive or not for the next period. The company's profitability will also greatly influence the business decisions of both investors and creditors (Lie and Pikir, 2016). Profitability ratio is one indicator in assessing the performance of a company. According to Harahap, 2010:304, "the profitability ratio describes the company's ability to earn a profit through all existing capabilities and sources such as sales activities, cash, capital, number of employees, number of branches, and so on". This ratio also provides a measure of the effectiveness of a company's management which is indicated by the profit generated from sales and investment income (Kasmir, 2010: 115).

Leverage Ratio

Leverage ratio according to Harahap (2010:306) is "a ratio that describes the relationship between the company's debt to capital and assets". The leverage ratio is proxied by the debt ratio, which compares total liabilities with total assets. This ratio is used to measure how much the company's assets are financed by debt (Kasmir, 2010:112). A good company should have a composition of capital that is greater than debt. Companies that do not have leverage means that the company only uses its own capital to finance its investments, one of which is to purchase assets (Santoso and Wiyono, 2013).

Company Size

Company size describes the state or condition of a company, whether the company is a large company or a small company. The size of the company can affect its ability to survive adverse conditions. Companies with positive growth provide a sign that the size of the company is growing and reduces the tendency towards bankruptcy. Mutchler (1985) in Dewayanto (2011) states that auditors more often issue going-concern audit opinions on small companies. This is because large companies have easier access to

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funding sources so that the opportunity to get a loan will be greater. Because of this convenience, large companies are more able to solve the financial difficulties they face compared to small companies.

Previous Year's Audit Opinion

The previous year's audit opinion is defined as the audit opinion received by the auditee in the previous year and is also an important consideration factor for the auditor to issue a going concern audit opinion or not in the following year. The auditor will provide a going concern audit opinion if the company shows a condition of inability to maintain its business continuity. However, if the auditor does not find any uncertainty in the company's ability to maintain its business as a going concern, the auditor will give a non going concern opinion.

Auditor Reputation

An auditor's reputation is an auditor who has a good name and can demonstrate the achievements and public trust carried by an auditor on behalf of the auditor's big name. The reputation of the auditor is proxied by using the size of the Public Accounting Firm. Big Four KAPs are considered to have better auditing capabilities than Non Big Four KAPs because Big Four KAPs have higher quality in training and international recognition. Choi et al. (2010) classify large KAPs as KAPs that have big names on an international scale (or are included in the big four audit firms), where these large KAPs provide higher audit quality than small KAPs that do not yet have a reputation. The big four KAPs in Indonesia are as follows (Ginting and Suryana, 2014):

a. Price Waterhouse Coopers with partners in Indonesia Haryanto Sahari and Partners
b. Deloitte Touche Tohmatsu with its partner in Indonesia Osman Bing Satrio and Partners
c. KPMG International with partners in Indonesia Siddharta and Widjaja
d. Ernst and Young with partners in Indonesia Purwantono, Sarwoko, and Sandjaja

RESEARCH METHODS

In conducting hypothesis testing, this research is causal, namely a causal relationship. Researchers want to find a causal relationship between the independent variable and the dependent variable in this study. The unit of analysis in this study is a mining company listed on the Indonesia Stock Exchange 2014-2018. The population of this study are mining companies listed on the Indonesia Stock Exchange in 2014-2018. Based on the sample selection criteria, namely mining companies listed on the Indonesia Stock Exchange no later than one year before the 2014-2018 observation period, mining companies that did not experience delisting from the BEI during the 2014-2018 research period, mining companies that received going concern audit opinions during the 2014-2018 period. 2014-2018 research, a sample of 15 companies was obtained.

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RESULTS AND DISCUSSION

Descriptive Statistic

The results of descriptive statistical analysis can be seen in the table following:

Table 1. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
Opini Going Concern	75	0	1	.71	.458
LIKD	75	.001	47.137	2.01617	5.947633
PRO	75	-2.85	.46	.1083	.36846
DEBT	75	.0161	3.4634	.788267	.5425710
SIZE	75	25.72	37.12	29.6986	2.54025
AOT-1	75	0	1	.67	.475
REPT	75	0	1	.19	.392
Valid N (listwise)	75				

Based on the results of the logistic regression test in table 4.5 above, it can be concluded that the regression equation is as follows:

$$\mathrm{Ln}\ \frac{OGC}{1-OGC} = 4.574 + 0.024LIKD + 1.418PRO + 1.193DEB - 0.205SIZE + 3.494AOt\text{-}1 - 0.774REPT + \varepsilon$$

Based on the equation from the logistic regression test above, it can be explained that:

a. The constant value of 4.574 indicates that if the independent variables, namely liquidity ratios, profitability, leverage, company size, previous year's audit opinion and auditor reputation are considered constant.

b. The regression coefficient of the liquidity ratio is 0.024, which means that every 1% increase in the liquidity variable will experience a decrease in going concern audit opinion by 2.4% assuming the coefficients of other variables remain.

c. The profitability ratio regression coefficient is 1.418, which means that every 1% increase in the profitability variable will experience a decrease in going concern audit opinion by 141.8% assuming the coefficients of other variables remain.

d. The regression coefficient of the leverage ratio is 1.193, which means that for every 1% increase in the leverage variable, it is likely that the company will receive a going concern audit opinion of 11.93% with the assumption that the coefficients of other variables are fixed.

e. The regression coefficient for firm size is -0.205, which means that every 1% increase in the firm size variable will experience a 20.5% decrease in going concern audit opinion assuming the coefficients of other variables remain.

f. The regression coefficient of the previous year's audit opinion was 3.494, this indicates that if the company received a going concern audit opinion in the previous year, the possibility that the company would receive a going concern audit opinion in the current year increased by 349.4%.

g. The auditor reputation regression coefficient is -0.774, which means every 1% increase in the variable will experience a 7.74% decrease in going concern audit opinion assuming the coefficients of other variables remain.

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Liquidity Ratio to Going Concern Audit Opinion

The results of testing the liquidity ratio variable as proxied by using the current ratio obtained a coefficient value of 0.024 with a significant level of 0.795 which is greater than 0.05. Based on the test results, it can be concluded that the liquidity ratio variable has no effect on going concern audit opinion or in other words H1 is rejected. Based on these results, in providing a going concern audit opinion, the auditor does not only pay attention to the ability or failure of the entity to pay its short-term obligations using current assets. Even though the entity is able to fulfill its short-term obligations but its financial condition is poor, it does not rule out the possibility of the auditor in providing a going concern audit opinion. Therefore, the liquidity ratio has no effect on the provision of going concern audit opinions.

Profitability Ratio to Going Concern Audit Opinion

The results of testing the profitability ratio variable as proxied by using Return On Assets (ROA) obtained a coefficient value of 1,418 with a significant level of 0,091 which is greater than 0.05. Based on the test results, it can be concluded that the profitability ratio variable has no effect on going concern audit opinion or in other words H2 is rejected. Based on the calculation of Return On Assets (ROA), an entity that has a high level of profitability indicates that the company is able to run its business well so that its business continuity can be maintained and the possibility of the auditor giving a going concern audit opinion is getting smaller.

Leverage Ratio to Going Concern Audit Opinion

The results of testing the leverage ratio variable as proxied using Debt to Total Assets obtained a coefficient value of 1,193 with a significant level of 0.316 which is greater than 0.05. Based on the test results, it can be concluded that the leverage ratio variable has no effect on going concern audit opinion or in other words H3 is rejected. This is because, in providing a going concern audit opinion, the auditor does not only consider the leverage ratio, but also various other factors, such as the potential for corporate bankruptcy, continuous operational losses, and the impact of national economic conditions. According to IAPI (2014), if events or conditions that cause significant doubts about the company's ability are identified, the auditor will evaluate management's plan as the entity's manager for future actions related to the assessment of the going concern of the entity, whether the results of the plan are able to improve the situation, and whether the management plan is feasible in accordance with the conditions. This is a consideration for the auditor in providing a going concern audit opinion. If this management plan can make the condition of the entity better, the auditor can provide a non-going concern audit opinion. Therefore, leverage has no effect on going-concern audit opinion.

Company Size Against Going Concern Audit Opinion

The results of testing the company size variable as a proxy using the natural logarithm of total assets obtained a coefficient value of -0.205 with a significant level of 0.161 which is greater than 0.05. Based on the test results, it can be concluded that the firm size variable has no effect on going concern audit opinion or in other words H4 is rejected. This is because both large and small entities, if the entity is experiencing bad conditions and affecting the viability of its business, the auditor must continue to provide a going concern audit opinion. Apart from that, the viability of an entity's business is always related to the management's ability to manage the entity in order to survive. Although the entity is classified as a small company, it has management with good performance so that the entity can survive in the long term and the potential for giving a going concern audit opinion by the auditor is also getting smaller.

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Previous Year's Audit Opinion Against Going Concern Audit Opinion

The previous year's audit opinion is the audit opinion received by the auditee in the previous year or one year before the research year. Based on the results of the logistic regression hypothesis testing, the coefficient value is 3,494 with a significant level of 0.000. The significant level of the previous year's audit opinion variable was less than 0.05 or 5%, which means that H6 is accepted. Thus, it can be concluded that the previous year's audit opinion has a significant effect on the going concern audit opinion. This is because in the process of issuing a going concern audit opinion in the current year, it cannot be separated from the audit opinion of the previous year. Apart from that, business activities in business entities cannot be separated from the circumstances that occurred in the previous year. The auditor will compare the data in the working year with the data in the previous year. If in the previous year, the company received a going concern audit opinion, and the company's financial condition in the current year also did not show any improvement from the previous year, then the possibility of the auditor to issue an audit opinion the previous year would be even greater.

Auditor's Reputation on Going Concern Audit Opinion

Based on the results of the logistic regression hypothesis testing, the coefficient value was 0,774 with a significant level of 0.363. The significant level obtained by the auditor's reputation variable is greater than 0.05 or 5%, which means that H7 is rejected. Thus, it can be concluded that the auditor's reputation does not affect the going concern audit opinion. The auditor's reputation is the good name, achievement and public trust carried by an auditor on the big name owned by the auditor. Auditor reputation is proxied using the size of the Public Accounting Firm, namely big four KAPs and non-big four KAPs. Based on the results of this study, the auditor's reputation does not affect the going concern audit opinion. Auditors of KAP big four and KAP non big four will carry out all audit procedures independently and skeptically to obtain assurance that the auditee's financial statements are free from material misstatement where these procedures include analysis, collection of evidence, analytical procedures which will be summarized in an audit work paper. to support the audit opinion that will be given to the auditee. Therefore, auditors from both big four and non-big four KAPs will continue to provide going concern audit opinions to their auditee entities if the auditor doubts the auditee's ability to maintain the viability of the company.

CONCLUSION

Based on the discussion of the research results that have been stated previously, it can be concluded that liquidity ratio, profitability ratio, leverage ratio, and auditor reputation has no effect on going concern audit opinions on mining companies listed on the Indonesia Stock Exchange in 2014-2018, meanwhile company size and the audit opinion of the previous year affected has an effect on going concern audit opinions on mining companies listed on the Indonesia Stock Exchange in 2014-2018.

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