

## GOING CONCERN AUDIT OPINION FROM AN AGENCY THEORY PERSPECTIVE

Vivian Susanto<sup>1</sup>  
Frasiska Risma Yolanda<sup>2</sup>  
Andini Febidyliani<sup>3</sup>  
Jennie Calista Putri<sup>4</sup>  
Khairudin<sup>5</sup>

<sup>12345</sup>Economics and Business Faculty, Universitas Bandar Lampung  
Jl. ZA Pagar Alam No.26, Labuhan Ratu, Kedaton, 35142, Bandar Lampung,  
Indonesia

e-mail: [viviansusanto@gmail.com](mailto:viviansusanto@gmail.com)

e-mail: [frasiska.20021062@student.ubl.ac.id](mailto:frasiska.20021062@student.ubl.ac.id)

e-mail: [andini.af19@gmail.com](mailto:andini.af19@gmail.com)

e-mail: [jenniecalistaputri59@gmail.com](mailto:jenniecalistaputri59@gmail.com)

e-mail: [khairudin@ubl.ac.id](mailto:khairudin@ubl.ac.id)

### Abstract

*A going concern audit opinion is bad news for clients or companies that use financial reports. One of the problems that often arises is that auditors find it difficult to estimate the viability of an entity, and this results in many auditors facing several problems, both in the form of ethics and morals, in providing concerned opinions. Audit failures or errors when providing opinions often occur because auditors experience difficulties when deciding on going concern opinions resulting in an impact on the survival of an entity. The purpose of this research is to measure how much the variables studied influence the Going Concern Audit Opinion. The entity's annual financial report available on the IDX for 2018-2020 is used by researchers as secondary research data. Then the Purposive Sampling method was used and 13 companies were obtained that met the standards or requirements in the research with a total of 39 sample observations. The results of the research prove that the Audit Tenure variable has a significant negative influence, while the Cap Reputation and Audit Opinion variables have a significant positive influence on the Going Concern Audit Opinion.*

**Keywords:** *Tenure Audit; Hood Reputation; Audit Opinion; Going Concern Audit Opinion*

### Introduction

A business entity that is committed to maintaining the continuity of its business, through the assumption of going concern (Chen & Church, 1992) To determine whether an entity can maintain its survival, the auditor's opinion, namely the going concern opinion, will be embedded in the financial report,

where this opinion is a form of the auditor's assessment of the viability of an entity. Basically, this opinion is received by entities with negative tendencies, such as facing financial difficulties, or experiencing internal related problems which ultimately give rise to uncertainty about the survival of their business in the future. (SPAP, 2011). For entities that use financial reports, a going concern audit opinion is sometimes interpreted as bad news. Thus, there are many auditors who face problems, such as ethics and morals when providing going concern opinions, due to quite high difficulties when assessing the viability of the company. The cause of this problem is that it is triggered by problematic predictions which ultimately come true or are self-fulfilling or self-fulfilling prophecies, that is, it is feared that the entity will more easily experience bankruptcy, if the auditor gives a going concern opinion, this is because many creditors withdraw their funds and investors do not investment because they are concerned about the continuity of the entity's business in the future.

Audit quality can be a factor that influences the sustainability of an entity because audit quality is the main indicator used in choosing the industry specialization of a KAP. Auditor industry specialization describes auditors who have more knowledge and specific knowledge in a particular industry. KAP industry specialization is considered to be convincing because more knowledge and experience in handling a client in an industry can produce good audit quality information. Some evidence suggests that auditor industry specialization results in more effective audits (Owhoso et al. 2002). KAP is considered more convincing because it has more knowledge and experience in handling a client in an industry so that it can produce good audit quality information (Owhoso et al. 2002).

The number of scandals related to fraud or misappropriation of financial data involving entities and auditors has given rise to a poor understanding of the profession. Errors in providing opinions or audit failures often occur because auditors experience difficulties when deciding on a going concern opinion, which as a result will have an impact on the survival of the entity. In 2018, a phenomenon occurred where the OJK officially gave administrative sanctions, namely the revocation of registration belonging to the Public Accounting Firm (KAP) Satrio Bing Eny and Partners, and Public Accountants (AP) Meriliyana Syamsul and Marlina, related to the OJK inspection of PT Sunprima Nusantara Pembinaan (SNP Finance ). AP from KAP Satrio Bing Eny and Partners, previously audited SNP Finance's annual financial report by obtaining an Unqualified Opinion. However, this is different from the results of the investigation carried out by the OJK, where it was discovered that SNP Finance was proven to have presented financial reports that were significantly contradictory to the actual situation and the consequences were detrimental to various parties. AP Meriliyana Syamsul and Marlina were assessed by the OJK as having made serious mistakes, not complying with POJK Number: 13 /POJK. 03/2017 concerning the Use of Public Accounting Firm and Public Accountant

Services, namely embedding assumptions where the presentation does not correspond to the actual situation in the company. The rise of accounting fraud in Indonesia has put the public accounting profession into doubt, because it can be said that auditors play a role in conveying errors in information relating to the actual condition of the entity, resulting in many losses to various parties. Some argue that the auditor is to blame, because they feel they failed to detect fraud committed by the entity. The collapse of these entities may be avoided if there is consistency between the actual state of the entity and the published audit reports (Savitry, 2013).

### **Literature review**

Audit opinions can be explained using agency theory. An agency relationship arises when one or more principals enter into an agreement with another person as an agent to perform a service. Watts and Zimmerman (1986) in Nazri et al. (2012). Agency problems are caused by conflicts of interest and information asymmetry between the principal (shareholders) and the agent (management). Conflicts of interest between owners and agents occur because the agent may not always act in accordance with the interests of the principal, thereby triggering agency costs.

Agency theory, independent auditors act as mediators between agents and principles with different interests. Wijayani (2011) independent auditors also function to reduce agency costs arising from self-interested behavior by agents. In the agency concept, the principal will give authority to the agent to make decisions because the agent knows and understands information about the company's performance better than the principal. Company management will take various actions to maintain good company performance so that shareholders continue to trust the credibility of the financial reports presented by the company as an illustration of the company's overall performance activities. It is likely that management will use public accounting services that are in line with management's interests. If company management considers that the previous auditor is not in line with management's interests and could endanger the loss of investor confidence, then company management would be better off replacing the auditor rather than losing investors.

Jensen, & Meckling, (1976) states that agency theory is a rule or principle relating to agreements between principals or capital owners and management or agents. The principal has the power regarding information relating to the company's internal affairs, while the agent is the implementer of functional realization who has actual and comprehensive information relating to the entity's activities and capacity. The agent or principal each has relevance in carrying out their position. It is feared that the inverse differences between principals and agents in terms of goals, positions or functions will trigger disputes by drawing attention to their mutual relevance. Auditors are needed as independent third parties in carrying out review procedures and

investigations of activities for principals or agents which are estimated through their financial performance which appears in the company's financial statements.

### Methodology

This research uses explanatory research, which is a research method with the aim of explaining the position of the variables being studied together with the influence of the variables on each other.(Sugiyono, 2017).This research uses a quantitative assessment method with the population being manufacturing companies listed on the IDX and having complete financial reports, and published on the Indonesian Stock Exchange in 2018-2020, totaling 120 populations, while the sample has characteristics with a population of 39 samples, sampling using the method Purposive Sampling.

Data collection uses documentation techniques, which is a method that combines secondary data in the form of archives or written notes related to research(Sugiyono, 2017).Sample sorting criteria include:

**Table 1. Criteria for Determining Research Samples**

No	Information	Amount
1.	Manufacturing companies listed on the IDX during the research period (2018-2020)	120
2.	Manufacturing companies that do not present Annual Reports and financial reports audited by independent auditors for 3 (three) years (2018-2020)	(86)
3.	Manufacturing companies that do not use the rupiah (Rp) as reporting currency	(21)
Number of eligible companies		13
Total Research Data (13 x 3)		39

Source: Processed data, 2021

Operational division and variable measurement:

The dependent variable of the research is Going Concern Audit Opinion, namely the provision of assumptions from the auditor when they are found to be unsure about the company's capability to maintain the continuity of its business in the future.(SA Section 341) measurement variables using *variables dummy*. Independent variables used:

### *Tenure Audit(X1)*

Collaborative relationships in audit activities between auditors and the same client entity. The measurement uses an interval scale that is aligned with the duration of the Public Accounting Firm's (KAP) involvement with the client entity. The first year of this collaboration, it started with the number 1, then

added another 1 for the next period (Krissindiastuti & Rasmini, 2016).

### **KAP Reputation (X2)**

Aims to show the large or small scale of a Public Accounting Firm. The measurement uses a Dummy Variable. Awarded 1 point if the company uses the services of a Big Four KAP or collaborates with a Big Four KAP. Meanwhile, 0 points are given if services belonging to non-Big Four KAPs are used (Krissindiastuti & Rasmini, 2016).

### **Audit Opinion (X3)**

Audit opinion is the auditor's opinion on the audit report in the previous year, measuring variables with dummy variables. One point is given to the entity if the auditor gave a going concern audit opinion in the previous year. Meanwhile, zero points apply if the non-going concern audit opinion was given in the previous year (Syahputra, 2017).

The descriptive statistical analysis method is used by researchers to explain or describe data based on the results of the mean, minimum, maximum and standard deviation. The hypothesis testing uses logistic regression analysis, as a tool to measure the opportunities of the Dependent Variable with the Independent Variable. If you use this analysis, the classical assumption test and normality test on the Independent Variable no longer need to be carried out (Ghozali, 2016).

The following is the logistic regression model used by researchers:

$$\frac{OGC}{1-OGC} = \alpha - \beta_1TENURE + \beta_2REPUTATION + \beta_3OPINION + \varepsilon$$

### **Explanation:**

OGC	:Going concern opinion
$\alpha$	: Constant
$\beta_1- \beta_3$	: Regression coefficient
TENURE	: <i>Auditing</i> tenure
REPUTATION	: KAP reputation
OPINION	:Audit opinion
$\varepsilon$	: Residual / error coefficient

### **Results and Discussion**

The results of the Audit Tenure variable in descriptive statistical calculations were found to be the lowest, namely 1, and the highest value,

namely 3, and the Standard Deviation was 0.641. Based on the data used in the sample, the mean value is 1.44, meaning that out of a total of 39 published financial reports, the average collaboration between auditors and clients is 1.44 years or around 1 year and 4 months.

The descriptive statistical results of the KAP Reputation variable are known to produce a min value of 0, a max value of 1, a standard deviation of 0.468 and an average of 0.69, meaning that based on 39 published financial reports, it was found that 69% of companies use services from Big Four KAPs regarding auditing their financial reports. .

The calculation results for the Audit Opinion variable obtained the smallest value of 0 and the largest value of 1 and a standard deviation of 0.442. Then, the average value is 0.26, meaning that 26% of financial reports received a going concern audit opinion on the company's audit report in the previous

**Table 2. Descriptive Statistics Analysis**

Descriptive Statistics						
	N	Minimum	Maximum	Mean	Std. Deviation	
Tenure Audit	39	1	3	1.44		,641
KAP reputation	39	0	1	.69		,468
Audit Opinion	39	0	1	.26		,442
Going Concern Audit Opinion	39	0	1	.21		,409
Valid N (listwise)	39					

year.

Source: Processed data, 2021

The Descriptive Statistics Results of the Going Concern Audit Opinion variable show the smallest value, namely 0 and the largest i, namely 1, and a standard deviation of 0.409 with a mean value of 0.21, so it can be concluded that of the total of 39 Financial Reports, 21% of entities received this opinion.

In the following table calculations, a probability value of  $0.960 > 0.05$  is obtained, meaning that hypothesis 0 is supported, so that the research data matches the model and can take into account the observed values.

**Table 3. Hosmer and Lemeshow's Goodness of Fit Test**

Hosmer and Lemeshow Test			
Step	Chi-square	df	Sig.
1	1,037	5	,960

Source: SPSS 17.0 data processed, 2022

Table 4 explains that the initial -2 LL value is 39,580, the value obtained only includes constants. Meanwhile in table 5 the final -2 LL value is 36,012, this value is obtained by including the constant and independent variables, namely Audit Tenure, KAP Reputation, and Audit Opinion. The difference between the two values is 3,568 (39,580-36,012), a statistically significant value due to a decrease, so the null hypothesis is declared accepted and adding additional independent variables to the model will strengthen the overall model fit.

**Table 4. Value of -2 Log likelihood (-2 Initial LL)**

Iteration History <sup>a,b,c</sup>			
Iteration		Coefficients	
		-2 Log likelihood	Constant
Step 0	1	39,781	-1,179
	2	39,580	-1,346
	3	39,580	-1,355
	4	39,580	-1,355

a. Constant is included in the model.

b. Initial -2 Log Likelihood: 39,580

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

Source: SPSS 17.0 data processed, 2022

**Table 5. Value of -2 Log likelihood (-2 Final LL)**

Iteration History <sup>a,b,c,d</sup>						
Iteration		-2 Log likelihood	Coefficients			
			Constant	X1	X2	X3
Step 1	1	36,771	-2,026	,319	.144	1,129
	2	36,031	-2,792	,525	,266	1,542
	3	36,012	-2,968	,578	,307	1,620
	4	36,012	-2,975	,580	,309	1,623
	5	36,012	-2,975	,580	,309	1,623

a. Method: Enter

b. Constant is included in the model.

c. Initial -2 Log Likelihood: 39,580

d. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Source: SPSS 17.0 data processed, 2022

The following is a calculation in table 6 where a value of 0.437 is obtained, where the independent variable can clarify the dependent variable by



43.7%, with the remaining 56.3% being described by other variables which are not included in this study.

**Table 6. Nagelkerke R Square Test**

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	36.012a	,087	,437

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Source: SPSS 17.0 data processed, 2022

The results of the logistic regression show that the level of significance of the test is 0.05 or (5%). Based on these results, the following Logistic Regression formulation is obtained:

$$OGCLn = -2.975 - 0.580TENURE + 0.309REPUTATION + 1.623OPINION + \epsilon$$

**1-OGC**

The data concluded that: Going Concern Audit Opinion or Non Going Concern Audit Opinion was obtained by the entity and for every 1 point increase in Audit Tenure, it resulted in a decrease in the log of odds level and the entity would obtain a Going Concern Audit Opinion at a value of 0.580 and ignoring the variables other independents. Every time there is an increase of 1 point in KAP Reputation, there will be an increase in the log of odds so that a Going Concern Audit Opinion is obtained at a value of 0.309, ignoring other independent variables. Every time there is an increase of 1 point in Audit Opinion, there will be an increase in the log of odds, then the entity will receive a Going Concern Audit Opinion at a value of 1.623 and ignore other Independent Variables.

Explanation results related to Logistic Regression calculations in table 7: Hypothesis Testing (H1) The Audit Tenure variable (TENURE) obtained a coefficient of - 0.580 with a significance value of  $0.002 < 0.05$ , where H1 is supported or This variable shows a significant negative influence on the Going Concern Audit Opinion. Hypothesis Testing (H2) The KAP Reputation variable (REPUTATION) obtained a coefficient of 0.309 and a significance of  $0.043 < 0.05$ . This means that H2 is supported or this variable has a significant positive effect on the Going Concern Audit Opinion. The Audit Opinion variable (OPINION) obtained a coefficient value of 1.623 with a significance value of  $0.005 < 0.05$ . So, H3 is supported or this variable has a significant positive influence on the Going Concern Audit Opinion.

**Table 7. Results of Logistic Regression Analysis**



---

**Variables in the Equation**


---

		B	S.E	Wald	df	Sig.	Exp(B)
Step 1a	X1	-.580	,692	,702	1	,002	1,786
	X2	,309	,980	,099	1	,043	1,361
	X3	1,623	,912	3,165	1	,005	5,069
	Constant	-2,975	1,584	3,531	1	,060	,051

Source: Processed data, SPSS Version 17.0, 2022

Testing the first hypothesis (H1) shows that the results show a significant negative effect. The length of the audit tenure period influences the acceptance of the Going Concern Audit Opinion. This is of course balanced with property (Oktaviani & Challen, 2020; Syahputra, 2017; Main & Badera, 2016; Krissindiastuti & Rasmini, 2016; Junaidi & Hartono, 2010) explains that it is feared that the duration of the collaboration between the auditor and the same client continuously will be lower in relation to uncovering the entity's inability to maintain its business continuity, which is caused by the auditor and client having an increasingly close bond as a result of which the auditor will prioritize the client's wishes, including avoidance in receiving

a Going Concern Audit Opinion.

The second hypothesis test (H2) found that the results were significantly positive. These results provide confidence that entities that collaborate with Big Four KAPs often publish their financial reports with a Going Concern Audit Opinion, and publish audit reports whose quality is guaranteed and are able to predict the sustainability of an entity in the future. Going Concern opinions are expressed more often by auditors from Big Six KAPs who are facing financial problems than auditors from non-Big Six KAPs (Mutchler, 1997). This is related to or the same as property (Krissindiastuti & Rasmini, 2016; Tandungan & Mertha, 2016) concluded that the audit results from the Big Four KAPs were very good and of high quality, because the Big Four KAPs tried to maintain and maintain the great reputation they had built, so the quality of the audits produced was much more accurate and the opinions given were in sync with the actual state of the entity.

Based on the hypothesis (H3), it is known that the result is significantly positive, meaning that an entity with a Going Concern Opinion in the previous year's audit report has the opportunity to get a Going Concern Opinion again. Because the business activities of an entity are mutually sustainable (Nur, 2015). Of course, these results are in sync with yours (Kheiline, 2020; Syahputra, 2017; Nguyen & Nguyen, 2016) proves that there is a positive link between the current year's Audit Opinion and the previous year, meaning that an entity that

received this opinion in the previous year's audit report is likely to receive it again in the following year, if there is no ethics to make improvements aimed at overcoming the problems that occur.

### **Conclusion**

The results concluded that the Going Concern Audit Opinion had a significant positive effect on the KAP's reputation because the audit results of the Big Four KAP were of good quality, because the Big Four KAP tried to maintain and maintain its reputation, so the resulting audit quality was more accurate and the opinion given was in accordance with the condition of the entity in question. in fact, and Audit Opinions provide confidence that entities that collaborate with Big Four KAPs often publish their financial reports with Going Concern Audit Opinions, as well as publishing audit reports whose quality is guaranteed and are able to predict the sustainability of an entity in the future.

*Tenure Audit* has a significant negative effect, this is due to the continuous duration of the collaborative relationship between the auditor and the client, which results in opinions that do not reflect actual conditions, which is because the auditor and client have an increasingly close bond as a result of which the auditor will prioritize the client's wishes including avoidance in receive a Going Concern Audit Opinion.

### **Suggestion**

Based on the description above, the considerations or suggestions given by the author are:

1. For future researchers, it is necessary to increase other variables such as Auditor Quality, Solvency, Profitability Ratios, Disclosure variables, and so on. Then, extend the year or research period and add research objects to obtain maximum results and a wider sample.
2. For Public Accounting Firms (KAP), the author hopes that they will always maintain their professionalism and independence as well as the need to explore each problem properly so that there will be minimal errors that arise in providing Audit Opinions to clients.
3. Investors can consider in advance aspects that might have an impact on the survival of an entity when making investment decisions.

### **References**

Chen, K. C., & Church, B. K. (1992). Default on debt obligations and the issuance of going-concern opinions. *Auditing*, 11(2), 30. *Auditing: Journal Practice and Theory*.

- Dwi Wijayani, E., & Januarti, I. (2011). Analysis of Factors that Influence Companies in Indonesia to Conduct Auditor Switching (Doctoral dissertation, Diponegoro University).
- Fauzan Syahputra, MR (2017). The Influence of Audit Tenure, Audit Delay, Previous Year's Audit Opinion and Opinion Shopping on Acceptance of Going Concern Audit Opinions in Manufacturing Companies Listed on the Indonesia Stock Exchange in 2013-2015. Scientific Journal of Accounting Economics Students (JIMEKA).
- Ghozali, I. (2016). Multivariate Analysis Application with the IBM SPSS 23 Program (Print to). Diponegoro University Publishing Agency.
- Ha, Thuy Thi., Nguyen, Truc Anh Thi and Nguyen, TT (2016). Factors Influencing the Auditor's Going - Concern Opinion Decision. International Days of Statistics and Economics Prague., September, 8 - 10.
- Jensen, M. C. and Meckling, W. H. (1976). Theory Of The Firm, Managerial Behavior, Agency Costs & Ownership Structure. Journal of Financial Economics, 3, 451-481.
- Junaidi and Jogiyanto Hartono. (2010). Non-Financial Factors in Going Concern Opinions (Symposium).
- Kheiline, K. (2020). Analysis of the Influence of Audit Tenure, Previous Year's Audit Opinion, and Disclosure on Acceptance of Going Concern Audit Opinions. Buddhi Dharma University Accounting E-Journal.
- Krissindiastuti, M., & Rasmini, NK (2016). Factors Influencing Going Concern Audit Opinions. Udayana University Accounting E-Journal, 14(1), 451-481.
- Mutchler, J. (1997). Auditors Perceptions of the Going Concern Opinion 13. Decision. Journal of Practice and Theory.
- Nazatul Faiza Syed Mustapha Nazri, S., Smith, M., & Ismail, Z. (2012). Factors Influencing Auditor Change: Evidence from Malaysia. Asian Review of Accounting, 20(3), 222-240.
- Hong Trang Nguyen, T. (2016). Improve Internal Audit Methodology in the Case Company.
- Owhoso, V.E., Messier, Jr., W.F., & Lynch, Jr., J.G. (2002). Error detection by industry-specialized teams during sequential audit review. Journal of accounting research, 40(3), 883-900
- Oktaviani, O., & Challen, AE (2020). The Influence of Auditor Quality, Audit Tenure and Debt Default on Acceptance of Going Concern Audit Opinions. Journal of Accounting and Finance, 8(2), 83-90.
- Section 341. Auditor's Consideration of the Entity's Ability to Maintain Its Going Concern. 30.
- Savitry, A.H. (2013). The Influence of Disclosure Level and Audit Lag on Going Concern Audit Opinions (Empirical Study of Manufacturing Companies

- listed on the IDX 2007-2011). *Trikonomics Journal*.
- Sugiyono. (2017). *Quantitative, Qualitative, and R&D Research Methods (Twenty)*. Alfabeta.
- Tandungan, D., & Mertha, IM (2016). The Influence of the Audit Committee, Company Size, Audit Tenure, and KAP Reputation on Going Concern Audit Opinions. *Udayana University Accounting E-Journal*, 16(1), 45–71.
- Utama, IGPOS, & Badera, IDN (2016). Opinion Acceptance with Modified Going Concern and Predictor Factors (Study of Manufacturing Companies on the Indonesian Stock Exchange). *Udayana University Accounting E-Journal*, 14(2), 893–919.
- Watts, R.L., & Zimmerman, J.L. (1986). *Positive accounting theory* [www.idx.co.id](http://www.idx.co.id)
- .
- .