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Riset Akuntansi dan Keuangan Indonesia

URL : <http://journals.ums.ac.id/index.php/reaksi/index>



# The Influence of Company Growth, Profitability, Leverage, Financial Condition, and Previous Years' Audit Opinions on Going Concern Audit Opinion (Empirical Study of the Real Estate and Property Industry Listed on the Indonesian Stock Exchange for the 2019-2021 Period)

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## ABSTRACT

A going concern audit opinion is an audit opinion given on an entity's financial statements when its conditions differ from the assumption of business continuity. This research, therefore, aims to ascertain the impact of company growth, profitability, leverage, financial condition, and previous years' audit opinions on the going concern audit opinions. The data used is quantitative. The real estate and property industry classification companies listed on the Indonesia Stock Exchange (BEI) in the 2019-2021 period were the objects of the research. Purposive sampling was used for the sampling, and 126 companies were obtained. The logistic regression analysis was employed in the data analysis method. According to the study findings, while previous year audit opinions had an impact, company growth, profitability, leverage, and financial condition had no impact on going concern audit opinion.

## Keywords:

Company growth, going concern audit opinion financial condition, leverage, previous years audit opinions, and profitability.

## INTRODUCTION

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Increasingly rapid economic development has changed many economic actors in managing their finances. A country with a good economic condition can encourage good company performance, and conversely, a country with a poor economy will hinder companies from running their business. The survival of the company is in the spotlight for investors, and those who want to invest must know the condition of the company regarding its survival (going concern) (Kristiana, 2012). Investors will be interested in investing in companies that demonstrate guaranteed survival and even further development (company growth).

In this case, financial reports are a tool that investors can use to obtain information about the company in making business and investment decisions. To provide useful information, financial reports must reflect the company's actual performance and conditions and be audited by an external auditor (Pramestri, 2014). For companies, information in financial reports is used as a reflection of the company's potential for survival in the long term. Meanwhile, in the eyes of investors, the survival of a company is used as a consideration when investing in it. This survival depends on the level of profit obtained from the assets owned, along with the composition of equity and debt (leverage) carried out by the company.

The part of the audit report, which is main information of the audit report, is the definition of audit opinion (Alichia, 2013). The audit report regarding going concern is an indication of the auditor's assessment of the risk of the auditee not being able to survive in business. The auditor issues a going concern audit opinion to determine whether the company can maintain its business continuity.

Therefore, the auditor issues a going concern audit opinion if, according to him, there is doubt about the company's ability to maintain its business continuity in the next 12 months.

On the other hand, economic conditions are uncertain, which means investors hope that auditors can provide an early warning about the survival of the companies they audit (Imawan, 2019). Consequently, auditors must be reliable so that they help provide information about the company's financial condition that is real, neutral,

and not tendentious for users of financial reports, including investors.

Of these several things, it is necessary to do an in-depth study to find out the relationship and analyze whether company growth, profitability, leverage, financial condition, and previous years' audit opinion influence going concern audit opinion.

## THEORETICAL BASIS

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### Agency Theory

According to Anthony and Govindarajan (2011:10), the concept of agency theory explains the contractual relationship between management (agent) and owner (principal). Jensen and Meckling's (1976) research describes the relationship between two individual positions with different interests, namely between agent and principal. The agent is authorized by the principal to carry out company operations, so that he has more information than the principal. Meanwhile, the principal has the position of giving orders, supervising, assessing, and providing input for the activities carried out by the agent. The existence of these two different interests gives rise to information inequality, which is called information asymmetry. The information held by the agent (manager) is the company's financial information, which is based on its financial reports, while for the principal, the trusted information is produced by the independent auditor. Thus, to bridge the two different interests, the role of an independent auditor is needed.

### Going Concern Audit Opinion

An auditor issues a going concern audit opinion to ascertain whether the company can maintain its survival (Ardiani, 2012: 121). According to research by Alichia (2013), audit opinion is the main information from an audit report. The audit opinion is decided through several audit stages so that the auditor can provide several appropriate conclusions regarding the opinion that must be given on the financial statements of the company being audited. Audit reports are crucial for investors since they provide information about the financial condition of a company, becoming the basis for decisions for investors to invest or withdraw their investment.

## Company Growth

According to research by Ardika and Ekayani (2013), company growth can indicate that the company is maintaining its survival. Company growth is proxied by sales growth. In this case, increasing sales will provide an opportunity for the company to increase profits, maintain survival, and even develop (expansion).

## Profitability

Profitability, as Hanafi (2012: 81) defined, is the company's ability to generate profits in the future. Profit is often used as an indicator for assessing company performance. Companies with high profitability will have better performance in managing their assets to generate profits so that their survival is guaranteed.

## Leverage

The leverage ratio is used to determine the company's ability to fulfill its financial obligations, both long and short-term (Wiagustini, 2014). The higher leverage ratio indicates the company's poor financial performance, which can give rise to uncertainty regarding its survival in the future.

## Financial Condition

According to research by Yanuariska (2018), financial condition is a real picture of the company's financial condition regarding how the company has performed so far. Financial conditions can be seen from financial reports, which contain information regarding trends in the company's condition in the future (Soewiyanto 2012). A company's declining condition will make it more likely to get a going concern audit opinion, and conversely, a company with an improving financial condition will be less likely to get a going concern audit opinion.

## Previous Year's Audit Opinion

As Soewiyanto (2012: 54) stated, previous years' audit opinions are given by auditors in the previous year, who carried out audits of the company. The going concern audit opinion received in the previous year will be related to the issuance of the going concern audit opinion for the current year. Previous years' audit opinions can influence the auditor's decision regarding whether to grant a going concern opinion.

## RESEARCH METHOD

The type of research used is quantitative, with the objects studied being companies operating in the real estate and property industry sectors listed on the IDX during the 2019-2021 period.

The type of data used was secondary data in the form of annual financial reports of real estate and property industry companies obtained from IDX reports.

Meanwhile, samples were taken using a purposive sampling method with the following criteria:

- Real estate and property industry companies listed on the IDX in 2017-2019
- Companies that published annual financial reports in 2019-2021, which had been audited by independent auditors
- Companies that were not delisted from the IDX during the 2019-2021 period

Then, data analysis used descriptive analysis and logistic linear regression. Descriptive statistics were employed to determine the classification and condition of data for each variable to be analyzed, including the average (mean) standard deviation, minimum, and maximum values. Meanwhile, logistic regression analysis was utilized to determine the influence or significance between the independent variables (company growth, profitability, leverage, financial condition, and previous years' audit opinion) on the dependent variable (going concern audit opinion).

## DATA ANALYSIS AND DISCUSSION

### Descriptive Statistics

According to the descriptive analysis results, the going concern audit opinion variable had a mean value of 0.16, a standard deviation of 0.367, a minimum value of 0, and a maximum value of 1.

The mean value of the company growth variable was 0.19111, with a standard deviation of 1.080030, and the minimum and maximum values were 0.912 and 8.088, respectively.

The mean value of the profitability variable was 0.03286, with a standard deviation of 0.051846, while the minimum value was 0.106 and the maximum was 0.259.

The leverage variable had a mean value of 0.36825 and a standard deviation of 0.186960; the minimum and maximum values were 0.042 and 0.784, respectively.

The mean value of the financial condition variable was 2.59413, with a standard deviation of 1.609181, while the minimum and maximum values were 0.211 and 7.495, respectively.

The previous years' audit opinions variable had a mean value of 0.10, a standard deviation of 0.295, a minimum value of 0, and a maximum value of 1.

### Logistic Regression Analysis

The feasibility test results of the Hosmer and Lemeshow's Goodness of Fit Test regression model uncovered that the significance value (0.557) was higher than the alpha value (0.05), so it can be concluded that the regression model could predict the observed values.

The overall model test result (Overall Model Fit) based on a comparison of the initial -2 log

likelihood (-2LL) value (Block number: 0) with the final -2 log likelihood (-2LL) (Block number: 1) was 110.265. For the initial value and after the independent variables were included in the regression model, the final -2LL value was 93.396. This reduction in likelihood denotes that the regression model used fitted to the data.

Apart from that, the results of the coefficient of determination test showed that the Nagelkerke R-Square value was 0.215. It indicates that 21.5% of the variation in the going concern audit opinion variable could be explained by the company growth, profitability, leverage, financial condition, and previous years' audit opinion variables. In comparison, the remaining 78.5% were explained by other factors outside the research model. This condition implies that there is still a lack of variables thought to be factors related to going concern audit opinion.

### Logistic Regression Test

From the processed data, the results obtained are presented in the following table.

TABLE OF LOGISTIC REGRESSION ANALYSIS RESULTS

Variable	B	Significance	Description	Conclusion
CG	-0.065	0.819	Not significant	No effect
PF	4.894	0.369	Not significant	No effect
LV	1.573	0.328	Not significant	No effect
FC	-0.202	0.299	Not significant	No effect
PO	2.601	0.000	Significant	Influential
	-2.370			

Source: Secondary data processed by the authors, 2023.

Based on this table, it could be transformed into a regression model:

$$n \frac{CO}{1-\omega} = -2.370 - 0.065C + 4.894 + 1.573V - 0.202C + 2.601O +$$

Description:

$$n \frac{CO}{1-\omega} = \text{Going Concern Audit Opinion}$$

$\alpha$  = Constant

CG = Company Growth

PF = Profitability

LV = Leverage

FC = Financial condition

PO = Previous years' audit opinion

$\epsilon$  = Residual error

The interpretation of the table is as follows:

- The CG variable had a significance value (0.819) greater than  $\alpha$  (0.05), so it can be concluded that there is no influence of company growth on going concern audit opinion.
- Since the PV variable had a significance value (0.367) more significant than  $\alpha$  (0.05), it can be concluded that there is no influence of profitability on going concern audit opinion.
- Given that the LV variable's significance value was 0.328, higher than the threshold of 0.05, it can be said that leverage has no impact on the going concern audit opinion.
- The FC variable had a significance value (0.299) greater than (0.05), implying that

financial conditions do not influence going concern audit opinion.

- e. The PO variable had a significance value (0.000) less than 0.05, indicating that the previous years' audit opinion has an impact on the going concern audit opinion.

## DISCUSSION

**The research results indicated that company growth was not significant (had no effect) on going concern audit opinion.**

The condition that company growth did not affect going concern audit opinions is because there is no guarantee that companies experiencing an increase in sales or company growth can avoid receiving going concern audit opinions. It suggests that a company experiencing growth does not necessarily mean that the company can overcome the other financial problems it faces. On the other hand, a company that is stagnant or even experiencing a decline does not necessarily indicate that the company cannot overcome its financial problems.

**The research results showed that profitability was not significant (had no effect) on going concern audit opinion.**

This condition implies that companies with a high or low level of profitability did not influence the auditor to provide a going concern audit opinion because, in practice, auditors do not only consider the profitability level but also look at other factors.

**The research results revealed that leverage was not significant (had no effect) on going concern audit opinion.**

This condition is because real estate and property companies have a high level of leverage, where some of the capital used to build and work on a project or company development is obtained from third parties. It also denotes that, in general, auditors do not only consider debt issues but there are also other considerations when issuing a going concern audit opinion.

**The research results uncovered that financial conditions were not significant (had no effect) on going concern audit opinion.**

This condition is due to the fact that auditors tend to provide audit opinions related to going concerns for companies experiencing repeated operating losses. Auditors also tend to provide audit opinions related to going concerns if its losses increase and see how significant its operating losses are, thus raising substantial doubts about the company's survival.

**The analysis results demonstrated that previous years' audit opinion had a significant (had influence) on going concern audit opinion.**

This condition indicates that the auditor really pays attention to the going concern audit opinion received by the company in the previous year. Even though the re-issuance of a going concern audit opinion is not only based on the going concern audit opinion in the previous year, a company also receiving a going concern audit opinion in the previous year will result in a loss of public confidence in the company's ability to maintain its business continuity so that it will be difficult for the company to recover from difficulties experienced.

## CLOSING

### Conclusion

Based on the results of the analysis and discussion, the following conclusions were obtained:

- a. Company growth does not affect (statistically insignificant) on going concern audit opinion.
- b. The going concern audit opinion is unaffected (statistically insignificant) by profitability.
- c. When it comes to the going concern audit opinion, leverage has no impact (it is statistically insignificant).
- d. There is no effect (statistically insignificant) of financial conditions on the going concern audit conclusion.
- e. Previous years' audit opinion has a statistically significant impact on the going concern audit opinion.

### Research Limitations

This research still has limitations that can reduce the perfection of the results, including:

- a. The sample studied was limited to real estate and property industry companies, so the



- conclusions cannot be generalized to company objects outside the real estate and property industry.
- b. The observation period was only three years (2019-2021), so it is not possible to see trends over time regarding the receipt of going concern audit opinions.
  - c. The independent variables used were still limited to company growth, profitability, leverage, financial condition, and previous years' audit opinion in explaining the variables that influenced going concern audit opinion, so other variables thought to influence going concern audit opinion have not yet been revealed.

### Suggestion

Based on the above conclusions and limitations, the following suggestions can be put forward:

- a. It is hoped that further research can add and expand the industrial sector as a sample.
- b. Future research is expected to increase the research period, such as five years, so that trends over time regarding the issuance of going concern audit opinions can be seen.
- c. Future research is expected to add independent variables that many other researchers have not carried out to find out more other variables thought to be related to going concern audit opinion (i.e., audit tenure, public accounting firm size, and investment decisions).

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