

The Role of Financial Performance in Going Concern Audit Opinions

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This study investigates the impact of company size, profitability, liquidity, and company growth on the issuance of going concern audit opinions for manufacturing firms listed on the Indonesia Stock Exchange (IDX) during 2019-2023. The research utilizes a sample of 33 manufacturing companies observed over a five-year period, resulting in a total of 165 data points. Logistic regression analysis with panel data is employed to assess the relationship between these variables and going concern audit opinions. The findings indicate that company size and company growth have a negative but statistically insignificant influence on going concern audit opinions. This suggests that these factors do not substantially contribute to the likelihood of receiving a going concern opinion. Conversely, profitability and liquidity exhibit a positive and significant impact on going concern audit opinions. This highlights that higher profitability and liquidity enhance a company's ability to continue its operations, reducing the auditors' concerns about its viability. These results provide valuable insights for stakeholders, including auditors and management, emphasizing the importance of financial performance metrics in determining going concern status. Future studies could explore other factors, such as corporate governance and external economic conditions, to provide a more comprehensive understanding of determinants influencing going concern audit opinions.

1. Introduction

An auditor is a person who has the ability to audit financial statements in accordance with general accounting standards in Indonesia. Auditors have an important role for the interests of investors as users of financial statements as well as the interests of management or companies as providers of financial statements. The performance of auditors considerations is in the public spotlight because it is one of the parameters for financial statement opinions. [1] argues that the research theme of consideration/consideration in making decisions will have an impact on scientific disciplines, namely the first in medicine, the second in law, the third in public policy, and the fourth in business. Before being used by business decision makers, financial statements must be audited. Therefore, auditors in auditing financial statements use considerations.

Audit reports are used to provide information for stakeholders as a guideline for decision-making. Financial statements are a reflection of the form of accountability of the company's management to the owner of the company because in accordance with the theory of agency Jensen and Meckling states that the owner (principal) delegates to the management (agent) to carry out the interests of the owner. This causes a condition called information asymmetry, where the agent as the manager of the company is considered to have more information about the company than the principal [2].

In the past two decades or twenty years, research on considerations in auditing has grown rapidly and in the future will continue to be needed in the audit process [3]. The process of forming considerations/considerations in audits requires past information, present information, and also future information is needed. Moreover, [4] states that the audit consideration of the strength of a business entity (entity) in an effort to maintain its survival (going concern) must be based on whether there is doubt in an auditor about the strength of a business entity whether it can still survive or continue its life (going concern) in one period of the client's financial statements. An going concern audit opinions is an opinion issued by an auditor to ascertain whether a company can maintain its survival [5]. The company's financial statements are made on the assumption that the audit is going concern because every company is established with the expectation of continuing and growing [6]. A company's financial condition describes the company's true health level. The more the company's condition is disrupted or deteriorated, the greater the company's need for an going concern audit opinions. On the other hand, in companies that do not experience financial independence, the auditor has never issued an going concern audit opinions. In this study, the going concern audit opinions is related to financial performance such as company size, profitability, liquidity and company growth.

More specifically, this study examines whether financial performance such as the size of the company with the total asset proxy has an effect on the going concern audit opinions. The size of the company that is proxied with the total assets owned by the Company shows the company's ability to maintain its business continuity [7]; [8]. The greater the total value of the assets owned, the company is considered to have a large size so that it is able to maintain its business continuity. Large companies are considered to have better abilities in managing companies and producing better financial statements. On the contrary, the smaller the value of the assets owned by the company, indicating a smaller ability in managing its business. This causes small-scale companies to have a greater chance of getting a going concern audit opinions [7]. This is in line with research [9]; [10]; [11] that the size of the company affects the going concern audit opinions. Different opinions were expressed [12] that the size of the company has no effect on the going concern audit opinions.

Another factor that can affect the acceptance of a going concern audit opinions is profitability with a Return on Asset (ROA) proxy. ROA describes a company's ability to generate profits by using the total assets owned by the company in a given period. Companies that have a negative ROA for several periods of time in a row will cause going concern. This is because a negative ROA means that the company suffers losses and this will interfere with the company's survival. This is in line with the opinion according to [13] and [14] which states that profitability affects the going concern audit opinion. However, research [15]; [16] dan [17] Produce a different conclusion by concluding that profitability has no effect on the acceptance of the going concern audit opinions.

Another factor that can affect the acceptance of the going concern audit opinion is liquidity with the current ratio proxy According to [18] Liquidity refers to a company's ability to meet its short-term obligations. According to [19] Companies that are less liquid are threatened with not being able to pay creditors which causes bad loans so that it will interfere with the health of the company. A disturbed company's health will increase the likelihood of getting a going concern audit opinions from the auditor. Meanwhile, a liquid company will be able to pay creditors and reduce the likelihood of getting a going concern audit opinions. According to [20] and [17] Liquidity Affects going concern audit opinions. Dissenting opinions

expressed by [6] and [21] which states that liquidity has no effect on the going concern audit opinion.

Companies that receive going concern audit opinions are influenced by several factors, one of which is the company's growth. According to [22] Company growth indicates the growth of the company's strength in the industry and shows the company's ability to maintain its business continuity. The company's growth is proxied to sales growth. The increase in sales shows that the company's operational activities are running properly. Thus, increased sales will provide opportunities for companies to increase profits and maintain their survival. According to [23] stated that the company's growth has an effect on the going concern audit opinions. In contrast to the opinions expressed [9]; [17] and [16], The company's growth has no effect on the acceptance of the going concern audit opinions. Based on the research gap and problems above, it can be concluded that the financial ratio measured from the company has an influence, and also has a relationship with the tendency to receive audit opinions with the going concern paragraph. Therefore, this study aims to empirically prove the influence of company size, profitability, liquidity, and company growth on auditors in providing an audit opinion of going concern.

The difference between this study and the above research lies in the object of the research using a manufacturing company. The use of a sample of manufacturing companies is due to the companies that have experienced the most delistings from the IDX in 2019-2023, so that the company's going concern is doubtful, the next difference lies in the year of research and the independent variables.

2. Literature Review

2.1 Agency Theory

Agency theory defines the relationship between a principal and an agent as a contractual agreement in which the principal delegates decision-making authority to the agent to perform certain services on their behalf. Both the principal and agent are considered rational economic actors driven by self-interest, which can lead to conflicts of interest. To address this, an independent third party, such as a public accountant, is required. The public accountant (auditor) is tasked with evaluating the financial statements prepared by the agent, culminating in the issuance of an audit opinion. This opinion is formed through a systematic audit process and reflects the auditor's professional judgment.

Meanwhile, the concept of going concern refers to the ability of a business entity to sustain its operations over the long term without facing imminent liquidation. This assumption underpins financial reporting, provided there is no verifiable evidence suggesting otherwise. It signifies the entity's capacity to continue its activities and fulfill its obligations for the foreseeable future.

2.2 Going Concern Audit Opinion

According to [7] a Going Concern audit opinion is an opinion issued by the auditor because the auditor is suspicious of the survival of an entity. The auditor's opinion that is assumed as a going concern audit opinion here is a reasonable opinion without exception with an explanatory paragraph related to the survival of the entity, a reasonable opinion with exceptions, an unreasonable opinion and not giving a going concern audit opinions is the

survival of a business entity. An entity is considered to be able to sustain its business for a long period of time, with the understanding that the entity will not experience bankruptcy in the short term [24].

2.3 Company Size

Company size is a scale that can classify companies into large, medium and small companies [17]. Company Size is the size of a company measured by being expressed in total assets. The larger the total assets or total sales, the larger the Company Size. According to [25] Company Size describes the size of a company as measured using the natural logarithm of total assets. Company size is frequently regarded as a financial determinant in most studies, influenced by various factors. One key reason is that the size of a company affects its ability to secure funding from capital markets. Smaller companies typically face limited access to structured capital markets, whether for issuing bonds or stocks.

H1 : Company size has a positive effect on the audit opinion of going concern

2.4 Profitability

According to [13] Profitability is the ability of a company to earn profits in relation to sales, total assets and its own capital. Profitability Ratio is a ratio to measure how much a company is able to generate profits by using all the company factors in it to generate maximum profits.

H2 : profitability has a positive effect on audit opinion going concern

2.5 Liquidity

[14] stated that liquidity is an ability possessed by a company to pay its short-term obligations using its current assets. In relation to liquidity, the smaller the company's liquidity, the less liquid the company is so that it cannot pay its creditors, the auditor may give a going concern audit opinions.

H3 : Liquidity has a positive impact on audit opinion going concern

2.6 Company Growth

[16] It is believed that company growth is the company's ability to increase size. A company's rapid growth indicates an increasing need for funds to support expansion. As the demand for future financing rises, the company is more inclined to retain its earnings. Therefore, companies experiencing growth are likely to prioritize using their profits for expansion rather than distributing them as dividends.

H4 : Company growth has a positive effect on audit opinion

3. Methodology

3.1 Data Collection

The method used in this study is the documentation method. The documentation method in this study is carried out by collecting secondary data published by the Indonesia Stock Exchange (IDX) in the form of annual reports and financial statements of manufacturing companies contained in IDX statistics for 2019-2023. The selection of data on manufacturing

companies on the Indonesia Stock Exchange (IDX) for the 2019-2023 period is based on the relevance and representation of current economic conditions. This period includes important dynamics, such as the impact of the COVID-19 pandemic, the economic recovery period, and the implementation of new policies affecting the manufacturing sector. In addition, this five-year data is ideal for identifying medium-term patterns and trends, with the availability of consistent and complete financial statements. This timeframe also includes relevant government regulatory changes, such as tax incentives and export-import policies, thus providing a strong foundation for in-depth analysis of company adaptation and performance.

The population used in this study is manufacturing companies that disclose audit reports and are listed on the Indonesia Stock Exchange (IDX) in 2019-2023. The selection of samples in this study was determined using the purposive sampling method with the aim of obtaining a representative sample in accordance with the specified criteria. The criteria for selecting the sample to be studied can be seen in the following table:

Table 3.1. Criteria for Selection of Research Samples

No	Information	Number of Companies
1	All manufacturing companies listed on the Indonesia Stock Exchange know 2019-2023.	153
2	Manufacturing companies that do not publish a complete annual report on the Indonesia Stock Exchange continuously from 2019-2023.	(93)
3	Manufacturing companies that do not use rupiah currency in their financial statements.	(23)
4	Manufacturing companies that made acquisitions and mergers in 2019-2023.	(4)
Number of Sample Companies		33
Total Observations		165

Source: Data Processed, 2024

3.2 Analysis Techniques

In this case, the researcher will use a panel data regression analysis model with the help of Eviews software. According to [26], Panel data regression is a method that integrates time series data and cross-sectional data. Time series data refers to one or more variables observed over a specific period, while cross-sectional data represents observations from multiple units at a single point in time. In this study, since the dependent variable is a dummy variable, the appropriate analytical approach is logistic regression analysis. According to [27], Logistic regression is similar to discrimination in that we want to test whether the occurrence of dependent variables can be predicted with independent variables being a mixture of continuous (metric) and categorical (non-metric) variables. In this case, the assumption of multivariate normal distribution cannot be fulfilled due to the mixture of scales in the free variables. Therefore, the analysis with logistic regression does not need to assume the normality of the data on the independent variables. The use of logistic regression on dependent variables or their bound variables is calculated using dummy variables which is one of the requirements in using logistic regression.

3.3 Regression Feasibility Test

In this study, the researcher did not conduct a data normality test because according to [27], Logistic regression does not require assuming normality in its independent variables and ignores heteroscedasticity. Then [26], said that logistic regression requires an evaluation to find out how well logistical regression results are. The suitability of the regression model was evaluated using the Hosmer and Lemeshow Goodness of Fit Test. This test examines the null hypothesis, which states that the empirical data aligns with the model (indicating no significant difference between the model and the data), thereby confirming the model's fit.

3.4 Hypothesis Testing

Partial Test

According to [27], the partial test basically aims to show how far an individual explanatory or independent variable influences in explaining the dependent variable. The criteria for drawing conclusions in the partial test are as follows:

- 1) If the probability > 0.05 , then it can be concluded that the independent variable has no effect on the dependent variable.
- 2) If the probability < 0.05 , then it can be concluded that the independent variable partially affects the dependent variable.

Overall Model Fit Test

The Overall Model Fit test was carried out to find out whether together the free variables had a significant effect on the non-free variables or at least there was one independent variable that had a significant effect on the non-free variables. This test is similar to the F test on multiple linear regression analysis. The criteria for drawing conclusions on the Overall Model Fit test are as follows:

- 1) If the LR Statistic $< F$ table and the probability of LR Statistic > 0.05 , then it can be concluded that the independent variable simultaneously has no effect on the dependent variable.
- 2) If the LR Statistic $> F$ table and the probability of LR Statistic < 0.05 , then it can be concluded that the independent variable simultaneously affects the dependent variable.

4. Results and Discussion

4.1 Key Findings

Regression Feasibility Test Results

Regression Feasibility Test The feasibility assessment of the regression model was carried out using Hosmer and Lomeshow's Goodness of Fit Test. If the significance value of Hosmer and Lomeshow's Goodness of Fit Test results in a value greater than 0.05, then the null hypothesis is accepted. This means that the model can precipitate its observation value and the model is acceptable. The results of Hosmer and Lomeshow's Goodness of Fit Test can be seen in the following table:

Tabel 4.1 Hasil Uji Hosmer and Lomeshow's Goodness of Fit Test

Hosmer - Lomeshow's Statistic	Prob. Chi-Sq(8)
7,2821	0,5065

Source: Data Processed, 2024

Based on the results of the Hosmer and Lomeshow's Goodness of Fit Test in the table above, the Hosmer - Lomeshow's Statistic was obtained at 7.2821 with a probability value of 0.5065. From these results, it can be seen that the probability value is greater than 0.05 so it can be concluded that in this regression model there is no difference between the predicted classification and the observed classification. So it can be concluded that the logistical regression model used has met the data adequacy (fit).

Hypothesis Test Results

Partial Test Results

A partial test was carried out to find out how the influence of independent variables, namely company size, profitability, liquidity, and company growth individual or partially on the dependent variable, namely the going concern audit opinions. The results of the partial test data can be seen in the table below:

Table 4.2 Partial Test Results

Variable	Coeficients	Probability
Constant	1,343840	0,0151
Company Size	-0,435912	0,6386
Profitability	2,193646	0,0009
Liquidity	0,641266	0,0417
Company Growth	-0,543231	0,6592

Source: Processed Data, 2020

Based on the data in the table above, the multiple linear regression equation is obtained as follows:

$$Y = 1,4338 - 0,4359 X_1 + 2,1937 X_2 + 0,6413 X_3 - 0,5432 X_4$$

The constant has a regression coefficient of 1.4338, meaning that if the variables of company size, profitability, liquidity and company growth are equal to zero, then the going concern audit opinion on manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023 is 1.4338.

The variable of company size has a regression coefficient of -0.4359, meaning that every increase in the size of the company by one unit, there will be a decrease in the going concern audit opinion of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023 by 0.4359 units. In addition, for the company size variable, a significance value of $0.6386 > 0.05$ was obtained, so it can be concluded that the company size variable has a negative and insignificant effect on the going concern audit opinion of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023.

The probability variable has a regression coefficient of 2.1937, meaning that for every increase in profitability by one unit, there will be an increase in going concern audit opinions in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023 by 2.1937 units. In addition, for the profitability variable, a significance value of $0.0009 < 0.05$ was obtained, so it can be concluded that the profitability variable has a positive and significant effect on the going concern audit opinion of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023.

The liquidity variable has a regression coefficient of 0.6413, meaning that for every increase in liquidity by one unit, there will be an increase in going concern audit opinions in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023 by 0.6413 units. In addition, for the liquidity variable, a significance value of $0.0417 < 0.05$ was

obtained, so it can be concluded that the liquidity variable has a positive and significant effect on the going concern audit opinions concern in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023.

The company's growth variable has a regression coefficient of -0.5432, meaning that every increase in company growth by one unit, there will be a decrease in going concern audit opinions in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023 by 0.5432 units. In addition, for the company growth variable, a significance value of $0.6592 > 0.05$ was obtained, so it can be concluded that the company growth variable has a negative and insignificant effect on the going concern audit opinion of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023.

Overall Model Fit Test

The Overall Model Fit test is used to determine the influence of simultaneously or together variables of company size, profitability, liquidity, and company growth on the going concern audit opinions in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023. The results of the Overall Model Fit Test in this study can be seen in the following table:

Table 4.3 Overall Fit Model Test Results

LR Statistic	Prob(LR Statistic)
107,8509	0,0000

Source: Data Processed, 2024

Based on the results of the Overall Model Fit test, the LR Statistic value was obtained > 107.8509 F table (2.428) and Prob (LR Statistic) of $0.0000 < 0.05$, it can be concluded that the variables of company size, profitability, liquidity and company growth simultaneously or together affect the going concern audit opinions in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023.

5. Discussion

5.1 The Effect of Company Size on Going Concern Audit Opinion

Based on the results of the company size test, a regression coefficient for the variable of company size with a negative value of -0.4359 was obtained, which means that every increase in the size of the company by one unit, there will be a decrease in the going concern audit opinion in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023 by 0.4359 units. Meanwhile, the significance value for company size was obtained at $0.6386 > 0.05$, so it can be concluded that the company size variable has a negative and insignificant effect on the going concern audit opinions in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023. The results of the company size test do not support the first hypothesis of this study, which posits that company size positively influences the issuance of going concern audit opinions for manufacturing companies listed on the IDX during 2019-2023. These findings also contradict the theory suggesting that auditors are more likely to issue going concern audit opinions to smaller companies, as larger companies are perceived to have a better capacity to overcome challenges compared to smaller ones. Company size is typically measured by the total assets owned by the company. A company with significant or growing assets is categorized as large. Large companies are generally considered more capable of addressing difficulties and sustaining operations, reducing the likelihood of auditors issuing going concern audit opinions.

The results of the research are in line with the research conducted by [12] and [13], which states that the size of the company has no effect on the going concern audit opinion. Furthermore, this study is not in line with the research conducted by [10]; [11] and [9], which states that the size of the company has an influence and significance on the going concern audit opinions.

5.2 The Effect of Profitability on Going Concern Audit Opinion

Based on the results of the profitability test, a regression coefficient for the profitability variable with a positive value of 2.1937 was obtained, which means that for every increase in profitability by one unit, there will be an increase in going concern audit opinions in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023 of 2.1937 units. Meanwhile, the significance value for profitability was obtained at $0.0009 < 0.05$, so it can be concluded that profitability has a positive and significant effect on the going concern audit opinions in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023. The results of the profitability test support the second hypothesis in this study which states that profitability has a positive effect on the going concern audit opinions in manufacturing companies listed on the IDX in 2019-2023.

The results of this study are in line with the research conducted by [13] and [14], which states that profitability ratio has a significant effect on going concern audit opinion. Furthermore, these results are not in line with the theory put forward by [16]; [15] and [17], which states that the company's high profitability ratio is influenced by the effectiveness of management in managing its resources. In this context, higher profitability reduces the likelihood of auditors issuing a going concern audit opinion. Conversely, companies with low profitability are more likely to receive such opinions. A going concern audit opinion signifies that the company is in poor financial health, as indicated by a low profitability ratio. However, the findings of this study reveal that even companies with low profitability may receive a non-going concern audit opinion, as auditors consider not only profitability but also other influencing factors.

5.3 The Effect of Liquidity on Going Concern Audit Opinion

Based on the results of the liquidity test, a regression coefficient for liquidity with a positive value of 0.6413 was obtained, which means that for every increase in liquidity by one unit, there will be an increase of going concern audit opinions in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023 by 0.6413 units. Meanwhile, the significance value for liquidity was obtained at $0.0417 < 0.05$, so it can be concluded that liquidity has a positive and significant effect on the going concern audit opinions in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023. The results of the liquidity test support the third hypothesis in this study, namely that liquidity has a positive effect on the going concern audit opinions manufacturing companies listed on the IDX in 2019-2023. The results of this study do not support the theory put forward by [28], which states that the current ratio is a liquidity ratio used to measure the company's ability to pay short-term obligations or debts that are due immediately at the time of being billed as a whole.

In this case, a lower level of liquidity increases the likelihood that a company will be unable to fulfill its obligations to creditors. Failure to meet short-term liabilities can damage the company's credibility, indicating potential financial distress that may jeopardize its business continuity. As a result, auditors may issue a going concern audit opinion for such companies.

The results of this study are in line with the research conducted by [17] and [20], which states that liquidity has a significant effect on the going concern audit opinions. Furthermore, this study is not in line with the research conducted by [6] dan [21] which states that liquidity has no effect and is significant on the going concern audit opinions.

5.4 The Effect of Company Growth on Going Concern Audit Opinion

Based on the results of the company growth test, the regression coefficient for company growth was obtained with a negative value of -0.5432, which means that for every increase in company growth by one unit, there will be a decrease in the going concern audit opinion of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023 by 0.5432 units. Meanwhile, the significance value for company growth was obtained at $0.6592 > 0.05$, so it can be concluded that company growth has a negative and insignificant effect on the going concern audit opinions in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023. The results of the company growth test do not support the fourth hypothesis in this study, namely that company growth has a positive effect on the going concern audit opinions manufacturing companies listed on the IDX in 2019-2023.

The results of this study are in line with the research conducted by [16]; [17] and [22] stated that the company's growth had no effect on the going concern audit opinion. Furthermore, this study is not in line with the research conducted by [23] which states that the company's growth has an influence and significance on the going concern audit opinion.

When sales growth outpaces the increase in operating costs, it leads to higher company profits. Consistent profits and a positive profit trend are key factors that contribute to a company's ability to sustain itself. On the other hand, a company with negative sales growth is more likely to experience a decline in profits, and without prompt corrective actions from management, it may struggle to survive. The company's growth can be assessed by how effectively it maintains its economic position within the industry and manages its operations. High sales growth typically results in higher profit growth, which leads to more favorable financial reports, reducing the likelihood of receiving a going concern audit opinion.

6. Conclusion

Based on the data analysis and discussions presented, the researcher draws several conclusions. First, the size of the company has a negative and insignificant impact on the acceptance of the going concern audit opinion. Company size is typically measured by total assets, and larger companies, with significant asset growth, are often seen as better equipped to solve problems and sustain operations compared to smaller companies. This reduces the likelihood of auditors issuing a going concern audit opinion. Second, profitability has a positive and significant effect on going concern audit opinions. A going concern opinion is typically given when a company is in poor financial health, as reflected by a low profitability ratio. However, the study reveals that even with low profitability, a company may not receive a going concern opinion, as auditors also consider other factors beyond profitability. Third, liquidity significantly impacts the issuance of going concern audit opinions. Lower liquidity increases the likelihood that a company will fail to meet its short-term liabilities, which can damage its credibility and threaten its business continuity, prompting auditors to issue a going concern opinion. Finally, company growth does not influence the acceptance of the going concern audit opinion. Positive sales growth does not necessarily guarantee higher profits, and if a company experiences a decline in profits over a given period, this will not necessarily lead auditors to issue a going concern opinion.

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