

Determinants of Going Concern Opinions on Insurance Companies Listed on the Indonesia Stock Exchange

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ABSTRACT

This research investigate the effect of the size of the company (CS), leverage (LV), the growth of the company (CG), and the reputation of the accounting firm (RAF) on Going Concern Opinion (GCO). The sample is all insurance companies listed on Indonesia Stock Exchange (IDX), while the financial reports that are the source of data was 2014-2018. Data analyzed using logistic regression analysis. The result of this study concluded that CS significantly effects GCOs, while LV, CG, and RAF don't effect significantly. The results of this study useful for investors in using the auditor's opinion as consideration for investment decisions.

Keywords: *going concern opinion, the size of the company, leverage, the growth of the company, accounting firm reputation*

1. INTRODUCTION

Public companies must submit financial reports that are audited by the Public Accounting Firm (KAP). In providing an opinion, external auditors are required to be independent because this will give confidence to users of financial statements. The auditor's opinion is useful as a reference in making decisions by investors and other interested parties.

The company uses the basic assumptions of Going Concern in preparing its financial statements. Several studies related to GCO have been carried out by previous researchers, and the result show that the size of the company does not affect GCO [1]. Another research concluded that company size and the previous year's audit opinion affect GCO [2].

The results of other study show that the previous year's audit opinion influenced the auditor in providing a GCO [3]. Meanwhile RAF, CS, CG, and LV ratio do not affect auditors in providing a GCO. Furthermore, there was an effect of the debt to equity ratio on the tendency to provide a GCO.

This study uses insurance companies listed on the IDX as the object of research. The reason is that the number of insurance companies in the last few years

has been stagnant, even there is a tendency to decline [4]. One of the reasons is the decline in public trust in the insurance industry. Until now, there are four insurance companies whose shares are listed by the IDX. This phenomenon can also be related to the GCO because it concerns the survival of insurance companies in Indonesia, especially those listed on the IDX in 2019.

Some factors that have influenced auditors in providing GCOs have been researched in previous studies [5]. Small companies face a higher risk of getting a GCOs because a larger company is more likely can resolve the financial difficulties it faces. In general, CS is usually calculated from the total asset because it is usually greater than other variables. Company Size, Financial Condition, Company Growth, and Auditor Reputation affect the GCOs [6]. From a practical point of view, the results of this study are useful for investors in making investment decisions. For professional organizations, particularly the Indonesian Institute of Accountants and the Indonesian Institute of Public Accountants (IAPI), the results of this study contribute to providing a foundation for improving financial accounting standards and auditing standards.

2. LITERATURE REVIEW

Agency theory assumes a separation between agents and principals. Management is the party that receives the mandate or authority from the principal to manage the company. Thus, overall management policies and actions should aim at the principal's interests [7]

In subsequent developments, management often has more information about the company. In this condition, information asymmetry arises. For this reason, an external auditor from an accounting firm is required as an independent third party. The presence of external auditors is expected to reduce information asymmetry.

In conducting an audit, one of the procedures that must be performed by the auditor is a risk assessment relating to the continuity of the client's business. In accounting, business continuity assumes the client entity has business continuity in the future. In other words, the auditor must ensure that the client entity will not liquidate or cease operating, or seek bankruptcy proceedings.

Therefore, auditing standards require the auditor to gather sufficient evidence about the existence of material uncertainties regarding conditions that could effect on the entity's ability to continue as a sustainable business [8]. Based on the evidence gathered by the auditor, an assessment will be made whether the financial statements provide information about conditions that give rise to uncertainty. The appropriateness of such disclosures will have an impact on the opinion expressed by the auditor. An unqualified opinion is given when the uncertainty is considered immaterial. Conversely, if the uncertainty is considered material based on the evidence gathered, the auditor will provide a modified opinion [8].

Going concern is an argument which states that a business entity will continue its operations for a long time [13]. This proposition illustrates that an entity will be expected to operate for an indefinite period or not be directed towards liquidation. There are four factors that can be identified as the cause of GCO, namely client, auditor, auditor-client relationship, and environmental [5]. Client factors can be categorized into two major factors, namely financial and non-financial factors. Financial factors are profitability, leverage, liquidity, company size, and debt defaults, while non-financial factors include market variables, strategic initiatives, and corporate governance.

2.1. Company size and GCOS

According to Hartono (2010: 14) CS or firm size is the size of the company which can be measured by using the logarithm value calculation of total assets. Previous studies have proven that CS is one of the variables that affect a GCO [5]. Then the hypothesis (H1) is stated as follows:

H1: CS (firm size) affects GCO (going-concern opinion).

2.2. Leverage and GCOS

Financial leverage shows the proportion of the use of debt to finance investment [11]. Leverage is one of the variables that have the potential to influence going concern audits [5]. A high debt ratio indicates that the company is facing high risk. This means that the company is facing financial difficulties [12], and this should receive serious attention for investors. This of course will greatly affect the condition of the company. A high debt to equity ratio indicates that the company finances its assets with debt that is higher than its capital. So that this will also be of concern to auditors because the high debt to equity indicates that the company has a high risk and has a tendency not to survive. Then the hypothesis (H2) is stated as follows

H2: Leverage affects going concern opinion.

2.3. Company Growth and GCOS

Growth is the increase or decrease in total assets owned by the company [9]. One of the ratios that used to measure a company's growth is sales growth [14]. A high CG ratio indicates the company's high ability to obtain high sales using its assets. Thus, a high ratio also indicates good sustainability in the future. Companies that have relatively good and positive profit growth ratios tend to have the potential to get better opinions from auditors compared to companies with poor growth [15]. Then the hypothesis (H3) is:

H3: The GC affects the going concern opinion.

2.4. Accounting Firm's Reputation and GCOS

The Auditor-Client Relationship factor that has the potential to affect GCO is the reputation of auditor [5]. As the third party, an independent auditor is obliged to disclose sustainability of the company so in the future it will not harm the owner. This obligation is embodied in both the auditing standards and the accountants code of ethics. Unfortunately, the intense competition between accounting firms has resulted in

not all auditors being willing to be transparent regarding business sustainability. Large accounting firms, with a very large number of clients which means they have good financial strength, do not hesitate to give an honest opinion about the continuity of the business. As a consequence, the willingness to be transparent for large accounting firms signifies the auditors' reputation.

In addition, an accounting firm with a better reputation is assumed have more incentives to detect and report their clients' GC problems compared to accounting firms that are not in the Big Four. The next assumption of this condition is the opinion that accounting firms in the Big Four can provide better service quality, including in terms of transparency related to sustainability issues. Thus it can be concluded that accounting firms in the Big Four are more transparent in terms of GC opinions compared to accounting firms that are not in the Big Four. Then the hypothesis (H2) is:

H4: The accounting firm's reputation affects GCO

Based on the explanation above, then research concept framework is presented in the following figure:

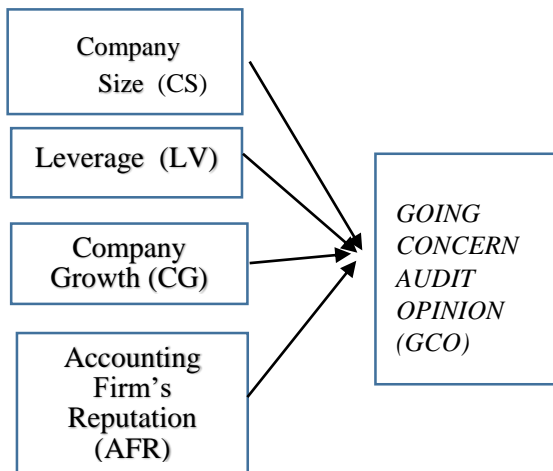


Figure 1. Research Concept Framework

3. RESEARCH METHOD

3.1. Variable and Variable Measurement

GCOs, which is the dependent variable, is defined as GCO is an opinion given by the auditor regarding the company's ability to sustain its operations in the future [5]. This variable is measured using a dummy score, which gives a score of 1 for GCO and 0 for non-going concern [16]

Company size is an independent variable, defined as providing indicators of the company size according to various ways, one of which is based on total assets. This variable measured by Ln total assets, as follows:

$$\text{Size} = \text{Ln Total Asset} \quad (1)$$

The next independent variable is Leverage, which measured using the formula as follows [14]:

$$\text{Leverage} = \frac{\text{Total Liabilities}}{\text{Total Equity}} \quad (2)$$

The next independent variable is Company Growth (CG) which is measured by the ratio calculated using formula as follows [10]:

$$\text{Comp.Growth} = \frac{\text{Net Sales}_t - \text{Net Sales}_{t-1}}{\text{Net Sales}_{t-1}} \quad (3)$$

The Accounting Firm's reputation is the image and public trust held by auditors who are members of the Public Accounting Firm (Brunelli, 2018: 29). This variable is also measured using a dummy score, 1 if the company uses Big Four and 0 for non-Big Four accounting firms [3].

3.2. Sample

All insurance companies listed on the IDX (2014-2018) are sample of this research. The criteria for sample are: listed on the IDX and publish audited financial reports for the years 2014-2018. Based on these criteria, 10 insurance companies were obtained, with 5 years of observation, 50 financial reports were obtained.

3.3. Data Analysis

The data obtained was analysed using Logistic Regression. The steps that need to be done in testing using a logistic regression test are first carried out an assumption test to ensure that the regression has accuracy in estimation, unbiased, and consistent. The assumption test used includes the Normality Test, Multicollinearity Test, Heteroscedasticity Test, and Autocorrelation Test.

In this study, the hypothesis tested using logistic regression with the following equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

- Y : GCO
- α : constanta
- $\beta_1 - \beta_4$: Regression Coefficient
- X₁ : CS
- X₂ : LV
- X₃ : CG
- X₄ : AFR
- ϵ : Error

4. RESULTS AND DISCUSSION

4.1. Descriptive Test Results

Table 1 below presents the results of the descriptive statistical tests.

Table 1 Results of The Descriptive Statistical Tests.

	Min	Max	Mean
Going Concern Audit Opinion.	0,00	1,00	0,2400
Company Size	19,57	22,18	20,8864
Leverage	0,66	5,29	1,7658
Company Growth	-0,21	0,47	0,0702
Accounting Firm's Reputation	0,00	1,00	0,2000

The table shows that the GCOs value is between 0 and 1 with mean of 0.24 and a sd (standard deviation) of 0.431. Based on the results of the analysis, on average, only 14 audited financial statements received a GCOs, while 36 financial statements did not receive it. The average company size was 20.88%, with a range of 19.57% to 22.18% and a standard deviation of 1.17%. The lowest company size ratio is owned by the Asuransi Jasa Tania Tbk. in 2014, while the highest ratio was in Multi Artha Guna Tbk Insurance company in 2018.

The average of the leverage ratio is 1.76% with a range of 0.66% to 5.29%, and a standard deviation is 1.18%. Based on these results, the average liabilities of the insurance companies are higher than equity. The lowest leverage ratio is on the Lippo General Insurance Tbk. in 2014, while the highest was in the Dayin Mitra Tbk. in 2014.

The average of the company's growth ratio is 0.7%, with a range of -0.21% to 0.47% and a standard deviation of 0.157%. Based on this average, insurance companies have positive growth every year. The

lowest growth rate is owned by Asuransi Harta Aman Tbk. in 2017, while the highest ratio was in Multi Artha Guna Tbk Insurance company in 2014. Meanwhile, the results of data processing for auditor reputation show 0.2. The max. value is 1 for 2 companies audited by the Big Four Public Accountant Firm, namely the Multi Artha Guna Tbk Insurance company. (audited by Deloitte) and the Insurance company Dayin Mitra Tbk. (audited by Ernst and Young). While 0 for companies audited by non-Big Four Public Accounting Firms were 8 companies with a standard deviation value of 0.404.

4.2. Regression Assumption Test

Before regression analysis is carried out to test the hypothesis, a regression assumption test is carried out to see whether the assumptions required in the linear regression analysis are fulfilled. To test normality the P-P Plot of Regression using Standardized Residual Test are used with the following result:

Normal P-P Plot of Regression Standardized Residual

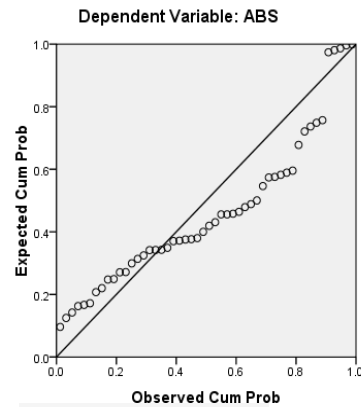


Figure 2. Normal P-P Plot Graph

The shows that the data spread along the diagonal line and follows the direction of the histogram line, so the regression model has fulfilled the normality assumption. Meanwhile, Multicollinearity was tested using Variance Inflating Factor (VIF) value, if the VIF value is less than 5, multicollinearity does not occur, and vice versa. However, if the VIF value is less than 5 then multicollinearity does not occur. The following are the results of the multicollinearity test:

Table 2. Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Company Size	0,736	1,359
Leverage	0,812	1,232
Company Growth	0,776	1,289
Accounting Firm's Reputation	0,775	1,291

From the table, the value of VIF for all variable are below 10 or the value of tolerance are above 0.1. That is, in this study, there were no symptoms of multicollinearity.

Heteroscedasticity is a regression assumption test that aims to assess whether there is an inequality of variance of the residuals for all observations in the linear regression model. The following figure presents the results:

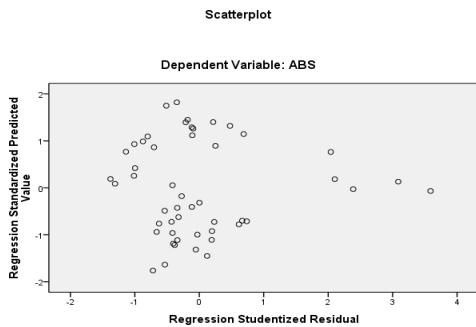


Figure 3. The Heteroscedasticity Test.

The results of the heteroscedasticity test show that the plot graph with the dots spreads randomly and does not form a certain pattern, either at the bottom of the number 0 on the Y axis or at the top so it can be concluded that in this research model there is no heteroscedasticity problem.

Furthermore, the autocorrelation test aims to test whether in the linear regression model there is a correlation between the confounding error in period (t) and the confounding error in the previous period using the run test. The run test value is seen from the acquisition of an asymp sig (2-tailed) > 0.05, which means there is no autocorrelation problem. The table below presents the results.

Table 3. Result of Autocorrelation Test.

	Unstandardized Residual
Test Value ^a	-.04299
Cases < Test Value	25
Cases >= Test Value	25
Total Cases	50
Number of Runs	22
Z	-1.143
Asymp. Sig. (2-tailed)	.253

The table above concluded that the regression model in this study does not experience autocorrelation problems. This is indicated by the asymp. Sig (2-tailed) value > 0.05.

4.3. Results of Multiple Regression

Following are the results of hypothesis testing:

Table 4. Results of Multiple Regression

Var.	β	t Value	Sig.
Konstanta	2,660	3,14	0,003
Comp.Size	-0,110	-2,71	0,010
Leverage	-0,008	0,30	0,763
Comp.Growth	-0,308	-1,59	0,120
Acc Firm's Reputation	0,084	1,11	0,270
F	3,974 (0,00)		
R ²	0,26		

The results show, the F value is 3.974 with a significance level of 0.00 (below 0.05) that indicates that this research model is fit. The result also shows the R2 is 0.261 or 26.1%. This shows that the ability of the independent variable to explain the variant of the dependent variable (going concern audit opinion) is 26%. while the 73.9% is influenced by other variables. The regression results show that the coefficient value of CS, LV, and CG has a negative relationship with GCOs. Meanwhile, the auditor reputation variable has a positive value, which means that these variables effect GCOs.

The sig. value of the CS is $0.010 < 0.05$, so H1 is accepted. This means that CS or firm size affects the GCO. The significant value of the leverage variable is $0.763 > 0.05$, then H2 is rejected. That is, the value of the leverage variable does not affect going concern audit opinion. The significant value of the CG is $0.120 > 0.05$, so H3 is rejected. This means that the CG does not affect GCO. Finally, the sig. value of the auditor's reputation is $0.270 > 0.05$, so H4 is rejected. This means that AFR does not affect GCOs.

5. DISCUSSION

This study examines the effect of company size, leverage, company growth, and auditor reputation on going concern audit opinion. Based on the test results and data analysis, company size affects the going concern audit opinion. This shows that the size of the assets owned by the insurance company and a reflection of its ability to maintain sustainability can cause sustainability problems for the company. In other words, when a company has small assets, it will be at risk of experiencing difficulties in managing the company's operations, which in turn has an impact on the company's going concern.

Leverage does not affect GCOs. This means that the size of the debt does not affect the going concern audit opinion acceptance. These results are also an indication that the insurance companies sampled in this study can manage their assets efficiently. Good management will bring the company to sales growth every year so that the company has sufficient funds to pay its obligations.

Company growth does not affect GCOs. It means that the size of the company's growth ratio does not affect the acceptance of going concern audit opinion because the fluctuating company growth cannot be used as an excuse for auditors in providing going concern audit opinion. High sales growth will affect rising production costs, if the company experiences an increased profit, it will also increase the auditee's revenue that prevents the company from sustainability problems.

Auditor reputation also has no effect on going concern audit opinion. This shows that KAP, whether included in the Big Four or not, is still trying to maintain its audit quality by doing the best for its clients. The Public Accounting Firm has a good awareness to always maintain professionalism and integrity.

6. CONCLUSIONS

This study concluded that company size affects GCOs (going-concern opinion). Other variables: leverage, company growth, and auditor reputation do not affect GCOs. The results of this study also show that in general, public insurance companies can manage their business in such a way and do not face serious sustainability problems. The results of this study support the results of previous studies so that it is expected to enrich the theory that can be used as guidance for practitioners.

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