International Journal of Environmental, Sustainability, and Social Sciences
ISSN 2720-9644 (print); ISSN 2721-0871 (online)
https://journalkeberlanjutan.com/index.php/ijesss

THE INFLUENCE OF COMPANY SIZE, FINANCIAL DISTRESS, KAP REPUTATION ON GOING CONCERN AUDIT OPINION OF MANUFACTURING COMPANIES FROM BEI

Volume 1
Number 2
July 2020
Page 57-61

I Made Wianto PUTRA, Putu Gede Wisnu Permana KAWISANA
Faculty of Economics and Business, Warmadewa University, Indonesia
Corresponding author: I Made Wianto PUTRA
Faculty of Economics and Business, Universitas Warmadewa, Indonesia
E-mail: Permanaunwar@gmail.com

Article History:
Received: 2020-06-24
Revised: 2020-07-15
Accepted: 2020-07-23

Abstract:
The company's financial condition can show that the company can last for a certain amount of time. Going concern audit opinion is defined as an opinion issued by the auditor based on an audit that has been conducted, in which there are doubts about the ability of a business in maintaining its continuity of life to continue its business as a business entity in the future. The purpose of this study is to empirically examine the Effect of Company Size, Financial Distress, and KAP Reputation on Going Concern Audit Opinions on Manufacturing Companies on the Indonesia Stock Exchange (BEI) in 2016-2018. Where the number of samples of this study was 31 companies with 3 years of observation with purposive sampling. Data collection was carried out in this study with the study of documentation through the company's annual financial report or annual report obtained from the website www.idx.co.id. The method in this research is logistic regression analysis. From the results of the study, it can be concluded that Company Size and Financial Distress have a negative effect on ongoing concern audit opinion and Public Accounting Firms' reputation has a not significant positive effect on ongoing concern audit opinion.

Keywords:
Company Size, Financial Distress, Reputation of Public Accounting Firms, Audit Opinion

Cite this as: PUTRA, I.M.W., KAWISANA, P.G.W.P (2020). The Influence Of Company Size, Financial Distress, Kap Reputation On Going Concern Audit Opinion Of Manufacturing Companies From BEI. International Journal of Environmental, Sustainability, and Social Science, 1(2), 57-61. https://doi.org/10.38142/ijesss.v1i2.15.

INTRODUCTION

The world capital market is growing rapidly. Wherewith the capital market can make investors have a tool to measure the performance and financial condition in a company through financial statements that contain information in the form of financial position, financial performance, and cash flow of the entity that is useful in making investment decisions. Statement of Financial Accounting Concepts (SFAC) No. 1 which explains the main purpose of the financial statements to provide useful information in making a business (business) and economy (Paino, Razali, & Jabar, 2015; Yang, Liu, & Mai, 2018). An investor buys company shares on the Indonesia Stock Exchange (IDX) asking to get profit from the increase in share price to be distributed in the future, as an investment. The survival of the company is important for those who have an interest in the company, especially investors. The existence of business entities in the long term aims to maintain the going concern (going concern) of the company. Conditions and events experienced by a company can provide an indication of the going concern of the company, such as significant operating losses and occur continuously so that raises doubts about the survival of the company (Lu & Sapra, 2019; Yudha & Saputra, 2019).

Independent auditors will access the financial statements presented by the company. An independent auditor's assessment is used as a proof whether the company's financial statements reflect the actual financial condition or not so that the shareholders or interested parties can make the right decision (Mantzari & Georgiou, 2019; Murti, Trisnadewi, Citraresmi, & Saputra, 2018; Zhang, Zhou, & Zhou, 2007). The purpose of the audit of the financial statements by the auditor is to obtain adequate confidence about the financial statements as a whole free from material misstatements, whether caused by fraud or error after the auditor has performed auditing tasks on the company's financial statements, the auditor can provide an opinion or audit opinion by the financial situation of the company being audited. Going concern audit opinion is a modified audit opinion for the auditor's consideration in assessing the inability of the survival of a company to conduct its business. Going-concern audit opinion symbolizes a negative signal for company survival so that it should be useful for investors, while non-going-concern opinion symbolizes a positive signal as a sign that the company is in good condition (Lu & Sapra, 2019). going concern audit opinion is something that is not expected by the company because it will have an impact on the decline of stock prices, mistrust of investors, creditors, customers, and employees of the company's management, as well as the company's difficulties in increasing loan capital. However, the phenomenon that occurs in the field shows that many companies go public where those who are supposed to receive going-concern audit opinions instead accept fair audit opinions without exception. Not even a few of the auditors who failed to give an opinion to the auditee, which is a situation where an unhealthy company but receives a qualified opinion (Heliodoro, Carreira, & Lopes, 2016; Mironiuc & Robu, 2012).

The size of the company is the size or extent of a company and is an indicator that can indicate the condition or characteristics of a company. The size of the company describes the size of the company that can be expressed by total assets (Jennings & Seaman, 1990). The greater the total assets and sales, the greater the size of a company. The size of a company can determine whether a company can continue its business life for a long time or not. Stated that company size did not affect going concern audit opinion, and the size of the company affects the going concern audit opinion where the greater the size of the company, the greater the possibility of the company accepting going concern audit opinion (Iatridis, 2018).

The reputation of the Public Accounting Firm (KAP) is considered to influence going concern audit opinion. KAP with a big four reputation is considered to have better independence and audit quality than KAP with a non big four reputation. Auditors who come from large KAP have a good reputation so that audit quality and opinion giving will be by company conditions. Big four KAP is believed to have better knowledge and experience to decide on giving opinions regarding the company's survival. Where the provision of going concern status is not easy because it is closely related to the auditor's reputation. The judgment of public accounting is often done either by the government or the public by looking at the condition of the company being audited or not bankrupt (Lu & Sapra, 2019; Saputra, Jayawarsa, & Atmadja, 2019).

Agency Theory. This theory is based on economic theory. In the field of accounting, namely Agency Theory, which is interpreted as a contract between the principal (the owner of the company is the majority shareholder) and the agent (in this case the company manager) to carry out company activities. Principal as the owner of the company is obliged to provide facilities and funds for the company's operational needs, while the agent as the manager of the company is obliged to manage the company entrusted by shareholders, by increasing the company's value (Jensen & Smith, Jr., 2005; Yolles, 2019).

The relationship between agency theory and going concern audit opinion is the agent (company manager) who has the task of carrying out and producing the company's financial statements as the responsibility of management which will later be used by the principal as the owner as a consideration in making a decision. Agents as the party producing the company's financial statements must have their interests to optimize its performance that allows agents to manipulate data so that the resulting financial statements look good (Sarwoko & Agoes, 2014; Ugwunta & Ugwuanyi, 2019)

Signal theory explains that companies have the drive to provide financial statement information to external parties. Company encouragement to provide information asymmetries of information between the company's management and the parties concerned with that information. Signal theory suggests how companies should give signals to users of financial statements (Xu, Qin, Dust, & DiRenzo, 2019).

Signal theory emphasizes the importance of the information provided by auditors on the company's financial condition. Signal theory also helps the company (agent), the owner (precinct), and outside the company reduce information asymmetry by producing quality or integrity of financial statement information (Busso, Dinkelman, Claudia Martínez, & Romero, 2017; Murti et al., 2018).

An audit opinion is a statement of opinion given by the auditor in assessing the reasonableness of the presentation of the client's audited financial statements. The audit opinion is the final part of an audit assignment and audit opinion depends on the audit findings. When formulating an opinion, the auditor needs to ascertain whether the financial statements are made in all material respects following the applicable financial reporting framework (Lu & Sapra, 2019; Yang et al., 2018).

The size of the company is the size or extent of a company and is an indicator that can indicate the condition or characteristics of a company. The size of the company describes the size of the company that can be expressed by total assets. The greater the total assets and sales, the greater the size of a company (Iatridis, 2018; Najib & Rini, 2016).

Financial distress is a condition where the company experiences a decline in financial performance in which the company is still in a solvent but an illiquid condition where this is as a result of poor management and economic crisis (Utami & Silvia Sutejo, 2012; Yudha & Saputra, 2019). Companies are considered to experience financial distress if they meet several criteria, namely: (1) operational losses, (2) core losses, (3) negative retained earnings for the previous two years, and (4) negative working capital for the previous two years.

The auditor's reputation is reflected by the size of the Public Accounting Firm (KAP). Large KAP has a higher incentive to avoid things that can damage their reputation compared to smaller KAP. Going concern assessment is closely related to the reputation of the Public Accounting Firm (KAP). The auditor will remain objective in issuing an opinion, if the auditor sees the difficulties of an entity in continuing its operations, the going concern audit opinion will still be issued by the auditor even though the auditor is in a non-big four KAP (Irianto, Novianti, & Wulandari, 2014; Wang, Lin, & Cho, 2018; Yudha & Saputra, 2019).

The size of the company is the size or extent of a company and is an indicator that can indicate the condition or characteristics of a company. The size of the company describes the size of the company that can be expressed by total assets. The greater the total assets and sales, the greater the size of a company. According to the research the results of the Audit tenure research and company growth have a negative effect, company size and previous audit opinion do not affect, while the reputation of KAP and Opinion Shopping has a positive effect on going concern audit opinion. From the results of testing the size of the company does not affect the going-concern audit opinion. Research examines the analysis of the influence of financial distress, company size, solvency, and profitability on the acceptance of going concern audit opinion showing that partially financial distress does not have a positive effect on going concern audit opinion, company size does not harm on going concern audit, solvency has a positive effect on going concern audit opinion and profitability harms going concern audit opinion. From the results of testing the company size does not harm going concern audit opinion.

Financial distress is a condition where the company experiences a decline in financial performance in which the company is still in a solvent but an illiquid condition where this is as a result of poor management and economic crisis. Financial distress (financial difficulties) the company occurred before bankruptcy (Saputra, Jayawarsa, et al., 2019; Saputra, Trisnadewi, Anggiriawan, & Kawisana, 2019). According to research examining the analysis of the influence of financial distress, company size, solvency, and profitability on the acceptance of going concern audit opinion show that partially financial distress has no positive effect on going concern audit opinion, company size has no effect negative towards going concern audit opinion, solvency has a positive effect on going concern audit opinion and profitability harms going concern audit opinion. From the test results, financial distress does not have a positive effect (Ardiyanti & Supriadi, 2018; Lu & Sapra, 2019; Yudha & Saputra, 2019).

The reputation of the Public Accounting Firm (KAP) is considered to influence going concern audit opinion. KAP with a big four reputation is considered to have better independence and audit quality than KAP with a non-big four reputation. Auditors who come from large KAP have a good reputation so that audit quality and opinion giving will be following company conditions. Big four KAP is believed to have better knowledge and experience to decide on giving opinions regarding the company's survival. According to the research, the results of the audit tenure and company growth have a negative effect, the size of the company and previous audit opinions do not affect, while the reputation of KAP and Opinion Shopping has a positive effect on Going Concern Audit Opinion. The test results show that KAP's reputation has a positive effect on going concern audit opinion. That influence going concern audit opinion in manufacturing companies in 2011-2014 indicating that based on the analysis conducted in this study, it can be concluded that bankruptcy prediction (Z-score) does not affect going concern audit opinion, company growth (PP) does not affect the going concern audit disclosure, KAP reputation (RA) affects the going concern audit opinion disclosure, the previous year's audit opinion (PO) affects the disclosure of going concern audit opinion, client size (SIZE) influences the audit opinion going concern. From the results of testing the reputation of the KAP has a significant effect on going concern audit opinion (Naukoko, 2014; Yudha & Saputra, 2019)

METHOD

The population in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2016 to 2018. The sampling process uses a purposive sampling method. The company specific criteria (auditee) that were sampled in this study are as follows: The company has been listed on the IDX from 1 January 2016 to 31 December 2018. The delisting company from IDX during the research period. The company issued consecutive financial statements during the study period (2016-2018). The company has financial statements audited by an independent auditor during the study period The company experiences financial distress, namely the company has a negative net profit after tax in the two periods of financial statements. Based on the sample criteria obtained were 93 sample financial statement logistic Regression Analysis Logistic regression is a regression used to test whether the probability of occurrence of the dependent variable can be predicted with the independent variable. The data analysis technique used in this study is logistic regression analysis using SPSS program. Logistic regression is used because the dependent variable is dichotomous (companies that get going concern audit opinions and companies that do not get going concern audit opinions (Saputra, Subroto, Rahman, & Saraswati, 2020).

Results and Discussion

This research was conducted at several manufacturing companies listed on the Indonesia Stock Exchange in 2016-2018 through the resourced data www.idx.com. The dependent variable (Y) in this study is the Going Concern Audit Opinion. This variable is measured using a dummy variable, where the company that receives the Going Concern Audit Opinion is coded 1 while the Non-Going Concern Audit Opinion is coded 0. The going concern audit opinion data in this study in 2016 there were 22 companies given code 1 and 9 companies were given code 0 out of 31 companies. In 2017 26 companies got code 1 and 5 companies got code 0. And in 2018 29 companies got code 1 and 2 companies got code 0. The independent variable (X) in this research is Company Size (X1) measured by natural log (ln) of total assets. The highest data on the variable size of this company that has the highest assets per year in 2016 was 17.22% in 2017 which was 17.18% and in 2018 which was 17.17%. Financial Distress (X2) is measured by a bankruptcy prediction model or Z-score. The highest data variable financial distress in 2016 was 11.66% in 2017 which was 12.90% and in 2018 it was 11.20%. And KAP's reputation is measured by a dummy variable where the value of 1 is for KAP incorporated in The Big Four and the value of 0 for KAP that is Non The Big Four. Data collected from 2016-2018 shows that out of 31 companies per year, 10 companies received a score of 1 and 21 companies received a score of 0. From the results of the research sample selection process, there were 93 companies for 3 periods.

		B	S.E.	Wald	df	Sig.	Exp(B)	95.0% C.I.for exp(B) Lower	Upper
Step 1[a]	X1	-.364	.296	1.515	1	.218	.695	.389	1.241
	X2	-.044	.112	.152	1	.697	.957	.768	1.193
	X3	20.470	7264.268	.000	1	.998	8E+008	.000	.
	Constant	6.473	4.381	2.183	1	.140	647.732		

The first hypothesis (H1) This test aims to determine the effect of company size on going concern audit opinion. The probability of firm size shows a significance value of 0.218> 0.05. This means that the company size variable partially does not significantly influence the going concern audit opinion of the company, so the one hypothesis is rejected (Lu & Sapra, 2019; Yudha & Saputra, 2019). The second hypothesis (H2) This test aims to determine the effect of financial distress on going concern audit opinion. The probability of financial distress shows a significance value of 0.697> 0.05. This means that the financial distress variable partially does not significantly influence the going concern audit opinion of the company, so hypothesis two is rejected (Ardiyanti & Supriadi, 2018; Yudha & Saputra, 2019). Third Hypothesis (H3) This test aims to determine the effect of KAP's reputation on going concern audit opinion. KAP reputation probability shows a significance number 0.998> 0.05. This means that the KAP reputation variable partially does not significantly influence the going concern audit opinion of the company, so hypothesis three is rejected (Lu & Sapra, 2019; Yang et al., 2018).

CONCLUSION

Based on the data obtained and the results of the analysis and discussion that has been carried out on the problem using the logistic regression method, the following conclusions can be drawn: The size of the company has a significant negative effect on going concern audit opinion of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2016 through 2018. Financial distress has no significant negative effect on going concern audit opinion of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2016 through 2018. KAP's reputation has not a significant positive effect on going concern audit opinion of manufacturing companies listed on the Indonesia Stock Exchange (BEI) from 2016 through 2018.

Suggestions Based on the conclusions and the results of the research, the paper given to the next (future) researcher is as follows: For the next researcher to add other variables to be investigated related to going concern audit opinion such as auditor switching, debt default, audit quality, and so on. Can increase the number of samples with a longer number of observations and use companies from different sectors. Investors and prospective investors are advised to be careful in choosing companies to invest and it is also advisable to pay attention to the company's audit opinion given by the auditor to see the going concern concerned by observing the audit opinion in the previous year. The company should be able to know the signs of the company's survival so that the company can take policy as soon as possible to avoid the company's survival problem.

REFERENCE

Ardiyanti, A., & Supriadi, Y. N. (2018). Efektivitas Pengendalian Internal, Dan Kompetensi Sumber Daya Manusia, Terhadap Implementasi Good Governance Serta Impikasinya Pada Pencegahan Fraud Dalam Pengelolaan Keuangan Desa Di Kabupaten Tangerang. *Jurnal Manajemen Bisnis*, *8*(1), 1–15.

Busso, M., Dinkelman, T., Claudia Martínez, A., & Romero, D. (2017). The effects of financial aid and returns information in selective and less selective schools: Experimental evidence from Chile. *Labour Economics*, *45*(November 2016), 79–91. https://doi.org/10.1016/j.labeco.2016.11.001

Heliodoro, P. A., Carreira, F. A., & Lopes, M. M. (2016). The change of auditor: The Portuguese case. *Revista de Contabilidad-Spanish Accounting Review*, *19*(2), 181–186. https://doi.org/10.1016/j.rcsar.2015.05.001

Iatridis, G. E. (2018). Accounting discretion and executive cash compensation: An empirical investigation of corporate governance, credit ratings and firm value. *Journal of International Financial Markets, Institutions and Money*, *55*, 29–49. https://doi.org/10.1016/j.intfin.2018.02.008

Irianto, G., Novianti, N., & Wulandari, P. P. (2014). "Kamuflase" dalam Praktik Rotasi Auditor. *Jurnal Akuntansi Multiparadigma*, *5*(3), 393–408. https://doi.org/10.18202/jamal.2014.12.5029

Jennings, D. F., & Seaman, S. L. (1990). Aggressiveness of response to new business opportunities following deregulation: An empirical study of established financial firms. *Journal of Business Venturing*, *5*(3), 177–189. https://doi.org/10.1016/0883-9026(90)90031-N

Jensen, M. C., & Smith, Jr., C. W. (2005). Stockholder, Manager, and Creditor Interests: Applications of Agency Theory. *SSRN Electronic Journal*, (December 2000). https://doi.org/10.2139/ssrn.173461

Lu, T., & Sapra, H. (2019). Agency Conflicts, Bank Capital Regulation, and Marking to Market. *The Accounting Review*. https://doi.org/10.2308/accr-50982

Mantzari, E., & Georgiou, O. (2019). Ideological hegemony and consent to IFRS: Insights from practitioners in Greece. *Critical Perspectives on Accounting*, *59*, 70–93. https://doi.org/10.1016/j.cpa.2018.06.003

Mironiuc, M., & Robu, I.-B. (2012). Empirical Study on the Analysis of the Influence of the Audit Fees and Non Audit Fees Ratio to the Fraud Risk. *Procedia - Social and Behavioral Sciences*, *62*, 179–183. https://doi.org/10.1016/j.sbspro.2012.09.028

Murti, A. K., Trisnadewi, A. A. E., Citraresmi, L. D., & Saputra, K. A. K. (2018). SAK ETAP, Kualitas Laporan Keuangan dan Jumlah Kredit yang diterima UMKM. *Ekuitas: Jurnal Pendidikan Ekonomi*, *6*(2), 52–61. https://doi.org/10.23887/ekuitas.v6i2.16300

Najib, H., & Rini. (2016). Analisis Faktor Yang Mempengaruhi Pembelian Spontan. *Simposium Nasional Akuntansi XIX*, *19*, 55–73.

Naukoko, P. A. (2014). Akuntansi Sumber Daya Manusia. *Going Concern : Jurnal Riset Akuntansi*, *9*(3), 43–51. https://doi.org/10.32400/gc.9.3.6123.2014

Paino, H., Razali, F. M., & Jabar, F. A. (2015). The Influence of External Auditor's Working Style, Communication Barriers and Enterprise Risk Management toward Reliance on Internal Auditor's Work. *Procedia Economics and Finance*, *28*(April), 151–155. https://doi.org/10.1016/s2212-5671(15)01094-1

Saputra, K. A. K., Jayawarsa, A. A. K., & Atmadja, A. T. (2019). Resurrection as a fading implication of accountability in financial management for village credit institution. *International Journal of Business, Economics and Law*, *19*(5), 258–268.

Saputra, K. A. K., Subroto, B., Rahman, A. F., & Saraswati, E. (2020). Issues of morality and whistleblowing in short prevention accounting. *International Journal of Innovation, Creativity and Change*, *12*(3), 77–88.

Saputra, K. A. K., Trisnadewi, A. A. A. E., Anggiriawan, P. B., & Kawisana, P. G. W. P. (2019). Kebangkrutan Lembaga Perkreditan Desa (Lpd) Berdasarkan Analisis Berbagai Faktor. *Jurnal Ilmiah Akuntansi*, *4*(1), 1–23. https://doi.org/10.23887/jia.v4i1.17250

Sarwoko, I., & Agoes, S. (2014). An Empirical Analysis of Auditor's Industry Specialization, Auditor's Independence and Audit Procedures on Audit Quality: Evidence from Indonesia. *Procedia - Social and Behavioral Sciences*, *164*(August), 271–281. https://doi.org/10.1016/j.sbspro.2014.11.077

Ugwunta, D. O., & Ugwuanyi, B. U. (2019). Accounting conservatism and performance of Nigerian consumer goods firms': An examination of the role of accruals. *International Journal of Financial Research*, *10*(1), 1–9. https://doi.org/10.5430/ijfr.v10n1p1

Utami, M., & Silvia Sutejo, B. (2012). The importance of corporate governance in Public Sector. *Global Business and Economics Research Journal*, *1*(1), 25–31. https://doi.org/10.2991/insyma-18.2018.24

Wang, H. Da, Lin, C. H., & Cho, C. C. (2018). The dark and bright sides of agency problems: Evidence from insider compensation of family pyramidal firms. *Asia Pacific Management Review*. https://doi.org/10.1016/j.apmrv.2018.09.001

Xu, M., Qin, X., Dust, S. B., & DiRenzo, M. S. (2019). Supervisor-subordinate proactive personality congruence and psychological safety: A signaling theory approach to employee voice behavior. *Leadership Quarterly*, *30*(4), 440–453. https://doi.org/10.1016/j.leaqua.2019.03.001

Yang, S., Liu, Y., & Mai, Q. (2018). Is the quality of female auditors really better? Evidence based on the Chinese A-share market. *China Journal of Accounting Research*, *11*(4), 325–350. https://doi.org/10.1016/j.cjar.2018.07.004

Yolles, M. (2019). The complexity continuum, part 2: modelling harmony. *Kybernetes*, *48*(8), 1626–1652. https://doi.org/10.1108/K-06-2018-0338

Yudha, C. K., & Saputra, K. A. K. (2019). Pengaruh Opini Going Concern, Pergantian Manajemen, Kesulitan Keuangan, Dan Reputasi Auditor Pada Auditor Switching. *JAD: Jurnal Riset Akuntansi Dan Keuangan Dewantara*, *2*(2), 82–95. https://doi.org/10.7868/s0869565217060263

Zhang, Y., Zhou, J., & Zhou, N. (2007). Audit committee quality, auditor independence, and internal control weaknesses. *Journal of Accounting and Public Policy*, *26*(3), 300–327. https://doi.org/10.1016/j.jaccpubpol.2007.03.001