Effect of Leverage, Audit Tenure, Previous Year's Audit Opinion, and Company Scope on Audit Opinion Going Concern

(Empirical Study on Manufacturing Companies Listed on the IDX in 2018-2021)

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Abstract: *This study aims to regulate the effect of Leverage, Audit Tenure, Audit Judgement of the Previous Year, and Company Scope on Audit Opinion Going Concern. This research uses quantitative research, which is a research method that is objective, inductive, and scientific using logistical regression analysis and SPSS software assistance. The research sample consisted of 43 consumer goods industry sector companies listed on the IDX and issued complete financial statements that had been audited during 2018-2021. The results of this study show that tenure audits and audit opinions of the previous year influenced the audit opinion of going concern, while leverage and extent of the company did not.*

Keywords: Leverage, tenure audit, audit opinion, company scope, audit opinion going concern

I. INTRODUCTION

An audit opinion going concern is the auditor's taxation of the company's aptitude to endure operations. This means that the company is considered long-term viable and it will not be liquidated in the near future. Viable business audit opinions seem to be extremely beneficial to investors and users of financial statements in making good financial decisions. Investors do not invest in companies that are experiencing financial difficulties because they expect a return on their investment. Audit reports influence investor decisions and are expected to provide early warning of financial failures in the company. The auditor will deliberate issuing an audit going concern if based on the results of the audit there are reasons or qualms about the sustainability of the firm. The corporation is expected not to issue an audit opinion on business continuity, because it can harm investors, creditors, customers, or employees to the company's management.

Companies with relatively high levels of debt cause financial constraints, which can influence the occurrence of audit opinion going concern. Management can be evaluated using a financial leverage measure such as the ratio of total assets to liabilities. A high laverage ratio can have a negative influence on investors and fiscal institutions trying to maintain business continuity.

Another factor that can influence the occurrence of an audit judgment is audit tenure, which is the distance of time the company works with the Public Accounting Firm (KAP). If a company already has a long-term audit opinion cooperation agreement with the KAP, the company may be viewed as a source of income for the KAP, potentially reducing independence. With the reduction in the independence of the auditor, the objectivity of the examiner also decreases, so that finally the assessment results become inaccurate.

The previous year's business continuity report, which was received last year, is expected to assist investors in obtaining financing from financial institutions as well as investments from outside investors. Going concern audit opinion encourages investors to consider where to invest their funds. If the firm does not take corrective action on the current issue, the auditor may reissue the same audit report the following year.

Large corporations are thought to be better able than small corporations to overcome their funding issues. Large companies' financial statements are typically scrutinized by investors, encouraging management to make sound decisions. Large corporations have performance guarantees in place to reduce uncertainty about their survival.

II.   HEADING

In this study, we will deliberate the explanation of dependent variables and independent variables. Dependent variables are variables that affect or are outcomes that are influenced by independent variables, while independent variables are variables that affect or are the cause of the emergence of bound variables.

Leverage

Leverage is a metric that measures how much of a company's assets are financed by outside capital. It denotes the amount owed by the company to its assets. More comprehensively, the leverage ratio is used to assess a company's capacity to fulfill all of its compulsions, both short and long term, if the firm is dissolved (liquidation). The debt ratio, which would be the ratio of total debt to assets, is used to calculate the leverage ratio. The greater the debt ratio, the greater the company's debt, and thus the risk of failure to pay its debts and obligations. As a result, companies stand a better chance of receiving an audit opinion going concern, and auditors may reconsider issuing an audit opinion going concern.

Audit Tenure

Audit Tenure is the measurement of the affiliation between the KAP and the party being examined. The fear of losing the amount of fees led auditors to question the issuance of an Audit Opinion Going Concern. Thus, duration of relationship affects the independence of the auditor with the examined party due to the length of the relationship established.

Previous Year's Audit Opinion

The Preceding Year's Audit View was a failure to admit last year's audit opinion that contributed to the same audit opinion the following year. If the accountant issues an Audit Opinion Going Concern in the previous year, then the company will most likely issue a going concern opinion again in the current year.

Company Scope

Company scope according to the magnitude of the corporation that can be classified into large and small companies, such as the business's total assets, stock market value, average sales, and total auctions. In general, large companies are easier to gain the trust of creditors to acquire sources of funding, because the larger the company, the more capable it is to accomplish its debt obligations. This is because the larger the company's assets, the auditor will no longer doubt in issuing an audit opinion going concern.

III.   FINDINGS AND EQUATIONS

This research is a quantitative study, the population is manufacturing companies in the customer goods industry sector registered on the Indonesia Stock Exchange (IDX) for the 2018-2021 period. The sampling technique uses a documentation method determined through research sourced from audited financial statements on the IDX for the 2018-2021 period. The method of collection using secondary data in the form of quantitative data whose results are in the form of numbers.

Audit Opinion Going Concern

In carrying out audit work, auditors are not only required to pay attention to the figures presented in the financial statements, but also assess the existence of business continuity in carrying out their activities in the future. The receipt of an audit belief going apprehension is an important clue for companies in a position of financial difficulties and the prospect of bankruptcy. Audit opinion going concern is restrained by dummy variables, namely:

Code 1: Audit opinion going concern.
Code 0: Audit opinion non going concern.

Leverage

Leverage is used to measure the debt burden that must be borne with the company's assets. If the value of debt to assets is high, it means that the company funds its operations more with debt than with assets. The formula for calculating Leverage according to Kasmir (2018) is:

Total *Debt*

$$\text{Debt to Asset Ratio} = \frac{\rule{3cm}{0.4pt}}{\text{Total Assets}}$$

Audit Tenure

Tenure Audit is the span of the auditor's relationship with his customer as determined by the number of years (Arsianto and Rahardjo, 2013). The establishment of anassociation between the auditor and the client raises concerns about the auditor's long-term independence. When auditors interact with their clients over time, they gain a better grasp of the client's financial circumstances and are more likely to detect going concern issues (Hs and Azzahra, 2020). The total audit engagement period before the auditor moves is used to calculate tenure audit. For example, the first year of assignation begins with the number 1 for one year, 2 for two years, and is supplemented by one for the following years, so the number will repeat again to 1 (Saad and Abdillah, 2019).

Previous Year's Audit Opinion

The economic growth that occurs in a given year is inextricably linked to the economic conditions that existed the prior year. If the previous period's audit view of going concern was obtained, the company must be more cautious in the current year to avoid receiving the same opinion (Utami and Astika, 2017). The audit opinion from the previous year was assessed using pretend variables, specifically:

Code 1: Audit opinion going concern the previous year.
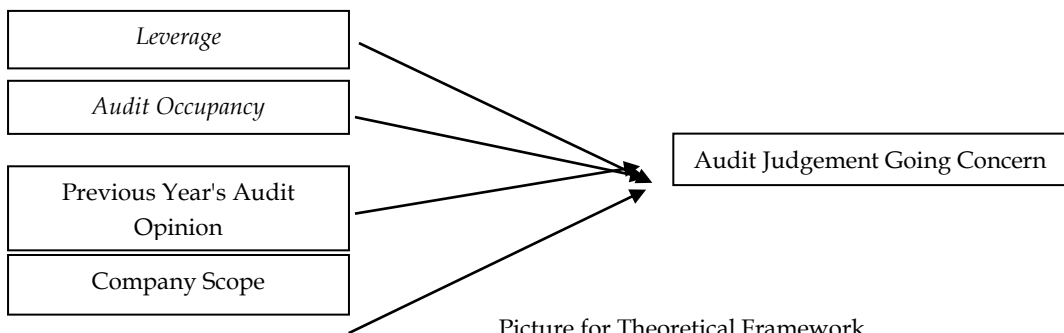Code 0: Audit opinion non going concern the previous year.

Company Scope

Companies are classified into three sizes: large, medium, and small. Small businesses will be judged as unable to compete with large corporations, particularly in terms of maintaining company performance. Large companies can obtain loans from third parties in order to obtain credit from investors because they are thought to have good performance and a low risk of bankruptcy. The company's magnitude is approached by anordinary logarithm of total assets (Ln). The following is how the company's size is intended:

SIZE = natural log (total asset value)

Theoretical Framework

To be able to facilitate the understanding of this research, theoretical framework is explained as described along with the following figure.

Picture for Theoretical Framework

IV. FIGURES AND TABLES

Findings and Discussion

Descriptive Statistical Analysis

Table 1
DESCRIPTIVE STATISTICS

Variable	N	Minimum	Maximum	Mean	Std. Deviasi
OAGC	172	0	1	,27	,447
LV	172	,07	2,90	,4317	,28551
AT	172	1	4	2,26	1,115
OA	172	0	1	,27	,447
UP	172	23,59	32,82	28,5720	1,67662

Source: Secondary data processed author, 2022

Based on table 1 it can be explained as follows:

a. The mean value of the 172 data leverage variables is 0.4317, the minimum value is 0.07, and the standard deviation is 0.28551. Because the standard deviation in this variable is close to the average, the data deviation is low.

b. The audit variable tenure of 172 data has a mean value of 2.26, a minimum of 1, and a standard deviation of 1.115. The standard deviation value of this variable is quite nearby to the average, so the aberration of the data of the audit variable tenure is low.

c. The audit opinion variables of 172 data from the previous year had a mean value of 0.27, a minimum value of 0, and a standard deviation of 0.447. This variable's standard deviation is relatively close to the average, indicating that the eccentricity of the previous year's audit opinion variable data is low.

d. The mean value of the company magnitude variable from 172 data points is 28.5720, the minimum value is 23.59, and the standard deviation is 1.67662. The standard deviation value for this variable is not close to the average, indicating that the enterprise size variable data is skewed.

Logistic Regression Analysis

Data analysis in this study uses logistic regression analysis, because the dependent variables are dichotomous, namely audit opinions going concern (code 1) and non-going concern (code 0) whose outcomes can be seen in table IV.3.

Table 2
REGRESSION MODEL FEASIBILITY TEST

H	Variable	B	S.E	Wald	df	Sig.
1	LV	1,168	1,077	1,178	1	0,278
2	AT	-0,461	0,232	3,944	1	0,047
3	OA	3,245	0,489	44,092	1	0,000
4	UP	-0,161	0,166	0,936	1	0,333
5	Constant	2,787	4,738	0,346	1	0,556

Source: Secondary data processed writer, 2022

From the table can be compiled a model of the logistic regression reckoning as follows:

$$\text{Ln OAGC} = 2{,}787 + 1{,}168LV - 0{,}461AT + 3{,}245OA - 0{,}161UP + \varepsilon$$

Description:

OAGC	: Audit Opinion Going Concern
α	: constant
β(1,2,3)	: regression coefficient of each independent variable
LV	: independent variable, leverage

AT	: Independent variable, tenure audit
OA	: Independent Variable, Previous Year's Audit Opinion
UP	: independent variable, company scope
ε	: error

From the equation can be interpreted as follows:

a. The constant shows 2.787. This means that in the absence of leverage influence, audit tenure, audit opinion of the earlier year, and extent of the company, the probability of an audit opinion going concern is 2,787.

b. The variable coefficient of leverage is 1.168. This means that if there is an addition of 1 unit to leverage, it will increase the probability of the firm receiving an audit opinion going concern of 1,168 units assuming other variables are constant. Conversely, if the leverage decreases by 1 unit, then the probability of leverage will decrease by 1,168 units.

c. The coefficient of the audit occupancy variable is -0.461, which means that if there is an addition of 1 unit to the audit tenure, it will reduce the possibility of the company receiving an audit opinion going concern by 0.461 units presumptuous other variables are persistent. Conversely, if the tenure audit decreases by 1 unit, then the probability of tenure audit will increase by 0.461 units.

d. The coefficient of the earlier year's audit belief variable is 3.245, which means that if there is an addition of 1 unit to the previous year's audit opinion, it will increase the probability of the company receiving an audit opinion going concern of 3,245 units pretentious other variables are constant. Conversely, if the previous year's audit opinion decreases by 1 unit, then the probability of the previous year's assessment opinion will decrease by 3,245 units.

e. The variable coefficient of the size of the company is -0.161, which means that if there is an addition of 1 unit to the size of the company, it will reduce the probability of the company receiving an audit opinion of going concern by 0.161 units assuming other variables are continual. Conversely, if the size of the company decreases by 1 unit, then the probability of the previous year's audit opinion will increase by 0.161 units.

Coefficient of Determination Test

The results of the calculation of the coefficient of determination test using Nagelkerke R-Square can be realized in table 3.

Table .3
COEFFICIENT OF DETERMINATION TEST

Step	-2 Log Likelihood	Cox & Snell R Square	Negelkerke R-Square
1	188,625[a]	0,383	0,555

Source: Secondary data processed researcher, 2022

Based on table 3, it can be seen that the statistical value on Nagelkerke R-Square is 0.555. This means that the ability of variable leverage, audit tenure, audit opinion of the previous year, and the scope of the company in influencing the receipt of audit opinion going concern is 55.5%, while the rest (44.5%) is explicated by other factors beyond the variables studied.

Regression Model Feasibility Test

The results of the overall fit model test showed that there was a decrease between the value of -2 of the initial likelihood logs and -2 of the final likelihood logs, which means that the hypothesized model corresponds to the data (see table 4. and table 5).

Table 4
OVERALL TEST RESULTS FIT MODEL

lteration		-2 Log Likelihood	Coefficients Constant
Step	1	201,921	-0,907
	2	201,921	-0,977
	3	201,921	-0,978
	4	201,921	-0,978

Source: Secondary data processed writer, 2022

Table 5
OVERALL TEST RESULTS FIT MODEL

lteration	-2 Log Likelihood	Coefficients Constant	LV	AT	OA	UP
Step 1 1	127,541	0,257	0,443	-0,180	2,495	-0,057
2	119,354	1,664	0,874	-0,357	3,054	-0,118
3	118,636	2,618	1,125	-0,448	3,221	-0,154
4	118,625	2,784	1,168	-0,461	3,245	-0,161
5	118,625	2,787	1,168	-0,461	3,245	-0,161
6	118,625	2,787	1,168	-0,461	3,245	-0,161

Source: Secondary data processed author, 2022

Table 4 shows that -2 Log Likelihood with block number 0 containing only constants gets a value of 201.921. Then from table 5 it can be seen that the value of -2 Log Likelihood with block number 1, the value of -2 Log Prospect changed after the free variable was entered into the research model, so that the final result of 118.625 was obtained. Thus, there is a diminution in value between -2 initial Likelihood Logs and the final -2 Log Possibility values. In the next phase shows that the theorized model fits the data. The decrease in the value of -2 Log Likelihood designates that this research model has been declared appropriate, meaning that the accumulation of free variables namely leverage, audit tenure, audit opinion of the previous year, and company size in its research model perfects the corresponding model in this study.

Hosmer and Lomhow's Goodness of Fit Test

The results of the feasibility test of the reversion model using the Hosmer and Lemeshow's Goodness of Fit Test can be seen in table 6.

Table 6
REGRESSION MODEL FEASIBILITY TEST

Step	Chi-square	Df	Sig.
1	8,754	8	0,364

Source: Secondary data processed author, 2022

From table 6, a significance value of 0.364 was obtained, which is greater than the significance level of 0.05, so H0 is accepted and Ha is rejected. That is, the regression model can predict its observation value or the regression model used in this study is worthy of further analysis.

Hypothesis Test
The results of hypothesis testing can be seen in table 7.

Table 7
REGRESSION MODEL FEASIBILITY TEST

H	Variable	B	Sig.	Hypothetical Decisions
1	LV	1,168	0,278	Rejected
2	AT	-0,461	0,047	Accepted
3	OA	3,245	0,000	Accepted
4	UP	-0,161	0,333	Rejected

Source: Secondary data processed author, 2022

Based on table 7 it can be described as follows:
a. The significance value of the leverage is 0.278 > 0.05. This suggests that the H1 hypothesis is rejected, which means that leverage has no effect on the audit opinion going concern.
b. The significance value of the tenure audit was 0.047 < 0.05. This specifies that H2 is accepted, which means that tenure audits affect the audit opinion going concern.

c. The significance value of the previous year's audit opinion was 0.000 < 0.05. This indicates that H3 is accepted, which means that the preceding year's audit opinion had an effect on the audit opinion going concern.

d. The implication value of the company size is 0.333 > 0.05. This suggests that H4 is rejected, which means the magnitude of the company has no effect on the audit belief going concern.

The Effect of Leverage on Audit Opinion Going Concern.

The test results represent that leverage has no effect on the audit opinion of going concern. The results show that auditors do not consider leverage when providing audit opinions. Companies with a high debt burden generally have to pay interest costs, so profits will decrease. If the company is unable to bear this financial risk, it may endanger the survival of the company.

The Effect of Audit Tenure on Audit Opinion Going Concern.

The proceeds of the hypothesis test show that leverage affects the audit opinion going concern. A negative coefficient indicates a unidirectional relationship, meaning that a company that uses the services of the same auditor every year usually does not receive an audit judgment going concern, while a company that does not use the services of the same auditor every year usually receives an audit opinion going concern.

The Influence of the Previous Year's Audit Opinion on the Audit Opinion Going Concern.

The results of the hypothesis test show that the previous year's audit opinion had an effect on the audit opinion going concern. The earlier year's audit report will be one of the most important factors to consider when preparing an audit opinion statement for the following year. If the auditor issues a business sustainability statement, then it is very likely that the company will collect another sustainability report this year.

The Impact of Company Scope on Audit Opinion Going Concern.

The results of the hypothesis test show that the magnitude of the company has no effect on the audit opinion going concern. The scope of the company does not determine which management is better able to manage its business. Poor management will certainly make business development difficult and can affect the company's survival in the long term.

V.   CONCLUSION

Based on the outcomes of the data analysis that has been carried out, the following inferences were obtained:

1. The Leverage variable in businesses listed on the IDX in 2018-2021 had no upshot on the audit opinion going concern, so H1 in this study was rejected.
2. Tenure audit variables in companies listed on the IDX in 2018-2021 influenced the audit opinion going concern, so that H2 in this research was accepted.
3. The variable of the previous year's audit opinion on companies enumerated on the IDX in 2018-2021 affected the audit judgment going concern, so that H3 in this study was accepted.
4. The variable firm scope in establishments listed on the IDX in 2018-2021 has no impact on the audit opinion going concern, so H4 in this study was rejected.

Research Limitations

In this study, there are still boundaries that diminish the perfection of research results, including:

1. Sampling uses purposive sampling and is only inadequate to 43 consumer goods industry sector companies listed on the IDX, so the results of this study cannot reach more companies outside the consumer goods industry sector in 2018-2021.
2. Since the variables used are only four independent variables, particularly regarding leverage, audit tenure, auditor's report of the previous year, and firm characteristics, there are likely to be other variables that influence auditor's report going forward but go unnoticed. This is evident from the coefficient of determination value of only 55.5%, implying that there are still 44.5% of other factors that can influence the receipt of audit opinions.

Suggestion
According to these limitations, the researcher submitted the following suggestions:

1. For subsequent research, the sample should be enhanced based on other sectors of the company, so that the inferences can be made to similar studies.
2. For continued study, it is preferable to include independent variables that are presumed to be factors that affect audit opinion going forward, in order to increase the coefficient of deduction.

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