

e-ISSN: 2721-303X, p-ISSN: 2721-3021
Received: 4 September 2022, Revised: 27 September 2022, Publish: 5 October 2022
DOI: <https://doi.org/10.38035/dijefa.v3i4>
<https://creativecommons.org/licenses/by/4.0/>



Literature Review: the Effect of Company Size, Company Growth, and Company Liquidity on Going Concern Audit Opinion

Wiwiek Winarta¹, Cris Kuntadi²

¹Student Master of Accounting, Perbanas Institute, wiwiek.winarta@gmail.com

²Lecturer Universitas Bhayangkara Jakarta Raya, cris.kuntadi@dsn.ubharajaya.ac.id

Corresponding author: Wiwiek Winarta¹

Abstract: Factors affecting going concern audit opinions have always been the focus of academic research. This article categorizes relevant previous research in Indonesia and analyzes several variables affecting audit opinion. This article examines the relationship or effect of company size, company growth, and company liquidity on going concern audit opinions, a study of auditing literature. This article aims to build a hypothesis of the effect between variables to be used in further research. This literature study shows the following results: 1) Company size has a negative effect on going concern audit opinion; 2) Company growth has a negative effect on going concern audit opinion; 3) Company liquidity has a negative effect on going concern audit opinion. This article provides a reference for more in-depth research on the factors affecting going concern audit opinions.

Keyword: Going Concern Audit Opinion, Company Size, Company Growth, and Company Liquidity

INTRODUCTION

Background

Company management must prepare financial reports based on the principle of business sustainability (going concern). In conducting an audit of financial statements, the auditor will assess whether there is material uncertainty about the company's ability to continue as a business. If material uncertainty is confirmed, the auditor will consider the adequacy of disclosure regarding business continuity in the company's annual financial statements. If the company's disclosures are inadequate, the auditor will issue a going concern audit opinion in the auditor's report.

The auditor will assess the company's financial statements to determine whether the representation of the company's financial statements is true and fair (following generally accepted accounting principles). The audit will also assess whether the company can continue its business operations. The going concern audit opinion is the focus of attention for the

company's stakeholders: investors, potential investors, creditors, business partners, and other related parties.

This going concern audit opinion phenomenon has increased further, especially since the world financial crisis began in 2007. The financial crisis that triggered financial distress caused the company's financial statements not to meet the business sustainability requirements, which became the domain of auditors' professional judgment in their audit opinion.

Kuntadi (2020) states that the auditor's opinion results from the independent auditor's conclusion that the company's financial statements follow auditing standards. From the auditor's examination results, a statement of opinion emerged which, if sorted from best to worst, namely: unqualified opinion, qualified opinion, disclaimer of opinion, and unfair opinion (Kuntadi, 2019; Kuntadi, 2021).

Based on the description above, the authors are motivated to conduct a literature study, which discusses the effect of company size, company growth, and company liquidity on going concern audit opinions on companies in Indonesia. It is because several studies showed conflicting research results between one study and another.

Problem Statement

Based on the background described above, the formulation of the problem in this literature study is as follows:

1. Does company size affect the going concern audit opinion?
2. Does company growth affect the going concern audit opinion?
3. Does company liquidity affect the going concern audit opinion?

THEORITICAL REVIEW

Agency Theory

Agency theory defines the relationship between principal and agent. Jensen and Meckling (1976:308) explain the concept of agency relationship as follows:

“Agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent.”

Meanwhile, Scott (2015: 358) explains the concept of agency theory as follows:

“Agency theory is a branch of game theory that studies the design of contracts to motivate a rational agent to act on behalf of a principal when the agent's interests would otherwise conflict with those of the principal.”

According to agency theory, the agency relationship explains the separation of functions between shareholder ownership and company management. However, this separation can lead to agency problems, namely conflicts of interest and information asymmetry. Bosse and Phillips (2016:278) explain the concept of agency problems as follows:

“Assuming the agent and principal are self-interested utility maximizers, a problem arises for the principal when (1) the two parties have divergent interests and (2) the agent has better information than the principal.”

Signalling Theory

According to Spence (1973), the signal theory is a concept where the information provider can choose what and how the information will be displayed, and the information recipient can choose how to interpret the information it receives. A good company can differentiate itself from a bad company by sending a credible signal about the quality of the company to the capital market (Khairudin & Wandita, 2017).

Signal theory talks about the delivery of information to users that describes the condition of the company. Information users consisting of investors, potential investors, and creditors will respond to the information received as a form of a signal given by the company regarding the condition of the company. Companies in good condition will convey information to information users in the hope of getting a good response to the information submitted (Endiana & Suryandari, 2017).

The signal theory aims to minimize asymmetric information between company management and shareholders because company management usually has more information about the company than shareholders. It is undoubtedly hazardous, especially regarding decision-making by company management. Therefore, it is necessary to audit the company's financial statements so that the financial statements submitted by the company's management will provide information following the actual company conditions (Endiana & Suryandari, 2017).

Going Concern Audit Opinion

Opinions on the company's financial statements in the independent auditor's report are used as consideration for interested parties (stakeholders). Therefore, the independent auditor's report is highly relied upon to provide accurate information regarding the fairness of the presentation of the financial statements of the entity being audited. The auditor is obliged to provide an opinion on the financial statements of an audited entity, including an evaluation of the entity's financial health. Arens, Elder, and Beasley (2008) state that although the purpose of the audit is not to evaluate the company's financial health, the auditor has a responsibility to evaluate whether the company can maintain its sustainability (going concern). The modified audit opinion regarding going concern indicates that in the auditor's assessment, there is a risk that the company cannot maintain its sustainability.

Research on going concern audit opinions on companies in Indonesia has been carried out by many previous researchers, namely Rakatenda and Putra (2016), Gusti and Yudowati (2018), Purba and Nazir (2018), Al Fath and Sugito (2020), Aprianti and Surya (2020), Andini, Subandi, and Peristiwaingsih (2021).

Company Size

Company size can be expressed in various proxies, including total assets, sales, and market value. The proxy of total assets is used to explain the company size because the total assets show the company's wealth in carrying out its operational activities. The total assets were chosen because the value owned is relatively more stable than other proxies (Rakatenda & Putra, 2016).

Total assets are the dimension or indicator of the company size used in this literature study. Research on the company size has been carried out by previous researchers, namely Rakatenda and Putra (2016), Aprianti and Surya (2020).

Company Growth

Company growth can be expressed in various proxies, including growth of sales, net income, and total assets. The proxy of sales growth is used to explain company growth because sales growth is an indicator of market acceptance of products or services produced by the company (Gusti & Yudowati, 2018).

Sales growth is the dimension or indicator of the company growth used in this literature study. Research on the company growth has been carried out by previous researchers, namely Gusti and Yudowati (2018), Al Fath and Sugito (2020).

Company Liquidity

The company liquidity shows the company's ability to meet its financial obligations promptly or the company's ability to meet its financial obligations on time. The company can fulfill its financial obligations immediately or promptly if it has liquid payment instruments, namely if the current assets are more significant than current liabilities (Purba & Nazir, 2018).

The dimension or indicator of company liquidity used in this literature study is the liquidity ratio in the form of a comparison between current assets and current liabilities. Research on the liquidity of this company has been carried out by previous researchers, namely Purba and Nazir (2018), Andini, Subandi, and Eventningsih (2021).

Table 1: Related previous research

No	Researcher (year)	Previous study results	The same variables as this article	Different variables with this article
1	Rakatenda & Putra (2016)	Leverage, Profitability, Audit Tenure, Auditor Quality have no effect Going Concern Opinion. Company Size has effect Going Concern Opinion.	Company Size	Leverage, Profitability, Audit Tenure, and Auditor Quality
2	Gusti & Yudowati (2018)	Leverage, Company Growth have no effect Going Concern Opinion. Profitability, Previous Year's Audit Opinion have effect Going Concern Opinion.	Company Growth	Leverage, Profitability and Previous Year's Audit Opinion
3	Purba & Nazir (2018)	Company Growth, Profitability, Company Liquidity have no effect on Going Concern Opinion. Solvency, Auditor Quality have effect on Going Concern Opinion.	Company Growth and Company Liquidity	Profitability, Solvency and Auditor Quality
4	Al Fath & Sugito (2020)	Debt Default, Company Growth, Company Size have effect on Going Concern Opinion.	Company Growth and Company Size	Debt Default
5	Aprianti & Surya (2020)	Financial Condition, Company Size have no effect on Going Concern Opinion.	Company Size	Financial Condition
6	Andini, Subandi, & Peristiwaningsih (2021)	Company Growth has no effect on Going Concern Opinion. Profitability, Company Liquidity, Company Size have effect on Going Concern Opinion.	Company Growth, Company Liquidity, and Company Size	Profitability

METHODOLOGY

The method used in writing this literature study article is a qualitative method and library research. The author conducts a theoretical study and the relationship or effect between variables from books and journals both offline in the library and online sourced from Mendeley, Google Scholar, and other online media.

DISCUSSION

Based on relevant theoretical studies and previous research, the discussion of this literature study article is as follows:

1. Effect of Company Size on Going Concern Audit Opinion

Rakatenda and Putra (2016) found that company size negatively affects going concern audit opinions. It is contrary to research conducted by Aprianti and Surya (2020), which states that company size does not negatively affect going concern audit opinion.

Aprianti and Surya (2020) found that the company size variable shows a coefficient value of -0.089 with a significance level of $0.665 > 0.05$. It can be concluded that the hypothesis "company size negatively affects going concern audit opinion" is rejected. At the same time, logistic regression testing shows that company size has no significant effect on going concern audit opinion.

Aprianti and Surya (2020) found that level of company size is not a benchmark for auditors to provide a going concern audit opinion. Even though the company size is small, according to the auditor, if it can maintain its viability, the company will not receive a going concern audit opinion. Nevertheless, although the company size is big, according to the auditor, if it cannot maintain its viability, the company will still receive a concerned audit opinion. Thus, the level of company size has an effect but is not significant on the acceptance of going concern audit opinion.

2. Effect of Company Growth on Going Concern Audit Opinion

Al Fath and Sugito (2020) found that company growth negatively affects going concern audit opinions. It is contrary to research conducted by Gusti and Yudowati (2018), which states that company growth does not negatively affect going concern audit opinion.

Gusti and Yudowati (2018) found that the company growth variable shows a coefficient value of -0.043 with a significance level of $0.876 > 0.05$. It can be concluded that the hypothesis "company growth negatively affects going concern audit opinion" is rejected. At the same time, logistic regression testing shows that company growth has no significant effect on going concern audit opinion.

Gusti and Yudowati (2018) found that level of company growth is not a benchmark for auditors to provide a going concern audit opinion. Even though the company growth is low, according to the auditors, if it can maintain its viability, the company will not receive a going concern audit opinion. Nevertheless, although the company growth is high, according to the auditor, if it cannot maintain its viability, the company will still receive a going concern audit opinion. Thus, the level of company growth has an effect but is not significant on the acceptance of going concern audit opinion.

3. Effect of Company Liquidity on Going Concern Audit Opinion

Andini, Subandi, and Eventningsih (2021) found that company liquidity negatively affects going concern audit opinion. It is contrary to research conducted by Purba and Nazir (2018) which states that company liquidity does not negatively affect going concern audit opinion.

Purba and Nazir (2018) found that the company liquidity variable shows a coefficient value of 0.000 with a significance level of $0.666 > 0.05$. It can be concluded that the hypothesis "company liquidity negatively affects going concern audit opinion" is rejected. At the same time, logistic regression testing shows that company liquidity has no significant effect on going concern audit opinion.

Purba and Nazir (2018) found that level of company liquidity is not a benchmark for auditors to provide a going concern audit opinion. Even though the company liquidity is low, according to the auditors, if it can maintain its viability, the company will not receive a going concern audit opinion. Nevertheless, although the company liquidity is high, according to the auditor, if it cannot maintain its viability, the company will still receive a going concern audit opinion. Thus, the level of company liquidity has an effect but is not significant on the acceptance of going concern audit opinion.

CONCEPTUAL FRAMEWORK

Based on the formulation of the problem, theoretical studies, relevant previous research, and discussion of the effect between variables, the framework of thinking is obtained as below.

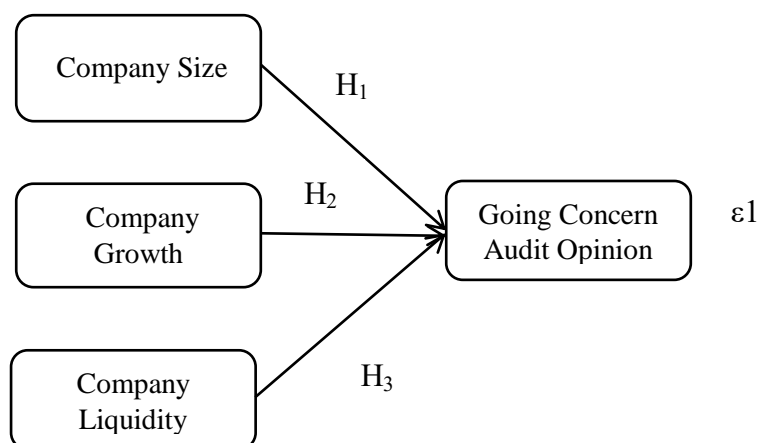


Figure 1: Conceptual Framework

Based on the conceptual framework picture above, the company size, company growth, and company liquidity affect the going concern audit opinion.

Apart from these three independent variables that affect the dependent variable going concern audit opinion, there are still other variables that affect it, including:

- a) Leverage: (Rakatenda & Putra, 2016), (Gusti & Yudowati, 2018)
- b) Audit Tenure: (Rakatenda & Putra, 2016)
- c) Debt Default: (Al Fath & Sugito, 2020)
- d) Profitability: (Rakatenda & Putra, 2016), (Gusti & Yudowati, 2018), (Purba & Nazir, 2018), (Andini, Subandi, & Peristiwaningsih, 2021)
- e) Solvency: (Purba & Nazir, 2018)
- f) Auditor Quality: (Rakatenda & Putra, 2016), (Purba & Nazir, 2018)
- g) Previous Year's Audit Opinion: (Gusti & Yudowati, 2018)
- h) Financial Condition: (Aprianti & Surya, 2020)

CONCLUSION AND SUGGESTION

Conclusion

Based on the theory, relevant previous research, and the above discussion, a hypothesis can be formulated for further research, namely:

1. Company size affect the going concern audit opinion.
2. Company growth affect the going concern audit opinion.
3. Company liquidity affect the going concern audit opinion.

Suggestion

Based on the conclusion above, this article suggests that other variables affect going concern audit opinion, apart from company size, company growth, and company liquidity. Therefore, further studies are still needed to look for other variables affecting going concern audit opinion in addition to the variables studied in this article. These variables include leverage, audit tenure, debt default, profitability, solvency, auditor quality, previous year's audit opinion, and the company's financial condition.

REFERENCES

- Al Fath, N. D. & Sugito, Pudjo. (2020). "Pengaruh Debt Default, Pertumbuhan Perusahaan, dan Ukuran Perusahaan Terhadap Penerimaan Opini Audit Going Concern". *Buletin Studi Ekonomi*, 2(1): 265-286.
- Andini, B. N., Subandi, & Peristiwarningsih, Yantik. (2021). "Pengaruh Profitabilitas, Likuiditas, Ukuran Perusahaan, dan Pertumbuhan Perusahaan Terhadap Opini Audit Going Concern (Studi pada Perusahaan Manufaktur Yang Terdaftar di Bursa Efek Indonesia Tahun 2014-2017)". *Media Mahardhika*, 19(2): 380-394.
- Aprianti, Ritha & Surya, Sarjito. (2020). "Pengaruh Kondisi Keuangan dan Ukuran Perusahaan Terhadap Opini Audit Going Concern". *Jurnal Sains Manajemen Akuntansi*, Volume/Januari/2020.
- Arens, A., Elder, R. & Beasley, M. (2008). *Auditing dan Jasa Assurance: Pendekatan Terintegrasi*. Edisi 12. Alih Bahasa: Herman Wibowo. Buku 1. Jakarta: Erlangga.
- Bosse, D. A. & Phillips, R.A. (2016). "Agency Theory and Bounded Self-Interest". *Academy of Management Review*, 41(2): 276–297.
- Endiana, I. D. M. & Suryandari, N. N. A. (2021). "Opini Going Concern: Ditinjau dari Agensi Teori dan Pemicunya". *Ekuitas: Jurnal Ekonomi dan Keuangan*, 5(2): 223-243. DOI: 10.24034/j25485024.y2021.v5.i2.4490.
- Gusti, Q. R., & Yudowati, S. P. (2018). "Pengaruh Leverage, Profitabilitas, Pertumbuhan Perusahaan, dan Opini Audit Tahun Sebelumnya Terhadap Penerimaan Opini Audit Going Concern (Studi pada Perusahaan Pertambangan yang Terdaftar di Bursa Efek Indonesia Tahun 2013-2016)". *E-Proceedings of Management*, 5(3): 3463-3472.
- Jensen, C. & Meckling, H. (1976). "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure". *Journal of Financial Economics*, 3(4), 305–360.
- Khairudin & Wandita (2017), "Analisis Pengaruh Rasio Profitabilitas, Debt to Equity Ratio (DER) dan Price to Book Value (PBV) Terhadap Harga Saham Perusahaan Pertambangan di Indonesia", *Jurnal Akuntansi & Keuangan*, 8(1): 68–84.
- Kuntadi, C. (2019). *Audit Internal Sektor Publik*. Jakarta: Salemba Empat.
- Kuntadi, C. (2020). The Effect of Lowballing on Auditor Independence and Audit Opinion (Case Study at the Public Accounting Office for the Special Capital Region of Jakarta). *Research Journal of Finance and Accounting*, 11(4), 42–51. <https://doi.org/10.7176/rjfa/11-4-05>.
- Kuntadi, C. (2021). *Audit Keuangan Negara*. Jakarta: Salemba Empat.
- Purba, S. F. & Nazir, N. (2018). "Pengaruh Pertumbuhan Perusahaan, Rasio Keuangan, dan Kualitas Auditor Terhadap Opini Audit Going Concern". *Jurnal Akuntansi Trisakti*, 5(2): 199–214. DOI: dx.doi.org/10.25105/jat.v5i2.5238.
- Rakatenda, G. N. & Putra, I. W. P. (2016). "Opini Audit Going Concern dan Faktor-Faktor yang Mempengaruhinya". *E-Jurnal Akuntansi Universitas Udayana*, 16(2): 1347–1375.

- Scott, W. R. (2015). “*Financial Accounting Theory (5th ed)*”. Pearson Prentice Hall.
- Spence, M. (1973). “*Job Market Signaling*”. *The Quarterly Journal of Economics*, 87 (3), 355 -374.