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Auditor’s Considerations in Providing an Opinion and Paragraph on Material Uncertainty on Going Concern Based on SA 570: Case Study of PT ABC

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Abstract: This study analyzes the auditor’s considerations in assessing going-concern uncertainty and determining the inclusion of a material uncertainty paragraph in the Independent Auditor’s Report in accordance with SA 570 (Revised 2021). Using a qualitative case study approach, the research examines PT ABC, a technology-based start-up established in late 2024, which has not commenced commercial operations and exhibits early-stage characteristics such as operating losses, negative operating cash flows, and dependence on external funding. Data were obtained from the company’s audited financial statements and the auditor’s report for 2024. The analysis was conducted through the identification of going-concern indicators, evaluation of management’s plans, and assessment of the auditor’s professional judgment. The results show that although PT ABC presents several indicators of financial uncertainty, the auditor concluded that these conditions are consistent with the development stage of a start-up company. Management’s plans, including funding support from shareholders and initial business strategies, were assessed as adequate and feasible to mitigate short-term uncertainties. Therefore, the auditor determined that the going-concern basis of accounting remained appropriate and issued an unmodified opinion accompanied by a separate paragraph disclosing material uncertainty. This study highlights the application of SA 570 in start-up entities and reinforces the importance of contextual analysis and auditor judgment when evaluating business continuity.

Keywords: Going concern, Start-up , Auditor consideration

INTRODUCTION

Going concern is a fundamental assumption in the preparation of an entity's financial statements. This assumption states that the entity will continue its operations indefinitely and has no intention or need to liquidate or cease most of its business activities. In other words, a going concern reflects the continuity of a business's activities.

An entity is fundamentally established not only to obtain economic benefits but also to maintain its business continuity amidst various uncertain business environments influenced by external factors such as economic conditions, political dynamics, regulatory changes, and

technological developments that can impact the entity's ability to maintain its business continuity.

Rapid technological developments have not only brought changes to conventional business patterns but have also given rise to new forms or types of entities, known as startups. Startups are generally founded with innovative business models based on the digital economy to address evolving market needs. On the other hand, these characteristics make startups more vulnerable to uncertainty, primarily due to their high dependence on external funding and the challenge of continuously innovating in line with market demands and movements. In Indonesia, the development of startups is showing a rapid growth trend. This is indicated by the increasing number of new entities capitalizing on opportunities arising from economic dynamics, particularly the digital economy. According to Indonesian government data, the number of startups reached approximately 2,692 in December 2024 (Jatmiko, 2024). However, data on total funding received indicates a decline, particularly in the technology sector. In the first half of 2024, funding reached only USD 191 million, a 79% decrease compared to the previous period, the second half of 2023 (Tracxn Technologies Limited, 2024).

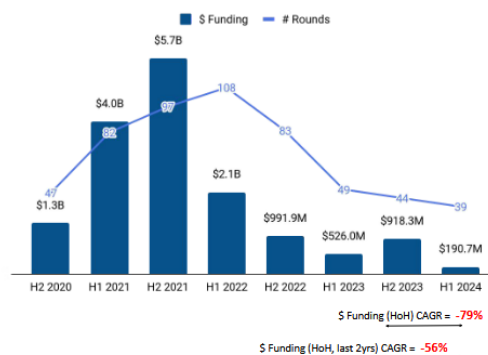


Figure 1. Trends in Technology Startup Funding in Indonesia in the First Half of 2024

Source: Tracxn Technologies Limited. (2024). Indonesian Tech Semi-Annual Funding Report – H1 2024

Based on Figure 1 above, the increasing number of start-up companies, not accompanied by an increase in funding receipts, increases the potential for liquidity risk due to external factors such as economic fluctuations. This supports the assumption that start-up companies face material uncertainty regarding their business continuity because they are vulnerable to the possibility that the entity will not be able to maintain its operations in the future.

Information regarding material uncertainties is part of the auditor's responsibility to users of financial statements. Auditors are responsible for providing an opinion indicating that an entity's financial statements are in accordance with applicable accounting standards and are fairly presented. According to Auditing Standard (SA) 570: Going Concern (Revised 2021), one aspect that auditors need to evaluate in the financial statement audit process is the entity's going concern. Auditors need to assess the entity's ability to continue as a going concern. If the auditor assesses a material uncertainty regarding this matter, the auditor must explain this in the paragraph "Material Uncertainty about Going Concern" in the independent auditor's report. In this paragraph, the auditor explains the conditions that could create material uncertainty for the entity's ability to continue operating, so that users of the financial statements can be aware of this, even if the independent auditor's opinion report states that the financial statements are fairly presented.

The growth of start-up companies, accompanied by the risk of material uncertainty, necessitates a study of the auditor's role in considering the issuance of an opinion and the preparation of the material uncertainty paragraph, as well as determining whether this matter should be disclosed in the financial statements or through an additional paragraph in the independent auditor's report.

This research focuses on a case study of PT ABC, a technology-based start-up company newly established in September 2024. As a new entity, PT ABC meets the criteria for a start-up company facing various challenges, such as dependence on external funding and an unstable business model. This condition creates the potential for material uncertainty regarding business continuity that requires careful attention and assessment from the auditor, where the auditor must be able to collect sufficient audit evidence, obtain relevant information from management, and apply professional judgment in providing an opinion in accordance with the provisions of SA 570. Based on this description, this study was conducted to better understand the relationship between how auditors consider and apply the provisions of SA 570 in providing opinions and paragraphs on material uncertainty regarding business continuity in start-up companies such as PT ABC.

METHOD

Research Object

The research object is PT ABC, a technology company established at the end of the third quarter of 2024, and analyzed for the period up to December 31, 2024. The company has not yet commenced commercial operations, but has undertaken various preparatory activities such as procuring inventory, purchasing machinery and electronic equipment, and recognizing office use rights assets. The share ownership structure is dominated by a foreign parent company (99.99 percent), with 0.01 percent held by affiliated companies. Cash flow activities during the reporting period include funding through capital injections and related party loans, investments in the form of fixed asset purchases and long-term lease agreements, and operating activities in the form of general and administrative expenses that resulted in comprehensive loss. These conditions form the basis for the initial identification of indicators of doubt about the going concern, which are then analyzed using PSA 570.

Research Method

Data Collection Method

The research uses a qualitative case study method with a content analysis approach. The research data is sourced from secondary data in the form of PT ABC's 2024 audited financial statements, including: Statement of Financial Position, Statement of Profit and Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, Notes to the Financial Statements, and the Independent Auditor's Report. Auditing Standard (SA) 570 "Business Continuity" issued by the Institut Akuntan Publik Indonesia (IAPI) was used as the theoretical basis for reviewing the auditor's findings.

Data Processing Method

Data processing was carried out in three stages. First, data reduction by sorting information related to indications of doubt about the going concern, such as equity deficits, operating losses, negative operating cash flow, and dependence on external funding. The reduction also included information regarding management plans in the *Catatan atas Laporan Keuangan* (CALK) and the auditor's explanation regarding material uncertainties in the audit report. Second, data presentation in narrative form and summary tables facilitates analysis. Third, conclusions are drawn by identifying patterns and logical relationships to answer the research questions regarding the auditor's considerations.

Data Analysis Method

Data analysis was conducted using descriptive qualitative methods with three main focuses.

1. The going concern analysis was conducted based on the company's financial condition and disclosures, with reference to the material uncertainty indicators in SA 570. Financial indicators include the inability to generate adequate operating cash flow,

recurring operating losses or working capital deficits, dependence on external financing, inability to meet loan covenants, and net assets lower than liabilities (IAPI, 2021); (Mutchler J.F., 1985); (Santosa, 2007); (Setyarno, 2012).

2. The management plan analysis was conducted by assessing the adequacy and feasibility of the plan disclosed in the *Catatan atas Laporan Keuangan (CALK)*, including whether the plan was realistic, specific, and feasible to address doubts about the going concern.
3. The auditor's judgment analysis was conducted by examining whether the auditor added a paragraph on material uncertainty in the independent auditor's report and how the opinion was formed based on the company's condition. The analysis also considered operational indicators, such as the loss of key management or important suppliers (Mutchler J.F., 1997). (Kusumawati, 2018); (IAPI, 2021), as well as external and legal indicators, such as significant regulatory changes, major lawsuits, and disasters or pandemics (Hudaib, 2005); (Santoso, 2015); (IAPI, 2021).

This analysis is used to understand the application of SA 570 in the case study of PT ABC and how the auditor considers evidence regarding doubts about the company's going concern and strategic plan before determining the audit opinion.

RESULTS AND DISCUSSION

Overview of PT ABC

PT ABC is a technology company established in Indonesia in September 2024, specializing in the trading of computers, computer equipment, and telecommunications support. As of December 2024, the company had not yet commenced operations and was still in the early stages of development. This reflects the characteristics of a startup, characterized by ongoing infrastructure development, business model formulation, and resource formation.

The status of a start-up company has important implications for the going concern evaluation under SA 570. Early-stage companies generally lack stable operating cash flows, are potentially subject to losses, and are highly dependent on external funding. These factors increase the risk of uncertainty surrounding the company's ability to continue as a going concern. Therefore, PT ABC's profile as a start-up entity is a key element in understanding the auditor's considerations when determining the opinion and adding a material uncertainty paragraph to the audit report.

Financial Condition of PT ABC

Based on PT ABC's financial report for the period from the date of establishment to December 31, 2024, PT ABC has a financial position in accordance with the characteristics of a start-up company with total assets of IDR 65 billion, mostly consisting of current assets worth IDR 57 billion, where 91% of current assets are cash in the bank worth IDR 52 billion. This indicates that PT ABC's initial liquidity is strong enough to fund its operational activities.

On the liabilities side, PT ABC has total liabilities of IDR 13 billion, consisting of short-term liabilities of IDR 9.8 billion and long-term liabilities of IDR 3.2 billion. This structure indicates that the majority of the company's obligations must be met within one year. This situation puts pressure on PT ABC's working capital if internal funding sources are unstable.

PT ABC's equity was recorded at Rp 52 billion (net), with the primary source of equity coming from paid-in capital of Rp 53.7 billion. PT ABC recorded a loss balance of Rp 1.6 billion. This condition aligns with the statement in PT ABC's general description that PT ABC is still in the development phase and aligns with the description of a startup company.

1. Financial Condition Indicators of PT ABC Related to Business Continuity

This study uses three key financial indicators that are generally used as the basis for auditors' considerations in assessing an entity's going concern. These indicators can be seen in the following table:

Financial Indicators	PT ABC Financial Data 2024	Interpretation
Net loss for the year	Rp. 1.6 billion	The loss shows that PT ABC has not generated a stable income stream and has not been able to cover the required operational costs.
Operational cash flow	Negative condition of Rp. 1.5 billion	Negative cash flow from operating activities indicates that PT ABC does not yet have a stable internal cash source to support PT ABC's business activities.
Dependence on external financing	Cash flow from financing activities	The continuity of PT ABC's business still depends on shareholder capital contributions.

Based on these indicators, the analysis results are as follows:

- 1) PT ABC experienced a comprehensive loss of Rp 1.6 billion, which is normal for a startup, especially since it is still in the development and operational preparation phase. However, it should be noted that the potential for this comprehensive loss, if continued, could signal a risk to PT ABC's future business continuity.
- 2) Negative operating cash flow indicates that PT ABC is still relying on initial cash and does not yet have a stable source of operating income. This situation can create potential uncertainty or doubt about PT ABC's ability to finance long-term activities if it lacks additional funding sources.
- 3) A large amount of cash at the beginning of the year (> Rp 52 billion) provides room for PT ABC to survive in the short term. However, PT ABC requires a strong and clear commercial strategy because if the cash continues to be used as the main source of funding and does not have other funding sources, it will potentially pose a significant risk to PT ABC's business continuity.
- 4) Dependence on funding from shareholders and related parties indicates that the continuity of PT ABC's business depends on external funding commitments rather than on the Company's ability to generate profits. If viewed from the condition of PT ABC which is still in the development phase, this is a normal thing, but in considering business continuity, the auditor needs to ensure PT ABC's management regarding PT ABC's strategies and plans as data or a basis for the auditor to be able to make professional considerations in assessing PT ABC's business continuity.

Overall, PT ABC's financial condition demonstrates the general characteristics of a start-up company still in the commercial development phase. After understanding PT ABC's financial situation and overview, the auditor can proceed to the auditor's consideration analysis stage in accordance with SA 570, which will be outlined in chapter 4.3.

Analysis of Auditor Considerations Based on SA 570 “Going Concern”

SA 570 requires auditors to evaluate whether there is a material uncertainty that could raise significant doubt about the entity's ability to continue as a going concern. In the context of PT ABC, auditors need to consider various factors derived from financial data but also need to rationalize or, in other words, find meaning in these figures, which can be done by understanding management plans and studying the characteristics of the company's operations. This interpretation is necessary because a negative financial position does not always mean that the company has material uncertainty about its going concern, and vice versa, so rationalization and professional judgment are required by the auditor in providing an opinion.

1. Evaluation of Material Uncertainty Indicators by the Auditor

Based on PT ABC's 2024 financial report, several indicators of material uncertainty that could cause significant doubt about the entity's ability to maintain its business continuity based on SA 570 are as follows:

- 1) Financial ratio indicators
 - a. Auditor findings:
Net loss of Rp 1.6 billion and negative cash flow from operating activities of Rp 1.5 billion.
 - b. Auditor considerations:
The auditor assesses that PT ABC has not been able to generate cash from operational activities and does not yet have sufficient revenue to fund the company's operations. The operating losses experienced by PT ABC indicate a material uncertainty that could raise significant doubts about PT ABC's ability to continue as a going concern. However, the auditor conducts a review of management plans or strategies and considers PT ABC's situation as a newly established entity still in the development phase. The equity deficit and negative operating cash flow in the reporting period are considered normal conditions in the early stages of a start-up company. Therefore, these conditions are not directly classified as material uncertainties that could raise significant doubts about the going concern of the business, but rather as normal conditions in the process of establishing and preparing a business before commercial activities begin.
- 2) Dependence on external funding
 - a. Auditor findings:
Cash funding comes from capital contributions of IDR 53 billion.
 - b. Auditor considerations:
The auditor considers whether the dependency is ongoing or merely temporary support, which is normal for a start-up company. Considering PT ABC's newly established status, this is reasonable, as it is still in the development phase.
- 3) Company operations
 - a. Auditor findings:
The company does not yet have commercial operations.
 - b. Auditor considerations:
The auditor considers that PT ABC has not yet commenced commercial operations and therefore has no commercial revenue in the reporting period as a material uncertainty that could raise significant doubts about the entity's ability to generate future cash flows. However, the auditor also further considers the condition of PT ABC, which was only established in 2024, and management's plans, which are considered reasonable.

2. Evaluation of the Management Plan

SA 570 requires the auditor to assess whether management's plans address material uncertainties. In the case of PT ABC, management describes its plans and strategies as follows:

- 1) Market growth: Auditors continuously analyze market trends and customer needs related to product lines. The digital industry, which is PT ABC's core business, has promising prospects, but requires management commitment to increase investment to drive growth scale and allocate more resources to market expansion and invest in increasing product visibility and accessibility.
- 2) Cost Optimization: operational cost efficiency by simplifying procurement, inventory management, and logistics processes to reduce waste and speed up turnaround times and budget monitoring by implementing strict budget controls and regular financial reviews to identify and eliminate unnecessary expenses.

- 3) Promotional Activities: partnerships and collaborations with complementary businesses for promotional activities as well as enhancing online communication activities through social media and other platforms to reach a wider audience.

Based on the management plan and strategy, the auditor needs to carry out an assessment regarding the following matters:

SA 570 Criteria	Auditor Assessment Basis	Auditor's Considerations on PT ABC	Conclusion
Specific and measurable	Does the Company's management plan contain clear operational steps?	The company's plans are still general, such as expanding the market and strengthening promotions, but do not yet have a timeline and measurable performance indicators.	Management plans and strategies are not yet fully specific but are still reasonable because PT ABC is a new start-up company founded on September 23, 2024.
Based on realistic assumptions	Are assumptions regarding revenue, costs, market growth, and capital requirements supported by data or projections?	Cash flow projections, estimated capital requirements, and revenue plans have not been formally presented.	Projections have not been formally presented, but industry baseline assumptions and shareholder support provide a realistic basis.
Can be implemented or feasible	Does the company have the resources, funding, and capabilities to execute the plan?	Funding sources from shareholder capital contributions are still available and PT ABC has prepared marketing strategies and business partnerships.	PT ABC's plans and strategies can be implemented as long as funding support continues and operations begin as planned.

Based on the table above, the auditor assesses that PT ABC's management plan has not been prepared in detail, but still meets the basic characteristics required in accordance with SA 570 as a reference because:

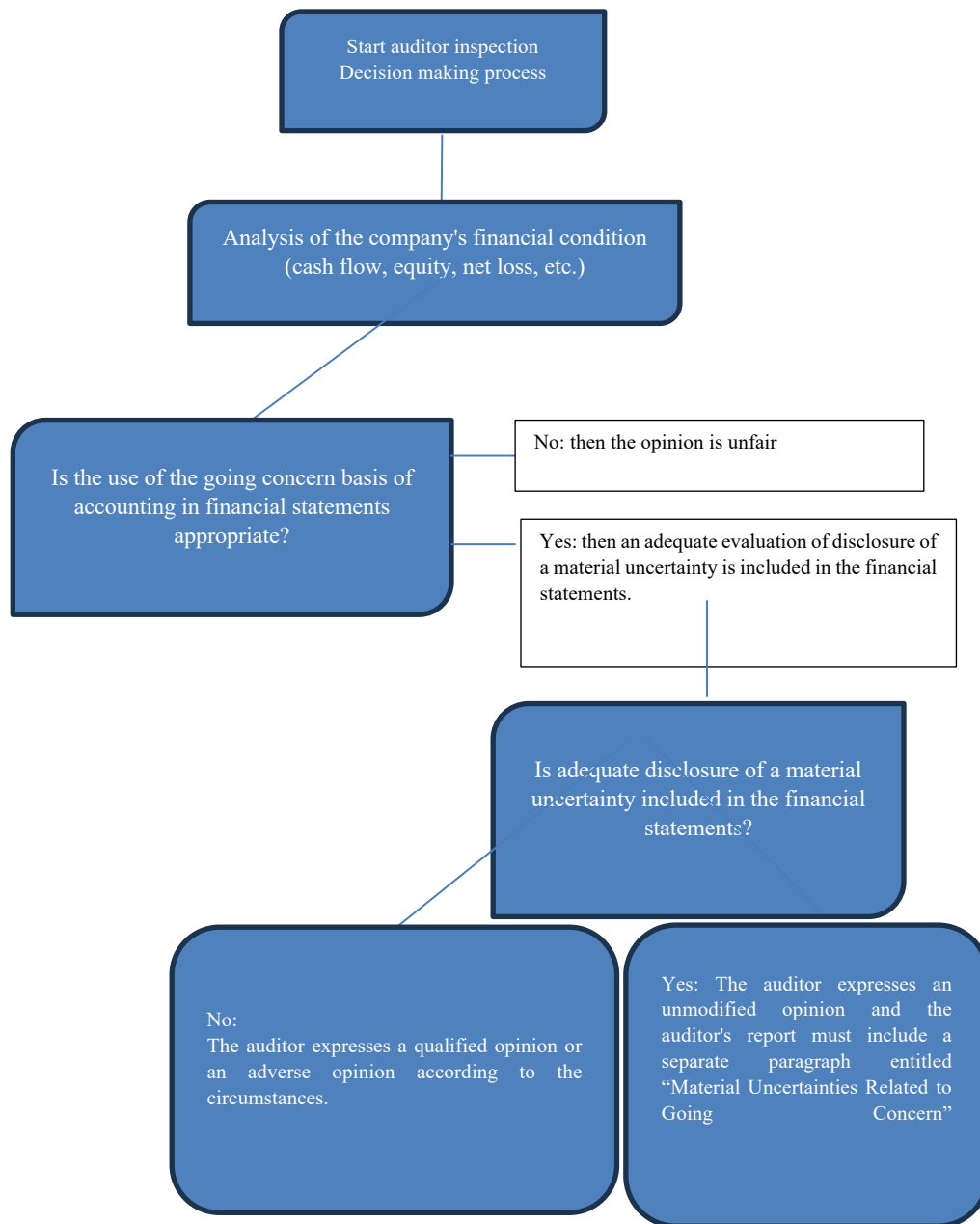
- a. PT ABC was only established in late 2024 and has not yet started its commercial operations.
- b. The business model is still under development
- c. External funding is still available to support the implementation plan of PT ABC management.

Thus, limited quantitative information does not necessarily indicate material uncertainty regarding business continuity, but rather is a common condition in start-up companies such as PT ABC.

3. Implications of the Results of the Business Continuity Evaluation on the Audit Opinion given in the Auditor's Report

The auditor's decision-making process in assessing the going concern of PT ABC is carried out through several stages. The auditor first assesses the company's financial condition based on the financial statements, then identifies any events or conditions that could raise significant doubts about the entity's ability to continue as a going concern. If conditions that have the potential to create material uncertainty are identified, the auditor evaluates management's plan to address the potential risks, whether it has the potential to improve the situation and is feasible to implement under the circumstances. Next, the auditor assesses the

adequacy of disclosures when events or conditions have been identified and a material uncertainty exists.



Based on the decision flow, the auditor's assessment of the appropriateness of the use of the going concern accounting basis in preparing the financial statements by PT ABC's management, which has gone through the analytical and evaluative stages in accordance with SA 570, concludes that despite the presence of risk indicators such as equity deficits and negative operating cash flows, management's plans and strategies are considered adequate to support business continuity. In this regard, the disclosures in the financial statements are considered adequate. Therefore, the auditor expresses an unmodified opinion with a separate paragraph "Material Uncertainties Related to Going Concern."

CONCLUSION

The analysis of PT ABC shows that the auditor assessed indications of material uncertainty regarding the going concern by considering net losses, negative operating cash flow,

and dependence on external funding. While these factors generally indicate significant risks, the auditor considered these conditions to be reasonable considering PT ABC's early stage as a start-up company. In determining the disclosure of the material uncertainty paragraph, the auditor considered the adequacy of management's plan, the sustainability of external funding support, the reasonableness of the assumptions used, and the dynamic nature of the technology industry. In the case of PT ABC, the management plan, which was not yet fully specified, was still deemed feasible due to strong shareholder support and a positive industry outlook. Based on this evaluation, the auditor issued an unqualified opinion with a material uncertainty paragraph. This decision reflects that the financial statements have been prepared with appropriate going concern assumptions, the disclosures are considered adequate, and the company has a plan that can be implemented with available funding support, although going concern risks still require attention from users of the financial statements.

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