

Print ISSN: 2288-4637 / Online ISSN 2288-4645  
doi:10.13106/jafeb.2020.vol7.no11.169

# Opinion Shopping, Prior Opinion, Audit Quality, Financial Condition, and Going Concern Opinion

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Received: August 01, 2020 Revised: September 20, 2020 Accepted: October 05, 2020

## Abstract

Business going concern is an important issue to be addressed since it determines how companies will survive. One indicator of the going concern problem is going concern opinion. The going concern opinion is a result of evaluation of auditors on going concern assumption of financial reporting. This research aims to examine the effect of opinion shopping, prior opinion, audit quality, and financial condition on going concern opinion. Research sample consists of 80 listed manufacturing companies on the Indonesian Stock Exchange surveyed between 2013 and 2017. Analysis data uses logistic regression. Based on the result, prior opinion affects going concern opinion, while opinion shopping, audit quality, and financial condition have no effect on going concern opinion. The significant effect of prior opinion on going concern opinion indicates that auditors consider the evaluation of the previous condition of companies' concern problematic since going concern is hard to be solved in a short-term period. This research provides recommendations for companies to increase their business ability so going concern problem can be avoided. This research also suggests to auditors to consider prior opinion to issue current opinion since previous companies' condition can be used as a general picture to initiate the auditing process.

**Keywords:** Opinion Shopping, Prior Opinion, Audit Quality, Financial Condition, Going Concern Opinion

**JEL Classification Code:** M40, M42, G33

## 1. Introduction

Companies are founded to maintain the business going concern. Going concern is an important issue to be addressed since it determines how the business will survive. Higher performance of management brings higher possibility to ensure companies will survive. In some cases, going

concern problems also come from economic conditions. Economic performance can support the business to achieve a better performance. Going concern becomes a basis for assumption in financial reporting where companies assumed that they do not have any objective to reduce their business scale significantly (Astari & Latrini, 2017). When financial reporting does not meet the going concern assumption, there is a doubt of companies' ability to maintain their business survival over a period of time, at least one year ahead since financial statement auditing date (Ikatan Akuntan Publik Indonesia, 2015b).

Business failure problem leads to going concern problem and bankruptcy risk. Indonesian Stock Exchange (IDX) keeps monitor the listed companies to ensure the prospective going concern in the future. As a result, IDX finds that *Sekawan Intipratama Tbk* has questionable going concern. In 2016, the company *Sekawan Intipratama Tbk* stopped its operational activities. Since the assessment director of IDX determined it had no business activities, thus, generating no revenues and producing continuous losses, so going concern problem occurred in *Sekawan Intipratama Tbk*. IDX still examines and extends the going concern criteria by involving auditor or accountant. IDX

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can suspend the stocks because of unclear going concern to reduce the investment risk. Further, IDX can force delisting of companies with suspended stocks more than two years. In some cases, IDX can give a chance for companies to keep their stock listed and allow companies to fix their performance, such as in condition where companies are in debt restructuring.

IDX also forced the delisting of company *Sigmatgold Inti Perkasa Tbk*. The assessment director of IDX explains that IDX already gave a chance to *Sigmatgold Inti Perkasa Tbk* to fix their financial problem more than 24 months, but the company fail to do so. The delisting process is based on two conditions. First, the company has notified significant negative impact as a business going concern, both financial and legal. Second, the company stock has been suspended from regular and money market trading for 24 months. The cases of forced delisting for going concern problem then identify impact on the financial statement for users.

One indicator of going concern problem is going concern opinion. Auditors ensure that companies have to meet the going concern assumption. When auditors perform the audit work, they also have to evaluate the doubt of business survival. If auditors have doubt about business survival, they have to issue a going concern opinion. Going concern opinion is a result of evaluation of auditors on going concern assumption of financial reporting. Going concern opinion helps external parties to evaluate companies' condition. Going concern opinion is important to give information regarding companies' status and plan for financial improvement (Menon & Williams, 2010). It gives negative signal to shareholders. The doubt of business survival can be an indicator of early warning of bankruptcy. Going concern assumption aims to ensure that companies can run their business in a very long-term period (Astari & Latrini, 2017). The problem of going concern can come from continuous operating losses (Krissindiausti & Rasmini, 2016). When auditors issue going concern opinion, there is a negative perception by the public.

Opinion shopping, prior opinion, audit quality, and financial condition can determine if companies get going concern opinion. Opinion shopping is a situation where companies' management selects the auditor who fits with the management behavior in accounting to achieve a specific financial reporting purpose. The purpose might be to get unqualified opinion from the auditor since negative audit report can give problem for companies to compete in the capital market. Opinion shopping refers to auditor switching to avoid going concern opinion. Based on opinion concept, if companies get going concern opinion, they will switch to new auditor who fit with companies' interest of non-going concern problem. When opinion shopping occurs, there

is a small possibility for companies to get going concern opinion, or otherwise. Syahputra and Yahya (2017) and Kusumayanti and Widhiyani (2017) find that opinion shopping affects going concern issue, while Muslimah and Triyanto (2019) and Iriawan and Suzan (2015) do not find significant relationship between opinion shopping and going concern opinion.

Prior opinion refers to issued opinion by auditors in the previous year. Auditors also consider prior opinion to review general condition of companies, and finally, issue the current opinion (Rianto et al., 2016). Prior going concern opinion shows that companies have been in going concern problem before. It can be a guide for auditor to assess current going concern problem. Since prior going concern opinion contributes to stock price falling, limitation of capital improvement, and public trust lost; it is not easy for companies to solve going concern problem quickly (Arsianto & Rahardjo, 2013). In this case, companies with going concern opinion in the previous period tend to get another going concern problem in the current period. Sandi et al. (2017) and Muslimah and Triyanto (2019) find that prior opinion affects current opinion, while Iriawan and Suzan (2015) do not find any significant effect of prior opinion on the current one.

DeAngelo (1981) defines audit quality as a probability where financial statement contain significant misstatement and auditors will find and report it. A high-quality audit also refers to the audit work that is consistent with auditing and quality control standards (Ikatan Akuntan Publik Indonesia, 2015c). One of audit quality indicator is Big Four affiliation. When the auditors are affiliated with Big Four auditors, they will try hard to maintain their reputation by avoiding unethical behavior. It is not easy to get non-going concern from high-quality auditor. Kristiani and Lusmeida (2018) and Difa and Suryono (2015) find that audit quality affects going concern opinion, while Effendi (2019) does not find any significant relationship between audit quality and going concern opinion.

Financial condition shows the level of financial health. Mostly going concern problem found in unhealthy companies (Ramadhany, 2004). Financial ratio can indicate the companies' financial condition. Healthy companies tend to generate higher profitability than unhealthy ones (Petronela, 2004). There is a lower probability of going concern opinion to be issued for healthy companies. Rahim (2017) and Shulhiyyah et al. (2019) find that the financial condition affects going concern opinion, while Effendi (2019) does not find any relationship between financial health and going concern opinion. This research contributes to fill the research gap, in view of inconsistent previous findings about going concern opinion, especially in emerging market such Indonesian Stock Exchange.

## 2. Literature Review

### 2.1. Agency Theory

The agency theory explains the principal-agent contract where management act as agent to fulfill shareholders' interest (Jensen & Meckling, 1976; Scott, 2014). Shareholders' interest as the principal is to get all information about the companies, especially about main activities where their investment fund is in there. Financial statement is one of the ways to provide companies' information on management performance for shareholders. Unfortunately, management usually engages in opportunistic behavior of financial reporting to show information about management's good performance (Hendriksen & Breda, 1992). The agency theory assumes that agent and principal are having self-interest, having bounded rationality, and are risk averse (Siagian, 2011).

The agent-principal conflict of interest relates to information asymmetry where financial statement information does not reflect the real condition of companies. Asymmetry information refers to the condition where one party has more information than another one (Hartono, 2015). Agents have more information about internal condition and companies' prospect than the principals do. Since financial statement provides the information of agents' performance, the agents tend to cover up their poor performance.

Auditors can mitigate the agent-principal conflict of interest. Auditors are independent parties to assess the agent performance regarding to going concern problem. For shareholders, auditors hold the role of information assurance that financial statement has been provided reasonably based on accounting standard. For management, auditors hold the role of legitimation of management performance by issuing audit opinion. Going concern opinion reflects auditors' assessment on management poor performance.

### 2.2. Signaling Theory

The signaling theory explains that information asymmetry brings companies to give signal on private information, especially information about their quality. It is important to give private information since outside investors do not have all the information that the management has. The signaling concept was formulated by Spence (1973) who examined signals in job market. Further, Ross (1977) and Battacharya (1979) developed the signaling concept into accounting and finance. Ross (1977) examined the signaling of capital structure information in the market, while Battacharya (1979) examined how market response the dividend payment.

Auditors also use the signaling concept about financial statement quality and condition of going concern. Originally,

auditors have the important role to reduce information asymmetry between management and shareholders. By issuing the audit opinion, auditors give signals about private information of companies, include in going concern opinion. Going concern opinion gives information that companies have a problem of business survival and it is indicated by continuing losses and debt problem. For auditors, audit opinion captures the signal of auditor audit quality (Pham et al., 2020; Taqi, 2013), while for companies, audit opinion, as well as the change of audit opinion, captures the signal of financial statement and performance quality (Ratmono & Nuralmasar, 2015). Taqi (2013) explains that the signal of audit quality is important for auditors to increase their reputation in the market. Ratmono and Nuralmasar (2015) also explains that qualified opinion makes companies delay the publication of financial statement because they know it gives bad news to investors.

### 2.3. Hypothesis Development

Companies engage in the opinion shopping to manipulate their financial condition. Companies switch from the old auditor who issued the going concern opinion to new auditor who accepts to issue the audit opinion the company wants. Naturally, companies want auditors to issue non-going concern or unqualified opinions. Since going concern opinions weaken the companies' position in the capital market (Teoh & Wong, 1993), companies have big motivation to avoid going concern opinions by doing the opinion shopping. Opinion shopping can reduce financial statement quality and credibility as well as harm the auditor's reputation. Opinion shopping shows the lack of auditor's independence. When companies are successful doing opinion shopping, a new auditor will issue the non-going concern opinion. Syahputra and Yahya (2017) and Kusumayanti and Widhiyani (2017) find that companies with opinion shopping are less likely to get going concern opinion.

*H1: Opinion shopping affects going concern opinion*

Audit opinion is a result of financial statement auditing process. It shows if financial statement has significant misstatement and follows the accounting standard (Ikatan Akuntan Publik Indonesia, 2015a). It also shows if companies provide the financial statement under the going concern problem. Auditors also consider prior audit opinion when issuing current audit opinion. Generally, the evaluation process of current condition always needs information about previous condition. In the context of going concern evaluation, auditors use the information of previous condition to determine the current condition of business going concern. Since it is hard to fix financial

problem, previous problem of going concern probably continues to the current period. If companies get going concern opinion in the previous period, there is a higher probability that companies will get going concern opinion again in the current period. In contrast, if companies get non-going concern opinion in the previous period, there is a lower probability that companies will get going concern opinion again in the current period. Sandi et al. (2017) and Muslimah and Triyanto (2019) prove that auditor will issues going concern opinion for companies that get going concern opinion before.

*H2: Prior opinion affects going concern opinion*

The high-quality auditors have more incentives to avoid bad reputation than the low-quality ones (DeAngelo, 1981). The high-quality auditors also tend to reveal problems, include going concern problems, because they have the upper hand when faced in court. The level of audit quality is shown with the probability that auditors find companies' accounting system failure and report it as audit opinion (DeAngelo, 1981). In the context of management-shareholders relationship, there is a chance that management covers up their poor performance from shareholders. The auditors have an important role to mitigate the agency conflict and information asymmetry by revealing the bad performance of management. In this case, auditors are not only assessing the financial misstatement, but also assess the going concern problem by evaluating the management performance (Rahman et al., 2019). The auditors with high audit quality tend to issue going concern opinion especially in the context of high agency conflict condition. Kristiani and Lusmeida (2018) and Difa and Suryono (2015) find audit quality increase the probability of companies to get going concern opinion.

*H3: Audit quality affects going concern opinion*

Financial condition captures the financial information about current performance and future prospect (Soewiyanto, 2012). Going concern problem occurs more in unhealthy companies with poor financial performance, such as poor profitability and liquidity. For example, companies experience continuous loss and fail to build good liquidity and debt payment. Further, it leads to the higher default risk. Higher default risk indicates the going concern problems. Unhealthy companies are more likely to get going concern opinion than the healthy ones. Rahim (2017) and Shulhiyyah et al. (2019) find financial condition determine the going concern opinion.

*H4: Financial condition affects going concern opinion*

### 3. Research Method

#### 3.1. Sample

Research sample consists of listed manufacturing companies in IDX over the 2013-2017 period. The selection of manufacturing companies aims to avoid the industrial effect of different industries subjected to the different risk of business going concern. The companies sampled also get at least one going concern opinion in the window of research period. Net sample is as in Table 1.

#### 3.2. Data and Variables

Research data is made of secondary data. It is sourced from financial statements issued in IDX and Indonesian Capital Market Directory. This research uses the data to measure the research variables. Research variables consist of the dependent variable, which is going concern opinion, and independent variables, which are opinion shopping, prior opinion, audit quality, and financial condition.

Going concern is a concept of continuity of companies' business (Jones & Belkaoui, 2009). Going concern opinion is audit opinion that explains the significant inability and uncertainty of companies' business survival in certain periods (Ikatan Akuntan Publik Indonesia, 2015b). Going concern opinion is measured by dummy variable where score 1 is for companies that get going concern opinion and score 0 otherwise. Going concern opinion includes unqualified opinion with going concern explanation, unqualified opinion with exception, qualified opinion, and disclaimer opinion.

Opinion shopping refers to companies switching auditor to get non-going concern opinion (Kusumayanti & Widhiyani, 2017). Opinion shopping is measured by dummy variable: score 1 if companies do the opinion shopping and score 0 otherwise. Prior opinion is audit opinion issued by auditor in the previous period (Syahputra & Yahya, 2017). Prior opinion is measured by dummy variable: score 1 if companies get going concern opinion and score 0 otherwise. Audit quality is the ability of auditors to find significant misstatement and report it into audit opinion. Audit quality is measured by dummy variable: score 1 if auditor has Big Four affiliation and score 0 otherwise (DeAngelo, 1981). Financial condition refers to the financial risk where high financial risk is indicator of unhealthy financial condition (Kakinuma, 2020; Soewiyanto, 2012). Financial risk is measured by debt-to-equity ratio, while unhealthy financial condition is measured by dummy variable: score 1 if debt-to-equity ratio is above 1 or below 0 and score 0 if debt-to-equity ratio is below 1 (Shulhiyyah et al., 2019).

**Table 1:** Sample

| Criteria   | Companies | Companies-Years |
|--|-----------|-----------------|
| Listed manufacturing companies in IDX period 2012-2017 | 164       | 820             |
| Does not get going concern opinion in 2012-2017        | (148)     | (740)           |
| Net Sample   | 16        | 80              |

### 3.3. Data Analysis

The analysis uses logistic regression. Logistic regression examines the probability of specific category since the dependent variable is a categorical variable (Ghozali, 2011). Logistic regression analysis includes overall model fit test, goodness of fit test, coefficient of determinant test, classification matrix, and hypothesis test. Regression model is formulated as in equation (1).

$$\ln(GCO / (1 - GCO)) = a + b1OS + b2PO + b3AQ + b4FIN + e \quad (1)$$

Where *GCO* is going concern opinion, *OS* is opinion shopping, *PO* is prior opinion, *AQ* is audit quality, and *FIN* is financial condition. H1 is accepted if *b1* is negative and significant, H2 is accepted if *b2* is positive and significant, H3 is accepted if *b3* is positive and significant, and H4 is accepted if *b4* is positive and significant.

## 4. Results and Discussion

### 4.1. Descriptive Statistics

Research Table 2 shows 45 samples or 56.2% of total 80 samples get going concern opinion while 35 samples or 43.8% of total 80 samples get non-going concern opinion. Opinion shopping is measured by nine samples or 11.2% of total 80 samples, while 71 samples or 88.8% of total 80 samples do not do opinion shopping. There are 43 samples or 53.8% of total 80 samples that get going concern opinion in the previous period, while 37 samples or 46.2% of total 80 samples get non-going concern opinion in the previous year. High audit quality is performed in 15 samples or 18.8% of total 80 samples, while low audit quality is performed in 65 samples or 81.2% of total samples. There are 65 samples or 81.2% of total samples that experience the unhealthy financial condition, while there are 15 samples or 18.8% of total 80 samples that experience the healthy financial condition.

**Table 2:** Descriptive Statistics

| Variable                      | Sample                 |                        |
|-------------------------------|------------------------|------------------------|
|                               | Yes                    | No                     |
| Going Concern Opinion         | 45<br>(56.2% of total) | 35<br>(43.8% of total) |
| Opinion Shopping              | 9<br>(11.2% of total)  | 71<br>(88.8% of total) |
| Prior Going Concern Opinion   | 43<br>(53.8% of total) | 37<br>(46.2% of total) |
| High Quality Auditor          | 15<br>(18.8% of total) | 65<br>(81.2% of total) |
| Unhealthy Financial Condition | 65<br>(81.2% of total) | 15<br>(18.8% of total) |

**Table 3:** Overall Model Fit Test

| Step  | Value of -2Log-Likelihood |
|---|---------------------------|
| Step 0: Before involves the independent variables | 109.650                   |
| Step 1: After involves the independent variables  | 63.837                    |
| Differences                                       | 45.814*                   |

Note: \* indicates significant at 1% level of significance based on chi-square statistics.

**Table 4:** Hosmer and Lemeshow's Test

| Chi-Square | Significance |
|------------|--------------|
| 4.669      | 0.587        |

### 4.2. Overall Model Fit

Overall model fit aims to assess the fitness of the model with the data. It examines the likelihood model before and after involving the independent variables. Overall model fit test result shown in Table 3. The value of -2log-likelihood before involving the independent variables is 109.650. Value of -2log-likelihood after involving the independent variables is 63.837. The difference value is 45.814 (significant in 0.01). Reduction value of -2log-likelihood shows that the model is better when the independent variables are involved and it fits with the data.

### 4.3. Goodness of Fit Test

Goodness of fit test aims to examine if the model can predict its observed value. Goodness of fit test uses Hosmer and Lemeshow's test. The result is shown in Table 4. Chi-square value is 4.669 with significance value of 0.587 (insignificant). The result indicates that the model fits with the observed value and can predict its observed value.

#### 4.4. Coefficient of Determinant

Coefficient of determinant shows the explanatory power of independent variables to predict the probability of going concern opinion. It uses the value of Nagelkerke R-square between 0% until 100%. Based on proceed data, the value of Nagelkerke R-square is 0.584. It indicates that opinion shopping, prior opinion, audit quality, and financial condition can explain 58.4% of going concern opinion, while 41.6% of going concern opinion is explained by other variables outside the research model.

#### 4.5. Classification Matrix

Classification matrix shows the prediction power of the regression model to predict going concern opinion. The result is shown in Table 5. Based on 35 non-going concern opinions, the model can predict correctly 29 non-going concern opinions with percentage correct of 82.9%. Based on 45 going concern opinions, the model can predict correctly 39 going concern opinions with percentage correct of 86.7%. Overall percentage correct of the model is 85.0% can predict the probability of audit opinion.

#### 4.6. Hypothesis Testing and Discussion

Table 6 shows that opinion shopping has a coefficient value of 1.868 with Wald-statistics of 2.002 (insignificant). It indicates that H1 is rejected. Opinion shopping does not affect going concern opinion. Opinion shopping occurs when companies switch their auditor because in the previous period they get going concern opinion. Not all auditor switching comes with a result of non-going concern opinion for the current period. In the context of opinion shopping, auditor switching also considers some factors such as the change of audit opinion from going concern to non-going concern opinion, change of audit quality from high to low-quality, change of financial statement quality from high to low-quality, and effectiveness of regulator's role. Lack of these factors prevents this research from finding a significant effect of opinion shopping on going concern opinion. Since auditor switching still generates going concern opinion, high-quality audit, high-quality financial statement, and effective monitoring role from regulator; opinion shopping does not occur. This result is not consistent with Syahputra and Yahya (2017) and Kusumayanti and Widhiyani (2017) who find that opinion shopping affects going concern issue.

Prior opinion has coefficient value of 2.400 with Wald-statistics of 25.742 (significant in 0.01). It indicates that H2 is accepted. Prior opinion affects going concern opinion. Current auditing process always considers previous auditing result as a guidance to find audit evidence, including in considering prior audit opinion. When companies get going

concern opinion in the previous period, the auditor has an initial clue that companies have poor performance and financial problem. In this case, it is easier for the auditor to evaluate and find the evidence of going concern problem. Since the consequences of going concern problems are hard to be fixed, there is high probability that companies will get going concern opinion again in the current period. This result is consistent with Sandi et al. (2017) and Muslimah and Triyanto (2019) who find that prior opinion affects current opinion.

Audit quality has coefficient value of 0.314 with Wald-statistics of 0.138 (insignificant). It indicates that H3 is rejected. Audit quality does not affect going concern opinion. Audit quality occurs when auditors give going concern opinion for unhealthy companies and give non-going concern opinion for healthy ones. The high-quality auditors do not always issue going concern opinion since it depends on companies' condition. The high-quality auditors tend to give going concern opinion in the context of higher agency conflict and information asymmetry. Generally, audit quality refers more to the audit opinion accuracy than the type of opinion. This research is not consistent with Kristiani and Lusmeida (2018) and Difa and Suryono (2015) who find audit quality increase the probability of companies to get going concern opinion.

**Table 5:** Classification Matrix

| Observed                  | Predicted                 |                       | Correct |
|---------------------------|---------------------------|-----------------------|---------|
|                           | Non-Going Concern Opinion | Going Concern Opinion |         |
| Non-Going Concern Opinion | 29                        | 6                     | 82.9%   |
| Going Concern Opinion     | 6                         | 39                    | 86.7%   |
| Overall                   |                           |                       | 85.0%   |

**Table 6:** Hypotheses Test

| Variable            | Coefficient | Wald    |
|---------------------|-------------|---------|
| Opinion Shopping    | 1.868       | 2.002   |
| Prior Opinion       | 2.400       | 25.742* |
| Audit Quality       | 0.314       | 0.138   |
| Financial Condition | 0.500       | 0.327   |
| Constant            | -2.037      |         |

Note: \* indicates significant at 1% level of significance based on z-statistics.

Financial condition has coefficient value of 0.500 with Wald-statistics of 0.327 (insignificant). It indicates that H4 is rejected. Financial condition does not affect going concern opinion. This research measures financial condition from debt default. There is a possibility that going concern evaluation by auditors does not use debt default only. Going concern opinion comes from both debt default and profitability (Soewiyanto, 2012). If companies have higher risk of debt, at the same time, have high profitability (Vu et al., 2019), then companies can reduce the risk further, and going concern opinion will not be given. There is wider spectrum of financial condition to determine that companies are in going concern problem. For example, losses indicator, debt payment failure, suspended stock in the stock market, and legal issue. This result is not consistent with Rahim (2017) and Shulhiyyah et al. (2019) who find financial condition determine the going concern opinion.

## 5. Conclusion

This research objective is to examine the effect of opinion shopping, prior opinion, audit quality, and financial condition on going concern opinion. Based on analysis, prior opinion affects going concern opinion. Generally, auditor will use previous evaluation as initial guidance to do auditing and issue the audit opinion. Since going concern problem is not easy to be fixed, there is a high probability that companies with going concern opinion can still get the same opinion in the future. On the other hand, there is no effect of opinion shopping, audit quality and financial condition on going concern opinion.

This research implies that companies should increase their business ability so going concern problem can be avoided. This research also implies that auditors should consider prior opinion to issue current opinion since previous companies' condition is effective to be used as a general picture to initiate auditing process. Future research should consider financial statement quality, regulator role, and comprehensive financial condition to determine the going concern opinion since this research does not find that opinion shopping, audit quality, and financial condition affect going concern opinion because of the lack of those factors.

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