



ASSESSING GOING CONCERN OPINION: A STUDY BASED ON FINANCIAL AND NON-FINANCIAL INFORMATIONS

(Empirical Evidence of Indonesian Banking Firms Listed on JSX and SSX)

PUJI RAHAYU, SE, M.Si, Akt.

Lecturer in University of Persada Indonesia (UPI) YAI, Jakarta

ABSTRACT

The primary aim of this study is to investigate the usefulness of financial and non-financial information's for assessing going-concern to predict the issuance of going-concern opinion. Financial information's proxied by financial ratios of Liquidity, Profitability, and Solvability. Liquidity measured by Quick Ratio (QR) and Banking Ratio (BR), Profitability measured by Return on Assets (ROA), Solvability measured by Capital Adequacy Ratio (CAR). The variables of non-financial information's proxied by the affiliation of Independent Commissioners with Audit Committee (AFFILIATION), the auditor opinion from the previous year (PRIOR OPINION), and the reputation of CPA Firms (AUDITOR REPUTATION).

The samples for this study are private commercial banks listed in JSX (Jakarta Stock Exchanges) and SSX (Surabaya Stock Exchanges) for the year 2000 to 2005. There are 90 samples which are collected by unbalanced pool data method and the samples are selected with purposive random sampling method. Binary Logistic Regression SPSS version 13 tool used as aim for analyzing.

The results show that financial variables (Liquidity, Profitability, and Solvability) are not effective for assessing going-concern to predict the issuances of going-concern opinion. Both of Descriptive Statistics and Logistic Regression show that all the financial variables are not significant. These results probably related with the findings of the classification of "unqualified opinions with explanatory paragraph". Based on the data of the samples who have "unqualified opinions with explanatory paragraph" (67 samples), this study found that the auditors doubt about the clients' ability to continue as going-concern is not specific because of the financial ratios. Mostly the doubting influenced by the global factors such the ability of the client to continue as going-concern (GC) and the impact of unfavourable Economic Crisis in Indonesia (EC). The results of Logistic Regression show only PRIOR OPINION and AUDITOR REPUTATION as significant variables for assessing going-concern to predict the issuances of going-concern opinion. In contrast, the variable of AFFILIATION is not significant for assessing going-concern. This result probably as the consequence of the Indonesian regulation of the existence Independent Commissaries and Audit Committee as a mandatory regulation only started in 2004.

Key words: Going-Concern, Financial Ratios, Affiliation, Prior Opinion, Auditor Reputation, Logistic Regressions



1. INTRODUCING

1.1 Background and Motivation of the Research

In the wake of the dramatic liquidation of 16 banks on November 1st, 1997 the Indonesian banking world continues to suffer serious problems and further liquidations such as Prasadha Utama Bank and Ratu Bank were liquidated in 2000, Unibank was liquidated in 2001, Asiatic Bank and Bank of Bank Dagang Bali were liquidated in 2004, and the latest the liquidation of Global International Bank in 2005. Some evidences provided by Hani, Cleary, and Mukhlisin (2003) confirmed that Summa Bank had been liquidated in early 1990 after having previously received an unqualified opinion. From a total of 200 banks in Indonesia, 16 banks had been liquidated on 1st November 1997 with a further 38 banks stopped from their clearing-operation. The following year, in August 1998, an additional 10 banks were stopped during their clearing operation. In total 64 banks were liquidated representing around thirty percent of banks in Indonesia. This fact raises important questions concerning the accuracy of auditor going concern opinion and why banks with unqualified opinion were liquidated. Another example shown by Margaretta and Sylvia's research (2005), based on the repealing of public accountant licenses in November 18 2002, reveals the errors made by some CPAs during their audit activities for the 38 bankruptcy banks (Bank Beku Kegiatan Usaha/BBKU). A major issue the research raised was the complex aspects and difficulties of assessing the ability of firms to continue as going-concern. There were many factors influencing the accuracy of assessing going-concern's ability. The accuracy for assessing going-concern opinion is of paramount importance in



assessing the client's conditions and for maintaining an auditor's reputation and credibility.

Prior research suggests that the going-concern reporting decision is one of the most difficult and ambiguous audit tasks (Carcello and Neal, 2000). There are a wide variety of aspects to emphasise and explore in the topic of going-concerns. In the beginning, the research concentrated on the use of financial information, as the works of Mutchler (1985); Chen and Church (1996), Jumingan (2003), and Hani et al. (2003). There is a tendency, after the SAS 59 released in 1988, for non-financial information to be more considered. For example auditor reputation as an indicator for assessing going-concern opinion which used by Morris and Strawser (1999),. Carcello and Neal (2000) highlight the importance of the effect of audit committee independency beside financial information for assessing going-concern. Ramadhany (2004) has investigated the factors which influencing the acceptance of going-concern opinion for financial distress firms. He examine some non-financial factors such as the affiliation of outside directors or Independent Commissioners to audit committee, default status, prior opinion, auditor reputation along with financial factors such as Z-score and Size.

The main focus of this study is to investigate the usefulness of financial and non-financial information for assessing going-concern opinion to predict the issuance of going-concern opinions. The meaning of the term of going-concern could be interpreted in two ways, the first is going-concern as concept and the second is going-concern as audit opinions. As concept the term of going-concern could be interpreted as the ability of a company to continue their business as going-concern. As audit opinions, the term of going-concern opinions mean that the auditor has doubt about the client ability to continue the business as going-concern. In this study the Going-concern opinions as the



dummy dependent variable classified in two groups .The first is group comprised of null score which is represent of the type of “clean” unqualified opinions (NGC). And the second group comprised of one score which are represent of other audit opinions such as unqualified opinion with explanatory paragraphs, qualified opinions, adverse opinions and disclaimer opinions. This study uses both of going-concern meaning as explained above, in accordance that the issuance of going-concern opinion stage based on the results of going-concern assessment’s stage. If there is substantial doubt about the entity’s ability to continue as a going-concern, the probability of the issuance of going-concern opinions is big.

This study examines financial variables (Liquidity, Profitability, and Solvability) combined with non-financial variables (Affiliations, Prior Opinions and Auditor Reputation). The financial variables are based on the research of Hani et al. (2003) and the non-financial variables from the work of Carcello & Neal (2000) and Ramadhany (2004). Non-financial information is likely to have value as information for assessing going-concern to predict the issuance of going-concern opinion, alongside financial information. The listed private commercial banks in JSX and SSX for the year 2000 to 2005 will be the sample for this study. Secondary data will collected in many various methods and SPSS Version 13-Logistics Regressions and Descriptive Statistics as the main tool for data analysing.

2. LITERATURE REVIEW

2.1 Going-Concern

Going-concern as concept remains one of the most controversial areas in which the audit profession has received much criticism, in spite of the concept being in



existence since the 18th century (Masocha: 2000). To gain a more through understanding of going-concern opinion it is necessary to appreciate the improvement of going-concern regulations from the early period until the recent standard. This study considers the three auditing standards from the SASs of APB (UK), SAS of AICPA (USA), and SPAP of IAI (Indonesia) as references for the going-concern's regulation.

Considering the development of going-concern opinion, *SPAP* had accommodated this issue in *SA (Standar Auditing)* Section 341: "*The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*". *Pernyataan Standar Audit (PSA)* No. 30 Paragraph 01 stated that:

"This section provides guidance to the auditor in conducting an audit of financial statements in accordance with generally accepted auditing standards with respect to evaluating whether there is substantial doubt about the entity's ability to continue as going-concern. Continuation of an entity as a going-concern is assumed in financial reporting in the absence of significant information to the contrary. Ordinarily, information that significantly contradicts the going-concern assumption related to the entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of business, restructuring of debt, externally forced revisions of its operations, or similar actions."

Other supporting statement was found in paragraph 06, as below:

"The auditor may identify information about certain conditions or events that, when considered in the aggregate, indicate there could be substantial doubt about the entity's ability to continue as a going-concern for a reasonable period of time. The significance of such conditions and events will depend on the circumstances, and some may have significance only when viewed in conjunction with others. The following are examples of such conditions and events:

- a) **Negative trends**, for example, recurring operating losses, working capital deficiencies, negate cash flows from operating activities, adverse key financial ratios.
- b) **Other indications of possible financial difficulties**, for example, default on loan or similar agreements, arrearages in dividends. Denial of usual trade credit from suppliers, restructuring of debt, non-compliance with statutory capital requirements, need to seek a new sources or methods of financing or to dispose of substantial assets.



- c) **Internal matters**, for example, work stoppages or other labor difficulties, substantial dependence on the success of a particular project, uneconomic long-term commitments, need to significantly revise operations.
- d) **Externall matters that have occured**, for example, legal proceedings, legislation, or similar matters that might jeopardize an entity's ability to operate, loss of a key franchise, lincese, or patent, loss of a principal customer or supplier, uninsured or underinsured catastrophe such as a drought, earthquake, or flood.

Furthermore, accordingly to the SASs 130 and SA Section 341 Paragraph 19 , the figure which could give more clearly perception of where is the position of going-concern among other opinion in audit report, shown in the appendix 1 and 2.

2.2 Financial Information

Previous studies of Mutchler in 1984, 1985, and 1986 have found that financial variable measures suggested by SAS No. 34 are significant factors in predicting auditor going-concern opinions. Bankruptcy companies were significantly more likely to receive a qualified opinion of any type in the year immediately preceding bankruptcy.

Jumingan (2003) have investigated the appliance of bank prediction health using the financial ratios and Legal Lending Limit (LLL) Binary Logistics Regressions. The dependent variables of banks in the healthiest and unhealthiest of conditions are measured. The independent variables are financial ratios and LLL. Hani et al. (2003) have studied banking institutions in Indonesia too. They focused on the topics of going-concern and audit opinion of Indonesian Banking Firms listed on JSX. They used traditional ratio analysis to focus on profitability, solvability, and liquidity (Quick Ratio, Banking Ratio, Return on Assets, Interest Margin of Loans, Capital Ratio, and Capital Adequacy Ratio) as independent variables for assessing going-concern opinion. They



found that liquidity and profitability is significant to the audit opinion but the result of solvability is not significant to the audit opinion. They conclude that financial ratio cannot be the main guidance for assessing going-concern opinion. They further suggest that financial ratio is the key tool for predicting the health of a company to continue as going-concern. Purba (2006) suggest some financial ratios which are commonly used by practitioners, such as: current ratio, acid test ratio, cash ratio, ratio of total liabilities to total equity, and ratio of total liabilities to total assets.

2.3 Non-Financial Information's

Audit committee affiliations considered in this study as one of non-financial information for assessing going-concern. This study follows the previous researchers by Carcello & Neal (2000) and Ramadhany (2004). Carcello and Neal (2000) have examined the relation between the composition of financially distresses firms audit committees and the likelihood of receiving going-concern reports. They found that the greater the percentage of affiliated directors on the audit committee, the lower the probability the auditor will issue a going-concern report. Then Ramadhany (2004) examine the affiliation between outside directors/independent commissioners to audit committee in the issuing of going-concern opinion. Based on the Decision of the Head of the Capital Market Supervisory Board No. Kep. 29/PM/2004 dated September 24, 2004, Independent Commissioners is the members of the Board of Commissioners who:

- 1) Come from the outside of the Public Company or *Emiten*.
- 2) Have no relation directly or indirectly to the Public Company or *Emiten*.
- 3) Have no affiliation relationship with *Emiten* or Public Company, Board of Commissioners, Board of Directors, or to the Main Stockholders of Public Company or *Emiten*, and
- 4) Have no business relationship directly or indirectly to business field of the public company or *Emiten*.



The second of non financial information for assessing going-concern is prior opinion. The reason why this study have chosen the prior opinions as one of the non-financial factors for assessing going-concern opinions to predict the issuance of going-concern opinions based on the logical reason that prior opinions could be as aim to predict the recent year of audit opinions with the assumption of reliability in audit processes. This statement could be analogized that reliable processes will bring reliable results. It's mean that reliable audit processes will bring reliable audit report. And the reliable audit reports could be as reliable references to the next audit reports. In other way this statement could be interpreted that reliable prior opinions could be good references for audit opinions in the recent year. The statements above supported by Mutchler (1985) in her analysis of the auditor interview responses found that the auditors suggested that the prior-year opinion type might have an effect on the current year's opinion. This study continuing with Carcello & Neal (2000) and Ramadhany (2004) both the study still consistent Mutchler's study that prior-year opinion is useful for assessing going-concern opinion.

The third of non-financial information for assessing going-concern is auditor reputation. The reason why the auditor reputations have been chosen as the one of non-financial factors for assessing going-concern to predict the issuance of going-concern opinions is based on the logical thinking that auditor as human resources and the subject of the going-concern assessment play important function. Some cases shown the terrible effects of immoral accountants particularly auditor to the society such as the big scandal of Enron, which is related to Arthur Andersen (the Big Five of Accounting Public Firms in the world), influence the USA's economics nation with big inflation, cutting off the

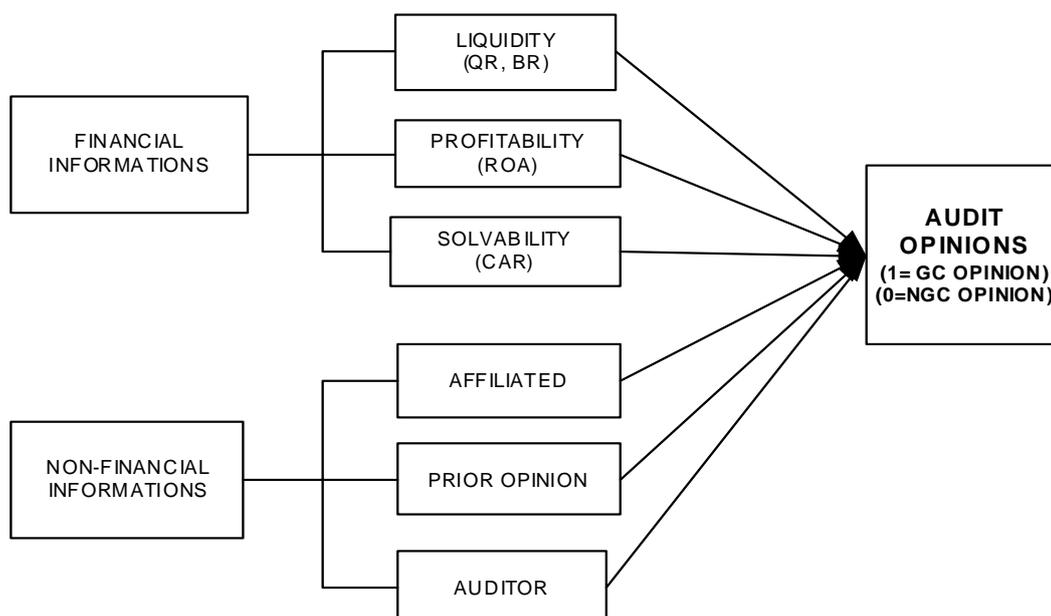


public health care, the increasing of jobless rates, and so on. This reason supported by some previous researches. The subject of auditor reputation may be an interesting subject for researchers who can be directed towards such as Morris and Strawser (1999), Gaeremynck & Willekens (2003), Mc.Lennan & Park (2004), Uang et al. (2004), and Farrugia & Baldacchino (2005). Carlino (2005) suggests that the Big Four in the world for the year 2005 are still KPMG, Ernst & Young, Deloitte, and Price Waterhouse Coopers.

2.4 Conceptual Framework and Hypotheses

Regarding to the previous researches of going concern (see the appendix 3 and 4) this study attempt to elaborate some studies of going-concern and combines the financial variables as studied by Hani et al. (2003) with non-financial variables as studied by Carcello & Neal (2000) and Ramadhany (2004). This study presents the following conceptual framework as the foundation for this research:

CONCEPTUAL FRAMEWORK





Subsequent to this conceptual framework the main hypotheses purpose for this study are outlined thus:

H1 : Financial information useful for assessing going-concern opinion.

H2 : Non- Financial information useful for assessing going-concern opinion.

The conceptual framework and the hypotheses describe in more details in the equation model. Both of the equation models in the below are same, the first (1) equation describe the hypotheses in the short way and the second (2) equation model describe the hypotheses mentioned the each factor of financial and non-financial informations in detail.

$$\begin{array}{l} \text{Ln } \underline{\text{gc opinion}} \\ \text{1-gc opinion} \end{array} = b + f(b_1\text{LIQUIDITY} + b_2\text{PROFITABILITY} + \\ b_3\text{SOLVABILITY}) + f(b_4\text{AFFILIATED} + b_5\text{PRIOR} \\ \text{OPINION} + b_6\text{AUDITOR}) + \varepsilon$$

3. RESEARCH METHODOLOGY

This study is conducted as a field experiment because this research takes place within a non-contrived setting with minimal researcher interference (Sekaran : 2000). Unit analyses of this study are Indonesian commercial private banks listed on JSX, SSX, and ICMD for the year 2000 to 2005. Unbalanced pool data method used in this study to obtain large samples of banks because of the small number of Private Commercial Banks Listed on JSX and SSX. The last stage step involves running the data with SPSS Version 13 tools for Statistics Descriptive and Logistic Regression Analysis.



The following table describes the operational measures of the variables which derived from previous research to support the model of this study. The table also shows indications of the relationship between the independent variables to dependent variable.

VARIABLES MEASUREMENT AND HYPOTHESIZED SIGNS

Variables	Measurements	References	Type	Hypothesized Sign
DEPENDENT :				
GOING-CONCERN OPINION	0 if the banks have "clean" unqualified opinions (NGC). 1 if otherwise	Mutchler (1986), Ramadhany (2004)	(0,1)	NA
INDEPENDENT :				
FINANCIAL INFORMATION (FI)'S INDICATORS:				
A.Liquidity :				
• Quick ratio	QR = Cash Assets to Total Deposits As a guideline, a 1/1 quick ratio has traditionally been deemed adequate for most firms.	Hampton (1990) Surifah in Jumingan (2003), Purba (2006)	Continuous	-
• Banking ratio	BR= Total Loans to Total Deposits Negative values of BR indicate the NPL, Positive and high score of BR indicate bank free from NPL.	Hani et al.(2003), Surifah in Jumingan (2003)	Continuous	-
B. Profitability :				
• Return on assets	ROA = Net Income to Total Assets Guidance for satisfactory level is 12 -160 %	Hampton (1990) & Hani et al. (2003)	Continuous	-
C. Solvability :				
• Capital adequacy ratio	CAR = (Equity Capital-Fixed Assets) / (Total Loans + Securities) CAR : minimum 8 %	BI (2001) & Surifah in Jumingan (2003),	Continuous	-
NON- FINANCIAL INFORMATION (NFI)'S INDICATORS :				
A. Affiliated	This study only focused on the existence of Independent Commissioners and Audit Committee without considering the percentage of the Independent Commissioners and Audit Committee. 0 = if there's no affiliation of Independent Commissioners to Audit Committee. 1= if there is affiliation of Independent Commissioners to Audit Committee.	Ramadhany (2004)	(0,1)	-
B. Prior audit opinion	1 = prior year going-concern; 0 = other	Carcello & Neal (2000),	(0,1)	+



		Ramadhany (2004)		
C. Auditor	1 if a Big 4 CPA firm performs the audit. 0 if a non-Big 4 audit firm performs the audit. The Big 4 of Indonesian CPA Firms are : a. Prasetyo Utomo & Co. Merged with Hanadi, Sarwoko, & Sandjaja (affiliated to Ernst & Young). b. Hans, Tuanakotta & Mustofa (affiliated to Deloitte Touche Tohmatsu). c. Siddharta Siddharta & Harsono (Affiliated to KPMG). d. Hadi Sutanto & Partners (Affiliated to Pricewaterhouse Copper).	Ramadhany (2004)	(0,1)	-

4. DATA ANALYSIS

This study focuses on the Private Commercial Banks both Foreign Exchange and Non-Exchange listed on the Jakarta Stock Exchange (JSX) and Surabaya Stock Exchange (SSX) during the year 2000 until 2005. The total data of private commercial banks listed on JSX and SSX in the first stage is approximately 137 banks for the year 2000-2005. Private commercial banks have choose for the research because measurement of going-concern should be primarily on economic decisions and not overtly based on political considerations, as commercial banks are more independent in economic decision. The purposive sampling method used in this study with the requirements as below:

1. Public Commercial Bank listed on Jakarta Stock Exchange (JSX) and Surabaya Stock Exchange (SSX) during the year 2000 until 2005.
2. Banks which have audit committee and independent commissioners.
3. Banks which has published their Financial Report and/or Annual Report (banks data availability).

From the total data 137 banks, there are ninety samples with complete data for financial information's (the liquidity, profitability, and solvability) also non-financial information's (affiliation of Independent Commissioners to Audit Committee, Prior



Opinions, and Auditor Reputations). The rest of 47 data were taken out from the samples for reasons such as the absence of Independent Commissioners and Audit Committee, Ownership Status, and incompleteness of data or not enough supporting information. The detail steps of data collecting procedure could be seen in the appendix 5.

4.1 Hypotheses Testing

The Hosmer and Lemeshow test shows that the value of Chi-square is 0.897 and significance value at 0.639 (see appendix 6). If the value of significance is higher than 0.05 ($0.639 > 0.05$) the model is FIT and the model accepted (Ghozali: 2006). Garson (2006) stated that if the H-L goodness-of-fit test statistic is greater than .05, as we desire well-fitting models we fail to reject the null hypothesis that there is no difference between observed and model-predicted values, implying that the model's estimates fit the data at an acceptable level. Based on these results the model of this study could be continued for the next stages in estimating and interpreting of the coefficients. The result of the hypotheses testing finally showed in the table of variables in the equation (see appendix 7). From the results of variables in the equation above we can see that in the step 2 only variables PRIOR OPINION (X6) and AUDITOR REPUTATION (X7) exist in the equation. It's means that variables PRIOR OPINION (X6) and AUDITOR REPUTATION (X7) are the most significant factors for assessing going-concern. Based on this result Hypothesis 1 (H1), financial information significant for assessing going-concern opinion cannot be accepted. And Hypothesis 2 (H2), Non- Financial information significant for assessing going-concern opinion accepted only for PRIOR OPINION variables and AUDITOR REPUTATION.



4.2. Discussions

The primary aim of this study is to investigate the usefulness of financial and non-financial factors for assessing going-concern and to predict the issuance of going-concern opinion of the private listed commercial banks in JSX and SSX, (2000-2005). The population of private commercial banks listed JSX and SSX during six years totalled 137 banks. This study used unbalanced pool data method for data collecting and selecting the samples with purposive random sampling method, and finally there are 90 samples of bank ready to analyse. Based on the opinion of the recent year for each sample. The total samples of 90 banks then divided into two groups. The first group is of null/Non-Going Concern and the second group of one/Going-Concern. There are 64 or 71.1 percent from the total sample of the banks with GC opinion. There are 26 or 28.9 percent from the total sample banks with NGC opinion. The implication of the finding in this study provides evidence that Indonesian Banking World continues to suffer problems because more than fifty percent, exactly 71.1 percent of the banks got GC opinions. The findings of this study need deeper investigation because unbalanced data pool make the distribution sample of banks not in equal amount for each bank and the classification of GC opinions in this study need to be more detailed.

4.2.1. Analysis H1 (Financial Information useful for assessing going-concern opinion)

Hypothesis 1 (H1), which suggests that financial information's are significant for assessing going-concern opinion, cannot be accepted because it is not significant for assessing going-concern. Both of Descriptive Statistic and Logistics Regressions cannot find strong significance of financial ratios for assessing going-concern. There are two



ways to explain why financial information's are not significant in this study, the first is based on the statistic results and the second is based on the data of this study. Based on the statistical result, the results of Logistic Regression Test particularly in table of variables in the equation, there's no financial variables exist in the variables equation. Furthermore, regarding to the result of Descriptive Statistic, we can see that financial ratios are not effective to determine between GC and NGC samples. As results summary of Descriptive Statistics of the Effectiveness of Financial Ratios could be seen in appendix 8. Table of the effectiveness of financial ratios for assessing and to predict the issuance of going-concern opinion demonstrates that GC samples in average more liquid, almost two times more than NGC samples (mean value of LIQ (X2) for GC = 0.9925 and NGC = 0.5938) for maximum value the extremely different, GC = 12.10 and NGC = 0.95, almost twelve times. From the summary of the table could be seen that NGC samples significant for minimum value of ROA & CAR and for mean value of ROA. GC samples significant in all maximum value of QR, BR, ROA, and CAR but not in minimum value, which means the range of minimum and maximum value of GC samples longer than in NGC samples.

This result implicate that GC banks significant in all maximum value of QR, BR, ROA, and CAR, or in other words we can say that the maximum value of GC banks greater than the maximum value of all financial variable in NGC banks. The implications of financial ratios are not effective for assessing going-concern drive for the reason that going-concern opinions represent doubting of auditor of the client's ability to continue as going-concern. Thus, the issuance of going-concern opinion indicates that the company is not in good financial condition. But the finding of this study shows the contrary results namely that GC companies have greater financial



conditions than NGC companies. The second way to analyze why financial ratios are not effective for assessing going-concern and to predict the issuance of going-concern opinion is considering the data of this study.

Based on the data of the distribution of the samples by the prior opinions (see appendix 9) there are 67 samples (74.44%) having Unqualified Opinion with Explanatory Paragraph, 16 samples (17.48%) having “Clean” Unqualified Opinions, 5 samples (5.56%) having Qualified Opinions, and the rest of 2 samples (2.2%) having Disclaimer Opinions. Furthermore, the unqualified opinions with explanatory paragraph then classified into 5 types explanations which are consider about Unfavourable Economic Crisis in Indonesia (EC), Going-concern (GC), Law Problems or Litigations (LP), Banking Regulations (BR), Changing of Statement of Financial Accounting Standards (SFAS), shown in appendix 10. The explanations/notes about Going-Concern (the auditor doubt the ability of the client to continue as going-concern) as the most explained in explanatory paragraphs with total amount 52 (42%). Then following with the notes of unfavourable economic crisis in Indonesia about 41 (33%). The explanation of SFAS’s changing in the third positions with the amount 19 (15%). The explanatory paragraph of banking regulations only mentioned by 9 samples (7%). And the smallest is the notes about Law problems with the amount 4 samples (3%). The implication of this finding is that the doubt of auditors of the ability of the clients to continue as going-concern is not specific based on the financial ratios of the companies but more influence by the global factors such the ability of the client to continue as going-concern and the impact of unfavourable Economic Crisis in Indonesia (EC). This finding maybe could be justification why financial information’s not significant for assessing going-concern to predict the issuance of going-concern opinions.



As expected, hypothesis 2 (H2) suggests that non- financial information is significant for assessing that going-concern opinion is accepted. The results of Logistic Regression shown only PRIOR OPINION (X6) and AUDITOR REPUTATION (X7) as significant variables for assessing going-concern and to predict the issuance of going-concern opinion. In contrast AFFILIATION variable is not significance for assessing going-concern.

4.2.2. Analysis H2 (Non-Financial Information useful for assessing going-concern opinion)

Similar with the explanation of financial information's above, there are two ways to analyze why AFFILIATION variable (X5) is not significance in this study. The first is based on the statistic results and the second is based on the data of this study. Based on the statistical result as shown in Logistic Regression particularly in table of variables in the equation, only mentioned two variables PRIOR OPINION (X6) and AUDITOR REPUTATION (X7) significance for assessing going-concern. The second is based on the data of this study. Regarding to the data of the existence Independent Commissioners and Audit Committee of the companies during the year 2001 to 2005, this following table show more detail of the existence of Independent Commissioners and Audit Committee for each bank:

Based on the data of the existence of Independent Commissioners and Audit Committee as shown in the table above we can see that until 2004 there many companies still have no Independent Commissioners or not establish yet the Audit Committee. This finding as the consequence of the Indonesian regulation of the existence Independent Commissaries and Audit Committee as a mandatory regulation



only started in 2004. The impact of this regulation is the lack information of variable AFFILIATION. This condition could be the justification why AFFILIATION variable (X7) is not significant for assessing going-concern in this study. Associate with this findings the previous research by Ramadhany (2004) which is taken sample of Indonesian companies gave the same results, that for Indonesian Non-Bank Industry the variable AFFILIATION is not significant. This finding, supported by the statement of Indonesian Capital Market Supervisoroy Ageny (2004), in the context of the affiliations of Independent Commissioners to Audit Committee and the issuance of going-concern opinions, The Indonesian Capital Market Supervisory Agency (2004) states that affiliated relationship could potentially affect a Party's independence.

5. CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS

5.1 Conclusions

- 1) Financial information's (Liquidity, Profitability, and Solvability) are not significant for assessing going-concern opinion to predict the issuance of going-concern opinion. Both the results of Logistic Regression and Descriptive Statistics show that financial ratios are not effective to determine between GC and NGC samples.
- 2) Based on the statistical result as shown in Logistic Regression only two variables PRIOR OPINION (X6) and AUDITOR REPUTATION (X7) significance for assessing going-concern, in other hand the variable of AFFILIATION is not significant for assessing going-concern. This finding probably as the consequence of the Indonesian regulation of the existence



Independent Commissaries and Audit Committee as a mandatory regulation only started in 2004. This condition could be the justification why AFFILIATION variable (X7) is not significant for assessing going-concern in this study.

5.2 Limitations of the Study

The results of this study are far from exhaustive or perfect and suffer from a number of limitations, which can be identified as follows;

- 1) Some of the auditor opinions in this study come from the year later, such as the audit opinion in 2001 taken from the financial year 2002/2001. This makes the detail classification of audit opinion less accurate.
- 2) The lack of information of Independent Commissaries and Audit Committee for the year 2000 until 2003 because the existence Independent Commissaries and Audit Committee as a mandatory regulation only started in 2004. Because of the lack of this information of variable AFFILIATION, this study only focused on the existence of Independent Commissioners and Audit Committee without considering the percentage of the Independent Commissioners and Audit Committee as required by Indonesian Capital Market Supervisory Agency.
- 3) This study has not yet mentioned the variable of regulations for non-financial information variables.
- 4) This study used unbalanced pool data to collect the samples to get larger samples with regard to the smaller numbers of public listed banks. But this method does not provide equal amount samples for each bank.

5.3 Suggestions for Future Researches

For greater richness and accuracy within auditing literature information this study suggests possible routes for future researchers:



- 1) *Audit Opinion*, for more accurate and detailed information of audit opinion it is suggested that researchers receive auditor opinion for each year.
- 2) *Affiliation of Independent Commissioners to Audit Committee*, for the next research it would be better to consider the percentage of the Independent Commissioners and Audit Committee and the effect of the percentage to Audit Committee Independency and the issuance of going-concern opinions.
- 3) *New variables of Non-Financial Information's*, Future research would benefit from exploring new variables of non-financial information.
- 4) *Balanced Pool Data*, greater adequacy would be found in samples using balanced pool data.



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SIMPOSIUM NASIONAL AKUNTANSI X

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Ramadhany, Alexander. 2004. "Analisis Faktor-Faktor Yang Mempengaruhi Penerimaan Opini Going Concern Pada Perusahaan Manufaktur Yang Mengalami Financial Distress Di Bursa Efek Jakarta". *Jurnal Maksi*. Vol. 4, Agustus.

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The official site of Surabaya Stock Exchanges at <http://www.bes.co.id>

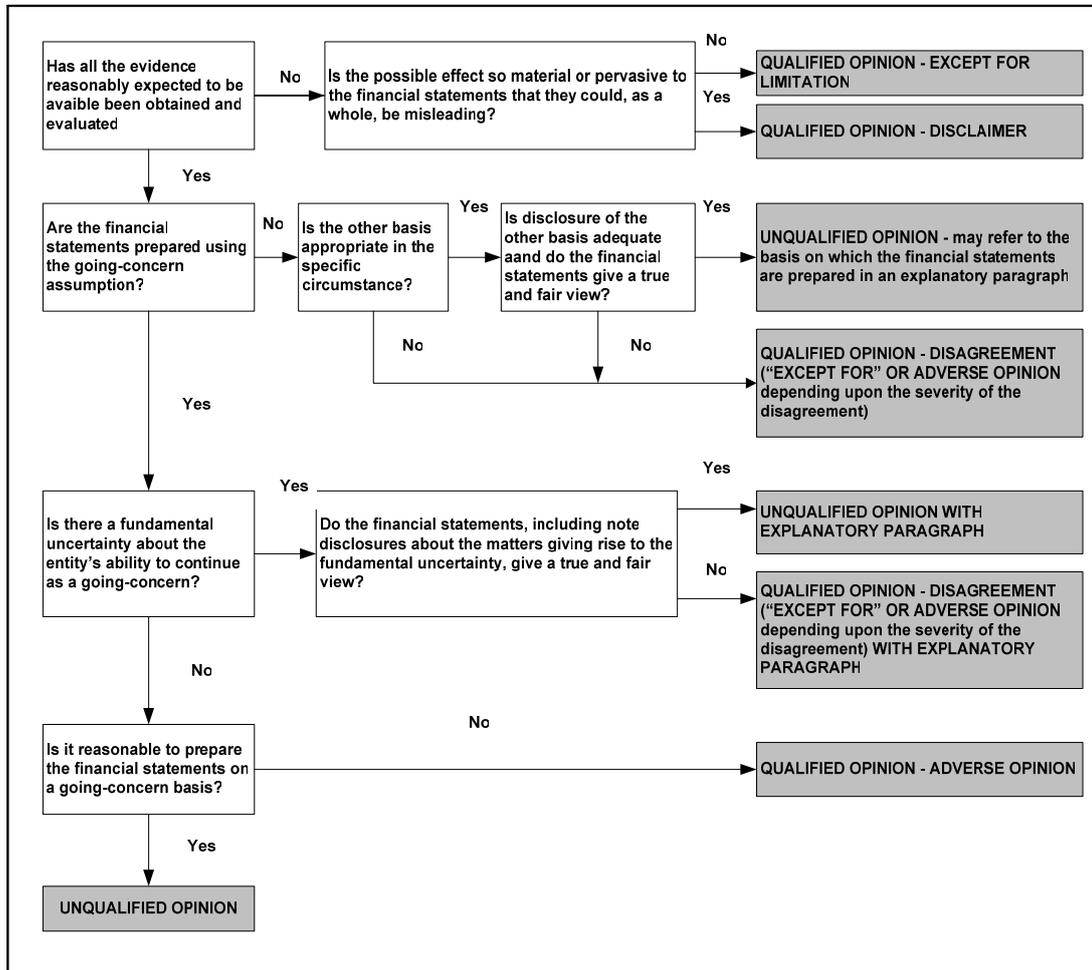
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Appendices



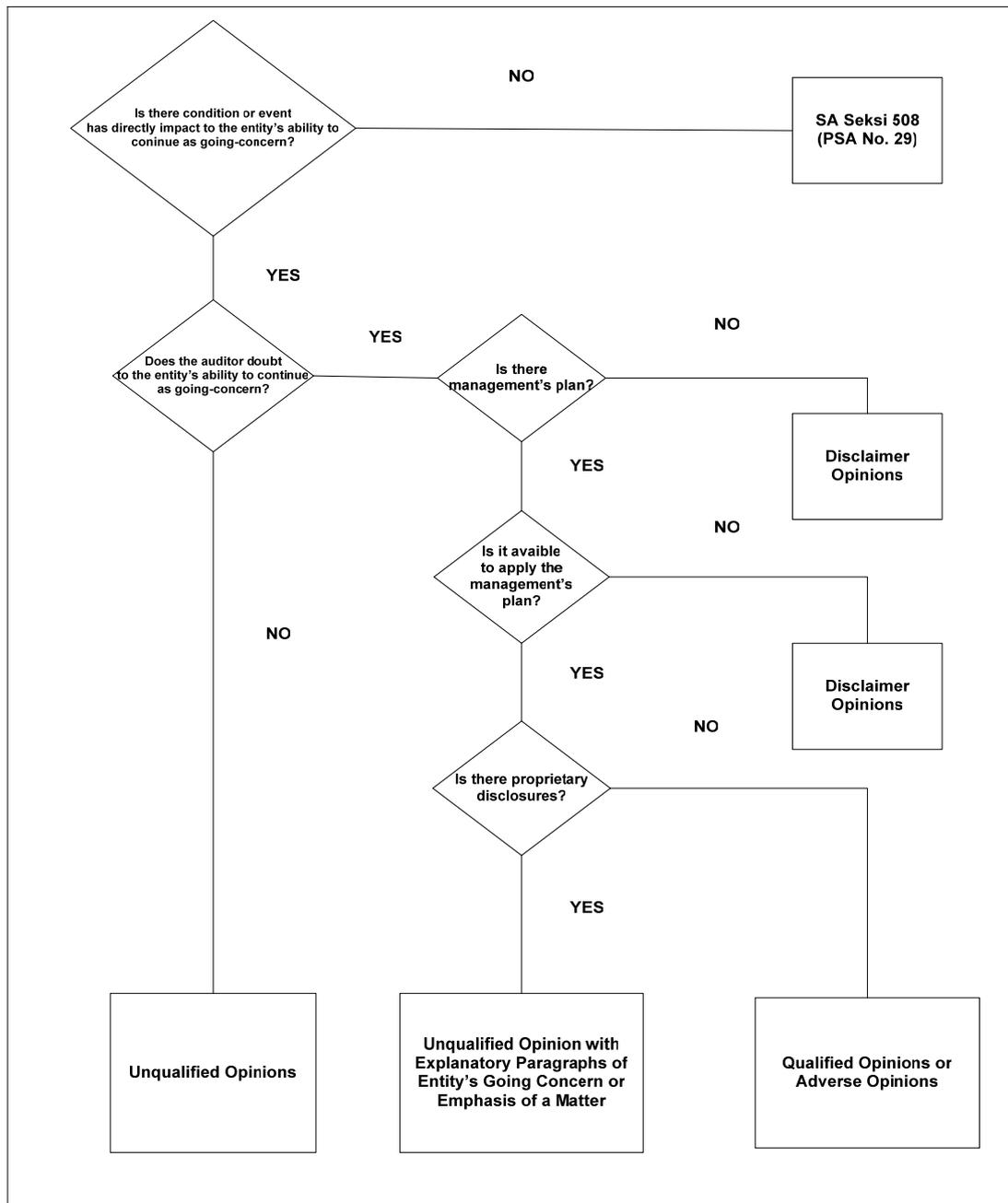
APPENDIX 1 FORMING AN OPINION ON FINANCIAL STATEMENTS –GOING CONCERN



Source: SASs 130, 2001



APPENDIX 2 GUIDANCE FOR AUDIT OPINION'S DECISIONS



Source : SA Section 341 Paragraph 19 Appendix (SPAP : 2001)



APPENDIX 3 PREVIOUS RESEARCHES

YEAR	AUTHOR	TOPICS	SUMMARY
2000	Joseph V. Carcello and Terry L. Neal	“Audit Committee Composition and Auditor Reporting”	This study examines the relation between the composition of financially distressed firms audit committees and the likelihood of receiving going-concern reports. The finding is that the greater the percentage of affiliated directors on the audit committee, the lower the probability the auditor will issue a going-concern report. These results support regulators’ concern about financial-reporting quality and the recent calls for more independent audit committees.
2003	Hani, Cleary, and Mukhlisin	“ <i>Going Concern dan Opini Audit : Suatu Studi Pada Perusahaan Perbankan di BEJ</i> ”	This study to explore the audit opinion which is auditor responsibilities to assess a client’s ability to continue as a going-concern. The dependent variable (audit opinion) is a dummy variable representing the presence of absence of a Going-Concern Audit Report (GCAR). Independent variables consist of traditional ratio analysis focuses on profitability, solvability, and liquidity (QR, BR, ROA, IML, CR, and CAR) that representing financial statement information, the proxy of going-concern. The liquidity and profitability show that the result is significant to the audit opinion, the solvability shows that the result is not significant to the audit opinion.
2004	Alexander Ramadhany	“ <i>Analisis Faktor-Faktor yang Mempengaruhi Penerimaan Opini Going Concern Pada Perusahaan Manufaktur yang Mengalami Financial Distress di Bursa Efek Jakarta</i> ”	The main purpose of this study is to examine the role of outside director audit committee in mitigating the independence of external auditor, basically in issuing the going-concern audit report. In financial distress’s company, the study found many indicators potentially going concern problem. Factors that were analyzed are the effect of outside director audit committee, debt default, financial condition, previous audit report, size and auditor scale on the probability going-concern audit report in the financial distress company. The study reveal that debt default, financial condition and previous audit report are significantly affect the probability of receiving going-concern audit report. The result is consistent with previous research (Carcello and Neal200; Chen and Church 1992) and also supports the interview by Mutchler (1984) with auditors about debt default status as problematical indicators of going-concern problem.



APPENDIX 4 DEVELOPMENT OF GOING-CONCERN MODEL

YEAR	AUTHOR	TOPICS	GOING-CONCERN MODEL
2000	Joseph V. Carcello and Terry L. Neal	“Audit Committee Composition and Auditor Reporting”	$REPORT = b_0 + b_1AFFILIATED + b_2DEFAULT + b_3PRIOROPN + b_4SIZE + b_5ZFC + b_6DEVELOP + \epsilon$
2003	Hani, Cleary, and Mukhlisin	“ <i>Going Concern dan Opini Audit : Suatu Studi Pada Perusahaan Perbankan di BEJ</i> ”	$Logit Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + e$ Logit Y = Audit Opinion x1 = Quick Ratio; x1 = Banking Ratio; X3 = ROA; X4 = Interest Margin of Loans X5 = Capital Ratio; X6 = CAR; a = constanta b = coeficient; e = error
2004	Alexander Ramadhany	“ <i>Analisis Faktor-Faktor yang Mempengaruhi Penerimaan Opini Going Concern Pada Perusahaan Manufaktur yang Mengalami Financial Distress di Bursa Efek Jakarta</i> ”	$\frac{Ln P}{1-P} = b_0 + b_1OUTSIDE + b_2DEFAULT + b_3ZSCORE + b_4OPINI + b_5SIZE + b_5KAP + \epsilon$



APPENDIX 5 STEPS OF DATA SELECTING

Steps of Data Selecting :	Q	Q	Notes
<i>I. Samples</i>		137	Commercial Private Banks listed on JSX and/ or SSX and ICMD for the year 2000 to 2005.
<i>II. Selecting Process :</i>			
a. Based on the absence of IC and AC :	17	(30)	According the information from: a) The announcement of JSX for the year 2001 to early 2003 about Independent Commissioners and Audit Committee. b) JSX Emiten Profile also Summary of Banks Performance for the year 2003 to 2005.
1.Having no AC	2		
2.Having no IC	11		
3.Having no AC & IC			
b. Based on the ownership:	2	(2)	Danamon during 2002 until 2003 owned by state enterprise.
c. Based on the incompleteness information's or data availability:		(15)	a) Financial Report not mentioned about Audit Committee. b) Files cannot be found. c) Files cannot be opened or cant downloaded. d) Banks have not homepages.
1.There no information about AC	10		
2.Unavailable data	5		
<i>III. Selected Samples</i>		90	

Source: JSX, SSX, ICMD

Notes:

AC : Audit Committee

IC : Independent Commissioners



APPENDIX 6 HOSMER AND LEMESHOW TEST

Step	Chi-square	Df	Sig.
1	.000	0	.
2	.897	2	.639

Source: SPSS Logistics Regression Output

APPENDIX 7 VARIABLES IN THE EQUATION

		B	S.E.	Wald	Df	Sig.	Exp(B)	95.0% C.I. for EXP(B)	
								Lower	Upper
Step 1(a)	PRIORX6	2.314	.610	14.405	1	.000	10.114	3.062	33.412
	Constant	-.875	.532	2.705	1	.100	.417		
Step 2(b)	PRIORX6	2.171	.629	11.917	1	.001	8.769	2.556	30.081
	AUDITORX7	-1.320	.640	4.253	1	.039	.267	.076	.937
	Constant	.172	.741	.054	1	.816	1.188		

a Variable(s) entered on step 1: PRIORX6.

b Variable(s) entered on step 2: AUDITORX7.

Source: SPSS Logistics Regression Output



APPENDIX 8

THE EFFECTIVENESS OF FINANCIAL RATIOS FOR ASSESSING AND TO PREDICT THE ISSUANCE OF GOING-CONCERN OPINION:

SUMMARY	MIN	GC	NGC	RESULTS
MINIMUM GC=NGC for QR GC > NGC for BR GC < NGC for ROA, CAR	LIQ (X1)	.00	.00	GC =NGC
	LIQ (X2)	.15	.11	GC > NGC
	PRO (X3)	-.15	.00	GC < NGC
	SOL (X4)	.01	.05	GC < NGC
MEAN GC > NGC for QR, BR, CAR GC < NGC for ROA	LIQ (X1)	.0188	.0127	GC > NGC
	LIQ (X2)	.9925	.5938	GC > NGC
	PRO (X3)	.0103	.0135	GC < NGC
	SOL (X4)	.1363	.1242	GC > NGC
MAXIMUM GC > NGC for QR, BR, ROA, CAR	LIQ (X1)	.12	.03	GC > NGC
	LIQ (X2)	12.10	.95	GC > NGC
	PRO (X3)	.30	.04	GC > NGC
	SOL (X4)	1.18	.24	GC > NGC

Source: Data Output

APPENDIX 9

DISTRIBUTION OF THE SAMPLES BY PRIOR OPINIONS

TYPE OF PRIOR OPINIONS	AMOUNT	%
Unqualified Opinion (Clean)	16	17.78%
Unqualified with Explanatory Paragraphs (1)	67	74.44%
Qualified Opinions (1)	5	5.56%
Disclaimer Opinions (1)	2	2.22%
Total	90	100%

Source : Data Output



APPENDIX 10
CLASSIFICATION OF UNQUALIFIED OPINION
WITH EXPLANATORY PARAGRAPH

TYPE OF THE NOTES IN EXPLANATORY PARAGRAPH	AMOUNT	%
Unfavourable Economic Crisis in Indonesia (EC)	52	42%
Going Concern (GC)	41	33%
Law Problems or Litigations (LP)	4	3%
Banking Regulations (BR)	9	7%
The Changing of Statement of Financial Accounting Standard (SFAS)	19	15%
Total Explanations	125	100%

Source: Data Output

Note: There is a possibility in an *unqualified opinion with explanatory paragraphs* mention more than one single explanation.