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The Impact of Solvency and Liquidity on Going Concern Audit Opinion

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ABSTRACT

**Purpose:** This research aims to examine how a company's ability to meet its financial obligations and maintain adequate cash flows influences an auditor's assessment of going concern uncertainty for manufacturers listed on the Indonesia Stock Exchange.**Method:** A quantitative analysis of secondary data was performed using financial information from 228 randomly selected manufacturing firms traded on the Indonesia Stock Exchange. Logistic regression was used to analyze the effect of solvency metrics and liquidity ratios on going concern audit opinions.**Findings:** The study uncovered that both decreasing solvency and dwindling liquidity have a statistically significant negative correlation with avoiding a going concern flag. Lower ratios for meeting debt obligations and maintaining cash were associated with a higher likelihood of an auditor expressing doubt about a company's ability to continue as a going concern.**Novelty:** This research provides new insights into the role of solvency and liquidity in shaping auditors' decisions within the context of manufacturing companies in Indonesia, contributing to the broader literature on financial stability and audit practices in emerging markets.**Implications:** The study's findings suggest that companies should prioritize maintaining strong solvency and liquidity positions to avoid receiving going concern audit opinions. For auditors, the research underscores the need to closely monitor these financial metrics when assessing a company's ability to sustain operations, particularly in emerging economies like Indonesia.

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1. Introduction

Every company has goals that must be achieved to sustain its business. One of the primary goals is to maintain its survival or going concern. The idea here is that a company or other legal organization will keep running for the time being and won't be planning or needing to wind down or drastically cut back on its activities. This concept is crucial because it influences how companies prepare financial statements and make business decisions, encouraging various efforts to ensure business continuity.

An auditor's view on an entity's capacity to continue operations as a going concern is defined by Auditing Standard (SA) 570. Whether or whether the financial records have been adequately produced in compliance with applicable accounting standards or generally recognized accounting principles is often reflected in the auditor's perspective in the audit opinion. Unqualified, qualified, disclaimer of opinion, unfavorable, and unqualified with explanatory wording are some of the general audit opinion categories.



A phenomenon highlighted in research Ramadhanti (2022), revealed that PT. Jakarta Kyoei Steel Works Tbk received a going concern opinion from 2015-2021. JKSW shares were suspended for 36 months in May 2022 and were at risk of being delisted from the Indonesian capital market due to a capital deficiency of Rp. 496,928,716,728 in 2021. It is clear from this case that the time to publish an audit recommendation for a going concern is now in order to hasten the process of saving a floundering business.

Events that can cause reasonable people to question an entity's viability as a going concern are addressed in Auditing Standard (SA) 570. Considerations like solvency, liquidity, and solid corporate governance are essential for auditors when determining if a firm is doubtful about its survival. The solvency ratio shows how much debt is used to fund a company's assets. It is determined using the debt-to-assets ratio. (Kasmir, 2012). Research by Anggraini (2021), Lie et al. (2016) demonstrates that audit views on going concern are affected by solvency, contrasting with Gunawan (2023) research, which asserts that statements regarding solvency do not influence going concern auditing opinions.

A company's capacity to satisfy its short-term financial commitments with its current assets is reflected in the liquidity ratio, which is calculated using the present ratio (Kasmir, 2012). A greater current ratio is indicative of strong liquidity and the capacity to meet financial obligations in a timely manner. On the other side, problems with short-term liability cash flow management are indicated by a low current ratio. Consequently, the ratio of liquidity is an important measure of the status of the finances in the near future. Gunawan (2023), Putri (2018) assert that liquidity influences going concern audit opinions, while Surya et al. (2021) argues that it does not. Based on the description above, the authors are interested in conducting research with the following title: *"The Impact of Solvency and Liquidity on the Going Concern Audit Opinion."*

2. Critical Review

Agency theory, introduced by Jensen and Meckling (1976), explains the potential conflicts of interest between owners (principals) and managers (agents) within a company. Due to inherent conflicts of interest, managers running a company are not necessarily looking out for owners' best interests. Accountants and auditors have a vital role in presenting owners as well as other stakeholders with

accurate and trustworthy financial accounts, which agency theory stresses as important for mitigating these conflicts.

There is a strong application of agency theory to the setting of going concern auditing opinions. The capacity of a business to stay in business over the long run is an important factor that auditors must consider. The auditor is required to render an opinion on going concern in the event that substantial risks exist that would endanger the company's ability to continue operations. This serves as an essential mechanism to protect shareholders and other stakeholders from potential misinformation that may arise from management's failure to fully disclose the company's financial condition.

By providing an honest going concern opinion, auditors help mitigate agency problems by ensuring that all interested parties have access to complete and relevant information for making informed decisions. This positions auditors as independent overseers who protect the interests of owners and other stakeholders from potential information manipulation by management.

According to the Public Accountant Professional Standards (2011) An auditor's statement after reviewing financial statements in accordance with relevant accounting rules is called an audit opinion. Each audit opinion provides valuable information to users of financial statements to help them understand the quality of the financial information presented.

According to Mutchler (1985), A going concern the opinion of the audit can be given to a corporation based on many factors. Inability to pay fascination, income troubles, restructuring, or an audited state of affairs from the prior year are some of the conditions that must be met. Additionally, companies facing liquidation issues, negative capital, negative operating income, negative working capital, consecutive losses for 2 to 3 years, or negative retained earnings are also likely to receive this opinion.

A going concern audit report is provided when the auditor determines that there is doubt regarding the entity's capacity to continue operations, in accordance with Auditing Standard 570. This opinion expresses the auditor's assessment of the company's viability. According to Auditing Standard 508:47 (2011), when assessing whether the financial statements adequately disclose topics pertaining to

risks or uncertainties, auditors should take materiality into account in respect to the overall financial statements.

The solvency ratio is a measure of a firm's financial health and its capacity to pay off its debts. It shows how well a company can handle its long-term responsibilities. According to Anggraini (2021), Putri (2018), The audit judgment on going concern is heavily influenced by solvency. However, research by Gunawan, (2023) discovered that the solvency opinion had no discernible effect on the going concern status. While a higher solvency ratio indicates greater risk for lenders, this ratio does not always accurately reflect the company's ability to pay its debts, as the asset values on the balance sheet may not represent their current economic value.

Liquidity is an ratio that describes the ability to fulfill short-term obligations (debt). That is, if the company is collected, the company will be able to fulfill these debts, especially debts that are due (Kasmir, 2012). According to Gunawan (2023), Putri (2018) about the impact of liquidity. While the research conducted by Surya, et. al., (2021) The going concern audit opinion is unaffected by liquidity. A lower liquidity value suggests a lower likelihood of debt repayment, hence information regarding going concern must be provided by the audited opinion. Conversely, a larger current asset to current debt ratio indicates that a corporation has a better capacity to meet its short-term obligations. (Sidik, 2017).

H1: "Solvency affects the going concern audit opinion."

H2: "Liquidity affects the going concern audit opinion."

3. Method Innovation

This study makes use of quantitative data. According to Sugiyono (2022), quantitative data is data that is expressed in numerical form. The source of the data is secondary, meaning that it is obtained not directly from primary sources but from the internet and existing literature relevant to the research conducted.

The research population consists of all objects or subjects that possess certain characteristics and qualities that are of interest to the researcher for study and drawing conclusions (Sugiyono, 2022). A total of 228 manufacturing enterprises that are listed on the Indonesian Stock Exchange make up the sample size for this research. A sample for study is a

selection of people drawn from a larger group according to their numbers and shared traits. (Sugiyono, 2022). One of the key requirements for proper sampling is that it must be done randomly, a method known as random sampling.

Manufacturing businesses that were listed on the Indonesian Stock Exchange between 2020 and 2022 and fulfilled the following criteria make up the representative group for this study: (1) A series of consecutive financial reports were not published by the corporation between 2020 and 2022. Secondly, manufacturers lacking all necessary data for the investigation.

4. Innovation Results and Discussion

This study makes use of information gathered from industrial firms trading on the stock exchange of Indonesia between 2020 and 2022. Any business that takes raw materials and turns them into a completed good is considered a manufacturer. There seems to be a connection between the study's dependent and independent variables, since the regression model agrees with the data that was actually collected.

The findings of the tests reveal how going concern audit opinions in manufacturing businesses listed on the Indonesian Stock Exchange in 2020 and 2022 are affected by solvency, liquidity, and strong corporate governance. The solvency (X1) and liquidity (X2) variables show each influence on going concern audit opinion.

A coefficient of -4.107 and a significance value of 0.000 for the solvency variable were found in the logistic regression testing, indicating that it is 0.05 or lower ($0.000 < 0.05$). According to this coefficient, the probability of obtaining an audit recommendation for a going concern decreases by 4.107 units for every unit rise in solvency, as shown by the proportion of debt to assets. A continuing concern audit opinion is less likely to be extended to manufacturing enterprises as a result of this. Put simply, the likelihood of the auditor issuing an opinion on a going concern Report Phrase increases as the solvency ratio rises. The auditor is more likely to voice worries about the financial sustainability of the firm if the solvency ratio is high, as it indicates the company may not be able to satisfy its long-term obligations. As a result, we accept H1, which states that manufacturing enterprises' solvency impacts their ongoing audit opinion for the 2020-2022.

These results align with previous research, such as the studies by Anggraini (2021), Putri (2018). It concluded that solvency does impact going concern audit findings; however, the kinds of organizations affected and the time periods studied varied. From an agency theory perspective, the relationship between company owners (principals) and managers (agents) involves entrusting managers with daily operations. Agency hypothesis states that auditors may wonder about a company's viability if it has a lot of debt because of the increased financial risks it faces. Possible biases and the effect of managerial supervision are shown by the solvency ratio.

A coefficient of -0.215 and a significance level of 0.018 for the liquidity variable were found in the logistic regression model test, indicating that it is less significant than 0.05 ($0.018 < 0.05$). The risk of achieving an audit opinion of going concern decreases by 0.215 units for every unit rise of liquidity, as assessed by the present ratio, showing a considerable negative impact, according to this coefficient. That is why an auditor is more likely to give a going concern conclusion if the liquidity ratio is lower. Companies with low liquidity ratios have trouble paying their short-term bills with the money they have on hand. A sustainable business opinion is more likely to be issued by auditors when liquidity ratios are low, because these companies are seen as having larger financial risks. For the years 2020–2022, manufacturing enterprises' going concern audit assessments are impacted by liquidity, as demonstrated by the acceptance of H2.

These findings align with previous research, such as studies by Gunawan (2023), Putri (2018), Rachmadiyah (2022), and came to the same conclusion: liquidity does impact going concern audit views; nevertheless, this was true across a variety of company kinds and time periods studied. In the context of agency theory, high liquidity can be viewed as an effort by managers to mitigate conflicts of interest with company owners. Managers who maintain high liquidity demonstrate Impactive performance, reducing uncertainty and increasing the owners' trust in management. Consequently, managers who sustain healthy liquidity levels show their commitment to protecting the owners' interests and minimizing financial risks that could impact the company.

6. Image and Data Table

5. Conclusion

The study uncovered that solvency and liquidity substantially impact whether accountants give assessments concerning continuing issues for manufacturing firms on the Indonesia Stock Exchange. Higher solvency decreases the chances the accountant will raise a red flag, as endorsed by the adverse regression coefficient. Similarly, better liquidity lessens the prospect of a "going concern" conclusion as the coefficient for fluidness is also negative. These revelations underscore how essential fiscal well-being is in an auditor's evaluation of no matter if an organization can sustain its tasks. The research discoveries demonstrate that solvency and liquidity are critical factors influencing the issuance of going concern audit conclusions in producing organizations detailed on the Indonesia Stock Exchange. Financial wellness, as outlined by these metrics, performs an important function in establishing whether auditors raise questions about a company's potential to continue running as a going issue.

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Author Contributions

Devi Khusmawati contributed to the conceptualization, methodology, and data collection. M. Muhayin A Sidik was responsible for data analysis and interpretation. Evi Yuniarti contributed to writing, reviewing, and editing the manuscript. All authors have read and approved the final version of the manuscript.

Conflict of Interest

The authors declare no conflict of interest.

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A. Table Research Appendix Data

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X1 Solvency	246	,00	4,10	,5121	,46267
X2 Liquidity	246	,05	208,44	3,1486	13,28789
Y OAGC	246	,00	1,00	,7073	,45592
Valid N (listwise)	246				

Source: SPSS 2024 output results

Table 2. Descriptive frequencies audit opinion

Y OAGC					
	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid 0: Represents companies that received a Going Concern Audit Opinion.	72	29,3	29,3	29,3	
1: Represents companies that received a Non-Going Concern Audit Opinion	174	70,7	70,7	100,0	
Total	246	100,0	100,0		

Source: SPSS 2024 output results

Table 3. Logistic Regression Test Results

Variables in the Equation						
	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a						
X1 Solvency	-4,087	,858	22,686	1	,000	,017
X2 Liquidity	-,222	,090	6,154	1	,013	,801
Constant	3,451	,586	34,630	1	,000	31,533

Source: SPSS 2024 output results

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