

GOING CONCERN OPINION IN PROVIDING INFORMATION FOR THE MARKETS

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ABSTRACT

Audit opinion theoretically should be used as a good early warning by the investors. This is true, especially, because the going concern opinion should provide the real company performance than can be used by the market to predict the ability of company to keep their going concern operation. From such reasons, this study analyzes whether the going concern opinion (GCO), provides useful information about the value of the firm for other parties, especially the market. In this study, the samples were selected by using purposive sampling method of manufacturing companies in LQ45. In testing the hypothesis, the researcher uses multiple linear regressions. In some cases, the results do not support previous studies. Going Concern Opinion and Net Income do not affect the Market Value of Equity. Thus, it does not support the previous research findings. On the contrary, the Book Value of Equity and growth have significant effect on the Market Value of Equity, in which this supports the previous ones.

Key words: *Going Concern Opinion, Market Value of Equity, Market Book Value, Net Income, and Growth.*

OPINI GOING CONCERN DALAM PENYEDIAAN INFORMASI UNTUK PASAR

ABSTRAK

Opini audit, secara teoritis, bisa digunakan sebagai peringatan dini (early warning) yang bermanfaat bagi para investor. Hal ini akan tepat, terutama karena opini going concern juga bisa mendorong kinerja perusahaan secara nyata daripada jika digunakan oleh pasar untuk memprediksi kemampuan perusahaan demi menjaga kelangsungan operasional mereka. Dari alasan tersebut, studi ini menganalisis apakah pendapat pada going concern (GCO), bisa memberikan informasi yang berguna tentang nilai perusahaan bagi pihak lain, terutama pasar. Dalam penelitian ini, sampel dipilih dengan menggunakan metode purposive sampling dari perusahaan manufaktur di LQ45. Dalam pengujian hipotesis, peneliti menggunakan regresi linier berganda. Dalam beberapa kasus, hasilnya tidak mendukung penelitian sebelumnya. Opini going concern dan Laba Bersih tidak mempengaruhi Nilai Pasar Ekuitas. Dengan demikian, hasil ini tidak mendukung temuan penelitian sebelumnya. Sebaliknya, Nilai Buku Ekuitas dan pertumbuhan berpengaruh signifikan terhadap Nilai Pasar Ekuitas, dengan demikian temuan ini mendukung yang sebelumnya.

Kata Kunci: *Opini Going Concern, Nilai Pasar Ekuitas, Nilai Buku Pasar, Laba Bersih, dan Pertumbuhan.*

INTRODUCTION

It is a fact that going concern assumption is considered fundamental for the preparation of financial statements in accordance with generally accepted accounting principles. It is based on concepts of accounting measurement and evaluation such as historical cost, revenue recognition and matching principles. In this regard, it is said that the validity of the concern goes to the root of the financial statement information (Ruiz-Barbadillo, Gómez-Aguilar, & Carrera 2009). For this reason, decision makers consider an evaluation of company's ability to remain useful for its going concern.

SAS 59 & SA 234 describes the importance for the auditor of the company to reveal the company's ability to continue to operate in the future, when they are not sure if the company remains sustainable. GCO signals to financial statement users that the company has reached a critical point in economic difficulties and its existence is threatened. This opinion can not provide financial statement users with the ability to take action to reduce potential losses associated with failure of the company. Therefore, the main reasons for requiring auditors to evaluate the continuity and provide an early warning to investors and creditors in the future of the companies that are in financial difficulty.

However, the independent auditing auditors have responsibility to reveal the continuity of the uncertainty remain controversial (Nieschwietz & Woolley 2009). In fact, the role of the auditors in warning the public of possible failures is a recurring question of debate which results in expectations gap (Chi, Huang, Liao, & Xie 2009). On the other hand, the accounting professional argued that such evaluation is beyond the traditional role of controllers, and requires the consideration of the prospects for the customer (Almutairi, Dunn, & Skantz 2009). This failure has, on many occasions, been considered a very unpredictable event (Peecher & Piercey, 2008). The imposition of liability on auditors, especially those who are more enlightened than others (for exam-

ple, users of financial statements), can predict the failure of the client that seems to be forceful. Thus, the accounting profession has argued for removing this responsibility (Arel, Brody, & Pany 2005).

On the other hand, there are high expectations of users toward the financial statements that should disclose additional opinion related to matters prior to the bankruptcy of a company. For this reason, they attempt to limit auditor liability for providing the presence of uncertainties. This is rejected by regulators and users of financial statements. Both regulators and financial statement users believe that the audit opinion could be very useful to reduce uncertainties about the commercial risks ((Almutairi et al. 2009).

The early warning of financial trouble by auditors can provide users with the opportunity for protection against unexpected business failures, and therefore the GCO is to provide more important and useful results provided by the auditors (Meyer, Rigsby, & Boone 2007; Sinason, Jones, & Shelton 2001). GCO as a service for early warning signal for users of financial statements have been analyzed by the researchers for decades.

In general, this research question is to reveal and analyze stocks around the release of GCO. Despite significant progress on information is provided by GCO firstly offering only mixed and inconclusive evidence of a possible link between the release of GCO and changes on stock prices. Some Previous empirical studies have shown that the GCO are, on average, associated with a significant decline in stock prices (Knechel & Vanstraelen 2007). This result suggests that the information about that is valuable for investors.

From the above reason, this study attempts to see whether the going concern opinion (GCO) provides useful information on the valuation of the company. In particular, it reveals (i) if the market value of companies with the GCO is lower than those companies without the GCO, and (ii) if the value of the relative importance of equity

and earnings changes in GCO. Previous studies on the information content of GCO also use the event study methodology, but they are still conflicting. Using the value of the importance of the method, it is expected to get new information.

THEORETICAL FRAMEWORK AND HYPOTHESIS

Information which is supplied by the GCO has been the subject of the research and discussion. The most important question that has been addressed by empirical research of the past is linked to the fact that the audit report can communicate valuable information about the company's ability to maintain its sustainability.

As described previously, several studies have shown that the GCO is associated with abnormal returns (Fargher & Liwei 2008). This fact suggests that the auditor's assessment of the continuity of the company condition does not affect the behavior of investors. The main reason is that the GCO can transmit valuable information on the users of financial statements. It states that the continuity of the evaluation is one of the most difficult and complex decisions faced by auditors (Knechel & Vanstraelen 2007). A lot of evidence has been gathered in the audit process is still in doubt whether the company will continue to operate is sometimes contradictory. Thus, the continuity of the evaluation is a complex for auditors and it incurs routine meetings (Fargher & Liwei 2008). Making this task is even more difficult, auditing standards are ambiguous and can not be a significant guide for auditors (Jackson, Moldrich, & Roebuck 2008).

The above argument is consistent with the results documented by previous studies on the ability of auditors to predict the state of an operating business. When comparing the predictive ability of auditors' opinions of continuity with the models for predicting bankruptcy (Whitman & Diz 2009), these studies document that auditors have difficulty to identify companies in financial difficulties and statistical models are better

predictors. This evidence suggests that users of financial statements need to find a more reliable warning device on a company's inability to stay in business (Geiger & Raghunandan 2002).

Other documents, however, provides evidence that GCO is associated with a significant drop in stock prices on average (Knechel & Vanstraelen 2007), suggesting that the GCO to provide useful information to users. Many research reports have concluded that the auditors are able to identify companies with poor financial problems (Venkataraman et al. 2008). In fact, the auditors as part of an audit have access to inside information not generally available to users.

This provides access to inside information in collaboration with the expertise of auditors to place them in a better position than any other financial statement users to assess whether the continued operation of a business. Thus, it can be argued that GCO provides valuable information that would cause investors to revise their expectations about the financial position of a company.

The above results suggest that several issues relating to information provided by the GCO, remain unanswered. This result uses a research design alternative to the relevance value to try to improve our understanding and provide additional evidence for further discussion of the information provided by GCO. The explanation above could be developed as the following hypothesis:

H1. Going Concern Opinion affect Market Value of Equity

An important implication of the different roles of earnings and book value of equity in the evaluation process is that the relative value-relevance of these variables changes in the financial health of a company. The net profits are relatively more important for the evaluation of healthy companies, while the book value of equity is relatively more important for the evaluation of companies in crisis (Boone, Khurana, & Raman, 2008). This Result could be used to generate hypothesis below:

H2. Book Value of Equity affect Market

Value of Equity

SAS 59, the consideration of an entity's financial ability to continue operation, gives no indication of the weight that auditors should bring out that gather in the formation of diverse views. This is the assessment of going concern assumption which is a significant of their professional opinion, and is very subjective. As a result, users of the future of the imprecision inherent in the opinion of the audit.

The above result in the assessment model is a proxy for the growth option. Because of economic constraints, the company expects to generate future revenue stream-in-place assets. That's why the most important factor for healthy market value of the company is the strength of the claims to produce results-in-place. Moreover, as the continuity of the value (i.e. the value of net assets-in-place) exceeds the realizable value, the result is a more important role in determining the market value of equity (Behn, Jong-Hag, & Kang 2008). On the other hand, as the company increases the probability of failure, the result will no longer provide useful information to evaluate the company's future. Therefore, informativeness and profits, the market value of the company depends on its sustainability.

The value of relevant literature provides a framework that links the value of a company's earnings and book value of equity. Several studies provide evidence that earnings and book value of equity are complementary and this has different implications for the evaluation of actions (Carcello & Nagy 2004). Therefore, the value of the assets of a company is a weighted average value of continuous operation and options for future growth value and liquidation value (Behn et al. 2008).

Since the continuity of the state of society can have an impact on the evaluation process, and why the auditor should assess the adequacy of the continuity of the insolvency of the client, GCO is likely to play an important role in equity valuation. One might suppose that the result would have

been more important to the value of shareholders' equity. Instead, the continuity of the company is questionable; the shareholders' equity will probably be the most important part of the evaluation process. This leads to the following hypothesis:

H3. Net Income affect Market Value of Equity

When companies continues to grow, the demand for the firm toward highly qualified and independent audit in order to reduce agency costs and provide non-audit services required for the expansion of the company increases (Pandey 2004). Therefore, the growth of companies should be inclined to keep their accounting firms rather than their lower growth (Chi et al. 2009). Since then, the literature indicates that going concern opinion is affected by the rate of sales growth; the hypothesis of high-growth sales in Indonesia is longer than the low- growth. Therefore, our hypothesis is as follows:

H4. Sales Growth affect Market Value of Equity

RESEARCH METHOD

The researcher adopts the model of specifications for testing the effect of GCO in the market valuation and the price of many of the carrying values of assets and income. The model is drawn as the following.

$$MVE = \alpha + \beta_1 GCO + \beta_2 MBV + \beta_3 NI + \beta_4 Growth + \varepsilon \quad (1)$$

In which:

MVE is the market value of equity calculated as the share price per share of the annual remuneration of the notification, this is multiplied by the total number of outstanding shares. We use the stock price on earnings announcement days instead of the end of the year because the auditor's opinion is not available to the market at the end of the year. BVE is the book value of equity at year end.

NI is income or net income of the year.

Growth is the sales growth at year end ($[Sales_t - sales_{t-1}] / sales_{t-1}$).

GC is a dummy variable, given the value 1 if the firm receives a GCO for the year and 0

Table 1
Statistical Results of the Sample

	MVE	CCC	MBV	NI
N Valid	240	240	240	240
Missing	0	0	0	0
	4,700,000,000	.92	325,000,000	343,000,000
Minimum	45,814,918	0	26,591,492	3,286,559
Maximum	9,914,856,729	1	9,284,636,221	919,168,342

Table 2
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
MVE	240	45,814,918	9,914,856,729	4,780,000,000	2,899,000,000
GCO	240	0	1	.92	.271
MBV	240	26,591,492	9,284,636,221	3,250,000,000	20,540,000,000
NI	240	3,286,559	919,168,342	343,000,000	224,600,000
Growth	240	6,584,900	2,740,000,000	911,890,000	660,068,000
Valid N (listwise)	240				

otherwise. This dummy yields the average of difference in market value of firms that receive the GCO compared to those without such reports.

Sample

A purposive sample method is used for getting the sample of manufacturing companies listed on the Indonesia LQ 45 Stock Exchange since the year 2003-2009 (6 years). These were selected from manufacturing companies that have going-concern opinion and those which do not.

The criteria for selecting the sample are as follows. The companies must have annual reports in all of the year's observation. The data is dropped when the company has not issued annual report even if in one year observation. The companies selected must be listed and actively traded on the Indonesia Stock Exchange during the period of time.

The totals of LQ 45 population are registered in the Indonesia Stock Exchange, and then they were selected to comply with the criteria. Based on the above considerations, the sample consists of 240 manufacturing companies as in Table 1.

From the above criteria, 240 manufacturing companies can be described as the

following.

1. Market value of equity has minimum value at 45814918 to maximum value at 9914856729.
2. Market Book Value has minimum value at 26591492 to maximum value at 9284636221.
3. And Net Income has minimum value at 3286559 to maximum value at 919168342.
4. The Going Concern Opinion is nominal with (0, 1 binary scale).

Data Analysis and Discussion

The results descriptively show the whole variables as in Table 2. In which, the details are as follows:

MVE= Market Value of equity at year t

GCO= Going concern Opinion (0 = Non-GCO; 1=GCO)

MBV= Market Book Value at Year t

NI= Net Income at Year t

Growth = Sales Growth at year t ($([Sales_t - Sales_{t-1}]/Sales_{t-1})$)

Testing the Model is done by means of simple linear regression with SPSS 19 program. The results can be seen in Table 3. With the R (0.972) and R Square (0.944) as in the results presented in Table 3, it can be

Table 3
Results of Testing the Model

Model Summary				
Model	R	RSquare	Adjusted R Square	Std. Error of the Estimate
1	.972 ^a	944	943	692,300,000

a. Predictors: (Constant), Growth, GCO, MBV, NI

Table 4
ANOVA and the Summary

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1.895E21	4	4.738E20	988.532	0.000 ^a
Residual	1.126E20	235	4.793E17		
Total	2.008E21	239			

a. Predictors: (Constant), Growth, GCO, MBV, NI

b. Dependent Variable: MVE

Table 5
Results of Hypothesis Testing

Coefficients^a

Coefficients					
Model	Unstd. Coefficients		Std. Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	6.212E8	1.908E8		3.256	.001
GCO	-31361107.73	1.657E8	-.003	-.189	.850
MBV	.636	.042	.450	14.957	.000
NI	-3.121	2.243	-.242	-1.392	.165
Growth	3.505	.767	.798	4.568	.000

a. Dependent Variable: MVE

generalized that all of independent variables are good predictors for the dependent variable.

It is noted that the ANOVA testing result (Table 4) shows the whole model as being good to draw the impact of all independent variables for the dependent variables. It implies that the model is appropriate for generalizing all hypotheses testing as shown in Table 5.

The GCO appears to have no significant but negative effect (-0.003) on Market Value of equity. This indicates that when the company has got GCO, they tend to get negative market value of equity (MVE) for the next year. This result can draw the real conditions that the market reacts significantly toward Going Concern Opinion issue.

The next result as in Table 5 found the next evidence that Market Book Value has no significant effect (0.042) on market value of

equity (MVE) as well as on Net Income (-0.242) and Growth (0.798). In this case, there are not any appropriate reasons to clarify the evidence behind the phenomena exactly.

The result above might be that our market decision only reacts from technical analysis. It has mean that the market decision dominated by capital gain transaction. These result support previous finding that the audit opinion is reinforced by the mandatory rules even if it was able to provide adequate early warning on the market. (Venkataraman et al. 2008) and (Hermanson & Ye 2009).

Generally, it can e concluded as the following: (1) Going Concern Opinion affects the Market Value of Equity (MVE). (2) On the contrary, the Book Value of equity (BVE) does not affect the Market Value Of Equity (MVE), and finally, (3) Net Income (NI) has no significant effect on the Market

Value Of Equity (MVE) and as well as on (4) the Growth.

CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

In the beginning, it is questioned whether the opinion of going concern provides useful information on the value of the firm. It also seeks whether the Book Value of Equity and Net Income affects Market Value of equity.

It can be generalized that this study supports previous studies. Obviously, going concern opinion affects the Market Value of Equity. This is similar to the previous research findings of (Hermanson & Ye 2009) and (Venkataraman et al. 2008). The implication is that the going concern opinion has early warning effect on the market decision.

On the contrary, the Book Value of Equity, Net Income and growth have no significant effect on the Market Value of Equity. This is, specifically, said to be different from the previous studies. This might be due to the fact that the markets actually make their day to day decision transaction based on technical analysis rather than fundamental analysis.

When viewed from the side of weaknesses, it is advisable for further research that this study has no control on the impact of macro variables such as foreign exchange and interest rates. These factors are deemed to be the dominant variables that actually can affect the Market Value of Equity. Therefore, for further research, these variables should be taken into consideration. By doing so, they can identify clearly whether Going Concern Opinion does not really affect the Market Value of Equity.

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