

**THE EFFECT OF FIRM SIZE, COMPANY'S GROWTH, CPA  
FIRM'S STATUS, AND MANAGEMENT PLAN  
ON GOING CONCERN AUDIT OPINION  
(Empirical Study on Financial Sector Listed on Indonesia Stock Exchange  
Year 2011-2016)**



Thesis by:

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**Accounting**

*Proposed as One of the Requirements to Obtain Bachelor Degree of Economics*

**MINISTRY OF RESEARCH, TECHNOLOGY AND HIGHER  
EDUCATION OF THE REPUBLIC OF INDONESIA  
UNIVERSITY OF SRIWIJAYA  
FACULTY OF ECONOMICS**

**2018**

## COMPREHENSIVE EXAM APPROVAL LETTER

THE EFFECT OF FIRM SIZE, COMPANY'S GROWTH, CPA  
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ON GOING CONCERN AUDIT OPINION  
(EMPIRICAL STUDY ON FINANCIAL SECTOR LISTED ON INDONESIA  
STOCK EXCHANGE YEAR 2011 - 2016)

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## THESIS APPROVAL LETTER

THE EFFECT OF FIRM SIZE, COMPANY'S GROWTH, CPA  
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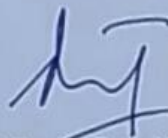
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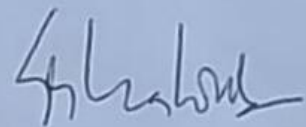
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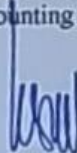
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is truly the result of my own work. In this thesis, there are no citations from other people's work which are not being mentioned.

Hereby, I declare that the above statement is true and If my statement is found to be false in the future, then I am willing to accept any sanctions in accordance with the regulations, including the cancellation of my degree.

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## MOTTO AND TRIBUTE

*“Ikhtiar, Dua, and Tawakkul”*

*This thesis is dedicated to:*

- *Papa and Mama*
- *My brothers and sister*
- *My best friends*
- *My Alma mater*

## FOREWORD

Praise to Allah SWT for His grace and blessing are the reasons of how the author can complete the thesis entitled “The Effect of Firm Size, Company’s Growth, CPA Firm’s Status, and Management Plan on Going Concern Audit Opinion (Empirical Study on Financial Sector Listed on Indonesia Stock Exchange Year 2011-2016)”. This thesis is made as one of the requirements to obtain Bachelor Degree of Economics (S-1) in Faculty of Economics, University of Sriwijaya.

My sincere appreciation to many parties who have helped me to finish this thesis. Therefore, author would like to express gratitude to:

1. **Prof. Dr. Ir. H. Anis Saggaff, MSCE** as the Rector of University of Sriwijaya.
2. **Prof. Dr. Taufiq Marwah, SE, M.Si** as the Dean of the Faculty of Economics.
3. **Mr. Arista Hakiki, S.E., M.Acc, Ak, CA** as the Head of Department of Accounting.
4. **Mrs. Umi Kalsum S.E., M.Si., Ak., CA** as the Secretary of Department of Accounting.
5. **Mrs. Hasni Yusrianti, S.E., MAAC, Ak** as Academic Supervisor.
6. **Mr. Agung Putra Raneo S.E., M.Si.** as the coordinator of International Class.
7. **Mrs. Dr. Luk Luk Fuadah, S.E.,M.BA.,Ak.,CA**, as the First Thesis Supervisor and **Mrs. Dra. Hj. Kencana Dewi, M.Sc., Ak., CA**, as the Second Thesis Supervisor who have given their knowledges, time, and energy to guide me to finish this thesis as well as teach me many life lessons to be a better person.
8. **Mr. Dr. Tertiarito Wahyudi, S.E., MAFIS., Ak, CPA.** as the proposal and thesis examiner who have given many valuable suggestions in order for this thesis to be much better.
9. All of the lecturers at the Faculty of Economics who have taught me not only about college courses but also life lessons during my college life.

10. All of the Faculty of Economics Staff who have helped me in going through the administration process especially for Kak Adi, and Mbak Novi.
11. My beloved parents, **Papa and Mama** for the endless support, patience, and pray.
12. My beloved brothers and sister, Malik, Faiz, Utik, Luthfi, and Rizqi, whom always become the reminder for me to do my best in order for them to be better than me.
13. My beloved SONE, Putri, Nur, Soray, and Indah whom words won't be enough to describe how many supports they have given the author.
14. My beloved Gadis Pejuang, Hasy, Dili, (Alm.) Anggie, Wiwid, Ook, Indah, Tian, Rahayu, and Cika whom words won't be enough to describe how many supports they have given the author.
15. My dearest juniors, Ayu, Reno, Lulu, Astri, Febri, and Richa who have helped pushing and cheering this senior of them to finish the thesis as soon as possible.
16. My many other support systems, Ade, Ana, Bella, Rifka, Ami, Restu, Lelek, Mbak Dian, Koder, and those whom author can't mention one by one.
17. My beloved volunteers in Bina Antarbudaya Palembang who have always cheered on their kakak to finish her study soon.
18. My beloved PCMI Sumsel who have been very understanding in letting me to finish my study.
19. My fellow colleagues and students in Everyone English Course who have patiently waited for my return since I left for a month to focus on my final thesis defense.
20. My new family IYAA National Boards 2018-2020 who have patiently and understandably let me finish my study first before letting me coming back in full force.
21. Last but not least All of my comrades in Accounting 2012 and International Class 2012.

May Allah SWT always pours his blessing and mercy to all those who have tirelessly and sincerely helped and be there for the author until today. Finally, I hope this research can be beneficial for man parties.

Inderalaya, 11 May 2018

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## ABSTRACT

### THE EFFECT OF FIRM SIZE, COMPANY'S GROWTH, CPA FIRM'S STATUS, AND MANAGEMENT PLAN ON GOING CONCERN AUDIT OPINION (EMPIRICAL STUDY ON FINANCIAL SECTOR LISTED ON INDONESIA STOCK EXCHANGE YEAR 2011-2016)

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Going concern audit opinion is an opinion issued by auditor to evaluate whether the company is able to maintain its viability or not. This research aims to analyze the effect of firm size, company's growth, CPA firm's status, and management plan on going concern audit opinion. The population of the research is financial sector listed on Indonesia Stock Exchange from the period of 2011-2016. The selection of sample is done by using purposive sampling. Based on the specified criteria, the samples obtained are 10 companies with a total observation of 60 companies. The analysis technique used in this research is binary logistic regression. The research results concluded that the variables of firm size, company's growth, and CPA firm's status do not have significant effect on going concern audit opinion, whereas management plan has positive and significant effect on going concern audit opinion.

**Keywords:** *Company's growth, CPA firm's status, firm size, going concern audit opinion, management plan.*

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## ABSTRAK

### THE EFFECT OF FIRM SIZE, COMPANY'S GROWTH, CPA FIRM'S STATUS, AND MANAGEMENT PLAN ON GOING CONCERN AUDIT OPINION (EMPIRICAL STUDY ON FINANCIAL SECTOR LISTED ON INDONESIA STOCK EXCHANGE YEAR 2011-2016)

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Opini audit *going concern* adalah opini yang dikeluarkan oleh auditor untuk mengevaluasi apakah perusahaan mampu mempertahankan kelangsungan hidupnya. Penelitian ini bertujuan untuk menganalisis pengaruh ukuran perusahaan, pertumbuhan perusahaan, status KAP, dan rencana manajemen terhadap opini audit *going concern*. Populasi dalam penelitian ini adalah sektor keuangan yang terdaftar di Bursa Efek Indonesia pada tahun 2011-2016. Pemilihan sampel dilakukan dengan menggunakan *purposive sampling*. Berdasarkan kriteria yang sudah ditentukan, sampel yang diperoleh adalah 10 perusahaan dengan total observasi sebesar 60 perusahaan. Teknik analisis yang digunakan dalam penelitian ini adalah regresi logistik biner. Hasil penelitian menyimpulkan bahwa variabel ukuran perusahaan, pertumbuhan perusahaan, dan status KAP tidak mempunyai pengaruh signifikan terhadap opini audit *going concern*. Sementara rencana manajemen memiliki pengaruh positif dan signifikan terhadap opini audit *going concern*.

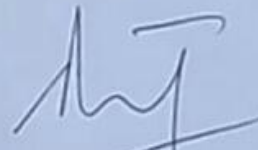
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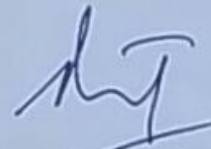
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## TABLE OF CONTENTS

TITLE PAGE.....	i
COMPREHENSIVE EXAM APPROVAL LETTER .....	ii
THESIS APPROVAL LETTER.....	iii
STATEMENT OF RESEARCH INTEGRITY .....	iv
MOTTO AND TRIBUTE .....	v
FOREWORD.....	vi
ABSTRACT .....	ix
<i>ABSTRAK</i> .....	x
<i>SURAT PERNYATAAN</i> .....	xi
CURRICULUM VITAE .....	xii
TABLE OF CONTENTS.....	xiii
LIST OF TABLES.....	xvi
LIST OF FIGURES .....	xvii
LIST OF APPENDIX .....	xviii
CHAPTER I INTRODUCTION	
1.1. Background.....	1
1.2. Problem Statement .....	8
1.3. Research Objectives .....	8
1.4. Research Benefits.....	8
1.5. Writing Systematics.....	9
CHAPTER II LITERATURE REVIEW	
2.1. Basic Literature .....	11
2.1.1. Agency Theory .....	11
2.1.2. Auditing.....	12
2.1.3. Audit Opinion .....	13

2.1.4. Going Concern Audit Opinion .....	15
2.1.5. Firm Size .....	18
2.1.6. Company's Growth.....	19
2.1.7. CPA Firm's Status .....	20
2.1.8. Management Plan .....	21
2.2. Previous Research .....	22
2.3. Research Framework .....	24
2.4. Hypothesis .....	24

### CHAPTER III RESEARCH METHODOLOGY

3.1. Population and Sample .....	27
3.2. Type and Source of Data.....	29
3.3. Method of Collecting Data .....	29
3.4. Research Variable and Operational Definition.....	30
3.5. Analysis Techniques .....	32

### CHAPTER IV RESULT AND DISCUSSION

4.1. Overview of Research Objects.....	38
4.2. Descriptive Statistics Analysis .....	39
4.3. Logistic Regression Analysis .....	41
4.3.1. Goodness of Fit Test (Hosmer and Lemeshow's Test).....	42
4.3.2. Overall Model Fit Test (Iteration History) .....	43
4.3.3. Cox and Snell's R Square and Nagelkerke's R Square Test	45
4.3.4. Classification Table.....	46
4.3.5. Coefficient's Significant Test.....	48
4.4 Hypothesis Testing .....	50
4.5 Discussion.....	54

### CHAPTER V CONCLUSION AND SUGGESTION

5.1. Conclusion .....	57
5.2. Research Limitations .....	59
5.3. Suggestions .....	59

References .....	61
Appendix .....	65

## LIST OF TABLE

Table 2.1. Previous Research.....	22
Table 3.1. Sampling Process.....	28
Table 3.2. Selected Financial Sector .....	29
Table 3.3. Operational Definition of Variable .....	31
Table 4.1. Descriptive Statistics.....	40
Table 4.2. Frequency and Percentage of Going Concern Audit Opinion.....	41
Table 4.3. Goodness of Fit Test (Hosmer and Lemeshow Test).....	42
Table 4.4. Iteration History Block 0.....	43
Table 4.5. Iteration History Block 1.....	44
Table 4.6. Model Summary .....	45
Table 4.7. Classification Table.....	47
Table 4.8. Coefficient's Significant Test .....	48
Table 4.9. Summary of Hyphotesis Test Result.....	53



## LIST OF FIGURE

Figure 2.1. Research framework.....	24
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## **LIST OF APPENDIX**

APPENDIX I Sample Data .....	65
APPENDIX II Result of SPSS Output.....	68

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Peraturan Pemerintah No. 64 Tahun 1999 states that in order to improve the efficiency and competitiveness of the national economy, it is necessary to provide facilities for obtaining the annual financial information of company. Financial information can be used by the public and businesses as a basis for decision making. Financial information can be obtained from the financial statements published by the company.

The financial statements are the primary means for obtaining financial information and a form of management accountability in the delivery of a company's financial information to interested parties (Budiasih, 2009). Parties that have an interest in the financial statements can be divided into two, namely external and internal parties. External parties are shareholders, creditors, government agencies, public and so on; while the internal parties are the company's employees, management and directors. Wulandari (2014) states that the financial statements provide an overview of the financial position, company's performance, and changes in financial position. Management is the party that gives information regarding financial statements, in which the performance will be assessed and evaluated based on the financial statements. Due to the

high number of interested parties to the financial statements, the information presented in the financial statements has to be reasonable, relevant, reliable and not misleading to users of financial statements. To ensure the fairness of the information presented in the financial statements, it is necessary to have an audit performed by an independent auditor.

The initial step of granting a guarantee of financial statements by an auditor is to do the audit of the financial statements. The process of auditing financial statements by auditors has a role to provide assurance to investors in selecting companies for investment. Company data will be more easily trusted and used by investors and other users of financial statements if the financial statements, that reflect the performance and financial condition of the company, has got a reasonable fair statement from the auditor. The determination to invest requires the information needed by investors in terms of both the financial statements and also in terms of another, such as macro-economic factors (external). What the investors need is not only of how much return they will get, but also information relating to the viability or the going concern of the company. The existence of a business entity is a hallmark of an economic environment, which in the long run aims to maintain viability of the business through the assumption of going concern. The survival of a company is always associated with the ability of management to manage the company so that it will be able to survive and thrive.

Auditing Standard Section 341 states that the auditor is also responsible for assessing whether there is a great doubt about the company's ability to maintain its going concern within a period of not more than one year from the date of the audit report (Ikatan Akuntan Indonesia, 2001). In addition, Statement on Auditing Standards No. 59 also states that the auditor should disclose explicitly whether the client company will be able to maintain its survival until a year later after the reporting (Auditing Standard Boards, 1988). Therefore, in addition to obtaining information on the fairness of financial statements presented by management, the independent auditor's report also provides information to users of financial statements about the ability of the company to continue its business (going concern). Auditing reports related to going concern can provide early warning to shareholders and users of other financial statements to avoid mistakes in decision making (Widyantari, 2011). Going concern audit opinion is an audit opinion issued by the auditor to determine whether the company can maintain its viability (Ikatan Akuntan Indonesia, 2001). Auditors evaluate the company before determining whether there is a doubt on the sustainability of a company. Auditors require a variety of information about the condition of companies in the assessment of the presence or absence of substantial doubt about the entity's ability to maintain its viability in the appropriate time period. If the auditor believes that there is a doubt on the viability of

the entity, the auditor needs to look for information on the management plan to reduce the impact of the inability of the entity.

Mutchler (1985) stated that auditors issue a going concern opinion more frequently on smaller companies. This is caused by the auditors' belief that large companies are more capable to solve financial difficulties rather than small firms. Large companies have easier access in getting the funds either in the form of loans from creditors or investment funds from investors, as well as from other external funding sources. These all are due to the trust acquired by large firms from potential sources of funds. Take creditors as example, they would be more likely to feel secured giving loans to large companies which typically have better order within the company compared to companies with smaller scale; be it the company's bureaucracy, the internal control systems, the company's managerial, the used information technology, and all the other aspects that will affect the company's ability to reach its target. Hence the larger the company, the less likely the company receive a going concern opinion.

And when discussing of company, of course, not only the size of the company that become the target of investors, the growth of the company itself is also put into consideration before making any investment. Because a company that has a positive income growth has the tendency to be able to maintain its going concern. The profits from the revenue which could be achieved by the company will be used to fund the company's viability such as funding the company's operations, providing

dividends for investors, funding or adding lines of business, and paying its obligations to creditors.

Amilin and Indrawan (2008) argued that the auditor acts as an independent party to audit the financial statements of a company, while the financial statements are a tool used by the auditor to detect how big the company's going concern is. In general, it is assumed that if the public accounting firm is part of the Big Four, then the level of independence of its auditors will be more reliable. Meanwhile, when the status of the CPA firm is Non-Big Four, then the trust concerning the results of the audit opinion with a going concern paragraph might be doubted. Therefore, it is crucial for those CPA firms, especially those with the status of Big-Four, to not give a false statement regarding the going concern opinion of their client as their opinion could closely affect the reputation of their firm. Rudyawan and Badera (2009) stated that the reputation of a public accounting firm is at stake when the opinion given does not match with the actual condition of the company. Auditors must have the courage to reveal the existing problems within the company regarding its viability because their opinion will be an important factor for the users of the financial statements, investors, and other external parties.

Another information that must be taken as consideration for auditor in giving going concern audit opinion is management plan. Ikatan Akuntan Indonesia (2001) states that if an auditor doubts the viability of a company, the auditor should know and evaluate the plan of the company's

management. In order to address the issue of going concern, the company's management will develop some management plans that can be divided into two groups, which are financial-based management plans and management plans to improve operational performance (Lie et al., 2016). The financial-based management plan is more directed to the company's management efforts to increase the company's funding sources by issuing new shares or by restructuring the debt. And when it comes to improving the company's operational performance, management can make it more profitable through cost savings, sales increase, as well as new product issuance.

In Indonesia there have been several cases concerning the manipulation of financial statement which led to the bankruptcy of the company and caused auditors to get criticism. Some of those cases were the liquidation of some banks after receiving an unqualified opinion. In the early 1990s, there was the liquidation of Bank Summa. Then, there were 16 banks that have been liquidated by government as of 1 November 1997. Other liquidation cases were also including Bank Prasadha Utama and Bank Ratu liquidated in 2000, Unibank in 2001, Bank Asiatic and Bank Dagang Bali in 2004 and Bank Global International in 2005. Deposit Insurance Corporation also stated that it has liquidated 59 banks since its foundation in 2005, which were 58 rural banks and 1 commercial banks. The cause of the failure of many banks are due to bad financial performance and fraud by the owners. The audit report prepared by the



Office of Public Accountant in those cases stated that the current banking conditions were good with an unqualified opinion, while in fact, in reality were bad (Ardika and Ekayani, 2013).

From the description of problems above, this study limits its research on factors affecting the going concern audit opinion, which are firm size, company's growth, CPA firm's status, and management plan. This study takes samples in the financial sector listed on Indonesia Stock Exchange Year 2011 – 2016 because according to Otoritas Jasa Keuangan (2014), in Indonesia, there should be supervision of the companies in the financial sector in order to show that Indonesia has a healthy financial system which is fundamental and sustainable. Those cases above have shown that it is indeed necessary that the supervision towards the financial sector is increased. Companies in the financial sector also need to be monitored in order to protect the interests of all parties because financial sector is closely related to any other entities and investors (Otoritas Jasa Keuangan, 2014). Therefore, this research is entitled The Effect of Firm Size, Company's Growth, CPA Firm's Status, and Management Plan on Going Concern Audit Opinion (Empirical Study on Financial Sector Listed on Indonesia Stock Exchange Year 2011 – 2016).

## **1.2 Problem Statement**

Based on the background of the problem, writer identifies that the main problem among some of the problems which exist in relation to the research to be made by the writer is :

How does the effect of firm size, company's growth, CPA firm's status, and management plan on going concern audit opinion?

## **1.3 Research Objectives**

The aim of the research which to be conveyed by the writer is:

To know and analyze the effect of firm size, company's growth, CPA firm's status, and management plan on going concern audit opinion.

## **1.4 Research Benefits**

### **1.4.1. Theoretical benefits**

Theoretically, the results of this study are expected to be a reference or input for the development of accounting and to add more studies to accounting, especially with regard to auditing to find out how the effect of firm size, company's growth, and public accounting firm size on going concern audit opinion.

#### 1.4.2. Practical Benefits

##### a) The Investors

The results are expected to give an idea of the going concern audit opinion and serve as information for investors and the public to make the right investment.

##### b) The Academics

To add more insight regarding going concern audit opinion and to add to the existing literatures regarding the auditing study.

### **1.5 Writing Systematics**

#### 1.5.1. Chapter I

Introduction, contains the background, formulation Problems, goals and purpose, and writing systematics.

#### 1.5.2. Chapter II

Theoretical basis, which contains a reference of thought in discussion of the problems examined and the underlying analysis taken from the literature, research summaries accomplished which is concerned with the study, framework theoretical thought and hypothesis.

### 1.5.3. Chapter III

Research Methods, is researching ways that outlining the research variables and operational definitions, sampling, types and sources of data, methods of collection data, and the analytical methods used.

### 1.5.4. Chapter IV

Results and Discussion, is a core chapter in the report of this research. This chapter describes the description of the results analytical discussion of the research object.

### 1.5.5. Chapter V

Closing, contains the conclusions of the research report has been carried out based on the analysis and discussion as well as suggestions for the parties concerned of the results research, as well as for a subsequent study.

## REFERENCES

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