

# CHAPTER I

## INTRODUCTION

### 1.1 Background

In carrying out economic activities, the company not only strives to get high profits but must also pay attention to the use of basic accounting assumptions related to the company's ability to maintain its survival so that it can continue to operate with various goals to be achieved. If a company experiences financial problems, its operational activities will be disrupted and it will eventually lead to high risks that they will face in the future. However, if the company's financial condition is good and it gains profit, it will attract the attention of the public to the point of gaining more trust from users of the report.

Each company will issue financial statements that is audited by independent auditors that are useful for assisting investors in making decisions. Auditors have the task of assessing and validating published financial statements. The auditor is responsible for evaluating whether there is substantial doubt as to the company's ability to maintain its viability within not more than one year from the date of the audit report (PSA No.30 SA Section 341). In providing an audit opinion, the independent auditor will identify information regarding the condition of the company. Furthermore, if the auditor finds any doubts about the company's ability to maintain its survival, then the auditor will give an initial 'warning' to users of financial statements regarding the condition of the company because it is feared that the company may go bankrupt shortly.

It is important to understand the issue of going concern and to disclose it in the independent report of the company's financial statements, so that management can take appropriate actions to maintain its business and avoid bankruptcy (Wati, 2019). The going concern opinion issued by the auditor shows that auditors may have doubts about the continuity of the company's business. In assessing the going concern of a company, the auditor must analyze various factors, both financial and non-financial factors. Financial factors include profitability, leverage, liquidity, and financial distress. Non-financial factors such as company size, management plan, audit quality, auditor switching, and auditor specialization. Among the many factors that can influence, several factors were selected including audit quality, auditor switching, and auditor specialization (Rani & Helmayunita, 2020); (Laksmi & Sukirman, 2020); (Karman et al., 2017).

Auditors are a liaison between the company's management and stakeholders as well as shareholders in assessing the level of the company's ability to maintain its survival for a certain period. Audit quality is the auditor's ability to find offense in the client's accounting system and disclose those audits in the audit report (DeAngelo, 1981). The quality of the audit carried out can affect going concern opinion. A quality audit occurs when the audit is implemented according to the audit standards; and therefore, it is able to assess and disclose any problem the company has related to going concern. Auditors who come from the big four public accounting firms are considered to be able to conduct audits by audit standards and have high independence, so they have good audit quality. The quality audits of public accounting firms can be said to

be of good quality if they give going concern audit opinions to companies that do have problems with their survival.

Auditor switching is the change of auditor or public accounting firm carried out by the company (Laksmiati & Atiningsih, 2018). The company must conduct auditor switching to produce quality and uphold auditors' independence (Sari et al., 2019). Auditor switching is also one way to limit the long service relationship between auditors and clients because this long working relationship is alleged to cause a decrease in audit quality (Cameran et al., 2014). In addition, the change of auditors was carried out by the company in the hope that the replacement auditor could provide a better audit opinion compared to the audit opinion given by the previous auditor (Djunaidi & Soepriyanto, 2013). One of the basic reasons companies that receive a going concern audit opinion do auditor switching is so that after the change of auditor is carried out, the company will not receive another going concern audit opinion. Auditor switching carried out by a company are also useful for reducing the company's chances of receiving audit opinions that do not meet the expectations.

Identification of industrial specialties is aimed at distinguishing auditors of industry specialists and auditors of non-industry specialists. Specialist auditors have specific experience in an industry, so it is hoped that auditors can better understand the characteristics of client companies in the industry more comprehensively (Mayling & Prasetyo, 2020). With his specialization, the auditor's ability to carry out his duties is unquestionable, so industrial specialist auditors are believed to be able to detect errors better, increase efficiency, and improve assessments of financial statements. A better auditor's understanding

of certain industries, it will affect the accuracy of giving a going concern audit opinion.

Previous studies on going concern audit opinions have shown different results. The results of these studies varied, due to differences in the nature of the variables studied, differences in samples, observation periods, or differences in the methodology used. The diversity of the results of previous studies indicates that this research needs to be re-examined. This research is interesting to do because it re-verifies the results of previous research on audit quality, auditor switching, and auditor specialization on going concern audit opinions.

## 1.2 Research Problem

Based on the description of the background above, the formulation of the problems to be examined in this study are:

1. What is the extent of the relationship between audit quality and going concern audit opinion on companies listed on the Indonesia Stock Exchange in 2017-2021?
2. What is the extent of the relationship between auditor switching and going concern audit opinions on companies listed on the Indonesia Stock Exchange in 2017-2021?
3. Does the auditor's specialization affect the going concern audit opinion on companies listed on the Indonesia Stock Exchange in 2017-2021?

### 1.3 Research Purposes

Based on the formulation of the problem described above, the objectives to be achieved in this study are:

1. To obtain empirical evidence regarding the relationship of the audit quality on the going concern audit opinion.
2. To obtain empirical evidence regarding the relationship of auditor switching on going concern audit opinion.
3. To obtain empirical evidence regarding the effect of auditors' specialization on the going concern audit opinion.

### 1.4 Research Benefits

This research is expected to provide benefits to several parties including:

1. For Academics

This research is expected to contribute to developing literature on auditing related to the effect of audit quality, auditor switching, and auditor specialization on going concern audit opinions and become a reference as well as a guideline for further research on the same topic.

2. For the Company

The results of this study are expected to be a consideration for companies to pay more attention to factors that can affect their business continuity.

## 1.5 Writing System

This study uses writing systematics consisting of five chapters, each of which consists of:

### **CHAPTER I INTRODUCTION**

This chapter is the opening chapter that outlines the setting, problem formulation, research objectives, research benefits, and writing systematics.

### **CHAPTER II LITERATURE REVIEW**

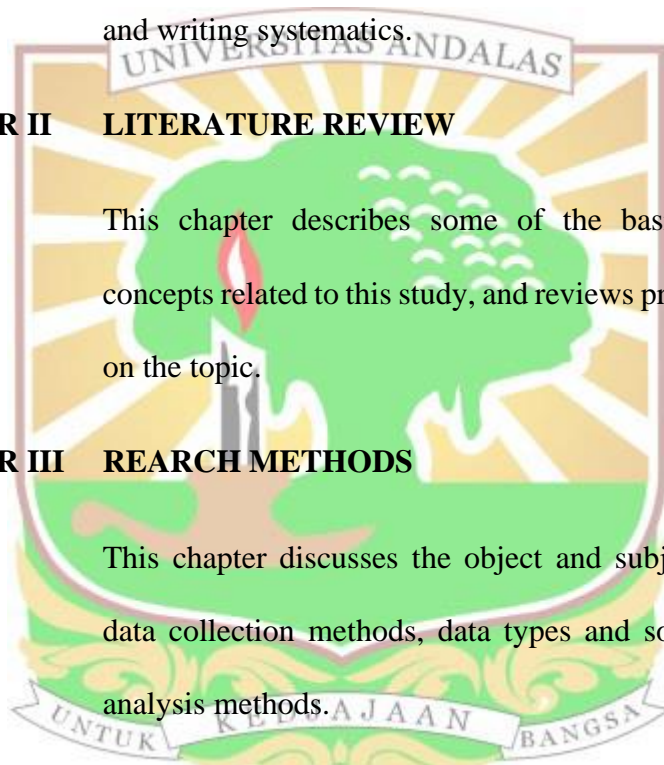
This chapter describes some of the basic theories and concepts related to this study, and reviews previous literature on the topic.

### **CHAPTER III RESEARCH METHODS**

This chapter discusses the object and subject of research, data collection methods, data types and sources, and data analysis methods.

### **CHAPTER IV RESULTS AND DISCUSSION**

This chapter explains the description of the research object, quantitative analysis, interplay of results and also explains the arguments that are in accordance with the results of the study.



## CHAPTER V CONCLUSION

This chapter concludes the study and lists the limitations of the study. To overcome the limitations of the study, suggestions for researchers will be included which will be carried out next.

