

CHAPTER I

INTRODUCTION

1.1 Background

A financial statement is one of the media for the management to communicate the financial information to the stakeholders to assess the company's performances (Simamora & Hendarjatno, 2019). Financial statements general purposes are to provide financial reporting information to a wide variety of users and provide the most useful information possible at least cost (Kieso *et al.*, 2012). In financial statement itself, there is always a chance for misstatement to exist. One of the reasons for the misstatement is caused by fraudulent financial reporting. Misstatement arising from fraudulent financial reporting are intentional misstatements or omissions of amounts or disclosures in financial statements to deceive financial statement users. Fraudulent financial reporting may involve acts such as follows; manipulation, falsification, or alteration of accounting records or supporting documents from which financial statements are prepared, misrepresentation in, or intentional omission from, the financial statements or events, transactions, or other significant information, intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure (Larsen, 2005). So, in order to lessen the chance of fraudulent financial reporting from happening, audit is needed.

American Accounting Association (AAA) defines Audit as a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users. According to SA Section 341 (IAPI, 2011), the auditor is also responsible for assessing whether there is a doubt against the company ability in business continuity for a time period not exceeding one year from the date of the audit report. In

Indonesia, issues concerning audit reports and their relationship to going concern problems have emerged since 1995. The issue emerged with the collapse of the Summa Bank, though the bank had been issued a clean audit report in the preceding year. In 1997, with the economic crisis coming into being, the going concern issue became important in Indonesia (Haron et al., 2009). A few objectives of the auditor are to obtain sufficient evidence that the management uses the assumption of going concern in the preparation and presentation of financial statements properly, and to conclude the audit opinion based on the audit evidence obtained. If there is a uncertainty related to events or conditions that may cast doubt significantly to the entity's ability to continuing their business, considering the implications for the audit report (ISA 570). In 2018, The Indonesia Stock Exchange (IDX) decided to abolish the forced delisting of the shares of PT Truba Alam Manunggal Engineering Tbk (TRUB) shares. According to I Gede Nyoman Yetna, IDX's Director of Corporate Valuation, the forced delisting was carried out because TRUB did not meet the business continuity or going concern aspects (Kontan, 2018).

Until the beginning of September 2019, there have been two issuers whose trading was eliminated by the Indonesia Stock Exchange (IDX). The two issuers are PT Sekawan Intipratama Tbk (SIAP) which was delisted on 17 June 2019 and PT Grahamas Citrawisata Tbk (GMCW) which had been delisted since 13 August 2019. Following these two issuers, the Indonesian Stock Exchange (IDX) said there were still three other issuers that were also in almost delisting position. Those issuers are PT Bara Jaya Internasional Tbk. (ATPK), PT Borneo Lumbung Energi & Metal Tbk. (BORN), and PT Danayasa Arthatama Tbk. (SCBD). BORN and ATPK have been included in the list of companies that will be delisted by the stock exchange because the company's shares have been suspended in trading for more than 24 months. BORN has been in four consecutive years of suspension for four years in a row. The reason is because there are

problems in the company's balance sheet, arrears in exchange fees and going concern (business continuity) problems of the company (CNBC, 2019).

Another company that is experiencing legal issues is PT Asmin Koalindo Tuhup (AKT), which was involved in a dispute over the termination of The Coal Mining Cooperation Agreement (PKP2B) with the Ministry of Energy and Mineral Resources (ESDM). As a result, AKT's PKP2B was revoked because the company made the PKP2B contract, which is a state asset, as collateral for Standard Chartered Bank (SCB) credit in 2016. So the company is no longer able to book revenue. While for APTK shares, the date of delisting has been determined on September 30, 2019. Their shareholders can sell ATPK shares on the negotiating market since September 2, 2019 last year. Not much different, the problems experienced by this company are similar to BORN. Its shares can no longer be traded on the stock since 2015 ago. The Exchange also mentioned the removal of ATPK from the exchange due to problems with the company's going concern (CNBC, 2019).

Based on the cases above, it can be concluded that companies that get a going concern audit opinion is certainly due to problems in the future prospects of its business continuity. Prospects for sustainability efforts can be projected through its financial performance. The prospect of corporate sustainability efforts can be seen from what has been or will be done by the company to make better business continuity in the future. The importance of going concern matters shows that the company needed to find out the factors influencing the going concern audit opinion in the relationship between auditor and client (Simamora & Hendarjatno, 2019). But of course aside the relationship with the auditors, there are some risks that must be controlled by the company so as not to disturb the financial performance significantly such as solvability or leverage.

According to Simamora and Hendarjatno's research in 2019, the factors that significantly influence the going concern audit opinion were opinion shopping and leverage.

Aside of the opinion shopping and leverage, the solvability (Mashadi Gharaghayah, Jahanshad, & Adhami, 2013) and Real activities manipulation (RAM) seems to have significant influence on going concern opinion of a firm (Xu, Dao, & Wu, 2018). RAM is defined as the management's actions that deviate from normal business practices, including opportunistically reducing discretionary expenses (Graham et al., 2005; Cohen et al., 2010). Kim and Park (2014) argue that auditors are more likely to resign when a client engages in RAM to avoid excessive risk. However, the absence of a going concern report still leaves auditors vulnerable to litigation (Mutchler, 1985; Carcello and Palmrose, 1994). Moreover, given the fact that going concern reports are finalized well after financial statement dates, which could substantially increase the reputational costs to an auditor if the auditor resigns so late in the auditing process, resignation might be a poor substitute when the auditor is at the stage of making a going concern report decision (Kaplan and Williams, 2013). For these reasons, auditors may issue going concern opinions, rather than simply resigning, when the client engages in aggressive RAM (Xu et al., 2018).

This study refers to previous research, Simamora and Hendarjatno(2019), Xu, Dao, and Wu (2018), and Mashadi, Jahanshad, and Adhami (2013). The Differences of this study with previous studies are this study focuses on three independent variables, namely opinion shopping, solvency (leverage) and real activities manipulation to the going-concern audit opinion. Second, the sampling, the sample used in this research is company from Agriculture sector listed on the Stock Exchange using the data from 2014-2018 because many previous studies examined the manufacturing company.

1.2 Problem Formulations

The problems of this study as follows:

1. Does opinion shopping significantly affect the going concern opinion on firms in Agriculture sector?
2. Does the solvency significantly affect the going concern opinion on firms in Agriculture sector?
3. Does the real activities manipulation (RAM) significantly affect the going concern opinion on firms in Agriculture sector?
4. Do the opinion shopping, solvency, and real activities manipulation (RAM) simultaneously affect the going concern opinion on firms in Agriculture sector significantly?

1.3 Research Objectives

The objectives of this study was to examine and obtain empirical evidence on:

1. The effect of the opinion shopping on the going concern opinion on firms in Agriculture sector.
2. The effect of the Solvency on the going concern opinion on firms in Agriculture sector.
3. The effect of the real activities manipulation (RAM) on the going concern opinion on firms in Agriculture sector.
4. The effect of the opinion shopping, solvency, and real activities manipulation (RAM) simultaneously on the going concern opinion on firms in Agriculture sector.

1.4 Benefits of Research

Based on the research objectives that have been outlined, the research is expected to provide the following benefits:

1. for Practitioners

The results of this study can be used by practitioners as a public accountant in consideration of the right to publish the audit opinion regarding the business continuity of the audited entity.

2. for Academics

The result is expected to be a source of reference and information in the study to be conducted in the future as well as to provide input for the development of education especially in the field of auditing.

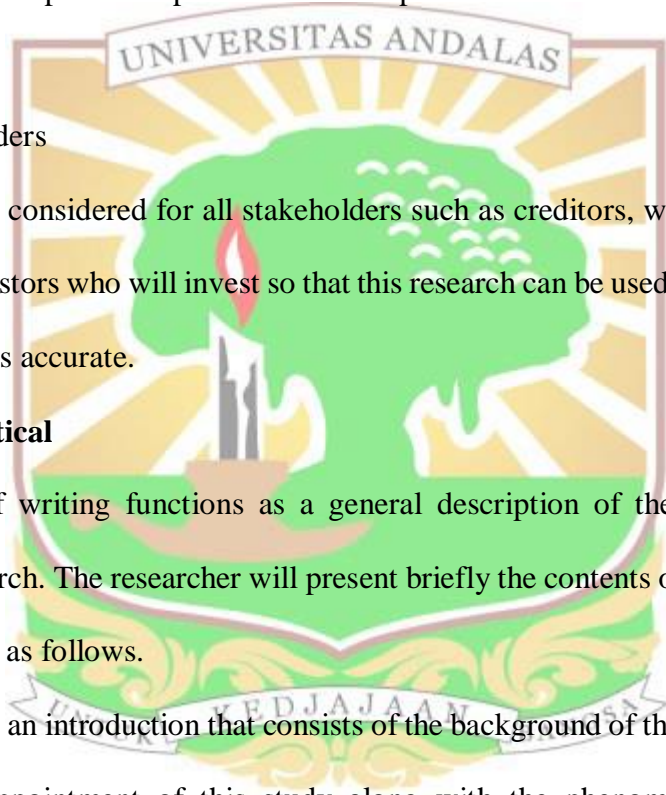
3. For Stakeholders

This study can be considered for all stakeholders such as creditors, which will provide loans to companies and investors who will invest so that this research can be used as reference in making investment decisions is accurate.

1.5 Writing Systematical

The systematic of writing functions as a general description of the sections that will be discussed in this research. The researcher will present briefly the contents of each chapter with the systematics of writing as follows.

The first chapter is an introduction that consists of the background of the problem that explains the reason for the appointment of this study along with the phenomena and contents that accompany this research, then formulates it as a problem, then continues with the purpose and usefulness of the research to find out the urgency of the research, and systematic thesis discussion.



The second chapter contains the theoretical basis that explains the theories that will be the foundation of the variables used in this study. In addition, it also contains the development of hypotheses that explain the preliminary results or conjectures in this study and the research framework that connects each dependent and independent variable.

The third chapter deals with the research methodology used to find out the results and relationships of the dependent and independent variables which include data types and sources, data collection methods, populations and samples, operational definitions of variables, and data analysis methods. The fourth chapter is data analysis and the discussion, this chapter describes about the research object, data analysis and interpretation of the results of the research results. The fifth chapter concludes all of the research due to the last chapter contains conclusions, limitations of the author and suggestions for future research.

