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# **THE EFFECT OF AUDIT QUALITY, FINANCIAL DISTRESS AND AUDIT LAG ON GOING CONCERN AUDIT OPINION**

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## **ABSTRACT**

*This study aims to examine the effect of audit quality, financial distress, and audit lag, going concern audit opinions on transportation sector companies listed on the Indonesia Stock Exchange (IDX) in 2016-2020. The type of data used is secondary data in the form of audited financial reports and independent auditor reports obtained from the IDX official website. The sample in this study amounted to 70 samples determined by purposive sampling method. The analysis used to test the effect between the variables in the study is logistic regression analysis. The results showed that audit quality had no significant effect on going-concern audit opinion, financial distress had a significant effect on going-concern audit opinion, audit lag had no significant effect on going-concern audit opinion. Based on the results of the study, financial distress can be used as material for auditors' consideration in providing a going concern audit opinion.*

*Keywords: Going Concern Audit Opinion, Audit Opinion, Audit Quality, Financial Distress, Audit Lag*

## **1. INTRODUCTION**

A business entity will certainly strive to maintain the continuity of its business (going concern) in running its business, in addition to achieving the main business goal of getting the maximum profit. The survival of the company is important for parties with an interest in the company, especially investors. The existence of a business entity in the long term aims to maintain the company's going concern. One of the business entities that is a concern in the survival of its business is the transportation sector. Reported from news portals, the company's declining performance in the stock market (issuers) in the transportation sector, both air, land and sea, fell in the second half of 2016. The economic slowdown, the weakening of oil prices and intense competition were factors for this. So the management in particular Those who handle finance need to pay attention to the company's financial position both in the past, present and future periods. This is very important for parties with an interest in the company, especially investors, namely regarding the company's ability to operate in the long term (going concern). The condition in which a company experiences financial difficulties and is threatened with bankruptcy is known as financial distress. Companies that experience bankruptcy will begin with financial distress conditions in the company. However, if the company is experiencing financial distress, it is not certain that it will end in bankruptcy. In this case, it is supported by research from (Kesumojati, Widyastuti, & Darmansyah, 2017) which states that financial distress has no effect on going concern audit opinions. (Minerva, Sumeisey, Stefani, Wijaya, & Lim, 2020) who stated that audit quality has a significant effect on going concern opinions and KAPs affiliated with the Big four are better able to reveal the survival rate of the company compared to small-scale KAPs because the level of independence of KAPs affiliated with Big four is higher than small-scale KAPs. Meanwhile, according to (Kesumojati, Widyastuti, & Darmansyah, 2017) stated that audit quality has no significant effect on going concern opinions and the results of his research provide evidence that audit quality cannot be used

## **PROCEEDING**

*Call for Paper – 3<sup>rd</sup> International Seminar on Accounting Society*

*“The Review and Outlook of The Economy after Covid 19 Pandemic”*

as a factor influencing going concern opinions. (Sari P. C., 2020) states that audit lag has a negative or opposite relationship, it can be said that the longer the audit lag, the smaller the potential going concern for the company. Meanwhile, according to (Fajar Santoso, 2019) stated that the length of the number of days needed to complete the audit process is not a trigger for the auditor to issue a going concern audit opinion. Based on the description above and related research between variables showing inconsistent results, the authors are interested in conducting a study on "The Effect of Audit Quality, Financial Distress, and Audit Lag on Going Concern Audit Opinions, Empirical Studies of Transportation Sector Companies Listed on the Stock Exchange. Indonesian Securities 2016-2020.

## **LITERATURE REVIEW**

### **2.1 Theoretical Basis**

#### **2.1.1 Signal Theory**

According to Siregar & Nurmala (2019), Signal Theory suggests how a company should give signals to users of financial statements. This signal is in the form of information about what management has done to realize the owner's wishes. Signal theory explains that signaling is done by managers to reduce information asymmetry. Signal theory can also help the company (agent), owners (principals), and parties outside the company reduce information asymmetry by producing quality or integrity of financial statement information. To ensure that interested parties believe in the reliability of financial information submitted by the company (agent), it is necessary to obtain opinions from other parties who are free to provide opinions on financial statements.

#### **2.1.2 Audit Opinion**

An audit opinion or opinion is an integral part of the company's financial statements, because the audit opinion can provide confidence in the financial statements. According to the Professional Standards of Public Accountants (SPAP) PSA 29 Section 508 (2011) states that there are 5 types of auditor opinions, including, unqualified opinion, unqualified opinion with language explanations added to the auditor's report in standard form (unqualified opinion with explanatory language), qualified opinion, adverse opinion, disclaimer opinion.

#### **2.1.3 Going Concern Audit Opinion**

A going concern audit opinion is an opinion issued by an auditor evaluating whether there is significant doubt about an entity's ability to survive (ISA 570). The auditor provides a going concern audit opinion if in the audit process there are conditions or events that raise significant doubts about the company's viability in the future. Based on Auditing Standards Section 341, when the auditor performs audit procedures finds doubts about an entity to maintain its viability, the auditor will give a going concern opinion on the company. If there are events that can cause the auditor to doubt the viability of the company, the auditor must provide an opinion on this matter.

#### **2.1.4 Audit Quality**

According to Minerva, Sumeisey, Stefani, Wijaya, & Lim (2020), audit quality is the probability that a competent auditor will be able to understand and undergo audit

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“The Review and Outlook of The Economy after Covid 19 Pandemic”

procedures correctly and report independently in the event of a violation. Based on previous studies, a proxy that is often used to assess audit quality is the McKinley et al. (1985) in (Kesumojati, Widyastuti, & Darmansyah, 2017) which states that when a Public Accounting Firm (KAP) claims itself to be a big KAP like the big four firms, then they will try hard to keep the big name, they will avoid any actions taken. actions that can harm their big name.

### 2.1.5 Financial Distress

Financial distress is a condition in which a company experiences financial difficulties by experiencing a stage of decreasing the company's ability to pay debts to creditors when they fall due (Platt, 2002). Bankruptcy is a condition of a company's failure to carry out normal company operations to generate profits. Bankruptcy is also often called company liquidation or company closure or insolvency. The ability to predict bankruptcy will benefit many parties, especially creditors and investors.

### 2.1.5 Auditing Lag

Audit lag is the length of time for the completion of an independent audit report which is calculated based on the number of days needed to obtain an independent audit report on the annual financial statement audit. Audit lag can affect the accuracy of published information, which will affect decisions taken based on late published information (Fajar Santoso, 2019).

## 2.2 Skeleton Of Thought

This framework will show the effect of the independent variable on the dependent variable of the study. The independent variables in this study are Audit Quality, Financial Distress, and Audit Lag. While the dependent variable in this study is going concern audit.

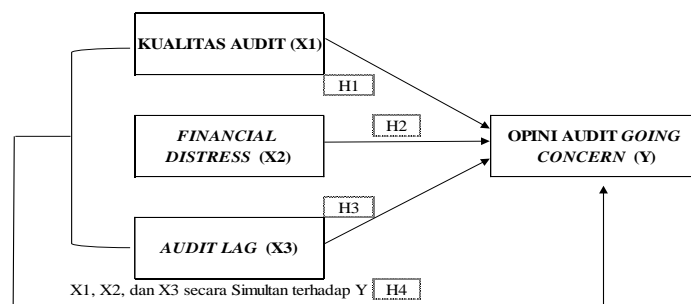


Figure 2.1 Framework

Source: Data processed by researchers, 2021

## 2.3 Hypotension Development

### 2.3.1 Effect of Audit Quality on Going Concern Audit

(Minerva, Sumeisey, Stefani, Wijaya, & Lim, 2020) revealed that large-scale auditors are better able to avoid criticism for reputational damage than small-scale auditors. So that the hypothesis can be formulated, as follows:

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*Call for Paper – 3<sup>rd</sup> International Seminar on Accounting Society  
“The Review and Outlook of The Economy after Covid 19 Pandemic”*

H1: Audit Quality is suspected to have an effect on Going Concern Audit Opinion

### **2.3.2 Effect of Financial Distress on Going Concern Audit**

Financial distress is a company's financial condition that is under pressure which is described by the company's inability to provide working capital or cash. This statement is supported by research (Kesumojati, Widyastuti, & Darmansyah, 2017), financial distress has a significant effect on the acceptance of going concern audit opinions in companies. So that the hypothesis can be formulated, as follows:

H2: Financial Distres is suspected of having an effect on Going Concern Audit Opinion

### **2.3.3 Effect of Audit Lag on Going Concern Audit**

(Sari P. C., 2020) which proves that the audit lag variable has a negative effect, it can be said that the longer the audit lag, the smaller the potential going concern for the company. So that the hypothesis can be formulated, as follows:

H3: *Audit Lag is* suspected to have an effect on Going Concern Audit Opinion

### **2.3.4 Effect of Audit Quality, Financial Distress, and Audit Lag on Going Concern Audit**

The hypothesis formulated in connection with the description of audit quality, financial distress and audit lag on the dependent variable, namely going concern audit, is as follows:

H4: Audit quality, financial distress and audit lag are suspected to have a simultaneous effect on going concern audits.

## **RESEARCH METHODOLOGY**

### **3.1 Types of research**

The data used in this study is secondary data, namely data obtained from various official documents and financial reports that have been officially published by several companies downloaded from the official website of the Indonesia Stock Exchange, namely [www.idx.co.id](http://www.idx.co.id) for the period 2016-2020. and the company's official website.

### **3.2 Research and Measurement Variables**

#### **3.2.1 Dependent Variable**

##### **3.2.1.1 Going Concern Audit Opinion**

The dependent variable used in this study is going concern audit opinion (y). Going concern audit opinion is an opinion issued by the auditor because there is a big doubt about the company being audited regarding its survival (ISA 570). Going concern audit opinion is coded 1 (unqualified opinion with explanatory language, qualified opinion, unqualified opinion, or distrusting opinion), and non-going concern audit opinion is coded 0 (unqualified opinion). An unqualified opinion needs an explanation related to going concern or not with "substantial doubts about the (entity)'s ability to continue business". If the explanation is not out of concern, then it is coded 0 (Maradina, 2019).

## **PROCEEDING**

*Call for Paper – 3<sup>rd</sup> International Seminar on Accounting Society*

*“The Review and Outlook of The Economy after Covid 19 Pandemic”*

### **3.2.2 Independent Variable**

#### **3.2.2.1 Audit Quality**

Audit quality can be measured through the performance of the quality of auditors (KAP) Big four and Non Big four. The quality of external auditors is measured by using a dummy variable. External auditors in the Big four category will be assigned a code of 1. While the Non-Big four will be assigned a code of 0. The KAPs in Indonesia in the big four group are Deloitte Touche Tohmatsu Limited, PwC (Pricewater house Coopers), Ernst and Young, and KPMG (Minerva, Sumeisey, Stefani, Wijaya, & Lim, 2020).

#### **3.2.2.2 Financial Distress**

This study uses a sample of transportation sector companies, so the Altman Z-Score bankruptcy prediction model used is the one that has been modified by Edward I. Altman, which can be used for non-manufacturing companies (Laila, 2021). The Revised Altman Z-Score model for non-manufacturing companies is formulated as follows:

$$Z = 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$$

Z = bankrupt index

X1 = working capital / total assets

X2 = retained earnings / total assets

X3 = earnings before interest and taxes / total assets

X4 = book value of equity / book value of total debt

#### **3.2.2.3 Audit Lag**

This Audit Lag variable can be measured based on the length of days needed to obtain an independent auditor's report on the company's annual financial statement audit, from the date of the company's closing year, which is as of December 31 until the date stated on the independent auditor's report (Sari P. C., 2020).

### **3.3 Population and Sample**

The population in this study are Transportation Companies listed on the Indonesia Stock Exchange (IDX) from 2016 - 2020. The sampling technique in this study uses a purposive sampling technique, which is a sampling technique with certain considerations.

### **3.4 Data analysis technique**

The data processing in this study uses panel data logistic regression analysis techniques and the data processing program used in this study uses the Econometric Views (Eviews) version 9 data processing program.

## **RESEARCH RESULTS AND DISCUSSION**

### **4.1 Overview of Research Objects**

There are around 44 companies in the transportation sector listed on the Indonesia Stock Exchange (IDX) as of January 2021 (idx.co.id, 2021). The research sample was determined using the purposive sampling method. Purposive sampling research can identify that the sample used in this study is a representation of the existing population, and is in accordance with the research objectives. Based on the purposive sampling technique, obtained 14 companies that match the criteria that have been determined to be the object of research.

## PROCEEDING

Call for Paper – 3<sup>rd</sup> International Seminar on Accounting Society  
“The Review and Outlook of The Economy after Covid 19 Pandemic”

### 4.2 Description of Research Sample

Table 4. 1 Research Table Selection Results

No	Sample Criteria	Criteria Violation	Company Accumulation
1	Transportation Sector Company Listed on the Indonesia Stock Exchange During 2016-2020	(12)	44
2	Transportation Sector Company That Published Annual Reports For 5 Consecutive Years During 2016-2020	(4)	32
3	Transportation Sector Company That Issued Fully Audited Annual Reports On the Indonesia Stock Exchange During 2016-2020	(1)	28
	Transportation Sector Companies That Did Not Experience Delisting During The Research Period.	(1)	27
4	Transportation Sector Companies whose financial statements use Rupiah during 2015-2020	(12)	26
Number of samples: 14 x 5 years = 70 Samples			

Source: Data processed by researchers, 2021

There are 44 transportation companies in the 2016-2020 period. However, based on the results of the sample selection process, there were only 14 companies that matched the research criteria. The following is a list of names of transportation sector companies that pass the sample criteria:

Table 4.2 Sample Company List

No	Company Name	Company Code
1.	Majapahit Inti Corpora Tbk	AKSI
2.	Adi Sarana Armada Tbk	ASSA
3.	Blue Bird Tbk	BIRD
4.	Cardig Aero Services Tbk	CASS
5.	Air Asia Indonesia Tbk	CMPP
6.	Eka Sari Lorena Transport Tbk	LRNA
7.	Mitra International Resources Tbk	MIRA
8.	Pelayaran Nelly Dwi Putri Tbk	NELY
9.	Steady Safe Tbk	SAFE
10.	Sidomulyo Selaras Tbk	SDMU

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Call for Paper – 3<sup>rd</sup> International Seminar on Accounting Society

“The Review and Outlook of The Economy after Covid 19 Pandemic”

11.	Express Trasindo Utama Tbk	TAXI
12.	Pelayaran Tempuran Emas Tbk	TMAS
13.	WEHA Transportasi Indonesia Tbk	WEHA
14.	PT Zebra Nusantara Tbk	ZBRA

Source: Data processed by researchers, 2021

### 4.3 Descriptive Statistical Analysis

The following are the results of descriptive statistical testing of the variables of audit quality, financial distress, audit lag and going concern audit opinion from 2016-2020 which are presented in the following table:

Table 4.3 Descriptive Statistical Analysis

	OGC	KA	FD	AL
Mean	0.114286	0.485714	1449.319	104.0714
Median	0	0	0.59501	88
Maksimum	1	1	98405.42	291
Minimum	0	0	-275.2595	0
Std. Dev.	0.320455	0.503405	11759.29	41.70508
Skewness	2.424672	0.057166	8.18012	1.368
Kurtosis	6.879032	1.003268	67.94809	7.865045

Source: EViews Statistical Output Version 9, 2021

### 4.4 Logistics Regression Analysis

The results of the regression analysis function to describe or explain the output related to the independent and dependent variables in the study, so that in this case the linkage factor from the regression results can be linked and re-estimated according to one variable with another. The following are the results of the logistic regression analysis in this study:

Table 4.4 Logistics Regression Analysis

Dependent Variable: OGC				
Method: ML - Binary Logit (Newton-Raphson / Marquardt steps)				
Date: 09/19/21 Time: 12:20				
Sample: 2016 2020				
Included observations: 70				
Convergence achieved after 20 iterations				
Coefficient covariance computed using observed Hessian				
Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-2.447193	1.713328	-1.428327	0.1532
KA	-1.600788	1.303663	-1.227916	0.2195
FD	-0.116129	0.047732	-2.432944	0.015
AL	-0.001761	0.015253	-0.115421	0.9081
McFadden R-squared	0.508676	Mean dependent var	0.114286	
S.D. dependent var	0.320455	S.E. of regression	0.225727	
Akaike info criterion	0.463502	Sum squared resid	3.362874	
Schwarz criterion	0.591987	Log likelihood	-12.22256	
Hannan-Quinn criter.	0.514538	Deviance	24.44513	
Restr. deviance	49.75361	Restr. log likelihood	-24.8768	
LR statistic	25.30848	Avg. log likelihood	-0.174608	
<b>Prob(LR statistic)</b>	<b>0.000013</b>			
Obs with Dep=0	62	Total obs	70	
Obs with Dep=1	8			

Source: EViews Statistical Output Version 9, 2021

**PROCEEDING**

Call for Paper – 3<sup>rd</sup> International Seminar on Accounting Society  
“The Review and Outlook of The Economy after Covid 19 Pandemic”

Based on the table above, it can be seen that the logistic regression equation formed is:  
 $OGC = -2.447193 + -1.600788 (KA) + -0.116129 (FD) - -0.001761 (AL) +$  The interpretation or estimation of the logit model cannot be read directly by looking at the coefficients. Therefore, in order to be interpreted, the main thing that needs to be done is to find the anti-logarithm (antilog) value of each logistic regression coefficient first. If the value of exp (b) or the odds ratio has been obtained, then the logit model can be interpreted (A., 2018). The value of the coefficient that has been obtained is then converted into the odds ratio. To get the odds ratio value the formula used is  $= 2.72^{\wedge}\beta$ . Here are the figures obtained:

Table 4.5 Odds Ratio Test

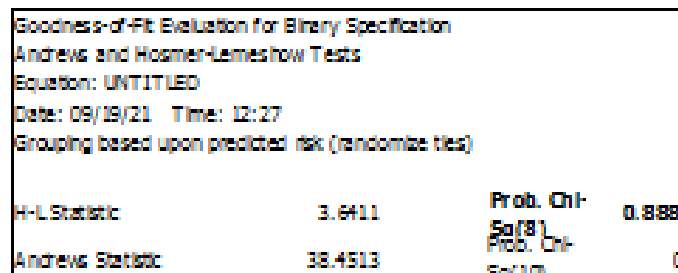
Variabel	Coefficient	Odds Ratio
C	-2.4472	0.086402
KA	-1.6008	0.201534
FD	-0.1161	0.890295
AL	-0.0018	0.998239

Source: Data processed by researchers, 2021

**4.3 Feasibility of the Regression Model (Hosmer and Lemeshow's Goodness of fit Test)**

In the table below, it can be seen that the feasibility test of the model shown by the results of the Hosmer and Lemeshow Test shows the Chi Square probability value of  $0.888 > 0.05$ . From the test results, it shows the criteria that are in accordance with the feasibility of the regression model, namely  $H_0$  is accepted. This means that the regression model is said to be feasible to be used in further analysis and the model is able to predict the value of the observations. This shows that the logistic regression equation can be used to explain the relationship between the independent variable and the dependent variable.

Table 4.6 Feasibility of the Regression Model (Hosmer and Lemeshow's Goodness of fit Test)



```
Goodness-of-Fit Evaluation for Binary Specification
Andrews and Hosmer-Lemeshow Tests
Equation: UNTITLED
Date: 09/19/21 Time: 12:27
Grouping based upon predicted risk (randomize ties)

H-L Statistic          3.6411          Prob. Chi-Sqr(8)    0.888
Andrews Statistic     38.4513          Prob. Chi-Sqr(10)   0
```

Source : EViews Statistical Output Version 9, 2021



## PROCEEDING

Call for Paper – 3<sup>rd</sup> International Seminar on Accounting Society

“The Review and Outlook of The Economy after Covid 19 Pandemic”

### 4.4 Model Accuracy Test

In the results of the table, it can be seen that in the estimated equation column it is known that the total results from the percentage value of the correct prediction accuracy are obtained at 94.29%, which means that the percentage of model accuracy in predicting the possibility of transportation companies in this study is 94.29%.

Table 4.7 Model Accuracy Test

Expectation-Prediction Evaluation for Binary Specification						
Equation: UNTITLED Date: 09/19/21 Time: 12:29 Success cutoff: C = 0.5						
	Estimated Equation			Constant Probability		
	Dep=0	Dep=1	Total	Dep=0	Dep=1	Total
P(Dep=1)<=C	62	4	66	62	8	70
P(Dep=1)>C	0	4	4	0	0	0
Total	62	8	70	62	8	70
Correct	62	4	66	62	0	62
% Correct	100	50	<b>94.29</b>	100	0	88.57
% Incorrect	0	50	5.71	0	100	11.43
Total Gain*	0	50	5.71			
Percent Gain**	NA	50	50			

Source : EViews Statistical Output Version 9, 2021

### 4.5 Coefficient of Determination (R<sup>2</sup>)

Table 4.8 Coefficient of Determination

McFadden R-squared	<b>0.50868</b>	Mean	0.114286
S.D. dependent var	0.320455	S.E. of	0.225727
Akaike info criterion	0.463502	Sum squared	3.362874
Schwarz criterion	0.591987	Log likelihood	-12.2226
Hannan-Quinn criter.	0.514538	Deviance	24.44513
Restr. deviance	49.75361	Restr. log	-24.8768
LR statistic	25.30848	Avg. log	-0.17461
Prob(LR statistic)	0.000013		

Source : EViews Statistical Output Version 9, 2021

Based on the table shows that the value of McFadden R-squared in the output of the determination coefficient estimation is 0.50868. It can be concluded that the independent variables indicated by (audit quality, financial distress and audit lag) in the model are able to explain the going concern opinion of 50.88% and the remaining 49.12% is explained by variables outside the study, including audit client tenure, opinion shopping, auditor reputation, audit fee, disclosure, debt default and other variables not examined in this study.

## PROCEEDING

Call for Paper – 3<sup>rd</sup> International Seminar on Accounting Society

“The Review and Outlook of The Economy after Covid 19 Pandemic”

### 4.6 Partial Test

Table 4.9 Partial Test

Dependent Variable: OGC				
Method: ML - Binary Logit (Newton-Raphson / Marquardt steps)				
Date: 09/19/21 Time: 12:20				
Sample: 2016 2020				
Included observations: 70				
Convergence achieved after 20 iterations				
Coefficient covariance computed using observed Hessian				
Variable	Coefficient	Std. Error	z-Statistic	Prob.
KA	-1.600788	1.303663	-1.227916	0.2195
FD	-0.116129	0.047732	-2.432944	0.015
AL	-0.001761	0.015253	-0.115421	0.9081

Source: EViews Statistical Output Version 9, 2021

Based on the table above, the output of the partial test results is as follows:

1. The probability value of the independent variable KA, namely Audit Quality, is 0.2195, ie  $> 0.05$  (significant value) which means that H0 is accepted and H1 is rejected. From these results, it can be concluded that the Audit Quality (KA) variable has no significant effect on Going Concern Opinion (OGC) at a significant 5%.
2. The probability value of the FD independent variable, namely Financial Distress, is 0.015, which is  $< 0.05$  (significant value) which means that H0 is rejected and H1 is accepted. From these results, it can be concluded that the Financial Distress (FD) variable has a significant effect on Going Concern Opinion (OGC) at a significance of 5%.
3. The probability value of the LA independent variable, namely Audit Lag, is 0.9081 which is  $> 0.05$  (significant value) which means that H0 is accepted and H1 is rejected. From these results, it can be concluded that the Audit Lag (AL) variable has no significant effect on Going Concern Opinion (OGC) at a significance of 5%.

### 4.7 Simultaneous Test

Tabel 4.10 Simultaneous Test

McFadden R-squared	0.508676	Mean dependent var	0.114286
S.D. dependent var	0.320455	S.E. of regression	0.225727
Akaike info criterion	0.463502	Sum squared resid	3.362874
Schwarz criterion	0.591987	Log likelihood	-12.22256
Hannan-Quinn criter.	0.514538	Deviance	24.44513
Restr. deviance	49.75361	Restr. log likelihood	-24.8768
LR statistic	25.30848	Avg. log likelihood	-0.174608
<b>Prob(LR statistic)</b>	<b>0.000013</b>		

Source: EViews Statistical Output Version 9, 2021

Based on the simultaneous test output, it is known that the probability value (LR-statistic)

## **PROCEEDING**

*Call for Paper – 3<sup>rd</sup> International Seminar on Accounting Society*

*“The Review and Outlook of The Economy after Covid 19 Pandemic”*

is  $0.000013 < 0.05$  (significant value), namely  $H_0$  is rejected and  $H_1$  is accepted, it can be interpreted that the independent variables in this study together can affect the dependent variable in this study.

### **4.8 Research Discussion**

#### **4.8.1 Effect of Audit Quality on Going Concern Opinion**

The results of the study show that the probability value of the audit quality variable is 0.2195, namely  $> 0.05$ , which means that audit quality has no significant effect on going-concern opinion. This is in line with research conducted by (Chandra, 2019) which states that audit quality partially has no effect on going concern audit opinions, because the results show a sig value of  $0.998 > 0.05$ . This means that both companies audited by large and small KAPs, when potentially experiencing bankruptcy will have the same opportunity to receive a going concern audit opinion.

#### **4.8.2 Effect of Financial Distress on Going Concern Opinion**

The results show that the probability value of the financial distress variable is 0.015, which is  $< 0.05$ , which means that financial distress has a significant effect on Going Concern Opinions. This is in line with the research conducted by (Laila, 2021). According to (Laila, 2021), financial distress has a significant effect on going concern audit opinion as evidenced by a significance value of 0.000 which is smaller than 0.05. So it can be concluded that the more companies experience financial distress or poor financial conditions indicated by a small Z-Score, the greater the probability that the company will receive a going concern audit opinion.

#### **4.8.3 Effect of Audit Lag on Going Concern Opinion**

The results showed that the probability value of the Audit Lag variable was 0.9081 ie  $> 0.05$  had no significant effect on Going Concern Opinion. This is in line with research conducted by (Afnan, Hernawati, & Nugraheni, 2020) which states that the audit lag variable has a significance level greater than 0.05, namely  $0.713 > 0.05$  which explains that the audit lag variable has no significant effect on acceptance. going concern audit opinion. So it can be concluded that the length of time required to issue an audit report has no effect on the auditor in providing a going concern audit opinion to the company.

## **CONCLUSION**

Based on the results of the analysis, submission of hypotheses, and discussion, the following conclusions can be drawn:

1. Partially, audit quality has no significant effect on going concern audit opinion.
2. Financial distress partially has a significant effect on going concern audit opinion.
3. Partial audit lag has no significant effect on going concern audit opinion.
4. Audit quality, financial distress and audit lag simultaneously or jointly have a significant effect on going concern audit opinion.

## **PROCEEDING**

*Call for Paper – 3<sup>rd</sup> International Seminar on Accounting Society*

*“The Review and Outlook of The Economy after Covid 19 Pandemic”*

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