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Company Size as a Moderating Determinant of Going Concern Audit Opinion (GCAO) on Emphasis of Matter (EOM) Paragraph

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Abstract: This study aims to examine the effect of solvency and asset turnover on the company's chances of receiving a GCAO on EOM paragraph, with company size as a moderating variable. The research focuses on companies in the hospitality industry listed on the Indonesia Stock Exchange during the Covid-19 pandemic in the 2020-2022 period. The independent variables analyzed include solvency and asset turnover, while the dependent variable is the GCAO on EOM paragraph. This research method uses a purposive sampling technique to select 28 companies as samples for the 2020-2022 period. Data analysis was carried out using logistic regression implemented through the EViews application. The results of the analysis show that the higher the debt or low solvency, the higher the chance of the company receiving a GCAO on EOM paragraph. Meanwhile, the higher the asset turnover, the lower the chance of the company receiving a GCAO on EOM paragraph. In addition, company size is proven to moderate the effect of solvency and asset turnover on the chances of receiving a GCAO on EOM paragraph. In conclusion, companies with high solvency and high asset turnover during the Covid-19 pandemic can maintain their business continuity, so auditors do not feel the need to issue a GCAO on EOM paragraph.

Keywords: Going Concern Audit Opinion, Solvency, Asset Turnover, Emphasis of Matter Paragraph

INTRODUCTION

The Covid-19 pandemic has resulted in significant global economic uncertainty, especially for the hospitality industry. Travel restrictions and a drastic decline in tourism have led to a large drop in revenue for companies in the sector (Gössling et al., 2020; Nicola et al., 2020). According to a report by UNWTO (2021), international tourism experienced a 74% decline in 2020, which had a significant impact on hotel and restaurant revenues (Sigala, 2020; UNWTO, 2021).

In situations like this, the going concern assessment becomes crucial. Auditors often use a GCAO on EOM paragraph to highlight concerns about the company's ability to continue operating in the long term (Carson et al., 2013; Geiger et al., 2005). Audit opinions containing

going concern can have a negative impact on investor and creditor perceptions, reducing trust and potential investment in the company (Carey et al., 2008; Winarta & Kuntadi, 2022).

Factors such as solvency and asset turnover are key indicators in this evaluation, as they reflect the financial stability and operational efficiency of the company. Solvency indicates the company's ability to meet its long-term obligations and is an important indicator for auditors in assessing going concern risk (Altman & Hotchkiss, 2010; Jones et al., 2017). Research shows that low solvency is often associated with increased bankruptcy risk (Altman, 1968; Beaver, 1966). On the other hand, asset turnover measures how efficiently a company uses its assets to generate revenue, which is an important indicator of operational performance (Hasan et al., 2015; Winarta & Kuntadi, 2023).

The hospitality industry, which has been heavily impacted by the pandemic, provides a relevant setting for this study. Previous research shows that the hospitality industry is highly sensitive to macroeconomic conditions and has a high degree of volatility in terms of revenue and profitability (Chen et al., 2007; Kim & Gu, 2003). The Covid-19 pandemic has exacerbated this situation, with many firms in the sector facing severe liquidity challenges and the threat of bankruptcy (Nicola et al., 2020; Sigala, 2020). This study also includes firm size as a moderating variable, if larger firms may have better capacity to manage the crisis and maintain their business continuity (Carey et al., 2008; Dang et al., 2018).

Based on the background described above, the problem formulations in this study are as follows:

1. Does solvency affect the company's chances of receiving a GCAO on EOM paragraph?
2. Does asset turnover affect the company's chances of receiving a GCAO on EOM paragraph?
3. Does company size moderate the effect of solvency on the company's chances of receiving a GCAO on EOM paragraph?
4. Does company size moderate the effect of asset turnover on the company's chances of receiving a GCAO on EOM paragraph?

METHOD

This research was conducted at consumer cyclical companies in the hospitality sub-industry listed on the Indonesia Stock Exchange for the period 2020-2022. The object of research is the annual audit financial report for the period 2020-2022. While the unit of analysis is 28 companies listed on the Indonesia Stock Exchange in the consumer cyclical sector of the hospitality sub-industry based on the Indonesia Stock Exchange data classification in 2022. This study uses a variable measurement scale as presented in Table 1 as follows:

Table 1. Variable Measurements

No	Variable	Measurement	Scale
1	Size	Natural logarithm of total assets	Nominal
2	Solvency	Total liabilities / total assets	Ratio
3	Asset Turnover	Total net sales / total asset	Ratio
4	GCAO on EOM Paragraph	- Category 1: Companies that get a GCAO on EOM paragraph. - Category 0: Companies that do not get a GCAO on EOM paragraph,	Nominal

Source: research data

The population of this study were 28 hospitality sub-industry consumer cyclical companies listed on the Indonesia Stock Exchange for the 2020-2022 period. The sample determination method used is purposive sampling technique, which is a sampling technique with certain considerations. The consideration or determination of the criteria is as follows:

1) Hospitality sub-industry consumer cyclical companies listed on the Indonesia Stock Exchange for the period 2020-2022.

2) The company did not experience delisting or suspension during the research period, namely the 2020-2022 period.
3) The company publishes audited annual financial reports in a row for the period 2020-2022.
4) The company received a GCAO on EOM or did not get a GCAO on EOM paragraph for the 2020-2022 period.

This study uses sample selection criteria as presented in Table 2 as follows:

Table 2. Sample Selection

No	Criteria	#Unit
1	Companies in the hospitality industry that are listed on the IDX for the period 2020-2022	28
2	Companies that experience delisting or suspension	(1)
3	Companies whose annual audit financial statements are incomplete	(5)
	The final sample number of companies	22
	Number of research observations (3 years)	66

Source: research data

This study uses a logistic regression model with the help of EViews 12 software. This model is used because the dependent variable used is a dichotomous variable (companies that get a GCAO on EOM paragraph = 1 and companies that do not get a GCAO on EOM paragraph = 0). In this model, it no longer requires normality test and classical assumption test on the independent variable and ignores heteroscedasticity, meaning that the dependent variable does not require homoscedasticity for each independent variable. The logistic regression model in this study is as follows:

$$Y = \alpha+\beta_1.X_1+\beta_2.X_2+\beta_3.X_1.Z+\beta_4.X_2.Z+\varepsilon$$

Y: ln(p/(1-p)) where p is the Chance of Getting a GCAO on EOM Paragraph
α: Constant
β_1: Solvency Regression Coefficient
X_1: Solvency
β_2: Regression Coefficient of Asset Turnover
X_2: Asset Turnover
β_3: Regression Coefficient of Size Moderation on Solvency
$X_1.Z$: Moderation of Size on Solvency
β_4: Moderation Regression Coefficient of Size on Asset Turnover
$X_2.Z$: Moderation of Size on Asset Turnover
ε: Standard Error

RESULTS AND DISCUSSION

The results in Table 3 show that the value of Hosmer and Lemeshow's Goodness of Fit Test is 13.3479 with a significance level of 0.1004 greater than the α value (0.05), meaning that the research model can predict the observation value, or the model is acceptable because it fits the observation data.

Table 3. Goodness of Fit Test

Goodness-of-Fit Evaluation for Binary Specification
Andrews and Hosmer-Lemeshow
Tests
Equation: UNTITLED
Date: 06/29/24 Time: 07:29
Grouping based upon predicted risk (randomize ties)

Quantile of Risk		Dep=0		Dep=1		Total	H-L
Low	High	Actual	Expect	Actual	Expect	Obs	Value

1	0.0097	0.1218	5	5.55706	1	0.44294	6	0.75644
2	0.1274	0.2024	6	5.86588	1	1.13412	7	0.01893
3	0.2192	0.3084	3	4.30299	3	1.69701	6	1.39502
4	0.3134	0.3698	2	4.55303	5	2.44697	7	4.09526
5	0.3722	0.4297	5	4.23329	2	2.76671	7	0.35133
6	0.4308	0.4413	5	3.37890	1	2.62110	6	1.78038
7	0.4425	0.4964	6	3.75855	1	3.24145	7	2.88666
8	0.5036	0.5153	4	2.95561	2	3.04439	6	0.72732
9	0.5286	0.7320	2	2.31906	5	4.68094	7	0.06564
10	0.7439	0.9649	0	1.07562	7	5.92438	7	1.27090
		Total	38	38.0000	28	28.0000	66	13.3479

H-L Statistic	**13.3479**	Prob. Chi-Sq(8)	**0.1004**
Andrews Statistic	23.3230	Prob. Chi-Sq(10)	0.0096

Source: research result

The results in Table 4 show that the prediction accuracy rate reaches 69.7%, meaning that the research model produced is quite good.

Table 4. Expectation-Prediction Evaluation Test

Expectation-Prediction Evaluation for Binary Specification
Equation: UNTITLED
Date: 06/29/24 Time: 07:24
Success cutoff: C = 0.5

	Estimated Equation			Constant Probability		
	Dep=0	Dep=1	Total	Dep=0	Dep=1	Total
P(Dep=1)<=C	32	14	46	38	28	66
P(Dep=1)>C	6	14	20	0	0	0
Total	38	28	66	38	28	66
Correct	32	14	46	38	0	38
% Correct	84.21	50.00	**69.70**	100.00	0.00	57.58
% Incorrect	15.79	50.00	30.30	0.00	100.00	42.42
Total Gain*	-15.79	50.00	12.12			
Percent Gain**	NA	50.00	28.57			

	Estimated Equation			Constant Probability		
	Dep=0	Dep=1	Total	Dep=0	Dep=1	Total
E(# of Dep=0)	25.07	12.93	38.00	21.88	16.12	38.00
E(# of Dep=1)	12.93	15.07	28.00	16.12	11.88	28.00
Total	38.00	28.00	66.00	38.00	28.00	66.00
Correct	25.07	15.07	40.14	21.88	11.88	33.76
% Correct	65.97	53.82	60.81	57.58	42.42	51.15
% Incorrect	34.03	46.18	39.19	42.42	57.58	48.85
Total Gain*	8.39	11.39	9.67			
Percent Gain**	19.79	19.79	19.79			

*Change in "% Correct" from default (constant probability) specification
**Percent of incorrect (default) prediction corrected by equation

Source: research result

The results in Table 5 show that the McFadden R-Squared value is 0.163922, meaning that the independent variables in the model can explain changes in the chances of getting a GCAO on EOM paragraph by 16.4% and the remaining 83.6% is explained by other variables outside the model.

Table 5. Hypothesis Test and McFadden R-Squared

Dependent Variable: Y
Method: ML - Binary Logit (Newton-Raphson / Marquardt steps)
Date: 06/29/24 Time: 07:15
Sample: 1 66
Included observations: 66
Convergence achieved after 4 iterations
Coefficient covariance computed using observed Hessian

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	**0.031713**	0.546408	0.058038	0.9537
X1	**49.30963**	19.96605	2.469673	**0.0135**
X2	**-109.4181**	51.73111	-2.115131	**0.0344**
X1Z	**-3.491056**	1.456810	-2.396370	**0.0166**
X2Z	**7.433303**	3.764582	1.974536	**0.0483**

McFadden R-squared	**0.163922**	Mean dependent var	0.424242
S.D. dependent var	0.498015	S.E. of regression	0.460805
Akaike info criterion	1.291298	Sum squared resid	12.95283
Schwarz criterion	1.457181	Log likelihood	-37.61283
Hannan-Quinn criter.	1.356846	Deviance	75.22567
Restr. deviance	89.97443	Restr. log likelihood	-44.98721
LR statistic	14.74876	Avg. log likelihood	-0.569891
Prob (LR statistic)	0.005252		

Obs with Dep=0	38	Total obs	66
Obs with Dep=1	28		

Sumber: EViews 12

Based on the results in Table 5, the logistic regression model is obtained as follows:

$$Y = 0{,}031713 + 49{,}30963*X_1 - 109{,}4181*X_2 - 3{,}491056*Z + 7{,}433303*Z$$

A positive (+) or negative (-) sign on each regression coefficient partially indicates an increase or decrease in the odd ratio of the dependent variable or GCAO on EOM paragraph, if one of the independent variables is changed, assuming the other independent variables are constant.

Based on the logistic regression model and hypothesis testing above, it can be explained as follows:

1) The p value for hypothesis H_1 is 0.0135 <0.05 with a regression coefficient (+) so that the decision is to reject H_0 and accept H_1, meaning that partially the solvency variable has a significant positive effect on the chances of getting a GCAO on EOM paragraph.
2) The p value for the H_2 hypothesis is 0.0344 <0.05 with a regression coefficient (-) so that the decision is to reject H_0 and accept H_2, meaning that partially the asset turnover variable has a significant negative effect on the chances of getting a GCAO on EOM paragraph.
3) The p value for hypothesis H_3 is 0.0166 <0.05 with a regression coefficient (-) so that the decision is to reject H_0 and accept H_3, meaning that the company size variable negatively moderates the relationship between solvency and the opportunity to get a GCAO on EOM paragraph.
4) The p value for hypothesis H_4 is 0.0483 <0.05 with a regression coefficient (+) so the decision is to reject H0 and accept H4, meaning that the company size variable positively moderates the relationship between asset turnover and the opportunity to get a GCAO on EOM paragraph.

CONCLUSION

The findings of this study indicate significant relationships between solvency, asset turnover, and the issuance of a GCAO on EOM paragraph within the hospitality industry, particularly under the adverse economic conditions caused by the Covid-19 pandemic. Solvency has a positive effect, suggesting that companies with higher solvency ratios are more likely to receive a GCAO on EOM paragraph, highlighting concerns about long-term viability. Conversely, asset turnover has a negative effect, implying that more efficient use of assets reduces the likelihood of such an opinion. Additionally, firm size moderates these relationships; larger firms are less likely to receive a GCAO on EOM paragraph when they have higher solvency, yet they are more likely to receive it when they have lower asset turnover. These insights are critical for stakeholders in assessing financial stability and making informed decisions in times of economic uncertainty. The research model, which demonstrates reasonable predictive accuracy and explanatory power, provides a valuable framework for future studies and practical applications in the hospitality sector.

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