Company's financial condition, debt default, and audit committee on defending going concern: springate model & financial company

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Article Info	ABSTRACT
Keywords: Going Concern, Financial Classification (S-score), Debt Default, Audit Committee, Springate Model	Going concern has become a phenomenon and must be obeyed by companies, especially for a company registered as a go public company. Because the impact of the going concern is meaningful which it not only makes the company have a long life for its existence in the marketplace, but also can attract new investors to invest at the company. This research is studied to know the analysis of the effect of financial condition and debt default on going concern. The sampling method used is purposive sampling method with special requirements or criteria of sample which are 60 financial institution companies listed on the IDX (Indonesia Stock Exchange) in 2015-2018. This research uses IBM SPSS 21.0 program and variety of journals and references relating to the topic of the research as well as other information from legal websites on the internet. The results of this study show that both financial condition and debt default don't have an effect on going concern with the audit committee as a control variable.
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INTRODUCTION

Survival or business continuity (going concern) of a company is one of the important thoughts that a company must have in order to maintain its existence in the market. Because, if the business run by a company at the beginning of the period runs smoothly, but in the following period it does not run smoothly indirectly due to a lack of innovation in the products being marketed, the debt it has is too large, causing the company to experience losses due to being unable to pay, or lacking a strategy in marketing the product, it is certain that the survival or business continuity (going concern) of the company itself will be threatened. Ginting and Tarihoran (2017) stated that going concern (business continuity) is a condition where a business entity or entity is expected to continue for an unlimited period of time in the future. This understanding is a warning that if a company is indifferent or does not care about the continuity of its business, such as not having strategic innovation in marketing its products, innovation in the products or business itself, or letting the amount of debt it has become too large because of the company's inability to pay it off. according to the specified time period, it can be ascertained that the condition of the business or business run by the company may falter. If a company continues to allow this to happen, it is certain that the company will experience huge losses and end up in bankruptcy.

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Going concern is always a major issue, especially for companies that have obligations with external parties. One of the external parties in question is investors, where the company is obliged to provide a return according to expectations for the investment made by the investor. One of the main and closest issues is the issue that occurred at the BEI (Indonesian Stock Exchange), where the BEI admitted that there were several companies whose business continuity was still in question (https://investasi.kontan.co.id). Not long ago, the IDX asked about the business continuity of PT Arpeni Pratama Ocean Line Tbk (APOL), where APOL is in the process of debt restructuring (https://investasi.kontan.co.id). PT Sekawan Intipratama Tbk (SIAP) is also considered to still not have a clear going concern, especially after mining operations were stopped (https://investasi.kontan.co.id). Samsul Hidayat, Director of Company Assessment at BEI, said that one of the criteria for a company that is said to not have business continuity is if it has no income or its performance continues to suffer losses (https://investasi.kontan.co.id). These criteria are the basis for the IDX to see whether the company is still eligible for listing (registered) or delisting (not listed) status for its shares. These criteria are also intended, among other things, to protect investors from losses and help investors in choosing which companies have good profit prospects in the business they run.

Companies that have continuously improving performance and have a healthy financial condition usually have a fairly good and stable financial status. However, in reality, there are still many companies that currently believe that if their finances are still in a healthy condition, then going concerns do not need to be watched out for or worried about. In fact, if the company remains alert to its going concern, indirectly the company has developed a new strategy to maintain its existence in the market. Because, when a company updates its product marketing strategy and diversifies its products to keep up with current business developments & societal needs, the company is maintaining its viability for quite a long period of time because the strategy updates it carries out can usually increase revenue and can improve company performance, both in terms of finance and business.

A company with a healthy financial condition is actually not only obliged to update its strategy, but is also obliged to update its debt. This is because a company that updates its strategy, but still has a very large amount of debt, is feared that this could result in the company being unable to fulfill its obligations (pay off its debt) to its maximum potential. If the company cannot fulfill its obligations, it is feared that the company will experience debt default (failure to pay debts within the specified time). Companies that experience debt default will usually have a going concern that is threatened. Putri and Helmayunita (2021) stated that in PSAK 30, debt default is a going concern indicator used by auditors in considering the viability of a company. Then, Reeve et al. (2014) suggest that debt is an obligation created by purchasing on credit. Purchases on credit are reasonable to fulfill the need for raw materials needed to produce the products sold by the company. However, if the debt for the purchase is not immediately repaid and left untreated, it could have a negative impact on the company, where if the amount of debt presented in the company's financial statements has a fairly large nominal figure, it is feared that investors will be

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unsure about the investment they have made, which will lead to the possibility of investors withdraw the capital they invested into the company.

The existence of an audit committee is a reference to the company's strength in maintaining a going concern, apart from maintaining financial condition and preventing debt defaults. According to Tandungan and Mertha (2016), the audit committee functions to improve the internal and external audit function and improve the quality of financial reports. The quality of financial reports that is maintained can indirectly invite investors to invest more capital in the company. If many investors invest capital or invest in a company, then the company can directly maintain its going concern for a long period of time. Because, with the large number of investors who invest, the company will receive a lot of funds where these funds can be used to develop new strategies that are competent in increasing income & profits, such as expanding the business by diversifying products or making acquisitions of other companies.

This research is a development of previous research, namely research conducted by Rahim (2016). This research uses the Springate model to measure financial condition which is categorized as an independent variable along with debt default and audit committee as control variables while previous research used Z-score to measure financial condition and other independent variables used were audit quality & opinion. shopping. This research has a contribution to clearly see whether the company's financial condition (both healthy and unhealthy) with the existence of debt incurred in a certain period and having supervision from the audit committee will still be able to maintain its going concern or not. This is intended so that companies can have the awareness that by continuing to pay attention to going concerns, the company can indirectly maintain its existence in the market for a long period of time. Then, the researcher's motivation in conducting this research includes wanting to know whether the company's financial condition (both healthy and unhealthy) with the amount of debt it has in a period and the supervision of the audit committee as a control, can be a trigger for a company to consistently pay attention to continuity. his life or not. This research aims to find out whether financial conditions have an influence on the company's going concern .

METHOD

Research design

This research discusses and examines whether *financial condition* and debt have an influence on *going concern* with the audit committee as a control variable. The independent (free) variables contained in this research consist of *financial condition* (X_1) and *debt default* (X_2) while the dependent (bound) variable is *going concern* (Y) and the control variable is the audit committee (Z). This research uses hypothesis testing with the unit of analysis, namely industry or companies listed on the BEI (Indonesian Stock Exchange).

Population and Sample

The population of this research is industry or companies operating in the financial sub-sector, namely financing institutions registered on the BEI (Indonesian Stock Exchange) in 2015-2018. This research uses *nonprobability* sampling which leads to a *purposive*

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sampling or *judgmental sampling method* as a sampling method. Sudaryono (2014:123) suggests that judgmental sampling is a form of non-probability sampling based on certain criteria.

Data Collection Techniques and Instrument Development

The data used in this research is secondary data. The data collected was obtained from the BEI (Indonesian Stock Exchange) *website , namely www.idx.co.id.* The sample withdrawal or collection method used in this research is the *purposive sampling method* with the following criteria:

a. Financial sub-sector companies, namely financial institutions registered on the BEI (Indonesian Stock Exchange) in 2015-2018 respectively.
b. The company uses the rupiah as the standard currency unit used in its financial reports from 2015-2018.
c. The company has audited financial reports as of December 31 for 2015-2018.
d. A company will be classified 1 if it has an independent auditor's report stating an audit opinion with an explanatory paragraph regarding the auditor's consideration that there is significant inability or uncertainty regarding the company's viability in carrying out its operations in the future.
e. A company will be classified 0 if it has an independent auditor's report that does not state an audit opinion with an explanatory paragraph regarding the auditor's consideration that there is significant inability or uncertainty regarding the company's viability in carrying out its operations in the future.

Then, the following is the development of the instruments presented in the operationalization of variables:

1. Independent variable (free)
- *Financial condition* (X_1) is measured using the following *springate model* :

    S = 1.03A + 3.07B + 0.66C + 0.4D

    Information: A = *Working Capital* : *Total Assets*

                          B = *Net Profit before Interest and Taxes* : *Total Assets*

                          C = *Net Profit before Taxes* : *Current Liabilities*

                          D = *Sales* : *Total Assets*

    Source: Peter and Yoseph (2011)

- *Debt default* (X_2) is measured using the ratio of total debt to total assets (*total debt to total asset ratio*) as follows:

$$Total\ Debt\ to\ Total\ Asset\ Ratio = \frac{Total\ Hutang}{Total\ Aktiva}$$

Source: Sujarweni (2017:111)

2. The dependent (bound) variable for this research is *going concern* (Y). This variable is measured using the *going concern opinion* contained in the independent auditor's report. A *going concern* audit opinion is an audit opinion with an explanatory paragraph regarding the auditor's consideration that there is significant inability or

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uncertainty regarding the company's viability in carrying out its operations in the future (Higar and Djazuli, 2010). An independent auditor's report that has a statement about *going concern* will be given a value of 1, while an independent auditor's report that does not have a statement about *going concern* will be given a value of 0.

3. Audit Committee (Z)

The audit committee (*Audit Committee*) in this research acts as a control variable. The audit committee is measured using the number of audit committee members divided by the number of board of commissioners multiplied by 100% (Sulistya and Sukartha, 2013).

Data analysis technique

This research uses logistic regression analysis because the dependent variable will be tested further using *dummy variables* (1 & 0). The logistic regression analysis carried out in this research aims to find out whether the independent variable influences the dependent variable with the presence of the control variable. Sasongko *et al* . (2019) stated that logistic regression analysis begins by assessing the feasibility of the regression model through *Hosmer and Lomeshow's goodness of fit test* . Then, apart from assessing the feasibility of the regression model, assessing the feasibility of the entire model is also necessary and can be done through *the chi square test* . The next stage is to find out how much variability the independent variable has, to clarify the variability of the independent variable, tested and seen through the coefficient of determination on the *Cox and Snell's r square* and *Nagelkerke r square values* (Sasongko *et al* ., 2019). The final stage in logistic regression analysis is analyzing the hypothesis test to see the influence of the independent variable on the dependent variable through coefficient significance testing. The following is the equation for hypothesis testing in this research:

$$GC = \alpha + \beta1.FC + \beta2.DD + \beta3.KA + \varepsilon$$

Note:

GC	= *Going Concern*
α	= Constant
β & $\beta_1 - \beta_3$	= Variable Coefficient
FC	= *Financial Condition* (Financial Condition)
DD	= *Debt Default*
KA	= Audit Committee (*Audit Committee*)
ε	= Error .

RESULTS AND DISCUSSION

The results of the *purposive sampling method* can be seen in table 4.1 below, where the samples that can be processed further in this research are only 60 samples:

Table 1 Research Population and Sample

Sample Criteria	Number of Samples per year	Total Sample
Financial sub-sector companies, namely financial institutions	17	68

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registered on the BEI (Indonesian Stock Exchange) in 2015-2018.		
Financial sub-sector companies, namely financial institutions that are not registered on the BEI (Indonesian Stock Exchange) in 2015-2018 respectively.	20	(8)
The company does not use the rupiah as the standard currency unit used in its financial reports from 2015-2018.		(0)
The company does not have audited financial reports as of December 31 for 2015-2018.	0	(0)
Companies used as research samples		**60**
A company will be classified 1 if it has an independent auditor's report stating an audit opinion with an explanatory paragraph regarding the auditor's consideration that there is significant inability or uncertainty regarding the company's viability in carrying out its operations in the future	1	4
A company will be classified 0 if it does not have an independent auditor's report stating an audit opinion with an explanatory paragraph regarding the auditor's consideration that there is significant inability or uncertainty regarding the company's viability in carrying out its operations in the future	14	56
Final total of samples used		**60**

Results

This research uses the SPSS (*Statistical Package for the Social Sciences*) application program version 21.0 to process sample data. Analysis of the results of this research starts from descriptive statistics on the samples studied first. Descriptive statistics can be seen in table 4.2 below:

Table 2 Descriptive Statistics

Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation
Financial Condition (X1)	60	27,38793	-14,80822	12,57971	,8113116	3,08214016
Debt Default (X2)	60	,92573	,01365	,93939	,6220110	,28998515
Komite Audit (Z)	60	1,07143	,42857	1,50000	,9888095	,34548787
Going Concern (Y)	60	1,00	,00	1,00	,0667	,25155
Valid N (listwise)	60					

Source: IBM SPSS 21.0 calculation results

Based on the table above, it can be seen that the total samples obtained were 60 samples. Priyatno (2012:38) states that descriptive analysis is used to describe data statistics in the form of *mean* , *sum* , standard deviation, *variance* , *range* , etc., and to measure whether the data distribution is normal or not with measures of *skewness* and kurtosis. Table *4.2* shows a descriptive analysis *of this research* data, namely that the

independent variables (X $_{1\ \&}$, like variable X $_1$ (*financial condition*) which has a *maximum value* of 12.57971 which is located in PT data. Danasupra Erapacific Tbk, minimum value of -14.80822 which is located in PT data. Intan Baruprana Finance Tbk, *the* average value is 0.8113116, the *range value* is 27.38793, and the *standard deviation value* is 3.08214016.

Model and Hypothesis Feasibility Test

1. Model Feasibility Test

In logistic regression, to assess the model that will be used in research, a goodness *of fit test* must be carried out to determine whether the model is suitable or not. The results obtained from the model feasibility test carried out through the *Hosmer and Lemeshow test* show that the value obtained is greater than the significance level (0.994> 0.05). This figure shows that the previously hypothesized model can be used or is suitable for this research. These results can be seen in table 4.3 below:

Table 3 Model Feasibility Test

Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	1,449	8	,994

Source: IBM SPSS 21.0 calculation results

2. Overall Model Feasibility Test

The next feasibility test carried out was a feasibility test for the entire model through Step 0 and Step 1 – *Chi Square Test* . This test is carried out on the basis of the likelihood function, namely -2 *log likelihood* . The results of the overall feasibility test of the model are depicted in table 4.4 and table 4.5 below:

Table 4 Step 0: Overall Model Feasibility Test – *Chi Square Test*

Iteration History[a,b,c]

Iteration		-2 Log likelihood	Coefficients
			Constant
	1	33,392	-1,733
	2	29,646	-2,388
Step 0	3	29,394	-2,614
	4	29,392	-2,639
	5	29,392	-2,639

Source: IBM SPSS 21.0 calculation results

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Table 5 Step 1: Overall Model Feasibility Test – *Chi Square Test*

Iteration History[a,b,c,d]

Iteration		-2 Log likelihood	Coefficients			
			Constant	FC	DD	KA
Step 1	1	32,194	-1,793	-,009	,539	-,272
	2	26,634	-2,659	-,038	1,481	-,703
	3	24,315	-3,685	-,109	3,292	-1,341
	4	22,420	-6,221	-,182	7,179	-2,134
	5	20,838	-11,271	-,285	14,308	-3,266
	6	20,288	-16,082	-,381	20,755	-4,184
	7	20,233	-18,115	-,421	23,381	-4,513
	8	20,232	-18,362	-,426	23,697	-4,553
	9	20,232	-18,365	-,426	23,702	-4,554
	10	20,232	-18,365	-,426	23,702	-4,554

Source: IBM SPSS 21.0 calculation results

Table 4.4 step 0 shows that the number of -2 log likelihood is 29.392 and table 4.5 step 1 shows that the number of -2 *log likelihood* is 20.232. This test uses the Chi Square Test, so the df value in step 0 is 77.930524 and the df value in step 1 is 75.623748. This value or number shows that the research model that carried out the overall feasibility test at step 0 was fit (29.392 < 77.930524) while the overall feasibility test at step 1 showed that the model in the research was fit (20.232 < 75.623748). This means that the independent variables added to the model are suitable and can improve the research model.

3. *Cox and Snell's R Square* and N *agelkerke's R Square* tests

Table 6 *Cox and Snell's R Square* and *Nagelkerke's R Square tests*

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	20,232[a]	,142	,366

Source: IBM SPSS 21.0 calculation results

The test used to find out how far the dependent variable can be explained by the independent variable is the coefficient of determination test. In logistic regression, the coefficient of determination test can be seen through the *Cox and Snell's r square and Nagelkerke's r square tests* . The results obtained were that 36.6% of the dependent variable could be explained by the independent variable and the remaining 63.4% could be explained by other factors that were not included in the regression model. The results of

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the Cox and Snell's R square and Nagelkerke's R square tests can be seen in table 4.6 above.

4. Coefficient Significance Test

The hypothesis test carried out in this research is hypothesis testing with a logistic regression model. This test is aimed at examining the influence that occurs between the independent variables, namely *financial condition* and *debt default* , on the dependent variable, namely *going concern* , with the control variable, namely the audit committee. The results obtained from this test are that nothing has a significant influence on *going concern* . In table 4.7 presented below, *financial condition* has no influence on *going concern* . This is proven by the sig value obtained which is greater than the significance level (0.146 > 0.05). This result is the same as research conducted by Kartika (2012). Then, *debt default* has no influence on *going concern* . This result can be seen through the sig value obtained which is greater than the significance level (0.088 > 0.05). These results are in line with research conducted by Irfana and Muid (2012).

The control variable which is intended as a mediator between the independent variable and the dependent variable in this research also has no influence on the dependent variable itself. This can be proven by the sig value obtained being greater than the significance level (0.166 > 0.05). Table 4.7 which contains the coefficient significance test is described as follows:

Table 7 Coefficient Significance Test

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1ª	FC	-,426	,293	2,117	1	,146	,653
	DD	23,702	13,912	2,903	1	,088	19653212843,425
	KA	-4,554	3,287	1,919	1	,166	,011
	Constant	-18,365	11,108	2,734	1	,098	,000

a. Variable(s) entered on step 1: FC, DD, KA.

Source: IBM SPSS 21.0 calculation results

Discussion

The first independent variable, namely *financial condition,* has no influence on *going concern* , in line with research conducted by Kartika (2012) and contrary to research conducted by Kusumawardhani (2018) & Solikhah and Kiswanto (2010) . This lack of influence means that H $_1$ is rejected. The reason for the lack of influence is that even though companies operating in the sub-financial sector of the financial institutions sector have recently been sluggish in business, adequate revenue values and profitable financial performance are still presented in their financial reports. Based on this, there is no reason for the auditor to provide an opinion about the sustainability of these companies' *going concerns in the next period.* Chairman of the Association of Indonesian Financing Companies (APPI) Suwandi Wiratno is optimistic that financing companies that are still under equity requirements can meet the minimum threshold by the end of this year. Suwandi is not worried that the slowing conditions in the financing industry in recent

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months will affect the company's ability to meet capital. "POJK No.35/2018 has provided an opportunity for finance companies to channel cash funds," said Suwandi. Suwandi said there are several ways to comply with these regulations, namely increasing the paid-in capital or perhaps a merger or looking for new investors. Although some are still difficult and some can still do so by pledging fixed assets, and some can still issue Medium Term Notes (MTN) even though they have to inform the OJK supervisor first (https://keuangan.kontan.co.id).

Then, the second independent variable, namely *debt default,* has no influence on *going concern* , in line with research conducted by Irfana and Muid (2012) and contrary to research from Anita (2017). *Default debt* (failure to pay debts within the specified time) is not a factor for a company to pay attention to its survival. Because, if a company has a large enough debt value and is predicted to experience *debt default* , the company still has other ways to pay off the debt, such as selling all the assets it owns or merging *with* another company.

The audit committee, which acts as a control variable, cannot help the independent variable influence the dependent variable because the audit committee has no influence on *going concern* . This can be interpreted as saying that the survival (*going concern*) of a company is determined by other things, such as losses in financial performance and the absence of sufficient income or capital for the company to survive. The financial companies sampled in this research basically still have strong and good financial performance in maintaining their *going concern* indirectly and in addition, compliance in presenting financial reports that have been carried out well means they remain in their *listing status* . BEI (Indonesian Stock Exchange) until today. Compliance is also an important point for companies to obtain more funds through investor trust by investing their capital in the company .

CONCLUSION

Based on the results and discussion above, it can be concluded that the first independent variable, namely financial condition as measured by the Springate model (S-score), has no influence on going concern because the sig value is greater than the significance level (0.146 > 0.05). These results are in line with research conducted by Kartika (2012) and contradict research by Kusumawardhani (2018) & Solikhah and Kiswanto (2010). The second independent variable, namely debt default, which is measured by the ratio of total debt to total assets, has no influence on going concern because the sig value is greater than the significance level (0.088 > 0.05). These results are in line with research by Irfana and Muid (2012) and contradict research conducted by Anita (2017) .

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