



# **Manager's Knowledge Manufactur Audit Going Concern in Predicting Failure Using Z Score Business Model (Cases study Industry Manufactur in West java Province Indonesia)**

**Tuntun Salamatus Zen<sup>1</sup> --- Arson Aliludin<sup>2</sup> --- Pringgo Dwiyanoro<sup>3</sup>**

<sup>1,2</sup>*School of Business and Management (SBM), Bandung Institute of Technology (ITB), Bandung, Indonesia*

<sup>3</sup>*School of Architecture, Planning and Policy Development, Bandung Institute of Technology (ITB), Bandung, Indonesia*

## **ABSTRACT**

Spending audit going concern opinion is needed in investing, especially concerning the survival of the company. The users of the financial statements feel that spending audit going concern opinion this will help in predicting the bankruptcy of a company. The managers at manufacturing companies requires knowledge of the audit going-concern to overcome business failure. The purpose of this study is to obtain an audit going-concern condition through increased understanding of the knowledge of the managers in the manufacturing industry to overcome business failure. This study used a descriptive analysis and quantitative analysis of the results of research are as follows (1) Audit Going Concern conditions in the manufacturing industry in West Javas (2) the company to obtain information on the management plan in order to predict the failure of efforts by the z score of the model through knowledge of managers (3) the ability to the Analyze the entity's to maintain the viability of the company to obtain information on the management plan in order to predict the failure of efforts by the z score of the model.

## **1. Introduction**

Managers can delay or avoid going concern audit analysis by providing financial statements that are good to convince the auditor or auditors to perform the change (switching auditors) with the hope that the new auditor does not provide an analysis of going concern audit. Disclosure of going concern audit opinion is not expected by the company because it will lead to loss of public confidence in the company's image

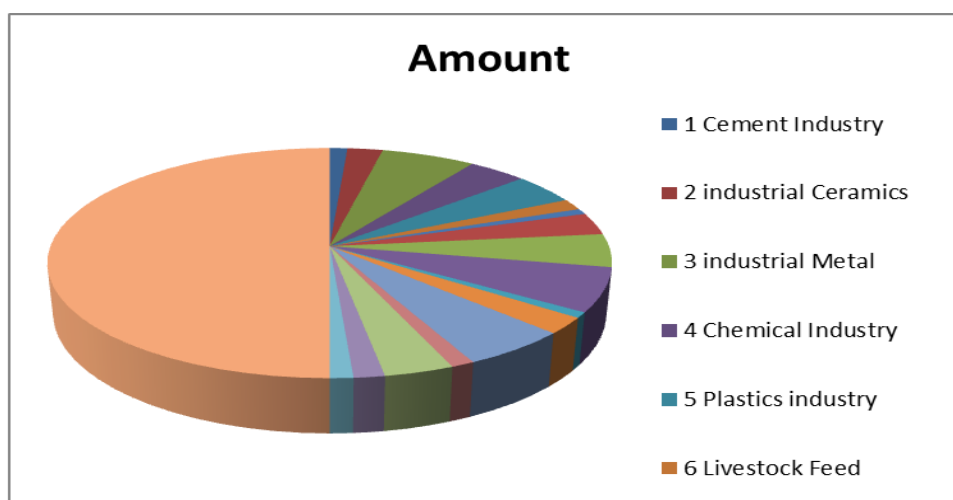
Several things that cause going concern problems, for the manufacture enterprises, for example financial condition (such as debt to equity ratio is high, the balance of short-term debt in large amounts immediately due, decreased capital / capital deficiency, financial loss / financial losses due to exchange rate losses and operating losses), the growth of the company, the results of previous audits, action plans management and auditor's reputation on the disclosure of going concern audit opinion.

## **2. Methodology**

This study aimed to determine the effect of knowledge of the manufacturing industry managers to going concern audit in predicting business failure using the z score models. The methodology used is survey method with object of Manufacturing Industry. Location of research is at the province of West Java. This province was chosen because the number of manufacturing industry than any other province in

Indonesia. (Indonesian Economic Outlook 2008-2013 period, nearly 90 percent of the industrial sector is in Jawa Barat which have the most Manufacturing Industrial area).

There are 129 companies manufacturing industry profiles listed on the Stock Exchange in West Java that are divided from the various classifications of industry such as cement, ceramics, metals, chemicals, plastics, and so on. With proportional stratified random sampling technique sampling, 58 samples obtained as respondents.



Picture-2. Results of calculation Sample

Source: Indonesia Stock Exchange BEI 2013

Altman Z-Score model is used to classify companies manufacturing industry in West Java, including the zone where, safe zone, gray zone, or distress zone.

### 3. Result

Assessment managers of manufacturing industries in West Java on Going Concern Audit opinion, includes judging on quality auditors, financial condition, results of the previous year's audit, and the growth of the company. As illustrated in the table below

Table-1. Assessment Manager Manufacturing Industry Over 2014 Going Concern Audit Opinion

No	Question	Score	Respondent	Z-Score
1	Auditor Quality			
	Amount	698		
	Average	99,71	qualified	Safe Zone
2	Financial Condition			
	Amount	644		
	Average	107,3	Good	Gray Zone
3	Audit Results Previous Year			
	Amount	476		
	Average	95,2	Good	Distress Zone
4	Company Growth			
	Amount	420		
	Average	105	Good	Safe Zone
5	Top Management Knowledge Going Concern Audit Manager Assessment for Knowledge Management Audit Going Concern Over			
	Amount	728		
	Average	91	Good	Safe Zone

Source: Tabulation Result

The effect of analysis on knowledge and understanding relating to manufacturing industry managers for audit going concern in predicting business failure in z-score model, are divided into several sub-variables. Where the knowledge as dependent variables (X-variable) which consists of:

X 1 = Auditor Assessment for Quality Manager

X 2 = Condition Assessment for Financial Manager

X 3 = Auditor Assessment for Previous Years Manager

X 4 = Corporate Growth Manager Assessment

Whereas, an independent variables (Y-variable) are an audit going concern opinion on the company's own business failure.

The overall results analysis are:

Managers' knowledge and understanding in the manufacturing industry at West Java on audit going concern opinion in providing enterprise business failure had been positively affected. Especially for financial managers who handle the results of the audited issued of audit going concern services, either internally or externally. They definitely understand it as an evaluation from existence information of the company for the future to analyze whether the business will be failed or not.

Partial Results Analysis are:

1. Auditor assessment of the quality manager has been positively influence the prediction of business failure.

The manager considers that the auditor will greatly affected the quality of decision makes on going concern in the prediction of business failure. The appointment of a competent and independent auditors assist management in view of the actual condition of the company or the safe condition of bankruptcy. The company will selecting and appointing an auditor who's having good reputation to maintain the quality of the audit in order not to lose its reputation (Ruiz Barbadillo et al (2004)

2. Assessment of Financial Condition manager has been positively influence on the prediction of business failure.

From the financial statements, users might be known the financial condition of a company and can be predicted whether the company will be survived in the future or not. So that, companies' management need to acknowledge the financial results that have been achieved in order to plan for future. Together with financial ratio analysis, it will be using as an internal analysis for management. Knowledge management in understanding the financial condition will not be perfect because of the limited resources to understand the company's financial portofolio, so if associated with bankruptcy, the security conditions there are still opportunities will occur bankruptcy. Financial ratios will greatly influence the audit going concern opinion if using z-scores as stated by Altman, Ramadhany (2004) aligned with the research from Mc Kweon, Carcello and Neal. Carcello and Neal (2000) in Setyarno (2006) stated that the worst the company's financial condition, the greater probability of the company will be receiving going concern opinion. Based on that, the managers need to assess how the company's financial condition in the company for predicting business failure.

3. The previous year's audit into the image for the management in planning future activities of the company which is expected to management can be determine the company's condition, especially in dealing with business failure. However, the previous year's audit report formed the basis for the security condition of the company as audit going concern report issued by the auditor different from year to year with the conditions that will be faced by the company would be different. According to Mutchler (1984), Carcello and Neal (2000), Lennox (2002), Ramadhany (2004), Setyarno et al. (2006), Praptitorini and Januarti (2007), as well as Januarti (2009) they found the positive association between audit going concern opinion the previous year with the opinion of the current year. If in the previous year the company received a going concern audit opinion, then in the current year the company will be more likely to receive a going concern audit opinion.
4. Company's growth manager assessment has been positively influence on the prediction of business failure. Managers need to look at the growth of the company which indicates the ability of the company to maintain its survival. Companies experiencing growth shows the company's operational activities running properly so that the company can maintain its economic position and survival. Referring to research conducted Fanny and Saputra (2005), in this study used a bankruptcy prediction model to measure the company's financial condition is the Altman model.

Several previous studies have concluded that the bankruptcy prediction model using financial ratios is more accurate than the auditor's opinion in classifying companies go bankrupt and not bankrupt (Altman and McGough, 1974; Koh and Killough, 1990; Koh, 1991

## **4. Conclusion**

Based on the results of data processing of knowledge relating to the audit manager of industrial companies going concern in predicting business failure using z score is enough managers are able to perform a variety of strategies receive a going concern opinion because the opinion gives a signal to the users of financial statements the auditor would doubt on the ability of the company to run its business and further acceptance of the opinion could have an impact on the difficulties companies seeking loans.

## **5. Acknowledgements**

Thank you for the support given to the Dean, Sub KK Business Risk Finance School of Business and Management ITB and Pak Research and Development Wing

## **Refference**

- Agoes, Sukrisno. 2000. Auditing (Pemeriksaan Akuntan oleh Kantor Akuntan Publik). Jakarta: Fakultas Ekonomi Universitas Indonesia.
- Altman, Edward I. 1968. Financial Ratios, Discriminant Analysis and the Prediction of Corporate Bankruptcy. *Journal of Finance*. September: 589-609.
- Auditing Standards Board. 1988. Statement on Auditing Standards No.59: The Auditors' Consideration of an Entity's Ability to Continue as a Going Concern. New York: AICPA.
- Carcello, Joseph V., and Terry L. Neal. 2000. Audit Committee Composition and Auditor Reporting. Available at [http://papers.ssrn.com/paper.taf?abstract\\_id=229835](http://papers.ssrn.com/paper.taf?abstract_id=229835). (accessed 5 November 2010).
- Chen, Kevin C. W., and Bryan K. Church. 1992. Default on Debt Obligations and the Issuance of Opini Going-Concern Opinions. *Auditing: A Journal of Practice & Theory*. Vol. 11, No. 2: 30-49.
- Carcello, Joseph V., and Terry L. Neal. 2000. Audit Committee Composition and Auditor Reporting. Available at [http://papers.ssrn.com/paper.taf?abstract\\_id=229835](http://papers.ssrn.com/paper.taf?abstract_id=229835). (accessed 5 November 2010).
- Indonesia Economic Outlook 2008-2013
- Inonesia Stock Excenge 2013
- Januarti, Indira dan Ella Fitrianasari. 2008. Ratio Analysis Financial and Non-Financial Ratios Affect Auditor in Providing Going Concern Audit Opinion on the auditee (Empirical Study on Manufacturing Companies Listed on the JSE 2000-). *Jurnal MAKSI*. Vol. 8, No. 1: 43-58.
- Koh, Hian Chye, and Sen Suan Tan. 1999. A Neural Network Approach to Prediction of Going concern Status. *Accounting and Business Research*. Vol. 29, No. 3: 211-216.
- Lennox, Clive S. 2002. Going-concern Opinions in Failing Companies: Auditor Independence and Opinion Shopping. Available at: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=240468](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=240468). (accessed 18 Oktober 2010).
- Mutchler, Jane F. 1984. Auditors' Perception of the Going-Concern Opinion Bankrupt Companies. *Journal of Accounting Research*. Vol. 35, No. 2: 295- 310.
- Praptitorini, Mirna Dyah dan Indira Januarti. 2007. Analysis of Effect of Audit Quality, Debt Default, and Opinion Shopping for Admission Going Concern Opinion. Papers Presented in National Symposium Accounting X. Makassar: July 26 - 28.
- Ramadhany, Alexander. 2004. Analysis of Factors Affecting Acceptance of Going Concern Opinion on Manufacturing Companies Experiencing Financial Distress in the Jakarta Stock Exchange. Thesis. Diponegoro University, Semarang.
- Setyarno, Eko Budi, Indira Januarti, dan Faisal. 2006. Influece of Audit Quality, Financial Condition, Audit Opinion Previous Year, Growth Company of the Going Concern Audit Opinion. Papers Presented in National Accounting Symposium IX. Padang: August 23 - 26.