

The Effect of Debt Default, Activity Ratio, and Bankruptcy Prediction on Going Concern Audit Opinion (Study on Companies in the Retail Trade Subsector Listed on the IDX in 2016 – 2020)

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Abstract

Going concern audit opinion is an audit opinion given by the auditor to a company whose business continuity is in uncertainty, caused by unsuitable conditions or the presence of several factors. This study aims to examine the effect of Debt Default, Activity Ratio, and Bankruptcy Prediction on Going Concern Audit Opinion. The population used in this study are Retail Trading Companies Listed on the Indonesia Stock Exchange (IDX) 2016-2020. The sample selection method is done by purposive sampling. Only 16 companies met the criteria. The hypothesis in this study was tested using the F test and T test. The data analysis technique used in this study was logistic regression processed by using IBM SPSS version 26. From the results of the logistic regression test, the f test results obtained a significance of 0.000 or <0.05 . This means that Debt Default, Activity Ratio, and Bankruptcy Predictions on Going Concern Audit Opinions on Retail Trading Companies Listed on the Indonesia Stock Exchange (IDX) in 2016-2020 have a significant simultaneous effect. Partial testing shows the results of debt default and activity ratio have no effect on going concern audit opinion, while bankruptcy prediction has a negative effect on going concern audit opinion.

Keywords:

Debt Default, Activity Ratio, Inventory Turnover, Bankruptcy Prediction, Going Concern Audit Opinion

1. Introduction

The purpose of operating a company is to achieve its goals, such as ensuring its prosperity through profit-making in order to keep developing, growing, and operating (maintaining its survival) over the long term. Every company competes to improve its shortcomings and increase its advantages to survive (going concern). A going concern audit opinion becomes a signal to predict the company's ability to continue its business in the future. Hence, this study is crucial for companies to assess whether their financial condition is stable to ensure business continuity and for investors, to be a consideration when making decisions evaluated from their prospects.



Source: www.bi.go.id

Figure 1. Retail Real Sales Annual Growth 2016-2020 Period

In Figure 1, the Bank Indonesia's (BI's) results of retail sales survey (SPE/*Survei Penjualan Eceran*) shows a significant downward trend towards the annual average growth of real retail sales in 2016-2020. Moreover, in 2020, the annual real sales growth of the retail sector decreased by -11.73% on average. A sample of companies in the retail trade sub-sector was selected due to business competition in the retail trade sub-sector, which had an impact on the decrease in sales growth rates over the previous several years, thus having a going concern audit opinion. This was exacerbated by the outbreak of the COVID-19 pandemic that occurred throughout the world at the end of 2019. The weak purchasing power of the people is a result of an insignificant increase in income while the cost of living keeps rising. Therefore, the sales activities of many companies are shaken because auditors are worried about the sustainability of their business. The low sales growth can affect the company's profitability, which leads to potential failure to maintain the company.

A phenomenon related to the life of a company was observed in PT Matahari Department Store Tbk (LPFF), which failed in 2021. PT Matahari Department Store Tbk recorded a significant decrease in sales from Rp18.03 trillion in 2019 to Rp8.59 trillion, or a decrease of 52.3% in 2020, coupled with the closure of 25 outlets in 2020. The company's president director revealed that the closure was caused by the COVID-19 pandemic and large-scale social restrictions (PSBB/*Pembatasan Sosial Berskala Besar*), which affected the lack of visitors to outlets. In addition, this phenomenon also occurred in the Trikomsel Oke Tbk. company in 2019 and 2018, caused by the emphasis on going concern in the audit opinion due to Trikomsel's inability to pay off overdue debts. During the 2017 period, the company's revenue generated Rp2.03 trillion, but decreased to Rp1.67 trillion in 2018. Afterwards, revenues depreciated to Rp966.72 billion in 2019. Finally, in 2020, the company was only able to earn revenues of Rp494.47 billion. The company faces the prospect of obtaining a going concern audit opinion due to its decreasing annual sales growth. Therefore, the researchers conducted a study on the influence of going concern audit opinion factors on the sub-sector of retail trade companies listed on the Indonesia Stock Exchange (IDX) in 2016-2020.

1.1 Objectives

This study aims to determine the influence of debt default, activity ratio, and bankruptcy prediction on going concern audit opinions on the sub-sector of retail trade companies listed on the Indonesia Stock Exchange (IDX) in 2016-2020, either simultaneously or partially.

2. Literature Review

2.1 Going Concern Audit Opinion

A going concern audit opinion includes an explanation of the auditor's factors that show the company's inability to maintain its viability in the explanatory paragraph (Simanjuntak et al., 2020). The form of auditor analysis in

determining the provision of a going concern audit opinion is the consideration of the company's operating results, affected economic conditions, the company's ability to pay off its obligations (debt), and future liquidity needs (Rakatenda & Putra, 2016). The issuance of a going concern opinion negatively affects the company because it can lead to a decrease in stock prices, difficulties in increasing loan capital, and distrust of investors, creditors, customers, and employees towards company management (Wahasusmiah et al., 2019).

2.2 Debt Default

Debt default is defined as the failure of the debtor (company) to pay principal and/or interest due to its overdue when at least one of the following situations occurs, including negative net income, negative equity, negative cash flow, negative working capital, negative operating profit, and negative retained earnings (Chen & Church, 1992). The lack of company liquidity to pay the overdue principal and interest results in a debt default (Qolillah, 2016). The default status increases the possibility of the auditor to issue a going concern audit opinion. A company with a weaker ability to pay its debts increases the risk that the company may fall into default, which is more likely to obtain a going concern audit opinion.

2.3 Activity Ratio

The activity ratio is used to measure the company's activity in using its assets. In other words, the ratio is used to measure how effectively (efficiently) company resources are being used (Kasmir, 2019:174). The activity ratio describes the company's activities in carrying out its operations, sales, purchases, and other activities (Harahap, 2018). The higher the effectiveness of the company in using assets to obtain sales, the higher the company's profit (Hanivah & Wijaya, 2018). Since inventory is the main asset in retail companies, this study uses an inventory turnover ratio indicator that is appropriate for this company.

2.4 Bankruptcy Prediction

Bankruptcy prediction is a condition of a company that fails or is unable to carry out company operations for profit (Holiawati & Setiawan, 2016). According to Brigham & Houston (2018), bankruptcy is defined as a failure that occurs in a company based on two causes, such as economic failure and financial failure. Meanwhile, financial failure is the condition of companies that have difficult funds in the form of cash or working capital. Financial failure can also be an insolvency that distinguishes between a cash flow basis and a stock basis. The indicator in this study uses a modified Altman Z-score model. Altman omitted the X5 variable, namely the ratio of sales to total assets. This ratio is omitted because manufacturing companies' asset turnover differs significantly from other industries (Holiawati & Setiawan, 2016).

3. Methods

This study employs quantitative methods. In addition, the analysis method is logistic regression analysis. The hypothesis in this study was tested using IBM SPSS 26 software. The population in this study were retail trade companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2020. The data collected is obtained from the company's financial statements and annual reports accessed on the Indonesia Stock Exchange (IDX) website or the company's website. This study uses purposive sampling, namely the sampling method, by considering several criteria. This study has several criteria, namely: (1) retail trade companies listed on the Indonesia Stock Exchange (IDX) in 2016-2020, (2) retail trade companies, which are not consistently listed on the Indonesia Stock Exchange in 2016-2020, (3) retail trade companies, which do not publish their annual report consistently for the 2016-2020 period, (4) retail trade companies whose annual report contents are incomplete for the 2016-2020 period. Based on the sample criteria, the number of samples used in this study were 16 companies listed on the Indonesia Stock Exchange with a study period of five years and the entire observation sample with a total of 80.

Based on the research objectives, logistic regression analysis was used to complete the analysis. The following hypotheses will be used in this study:

- H1 : Debt defaults, activity ratios, and bankruptcy predictions simultaneously has a simultaneous influence on a going concern audit opinion on retail trade companies listed on the IDX for 2016-2020.
- H2 : Debt default has a partial positive influence on a going concern audit opinion on retail trade companies listed on the IDX for 2016-2020.
- H3 : Activity ratio has a partial negative influence on a going concern audit opinion on retail trade companies listed on the IDX for 2016-2020.

H4 : Bankruptcy prediction has a partial negative influence on a going concern audit opinion on retail trade companies listed on the IDX for 2016-2020.

3.1 Variable Measurement

To test the hypothesis above, the study requires measurement for each variable. Table 1 shows the measurement of variables used in this study with a nominal scale and a ratio scale.

Table 1. Research Variable Indicators

Variable	Information	Measurement
Going Concern Audit Opinion	An audit opinion with an explanatory paragraph regarding the auditor's consideration that there are indications of the inability to continue as a going concern (Simanjuntak et al., 2020).	Dummy; Going concern =1, non-going concern = 0 (Simanjuntak et al., 2020)
Debt Default	The company's failure to pay its obligations as they fall due. The cause of the debt default is because the company lacks liquidity to pay the debt principal and at maturity (Qolillah, 2016).	Dummy; Negative equity = 1, Positive equity = 0 (Alifiah et al., 2020)
Activity Ratio	The activity ratio is used to measure the company's activity in using its assets. In other words, the ratio is used to measure how effectively (efficiently) company resources are being used (Kasmir, 2019:174).	Inventory Turnover Ratio = cost of goods sold / average inventories (Pravasanti & Indriaty, 2017)
Bankruptcy Prediction	Bankruptcy prediction is a condition of a company that fails or is unable to carry out company operations for profit (Holiawati & Setiawan, 2016).	Altman Z-Score Modification Z-score = 6,56X1 + 3,26X2 +6,72X3 + 1,05X4 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 (Holiawati & Setiawan, 2016)

4. Data Collection

The data types used in this study are time series and secondary data with data collection methods through purposive sampling. The information used in this study was obtained from books, journals from previous research, and the internet in the form of a website or official website.

5. Results and Discussion

5.1 Descriptive Statistics

The variables analyzed in this study consisted of the dependent variable and the independent variables. The dependent variable in this study is a going concern audit opinion. Meanwhile, the independent variables in this study are debt default, activity ratio, and bankruptcy prediction. This study uses data on companies in the retail trade sub-sector listed on the Indonesia Stock Exchange in 2016-2020, which were selected by purposive sampling. The total observations used in this study were 80 data samples. The results of descriptive statistical tests are presented in Table 2.

Table 2. Nominal Scale Descriptive Statistics

Going Concern Audit Opinion (Y)					
Valid		<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
	Non OAGC	66	82,5	82,5	82,5
	OAGC	14	17,5	17,5	100
	Total	80	100	100	
Debt Default (X1)					
Valid		<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
	Non-Default	69	86,3	86,3	86,3
	Default	11	13,8	13,8	100
	Total	80	100	100	

In Table 2, the dependent variable of a going concern audit opinion shows that based on the 80 observational data in this study, 14 samples (17.5%) had a going concern audit opinion. Meanwhile, based on the data of retail trade companies in 2016-2020, there were 66 samples (82.5%) that did not get a going concern audit opinion. As for the independent variable, the debt default shows that 11 samples (13.8%) have default and 69 samples do not default from 80 observational data in this study.

Table 3. Ratio Scale Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Activity Ratio	80	0,494	75,389	7,999	9,742
Bankruptcy Prediction	80	-613,451	12,708	-28,307	104,936
Valid N (listwise)	80				

In Table 3, the activity ratio variable shows that the minimum value of the activity ratio was 0.494 and the maximum value obtained was 75.389. Meanwhile, the mean value of 7.999 was smaller than the standard deviation of 9.742, which indicated that the variable value had variation.

The bankruptcy variable has an average value (mean) of -28,307, which was smaller than the standard deviation of 104.936. This indicated that the research data has variation. The minimum value was -613.451 and the maximum value was 12.708.

5.2 Logistics Regression Test

1) Goodness of Fit Test

Table 4. Hosmer and Lemeshow

<i>Step</i>	<i>Chi-Square</i>	<i>df</i>	<i>Sig.</i>
1	9,286	8	0,319

Testing the regression model using the Hosmer and Lemeshow's test is to find out whether the model used is in accordance with the observation data and is said to be a fit model by considering the Goodness of Fit value which is measured using the Chi-square value. Assessment that the data can be used if the probability value is > 0.05. If the probability value <0.05 indicates that the model cannot be used because there is a significant difference between the model and the value data so that the model cannot predict the data value (Ghozali, 2018). Table 4 shows the test results with a chi-square value of 9.286 and a significance level of 0.319. The significance level is greater than = 0.05, then the fit model with the data and logistic regression in this model is feasible to be used in the next analysis. (Table 4)

2) Overall Model Fit Test

Table 5. Overall Model Fit

<i>Iteration</i>	<i>-2 Log Likelihood</i>
<i>Block Number 0</i>	74,196
<i>Block Number 1</i>	14,648

Table 5 shows the value of -2 Log Likelihood (block number 0) of 74,196 and the value of -2 Log Likelihood (block number 1) of 14,648. It can be concluded that -2 Log Likelihood (block number 0) is greater than -2 Log Likelihood (block number 1) with a decrease of 59.548 which means the model fits the data. The log likelihood in logistic regression is similar to the notion of "sum of square error" in the regression model, so the decrease in the log is likely to indicate a better regression model (Ghozali, 2018). This shows that the overall logistic regression model used is a good model.

3) Coefficient of Determination

Table 6. Model Summary

Step	-2 Log Likelihood	Cox & Snell R Square	Nagelkerke R Square
1	14,648 ^a	0,525	0,869

The coefficient of determination is used to assess how much the variability of the dependent variable is explained by the variability of the independent variable. The value of the coefficient of determination is shown by *Nagelkerke R Square* whose variation value is between zero (0) to one (1). If the value is close to 0 then the model is considered inappropriate while close to 1 then the model is considered more suitable (Ghozali, 2018). Based on Table 6, the summary of the model obtains a *Nagelkerke R Square* value of 0.869.

4) Simultaneous Test Results

Table 7. Omnibus Test of Model Coefficients

Step 1		<i>Chi-square</i>	<i>df</i>	<i>Sig.</i>
	Step	59,548	3	0,000
	Block	59,548	3	0,000
	Model	59,548	3	0,000

Simultaneous test results (F) shown by the Omnibus Test of Model Coefficients table in Table 7 have a value of 59.548 with degrees of freedom (df) 3, with a significance value of 0.000 < 0.05. This shows that the variable debt default, activity ratio, and bankruptcy prediction simultaneously affect the going concern audit opinion.

5) Partially Test Results

Table 8. Variables in the Equation

Step		B	S.E.	Wald	df	Sig.	Exp (B)
	Debt Default	2,040	2217,359	0,000	1	0,999	7,688
	Activity Ratio	-1,058	0,581	3,309	1	0,069	0,347
	Bankruptcy Prediction	-0,533	0,240	4,935	1	0,026	0,587
	Constant	2,250	2,453	0,842	1	0,359	9,489

Based on Table 8, the results of the logistic regression equation formula are as follows:

$$Y = 2,250 + 2,040 X1 - 1,058 X2 - 0,533 X3 + \epsilon$$

- X1 = Debt Default
- X2 = Activity Ratio
- X3 = Bankruptcy Prediction
- α = Constant
- β = Logistic regression coefficient
- ϵ = Error term

The explanation of the logistic regression equation is as follows:

- 1) The constant value of 2.250 with a significance level of 0.359 greater than $= 0.05$ meant that the debt default, activity ratio, and prediction variables increased constant or equal to 0, then there was a change that results in a going concern audit opinion.
- 2) The debt default regression coefficient was 2.040, meaning that if the debt default variable increased by a unit, the probability of receiving a going concern audit opinion would increase by 2.040.
- 3) The activity ratio coefficient was -1.058, meaning that if the activity ratio variable increased by a unit, the probability of receiving a going concern audit opinion would decrease by 1.058.
- 4) The bankruptcy prediction coefficient was -0.533, meaning that if the bankruptcy prediction variable increased by a unit, the probability of receiving a going concern audit opinion would decrease by 0.533.

5.3 Discussion

The Influence of Debt Default on Going Concern Audit Opinion

Based on the partial test results in Table 8, the debt default variable had a significance value of $0.999 > 0.05$. It indicated that the debt default variable did not partially affect a going concern audit opinion on companies in the retail trade sub-sector listed on the Indonesia Stock Exchange from 2016 to 2020. This result contradicted the hypothesis that the debt default has a positive influence on a going concern audit opinion. In other words, the auditor to give a going concern audit opinion was not based on the company's failure to pay debt or interest due to its overdue but tended to look at the overall financial condition. This is because the company will negotiate a schedule for debt repayment to creditors before or after the debt default happens. The results of this study are in line with Astari & Latrini (2017) and Kusumawardani & Triyanto (2021), which revealed that debt default does not have an influence on a going concern audit opinion.

The Influence of Activity Ratio on Going Concern Audit Opinion

Based on the partial test results in Table 8, the activity ratio variable had a significance value of $0.069 > 0.05$. It indicated that the activity ratio variable did not partially affect a going concern audit opinion on companies in the retail trade sub-sector listed on the Indonesia Stock Exchange from 2016 to 2020. This result contradicted the hypothesis that the ratio activity has a negative influence on a going concern audit opinion. In other words, the activity ratio does not affect a going concern audit opinion. Since the increase in inventory turnover does not cover the company's lack of costs in paying off its liabilities, the company still has negative equity and losses, so the auditor's going concern assumption is still attached to this company. The results of this study are in line Sari et al. (2020), which revealed that debt ratio activity does not have an influence on a going concern audit opinion.

The Influence of Bankruptcy Prediction on Going Concern Audit Opinion

Based on the partial test results, the bankruptcy prediction variable had a significance value of $0.026 < 0.05$. It indicated that the bankruptcy prediction variable partially affects a going concern audit. The results implied that bankruptcy predictions that assess health conditions using the Altman Z-score ratio can predict future potential losses for the company. Since if the auditor sees a low bankruptcy prediction calculation value, the company's condition is poor for conducting business. Therefore, it affects the provision of a going concern audit opinion. The results of this study are in line with (Holiawati & Setiawan, 2016) and (Mubtadi, 2020), which revealed that bankruptcy prediction activity have an negative influence on a going concern audit opinion.

6. Conclusion

Based on the results of research obtained on companies in the retail trade sub-sector listed on the Indonesia Stock Exchange from 2016 to 2020 with a sample of 80, the following conclusions are obtained:

- 1) The descriptive analysis results:
 - a. Companies in the retail trade sub-sector listed on the Indonesia Stock Exchange had a going concern audit opinion of 17.5% and 82.5%, meaning that they did not have a going concern audit opinion.
 - b. The debt Default in the retail trade sub-sector listed on the IDX from 2016 to 2020 had a default status of 13.8% and 86.3%, meaning that the result did not get a default status.
 - c. The activity ratio measured by the inventory turnover ratio of companies in the retail trade sub-sector listed on the IDX from 2016 to 2020 has various data distributions.
 - d. The bankruptcy prediction measured by using the Altman Z-score in the retail trade sub-sector listed on the IDX from 2016 to 2020 has various data distributions.
- 2) The variables of debt default, activity ratio, and bankruptcy prediction has a simultaneous influence on going concern audit opinions on companies in the retail trade sub-sector listed on the Indonesia Stock Exchange from 2016 to 2020.
- 3) The variables of debt default and activity ratio had a partial influence on going concern audit opinions. Meanwhile, the bankruptcy prediction variable had a partial negative influence on a going concern audit opinion.

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