Going Concern of Consumer Cyclicals Sector Companies During The Covid-19 Pandemic

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ABSTRACT

The Covid-19 phenomenon has caused a significant decline in financial performance in all sectors, especially the consumer cyclicals sector. The decline in financial performance threatens business continuity in the future. The auditor's doubts about the company's survival are shown by giving a going-concern audit opinion. The purpose of this study was to determine the effect of financial distress and KAP's reputation on acceptance of going concern audit opinions in the consumer cyclicals sector in 2020-2021. The data used in this research is secondary data. The population in this study are consumer cyclicals sector companies that are listed on the Indonesian Stock Exchange in 2020-2021. The data is taken from the company's annual report. The sample in this study amounted to 102 data selected using purposive sampling method. This study uses logistic regression analysis techniques to prove the hypothesis assisted by SPSS.26 software. The result of this study indicate that the financial distress variable has a significant effect on the acceptance of going concern audit opinions in consumer cyclicals sector companies in 2020-2021. Meanwhile, the KAP reputation variable has no significant effect on acceptance of going concern audit opinions in consumer cyclicals sector companies in 2020-2021. This research is expected to provide information and understanding to be used as a guide in resolving problems related to going concern.

Keywords   : Covid-19 Pandemic; Financial Distress; Going Concern Audit Opinion; KAP's Reputation

I. INTRODUCTION

The phenomenon of Covid-19 developed so quickly that the WHO declared Covid-19 an epidemic. Because it is a very large case, several countries have implemented regional restriction policies (lockdown). The Covid-19 pandemic has had a substantial effect on the economy. It is known that the Indonesian economy has experienced a decline in growth of 2.07% compared to 2019. Based on data from the Central Bureau of Statistics, the accommodation and food and beverage sectors are the companies most affected by the pandemic. 92.47% of companies in this sector have experienced a decrease in revenue (Suhariyanti, 2021). Consumer cyclicals, which are part of the industry, are also the sector most affected. Companies in the consumer cyclicals sector are companies that produce and distribute non-primary goods and services. Meanwhile, during a pandemic, people put aside non-primary goods and services. So this indicates that companies in the consumer cyclicals sector have a high probability of experiencing financial distress.

Financial distress is the economic condition of a company in a crisis condition prior to liquidation or bankruptcy (E. Saputra & Kustina, 2018). Financial distress is caused by multidimensional factors. This means that on the one hand there is a change in customer behavior and tends to cause a decrease in purchasing activity and some even decide not to purchase the desired product, so that the company loses many consumers and significant losses occur so that the company is unable to pay its obligations. On the other hand, investors and creditors are becoming more careful when transacting with entities. The Altman Z-Score method was chosen to measure financial distress in a corporation. Altman Z-Score is defined as a multivariable algorithm to assess the probability of bankruptcy. Liquidity, leverage, profitability, solvency ratios are the ratios used to calculate the Z-Score. Financial distress is closely related to the future of the company (going concern). So that the resulting audit opinion is of particular concern to investors, especially if there is an emphasis on something in the opinion (Monika, N. & Mertha, 2021). Companies with low financial health are believed to be in financial distress and are more likely to receive a going concern audit opinion. Meanwhile, companies that are financially stable or not affected by financial distress have a low probability of receiving going-concern audit opinions (Rahim, 2016).

Due to the strong relationship between the audit process and going concern information, the issuance of a going concern audit opinion is used as an indicator of the resulting audit quality. It is known, during the Covid-19 pandemic, business performance decreased in all fields due to regional restrictions (lockdown) so that work activities were limited. This causes the performance of an auditor to not be optimal and the auditor will have difficulty obtaining audit evidence. Therefore, the Covid-19 phenomenon has an impact on audit quality realized by auditors. Sopian & Rahmah, (2016) define audit quality as a measurable procedure that involves collecting, analyzing information and assessing fairly related claims about economic events. The goal is to ensure the degree of conformity between the claims and the specified benchmarks. Audit quality is often proxied with KAP reputation (DeFond & Zhang, 2014).

According to Rahim, (2016), the general public feels that large KAP auditors offer better quality audit services. Users of financial statements will have more confidence in competent auditors. Because they want to maintain their integrity, the audit process is carried out with great care by the auditor. Teoh & T.J, (1993) stated that clients often believe that large KAPs are tied to international KAPs with better quality.

According to SA 570, a going concern audit opinion is an opinion issued by the auditor when there is doubt about the entity's ability to maintain its business continuity. The temporary suspension of activities due to the Covid-19 pandemic has caused many companies to experience obstacles in their business continuity and even experienced a significant decline in business growth. This has caused not a few companies to receive going concern audit opinions. Companies that receive going concern audit opinions are considered a negative signal for investors as a sign that the company is in unfavorable condition (Saputra & Kustina, 2018).

Several previous studies, including Ramadhan et al., (2022), found that financial distress had no effect on going-concern audit opinions. According to Liliani, (2017) and Amelia, (2022) going concern audit opinion is significantly affected by financial distress. Several other opinions include research by Nainggolan, Adolphino & Sianturi, (2020) finding that going concern audit opinions are not affected by the reputation of the KAP. Meanwhile, findings which say that going concern audit opinion is affected by KAP reputation were produced by Paramitha, et al. (2016). The results of this study did not show consistent results, meaning that there were still

research gaps in the object of this research. So this motivates the writer to conduct further research regarding the effect of giving a going concern audit opinion by using financial distress and KAP reputation variables which are based on the circumstances during the Covid-19 pandemic.

Agency Theory

Agency theory explains that there is a contractual relationship, in which one or more people as the owner (principal) ask the management (agent) to carry out the tasks in accordance with what has been agreed upon (Jensen and Meckling, 1976). Management tends to have more information because it is responsible for carrying out the company's operational activities and producing financial reports. So that management can know more about the progress of the company in the future. The relationship between agency theory and going concern is that if management has more information regarding the condition and financial performance of the company, then it is possible that the management (agent) is afraid to disclose information that the owner (principal) does not want. So the possibility arises that management commits fraud by manipulating financial reports (A'yun, 2020). Therefore, the role of an independent auditor is needed to ensure the accuracy of the financial statements. Liliani, (2017) said that financial reports must be presented in a relevant manner in order to produce the right audit opinion.

Signal Theory

Signal theory says that the sender (owner of the information) provides a signal or signal, namely information from management that describes the condition of a company (Spence, 1973). This information will provide signals to creditors and investors or other interested parties. The integrity of financial reports is a good signal that can influence the opinions of users of financial statements. Therefore an independent auditor is needed as a third party in providing an opinion regarding this information.

Opini Audit Going Concern

SA 570 defines going concern as an auditor's evaluation based on the entity's proficiency in maintaining its business operations in the future (Riyanti & Maghfiroh, 2022). Going concern audit opinion is an opinion which states that in the release of the auditor by adding an explanatory paragraph regarding the auditor's consideration that there is significant inability or uncertainty over the viability of the company in carrying out its operations in the future (Muttaqin & Sudarno, 2012).

According to Purba & Nazir, (2019) the going concern assumption is one of the assumptions made when preparing financial reports for economic entities. Based on this assumption, the company must be

able to maintain business continuity operationally and financially. The opinion given by the auditor is based on an examination of the company's financial statements. According to Ginting and Tarihoran (2017) Several factors create uncertainty regarding business continuity (going concern), namely: (1) Operational losses or capital deficits that continue to recur and in an amount that is significant, (2) Inability of the company to fulfill almost all of its obligations, (3) Loss of key customers, (4) Uninsured disasters such as earthquakes or floods or unusual labor problems, (5) Very serious unemployment problems, and (6) Court cases, lawsuits or similar issues that have occurred that can jeopardize the company's ability to operate.

Financial Distress

Financial distress is a condition where the company's finances are in an unhealthy condition or are having a hard time. Companies affected by financial distress are described by the company's inability to fulfill its obligations. This is because there are consistent financial losses so that the company suffers losses and leads to business collapse (Wijaya, 2020). Internal and external factors of the company can cause financial distress to occur. The company's long-term operating deficit, increasing debt levels and cash flow problems were all internal factors. Whereas external factors include the impact of government policies and other economic conditions, including the phenomenon of the Covid-19 outbreak (Prastowo & Christiawan, 2021).

Financial distress is measured by the Altman Z-Score model. The method created by Altman in the mid-1960s has become a statistical model for assessing financial failure by utilizing several financial ratios. (Kurniawati, 2016). The function of the Z-Score analysis is to determine the soundness of the company's financial condition. The modified Z-Score equation E. Altman, (2000) uses four types of financial ratios including liquidity ratios, leverage, profitability, and solvency.

KAP's reputation

The reputation of a Public Accounting Firm is the company's image built by the company over time as a result of audit quality perceived by the client and no litigation after the audit is completed carried out and the fees charged are in accordance with the services provided did it (Rahayu,2019). The KAP's reputation shows the achievements and public trust that the KAP has in the big name that the auditor has. KAP reputation is the most proxies (DeFond & Zhang, 2014). According to Stevanus & Rohman, (2017), to optimize the trust of financial reports for users of financial statements, entities will choose KAPs that have high credibility. One of the elements that

increases public confidence in the independence of the auditor is the reputation of the KAP.

Users of financial statements often believe that large KAP auditors will provide high-quality audit services (Wicaksono & Purwanto, 2021). Because they want to maintain their credibility, they anticipate that an experienced auditor will conduct the audit process with great care. According to DeFond & Zhang, (2014) specifically Big Four KAP auditors have greater competence in providing higher audit quality. Because of their advantages such as the ability to attract good quality inputs.

II. RESEARCH METHOD

This study uses a type of quantitative research. The type of data used is secondary data originating from the financial statements of companies in the consumer cyclicals sector which in 2020-2021 are listed on the Indonesia Stock Exchange (IDX). Sources of data are obtained from the Indonesian Stock Exchange website or through the websites of each company. The sampling used used the purposive sampling method with several criteria including 1) consumer cyclicals companies that are registered on the IDX in 2020-2021. 2) consumer cyclicals companies that have published financial reports for 2020-2021. 3) consumer cyclicals companies that experienced losses during the 2 study

periods. Based on these criteria, a sample of 102 companies was obtained.

Operational definition
Dependent Variable (Y)
The going-concern audit opinion variable is measured using a dummy variable, where the value is 1 for companies that receive a going-concern audit opinion and code 0 for companies that do not receive a going-concern audit opinion.

Independent Variable (X)
The financial distress variable is measured using the Altman Z-Score model with the following formula:

$$Z\text{-Score} = 6{,}56X1 + 3{,}26X2 + 6{,}72X3 + 1{,}05X4$$

Information :
X1 = Working capital/Total Assets
X2 = Retained Earnings/Total Assets
X3 = Profit before interest and taxes (EBIT)/Total Assets
X4 = Market value of equity/Total liabilities
The category of Z-Score values are:
Z > 2.6 : Healthy company
1.1 < Z < 2.6 : Gray area company
Z < 1.1 : Financial distress
KAP's reputation
KAP reputation can be measured using a dummy variable with a value of 1 for audit quality produced by auditors from Big Four KAPs and a value of 0 generated by Non Big Four KAPs. The following are the Big Four KAP categories in Indonesia:
a. KAP Deloitte Touche Thomasu

Limited, which is affiliated with KAP Osman Bing Satrio

b. KAP Price Waterhouse Coopers, which is affiliated with the office of KAP Tanudiredja, Wibisana & Rekan

c. KAP Ernest and Young, which is affiliated with KAP Purwantono Suherman and Surja (PSS)

d. KAP KPMG (Kylneld Peat Marwic Geordeler), which is affiliated with KAP Sidharta and Widjaja.

Data analysis technique

The method of data analysis in this study is a quantitative method with SPSS.26 software tools. The analytical test used was logistic regression analysis with a significant level of 0.05. Because in this research the dependent variable, namely going-concern audit opinion, is qualitative data on a normal scale using a dummy variable, there is no need to assume normality in the independent variables.

III. RESULTS AND DISCUSSION

Descriptive Test Analysis

Tabel 1. Descriptive Test Analysis Result

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Distress	102	-640,64	24,31	-17,3478	93,23930
Reputasi KAP	102	,00	1,00	,1471	,35591
Opini Audit Going Concern	102	,00	1,00	,3922	,49064
Valid N (listwise)	102				

The descriptive statistical test above shows that financial distress has a

minimum value of -640.64 out of a total of 102 samples, this value is owned by PT. Globe Kita Terang Tbk in 2020. The maximum value is 24.31 which was achieved by PT. Sanurhasta Mitra Tbk in 2020. While the mean value is -17.3478 with a standard deviation value of 93.23930.

The KAP reputation variable as measured by a minimum dummy value of 0.00 indicates that the company was audited by an auditor from a non-big four KAP. The maximum value of 1.00 indicates that the company is audited by auditors from the Big Four KAP. While the mean value is 0.1471. This explains that most of the research samples are companies audited by non-big four KAP auditors. The standard deviation of the KAP reputation variable is 0.35591.

The results for the dependent variable, namely going concern audit opinion, show a minimum value of 0.00, which means the company does not accept going concern audits. The maximum value of 1.00 indicates that the company being audited by the company receives a going concern audit. While the average value is 0.3922. This proves that the sample used is mostly companies that do not receive going concern audit opinions. The standard deviation of the going concern audit opinion variable is 0.49064.

Logistic Regression Test

Table 2. Hosmer and Lomeshow Test

Step	Chi-square	df	Sig.

1	13,383	8	,099

In the data model feasibility test, if the significant value is greater than 0.05, it means that the model is able to predict the observed value and match the research data. The table above shows the Chi-square value of 13.383 with a significant value of 0.099 which is higher than 0.05. So that this model can be recognized and further analysis can be carried out.

Assessing the Overall Model (Overall Model Fit)

Table 3. Overall Model Test Result (Block Number 0)

Iteration		-2 Log likelihood	Coefficients Constant
Step 0	1	136,621	-,431
	2	136,619	-,438
	3	136,619	-,438

Table 3 produces a -2 Log Likelihood value at step 0 (Block number 0), namely before there is a variable value of 136.619 with a coefficient value of -0.438 then the following table value shows the next -2 Log Likelihood value.

Table 4. Overall Model Test Result (Block Number 1)

Iteration		-2 Log likelihood	Constant	Coefficients Financial Distress	Reputasi KAP
Step 1	1	124,169	-,363	-,005	-1,093
	2	121,794	-,375	-,010	-1,428
	3	118,847	-,376	-,021	-1,454
	4	103,816	-,350	-,115	-1,307
	5	95,803	-,300	-,235	-1,238
	6	93,274	-,233	-,347	-1,277

7	93,123	-,217	-,383	-1,313
8	93,123	-,216	-,386	-1,317
9	93,123	-,216	-,386	-1,317

Based on the table above it is known that after entering the two independent variables, the value of -2 Log likelihood in the next step (Block number 1) shows a value of 93.123 with a coefficient value of -0.386. It can be interpreted that -2 Log Likelihood decreased compared to the previous step of 43.498. This decrease can mean that by adding two independent variables, it can improve the fit of the model so that the proposed model fits the data.

Determination Coeficient Test

Table 5. Determination Coeficient Test Result

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	93,123a	,347	,470

In the model summary table, the Nagelkerke R Square results are 0.470. This means that it shows that the variableity of the dependent variable which can be shown by the variability of the independent variables is 47% and the remaining 53% explains other variables besides in this study other variables not used in this study.

Classification Matrix Test

Table 6. Classification Matrix Test Result

			Predicted		
Observed			Opini Audit Going Concern		Percentage Correct
			NOAGC	OAGC	
Step 1	Opini Audit Going Concern	NOAGC	56	6	90,3
		OAGC	16	24	60,0
	Overall Percentage				78,4

shows the ability of the logistic regression model to predict fraud with a prediction rate of 78.4%. This percentage explains that there is no significant difference between the predicted data and the observed data. So it can be said that the logistic regression model in this study is quite good.

Hypothesis Test

Table 7. Logistic Hyphotesis Test Result

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1ᵃ Financial Distress	-,386	,101	14,678	1	,000	,680
Reputasi KAP	-,837 1,317	2,472	1	,116	,268
Constant	-,216	,272	,628	1	,428	,806

The test results on the hypothesis test table explain that the financial distress variable with a coefficient of -0.386 has a significantly lower value than 0.05, which is 0.000. This means that hypothesis 1 is approved, so that the financial distress variable has a significant effect on the going concern audit opinion of companies in the consumer cyclicals sector which in 2020-2021 are listed on the Indonesia Stock Exchange. This shows the low prediction results of the Altman Z-Score, the higher the company experiences financial distress, so the auditor tends to give a going concern audit opinion. The results of this study are the same as the results of research (Rahim, 2016) and (Kesumojati et al., 2017), namely financial distress has a significant influence on the acceptance of going concern audit opinions. This is because financial distress indicates a relevant company

financial condition and is an early warning for an entity that will experience bankruptcy (Utomo, 2017). Of the 51 sample companies in this study, 29 companies experienced financial distress. This was caused by a decline in financial conditions due to the phenomenon of the Covid-19 pandemic.

Another variable, KAP reputation variable with a coefficient of -1.317 has a significantly higher value than 0.05, which is 0.116. This means that hypothesis 2 is rejected, so that the KAP reputation variable has no significant effect on going concern audit opinions in consumer cyclicals sector companies on the Indonesia Stock Exchange in 2020-2021.

In this study, it was found that there were 6 samples of companies that were affected by financial distress and were audited by the Big 4 KAP but did not receive a going concern audit opinion. On the other hand, in this study, there were 33 samples of companies that experienced financial distress and received going-concern audit opinions but were audited by non-Big Four KAPs. According to Syabania & Fachriyah, (2021) this is due to the low level of competition for KAP Big Four and Non Big Four. Big Four KAPs often become the public's trust, making it difficult for Non-Big Four KAPs to compete. Because of this, the Big Four KAPs have experienced a decline in paying

attention to the quality of the resulting audits.

IV. CONCLUSION

The conclusion of this study is that the financial distress variable has a significant effect on going concern audit opinion. This is because financial distress is an early symptom or prediction that a company will go out of business. So that the company has a high probability of receiving a going concern audit opinion. It is stated that companies that have problems regarding financial conditions tend to be used as an important element in receiving going concern audit opinions. Financial distress is one of the considerations for information users in making decisions.

Meanwhile KAP's reputation variable has no effect on acceptance of going concern audit opinion. A quality audit is an audit that can find and report misstatements so as to reduce information asymmetry that occurs. Therefore auditor independence is needed to bring good decisions. Companies audited by the Big Four KAPs do not necessarily produce good audit quality. On the other hand, currently there are not a few auditors from Non-Big Four KAPs who are independent auditors and have provided good audit quality. Therefore it can be concluded that the use of KAP Big Four or Non Big Four is not necessarily a guarantee of the quality of the audit provided.

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