

DETERMINATION ON AUDIT OPINION WITH THE AUDIT COMMITTEE AS A MODERATION VARIABLE

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Abstract: According to Rahman Yakubu, Tracey Williams (2020), an audit opinion must show the reliability of the audit that has been carried out by the auditor in examining the company's financial reports. The audit opinion must be of high quality because it will reflect the company's actual financial condition and the audit opinion is also very important for stakeholders to use to make decisions. To ensure that the resulting audit opinion is of high quality, the researcher decided to conduct research on leverage and financial distress on audit opinions moderated by the audit committee. And this research proves empirically that there is an influence of leverage and financial distress on audit opinion which is moderated by the audit committee. The population of this research is 171 companies with the sample used being 83 manufacturing companies listed on the Indonesia Stock Exchange in 2019-2021. The data collection method in this research is secondary data processed with Eviews 12. This research method uses panel data regression analysis to determine the influence of independent variables and dependent variables partially within a certain period of time. From the results of the t test and moderation analysis, it is known that the leverage and financial distress variables have a significant effect on audit opinion. The audit committee is able to moderate leverage and financial distress on audit opinions with a type of quasi moderation.

Keywords: Leverage, Financial Distress, Audit Committee, Audit Quality

1. Introduction

This research investigates the complex dynamics between debt, financial difficulties, audit opinions, and the coordinating role of audit committees in manufacturing companies listed on the Indonesia Stock Exchange (BEI). This research also aims to explain how effective the audit committee is in mitigating the influence of leverage and stress on audit opinion by testing the moderating effect of the audit committee. Competent auditors must carry out their duties in accordance with the audit standards set by the Indonesian Institute of Public Accountants (IAPI), namely general standards, practical standards and reporting standards (Sepbeariska et al., 2021: 11). Auditors must fulfill their duties and responsibilities to formulate high quality audit opinions without influenced by other parties.

Research on audit quality has received significant attention in the accounting and finance literature due to its important role in ensuring the reliability of financial reporting and maintaining trust in capital markets (Agwor & Amangala, 2020) (Le & Lobo, 2020). Audit quality refers to the extent to which an independent auditor can evaluate and state whether a company's financial statements accurately reflect its actual financial position and performance (Koh et al., 2021) (Olaoye et al., 2019). High audit quality is essential for investors, creditors and other stakeholders to make decisions based on reliable financial information. Among these factors are company-specific characteristics such as financial leverage (Hasnan et al., 2020), (Bozzolan & Miihkinen, 2021), (Chen et al., 2022), earnings quality (Siagian & Tresnaningsih, 2011), (Abu Raya, 2023), and audit committee reputation (Pham, 2022), (Khoo et al., 2020). Financial leverage refers to the level of a company's debt relative to its equity (Shafiq et al., 2020), (Yakubu & Williams, 2020). Higher levels of leverage can increase financial risk (Sarwar et al., 2023) and complexity, thereby potentially affecting audit quality. Earnings quality, on the other hand, reflects the reliability of the financial information presented in the company's reports. High earnings quality implies transparent financial

reporting practices, which can improve audit quality. Additionally, the audit committee's reputation plays an important role in overseeing financial reporting practices.

2. Literature Review And Hypothesis Development

The Effect of Leverage on Audit Opinion

Giner, B., & Pardo, F. (2014), Leverage refers to the use of debt in a company's capital structure. The more debt a company has relative to its equity, the higher its leverage. In the context of financial reporting, leverage can impact the company's financial health, risk profile, and the way auditors perceive the company's financial statements. Audit opinions are the conclusions reached by auditors after evaluating the company's financial records, and these opinions can be affected by a variety of factors, including the company's leverage. Leverage is a technique of purchasing assets using borrowed funds with the hope that the after-tax profits received will exceed the cost of borrowing. This theory is relevant because auditors must comply with applicable regulations in conducting audits of company financial statements. Leverage is considered to influence the provision of an audit opinion because the higher the leverage ratio, the greater the leverage held, the higher the risk faced by investors. Averio (2021) and Maysoon et al (2023) state that leverage influences audit opinions, meaning that the leverage value can influence auditors in conducting audits to provide their audit opinions. The first hypothesis is:

H1: Leverage has a significant effect on Audit Opinion.

The Effect of Financial Distress on Audit Opinion

Financial distress refers to a situation where a company faces significant difficulties in meeting its financial obligations, including paying off its debts and meeting operational costs. This distress can arise from several factors, such as a decline in profitability, cash flow problems, or excessive debt levels. Financial distress has a direct impact on an auditor's judgment and can significantly influence the type of audit opinion issued. Knechel, W. R., Vanstraelen, A., & Zerni, M. (2015). Compliance theory relevant to Auditors must comply with existing rules and codes of ethics, so that they can be independent and honest in making decisions whether the company is experiencing financial distress, if it is proven that it is experiencing it, the auditor must be able to express it in an appropriate and qualified auditor's opinion. The second hypothesis is:

H2: Financial Distress has a significant effect on Audit Opinion.

The Impact of Leverage on Audit Opinion with the Audit Committee as a Moderator

Leverage and audit opinion can be strengthened by moderation from the audit committee, this is very important in company management, controlling the quality of financial reporting and audit practices. The audit committee plays an important role in carrying out internal control, supervising financial reporting and the external audit process which has the potential to moderate the influence of leverage on the auditor's opinion. It is known that a high indicated leverage value can improve the quality of the audit opinion, but if the company's audit committee has a good impact on supervision financial reporting practices, then this is not able to influence the audit opinion. (Chen dkk, 2011)

H3: The Audit Committee has a significant influence as a moderator of the relationship between Leverage and Audit Opinion.

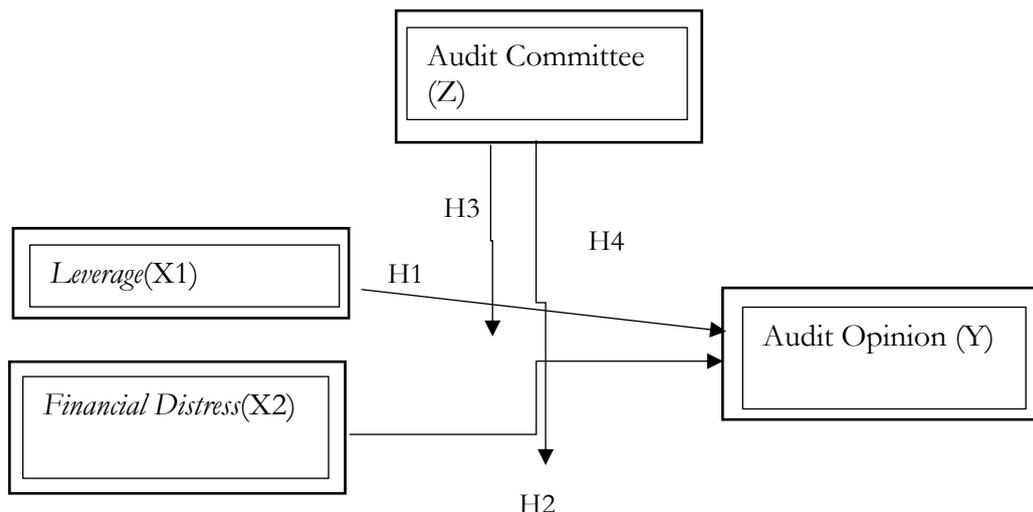
The Impact of Financial Distress on Audit Opinion with the Audit Committee as a Moderator

Companies that have difficulty meeting their financial obligations can be said to be experiencing financial difficulties, this can be caused by a decrease in income, excessive debt or poor cash flow. This situation can make the public question the integrity and reliability of financial reporting which will later influence the audit opinion given. The audit committee plays its moderating role to determine how financial difficulties impact the audit opinion, thereby potentially reducing the severity of the opinion or mitigating the risks associated with financial

misstatements. (Zhou, Y., & Zang, L. (2020), From the explanation above, the second hypothesis that can be formulated is:

H4: The Audit Committee has a significant effect as a moderator of the relationship between Financial Distress and Audit Opinion.

This research aims to provide a broader understanding of what underlies good audit opinion results. **The novelty** of this research lies in its holistic approach to investigate how various factors interact within the ratio performance framework to influence audit results. By integrating the concepts of corporate finance, auditing and financial performance.



3. RESEARCH METHODOLOGY

3.1 Research Overview

The population in this research are all manufacturing companies listed on the Indonesia Stock Exchange (BEI) in 2019-2021 and publish their annual reports and financial reports on the idx.co.id website. The population obtained was 171 companies, but after selection based on research criteria, a sample of 83 companies was obtained. So the total data for this research is 83 companies x 3 years = 249 data.

4. RESULTS

4.1. Descriptive Statistical Analysis

The results of descriptive statistics in this research are as follows: (Source: Eviews Output 12, 2024)

Table 1. Descriptive statistics

	LEV_X1	FD_X2	OA_Y	KA_Z
Mean	0.872209	4.562088	4.819277	2.863454
Median	0.700000	3.160000	5.000000	3.000000
Maximum	10.28000	130.2300	5.000000	4.000000
Minimum	-2.130000	0.080000	0.000000	0.000000
Std. Dev.	0.988551	10.84978	0.935129	0.699532

Based on table 1 of the descriptive statistical output data, it can be seen that each variable includes:

1. N = 249, meaning that the amount of data obtained has 249 samples consisting of 83 companies listed on the Indonesia Stock Exchange for 3 years, namely 2019-2021.
2. The minimum value of the Leverage variable (X1) is -2.13 found in the company PT. Tiga Pilar Sejahtera Food Tbk in 2019 and the maximum value was 10.28 found in the Saranacentral Bajatama Tbk company in 2019. Meanwhile, the average value was 0.8722 and the standard deviation was 0.98855.
3. The minimum value of the Financial Distress variable (X2) is 0.08 which is found in the FKS Food Sejahtera company in 2019 and the maximum value is 130.23 which is found in the Star Petrochem T company in 2021. Meanwhile the average value is 4.5620 and standard deviation is 10.84978.
4. The minimum value of the Audit Opinion (Y) variable is 0 which is owned by companies that are not audited. The maximum value is 5, namely for companies that have been audited and received an unqualified opinion. With an average value of 2.8634 and a standard deviation of 0.9351.
5. The minimum value of the Audit Committee variable (Z) is 0 which is owned by companies that do not have structured and registered audit committee members. The maximum value is 1, namely for companies that have structured, clear and registered audit committee members. With an average value of 2.8634 and a standard deviation of 0.69953

4.2 T Test and Moderated Regression Analysis Results

Table 2. T Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.566387	0.223935	6.994816	0.0000
LEV_X1	0.054636	0.025238	2.164878	0.0314
FD_X2	0.169252	0.039421	4.293472	0.0000

Table 3. Moderation Output Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.001883	0.009069	-0.207670	0.8357
LEVKOMIT_X1Z	0.003818	0.001841	2.074297	0.0393

Source: Eviews Output 12, 2024

Table 4. Moderation Output Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.943858	0.357430	2.640681	0.0092
FDKOMIT_X2Z	-0.635851	0.277655	-2.290077	0.0234

Source: Eviews Output 12, 2024

5. DISCUSSION

5.1 Discussion of Research Results

Based on the results of the hypothesis test carried out by the researcher, the following research results were obtained,

Variable X1 (Leverage) has a t-statistic value of $2.164878 > 1.969898$ (t-table), with a prob value. (significance) is $0.0314 (<0.05)$, so it can be concluded that Variable X1 (Leverage) has a significant effect on Variable Y (Audit Opinion). Leverage has a significant effect on audit opinion because the higher the company's leverage, the higher the quality of the audit opinion given, because the high leverage value proves that there is a high debt value which may be used to increase profits. The results of this research are in line with supporting journals from Baniyas & Kuntadi (2022) and Halim (2021) and Maysoon et al (2023) which state that leverage has an effect on audit opinion. However, the results of this research are not in line with journals which do not support it, as stated by Puteri, et al (2024) and Oruke et al (2020) that leverage has no effect on audit opinion.

H1 in this research which states that Leverage has a significant effect on Acceptable Audit Opinion.

Variable X2 (Financial Distress) has a t-statistic value of $4.293472 > 1.969898$ (t-table), with a prob value. (significance) of $0.0000 (<0.05)$, it can be concluded that Variable X2 (Financial Distress) has a significant effect on Variable Y (Audit Opinion). Financial distress has a significant effect on audit opinion because the higher the company's financial distress, the higher the quality of the audit opinion if the corporation reveals what really happened, because high financial distress values must be investigated further by the auditor, in the audit process. The results of this research are in line with supporting journals from Eghbali et al (2021) and supported by Izazi & Arfianti (2019), they state that financial distress has an effect on audit opinion. However, the results of this research are not in line with journals which do not support it as stated by Yuliyani (2017) and Yu Lu (2016) that financial distress has no effect on audit opinion.

H2 in this research states that Financial Distress has a significant effect on Acceptable Audit Opinion

The influence of the audit committee interaction with leverage on audit opinion is declared significant because the probability value is $0.0393 < 0.05$. Audit committee is able to moderate leverage on audit opinion. The type of moderation is quasi moderation, which means it has two functions. The first is as a moderating variable or strengthening the influence of leverage on audit opinion. The second is as an independent variable which explains its influence on the dependent variable. The audit committee is able to moderate leverage on audit opinions because the audit committee can play a role in evaluating the company's financial risks, including risks associated with high levels of leverage. The results of this research are in line with supporting journals from Saputra & Halim (2022) and supported by Huynh & Minh (2023) which states that leverage has an effect on audit opinion. However, the results of this research are not in line with journals which do not support it as stated by Xiufeng (2021) and Saleem (2019).

H3 in this research states that the Audit Committee has a significant influence as a moderator of the relationship between Leverage and Accepted Audit Opinion.

The influence of the audit committee's interaction with financial distress on audit opinion is declared significant because the probability value is $0.0234 < 0.05$. Audit committee is able to moderate financial distress on audit opinion. The type of moderation is quasi moderation, which means it has two functions. The first is as a moderating variable or strengthening the influence of financial distress on audit opinion. The second is as an independent variable which explains its influence on the dependent variable. The audit committee is able to moderate financial distress on audit opinions because the audit committee can collaborate with independent auditors to identify and evaluate financial risks related to financial distress. The results of this research are in line with supporting journals from Gunawijaya (2015) and supported by Mohid & Takiah (2009) which states that financial distress has an effect on audit opinion. However, the results of this research are not in line with journals that do not support it as stated by Khalid (2020) and Irshad (2018).

H4 in this research states that the Audit Committee has a significant influence as a moderator of the relationship between Financial Distress and Accepted Audit Opinion.

6. CONCLUSION

6.1 CONCLUSION

Based on the test results and discussion regarding the influence of Leverage and Financial Distress on Audit Opinion with the Audit Committee as a moderating variable, it can be concluded as follows:

Leverage influences the audit opinion. These results indicate that the higher the level of leverage, the better the audit opinion produced because the leverage held is disclosed in full disclosure. Companies with high levels of leverage can provide an indication that the company is using debt to finance its business operations or increase company profits, so that auditors are careful in examining financial reports.

Financial distress influences audit opinion. This indicates that the higher the financial distress, the better the audit opinion produced. Companies that have a high level of financial distress can provide an indication that the company is likely to experience a decline in financial condition.

The audit committee is able to moderate leverage on audit opinions, because the audit committee is involved in monitoring the company's overall financial performance. They can consider the impact of leverage levels in the context of a company's financial performance and stability.

The audit committee is able to moderate financial distress in the audit opinion because the audit committee can evaluate the adequacy of internal control related to financial risk management, especially in the context of financial distress.

6.2 SUGGESTION

1. Leverage the company influences the audit opinion. (Agwor & Amangala, 2020). So the company is expected to be able to control leverage so that an audit opinion can be produced well.
2. The company's Financial Distress influences the audit opinion. So the company is expected to be able to provide reliable financial condition information so that an audit opinion can be produced properly.
3. For auditors, it is hoped that they can provide advice to all their clients so that in the future leverage and financial distress must be in a position that helps achieve the provision of quality and reliable audit opinions.
4. For researchers, it is hoped that in future research they can add other dependent variables to find out more about what variables influence audit opinion.

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