

# Effect of Financial Distress, Debt Default, Audit Delay and Leverage on Going Concern Audit Opinions on Textile and Garment Subsector Manufacturing Companies Listed on the Indonesia Stock Exchange for the 2017-2019 Period

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## ABSTRACT

This study examines effect of financial distress, debt default, audit delay and leverage on going concern audit opinions on Textile and Garment Subsector Manufacturing Companies listed on the Indonesia Stock Exchange for the 2017-2019 period. This research uses descriptive quantitative research. The sample of this research is 51 samples. Data processing using logistic regression analysis. The results of the research show that financial distress, debt default, audit delay and leverage have no effect on going concern audit opinions on Textile and Garment Subsector Manufacturing Companies listed on the Indonesia Stock Exchange for the 2017-2019 period.

**Keywords:** Financial Distress, Debt Default, Audit Delay, Leverage, Going Concern Audit Opinions

## INTRODUCTION

The Indonesia Stock Exchange oversees and facilitates the exchange of share buying and selling offers. Textile companies convert fiber into yarn, which is then made into garments or other products. Textile processing includes yarn spinning, weaving, knitting, refining, clothing and other textile goods.

The Minister of Finance, Sri Mulyani, claimed that the woes of the national textile and textile product (TPT)

industry were not only caused by imports. However, upstream and downstream issues are still considered less competitive. Polyester fiber and filament yarn are upstream textile products. Fabric, yarn, and printing are made in textile companies. The downstream industry then creates garments.

Sourced from Deni Surjantoro, Head of the Sub-Directorate General of Public Relations, Customs and Excise, Ministry of Finance, the industry is also experiencing environmental difficulties due to the waste generated during the printing process. This suboptimal intermediary sector can also be a source of imported textiles.

Sourced from BPS data, cloth imports grew from 2016-2018, an average annual increase of 31.80%. But textile companies have hurdles. One of them is the cost of raw materials. Preference is given to imported raw materials. Polyester yarn is the basis. According to the chairman of the Indonesian Textile Association, Ade Sudrajat Usman, the price of polyester raw materials is 13 percent more expensive than in other places.

Panasia Indo Resources Tbk in 2017, audits took an average of 80 days. This company is assessed as a going concern from 2017-2019.

During the 20161 day audit period, the company's debt exceeded its equity by

185 percent. The research period does not see a going concern audit opinion.

Trisula Tbk With the same audit period, both years revealed financial difficulties (Z score: 2.31) but financial security (Z score: 3.97) (85 days). The 2019 audit took longer due to lower leverage (108 d) In 2017-2019, the company was deemed unfit.

PT. Sunson Textile Manufacturing Tbk does not issue a going concern audit opinion, despite the fact that it can collapse every year. Unqualified opinion is based on audited financial accounts.

This study examines effect of financial distress, debt default, audit delay and leverage on going concern audit opinions on Textile and Garment Subsector Manufacturing Companies listed on the Indonesia Stock Exchange for the 2017-2019 period.

## **LITERATURE REVIEW**

### **Financial Distress**

Financial distress occurs when the company's finances are not healthy or crucial. The financial health of the company is that accounting problems may be expensive. Sourced from Santosa and Wedari (2011), going concern audit opinion is more likely to occur if the company's financial position deteriorates.

### **Debt Default**

Debt default is the failure of the debtor (company) in paying the principal or interest debt at maturity (Chen and Church, 2002; Praptitorini, 2007; Werastuti, 2013). The inability to fulfill its debt commitments is defined in PSA 30 as going concern by the auditor (default). The higher the debt default of a company, the more likely it is to get a going concern audit opinion.

### **Audit Delay**

Audit delay is the number of days between the end of the accounting period and the date reported in the independent auditor's report (Dwi and Herry, 2013). Explain that auditors usually issue a going

concern opinion when the independent auditor's report is late. Delay in issuance can indicate an error in the issuer's financial statements, thus extending the audit period (Yulianti, 2011).

Prolonged audit delays are associated with favorable going-concern audit opinions. The study shows that audit time is closely related to auditors who give a going concern audit view. The longer the auditor's report is issued, the more likely the auditee is to have a going concern.

### **Leverage**

Leverage is often used to assess the company's ability to meet financial commitments, both short and long term (Wiagustini, 2014:85). Leverage is a financial measure that reflects how much debt the company has issued. Sourced from Altman, organizations with minimal leverage are vulnerable to going concern audits. Rahman and Siregar (2011), found that leverage increases the likelihood of getting a going concern audit opinion.

### **Going Concern Audit Opinions**

Sourced from Junaidi (2016:15), a going concern audit opinions is an opinion in an audit report that expresses an independent auditor's objection regarding the viability of the company. The auditor is required to provide an opinion regarding the viability of the company to find out any threats to the operations of the company units.

After completing the valuation technique, the auditor can offer an opinion regarding the going concern of the company. The company's doubts about its long-term viability are widespread. Other facts that may help the auditor's doubts.

## **RESEARCH METHODS**

This research uses descriptive quantitative research. Descriptive research is a type of research that aims to make a systematic, factual and accurate description of the facts and characteristics of the population of a particular area (Pandiangan

et al., 2021). Quantitative research is empirical research in which the data is in the form of something that can be calculated. Pandiangan (2015), quantitative research pays attention to the collection and analysis of data in numerical form.

The population includes all Textile and Garment Subsector Manufacturing Companies listed on the Indonesia Stock Exchange for the 2017-2019 period. According Pandiangan et al. (2018) in Sugiyono, purposive sampling is the selection of samples based on certain characteristics that are considered to have relevance to the characteristics of the population that have been known previously. The sample of this research is 51 samples.

Library research of reference sources is a form of research that uses library facilities by examining theoretical discussions from various books, articles, and scientific works related to writing (Pandiangan, 2018). In the Textile and

Garment Subsector Manufacturing Companies, research is carried out on companies registered and published on the Indonesia Stock Exchange website (www.idx.co.id).

Data processing using logistic regression analysis. Tobing et al. (2018), interprets regression as a study of the dependence (bound) of the dependent variable on one or more independent variables. The logistic regression model is similar to discriminant analysis in that the independent variable is a combination of continuous (metric) and categorical (non-metric).

## RESULT

### Logistics Regression Analysis Results

Analysis using logistic regression does not require that the independent variables be normal. Using logistic regression on the dependent variable or calculating the dependent variable using a dummy variable is one of the prerequisites.

Table 1. Logistics Regression Analysis Results  
Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for Exp(B)	
							Lower	Upper
Step 1 <sup>a</sup> Financial_Distress	-9.791	1886.523	.000	1	.996	.000	.000	.
Debt_Default	42.813	17411.871	.000	1	.998	3.923E+18	.000	.
Audit_Delay	-.127	198.862	.000	1	.999	.881	.000	1.648E+169
Rasio_Leverage	6.566	1453.918	.000	1	.996	710.269	.000	.
Constant	-29.693	18373.359	.000	1	.999	.000		

a. Variable(s) entered on step 1: Financial\_Distress, Debt\_Default, Audit\_Delay, Rasio\_Leverage.

The results of the research show that financial distress, debt default, audit delay and leverage have no effect on going concern audit opinions on Textile and Garment Subsector Manufacturing Companies listed on the Indonesia Stock Exchange for the 2017-2019 period.

Financial distress in this study was measured using the revised Altman z-score model. The significance value of 0.996 is greater than alpha, while the variable coefficient is -9.791. The regression results show that the financial distress variable does not have a significant impact on the acceptance of going concern audit opinions, but has a negative impact. The relationship

between the z-score value and the acceptance of going-concern audit opinion is inversely proportional, meaning that the higher the z-score value of a company, the less likely it is to get a going-concern audit opinion. In 2019, PT Argo Pantes Tbk has a z-score of -4.07, getting a going concern assessment.

Debt default in this study is measured using a dummy variable, code 1 is given if the company is in debt default status, and 0 if not debt default. The test resulted in a significance value of 0.998 which is greater than alpha, and a constant value of 42.813 which indicates that this independent variable does not have a

significant impact on the acceptance of going-concern opinions, but has a positive impact on the acceptance of going-concern audit opinions. This positive trend indicates that debt default status can be associated with going concern audit opinion, and vice versa. Since large-scale companies rarely have debt default status, the findings of this study indicate that debt defaults do not have a substantial impact on going concern audit opinion. In addition, the going concern view of auditors analyzes the company's ability to fulfill all of its commitments, not only maturing debt.

Audit delay in this study is measured by the length of days required to obtain an independent auditor's report. This independent variable has no significant impact on the acceptance of the going concern view and has a negative impact on the acceptance of the going concern audit opinion. This indicates that the time required to obtain the auditor's report is not in line with the going concern audit opinion. PT Sunson Textile Manufaktur had the longest audit period in 2017 but did not receive a going concern audit opinion. The length of the audit does not automatically equate to a positive result, as factors such as company size, solvency, and auditor reputation can all affect the audit process.

The leverage in this study uses the debt to equity formula to measure how much the company's assets are financed by debt or external parties. We find that 0.996 is greater than alpha and has a constant value of 6.566. Overall, this independent variable does not have a substantial impact on going concern audit opinion, but has a favorable direction on going concern audit opinion. The leverage has a small impact on going concern audit opinions probably because the auditor looks at other ratios such as activity ratios, liquidity, and other considerations when making conclusions.

## CONCLUSION AND SUGGESTION

The results of the research show that financial distress, debt default, audit delay and leverage have no effect on going

concern audit opinions on Textile and Garment Subsector Manufacturing Companies listed on the Indonesia Stock Exchange for the 2017-2019 period.

Further research is recommended based on the findings of the analysis of this study, regardless of lack of research:

1. For further research, it is expected to use more samples and a longer research period in order to increase the accuracy of the research.
2. For investors, it is expected to be more aware of the importance of going concern audit opinion in making decisions and collecting information and consider it before making an investment decision.
3. For auditors, it is hoped that they will be able to further develop consideration of conditions that may affect the company's business continuity, both financial and non-financial conditions.

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