
The Effect of Sak Compliance, Material Mistakes, Financial Distress on Audit Opinion and Kap's Reputation in Manufacturing Companies Listed on The Indonesia Stock Exchange in 2019-2021

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ABSTRACT: The population in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2021. There are 24 companies with 72 samples in this study. Data analysis techniques and hypothesis testing in this study used application analysis of Partial least squares with the Outer Model and Inner Model tests.

The results of this study prove that Compliance with Financial Accounting Standards (SAK) has a positive and significant effect on audit opinion, Material misstatement has no positive and significant effect on audit opinion, Financial Distress has no significant effect on audit opinion, SAK compliance has no significant effect on KAP Reputation, Material misstatement has no significant effect on KAP Reputation, Financial Distress has a positive and significant effect on KAP Reputation, Audit Opinion has no significant effect on KAP Reputation in manufacturing companies listed on the Indonesia Stock Exchange.

KEYWORDS: Auditor, Audit Opinion, Financial Distress, SAK Compliance, Material Misstatement, KAP Reputation.

INTRODUCTION

Background

In the current era of globalization, the development of the manufacturing industry continues to grow every year. The more developed the business world, the competition between companies is getting tougher. In order to be able to compete with other companies and ensure the survival of the company, the company needs to manage, control and improve the company's resources effectively and efficiently. In general, the company's goal is to seek maximum profit to maintain the company's survival. The pursuit of profits demands that every business be able to implement certain strategies and policies to remain competitive and survive in the face of the rapidly changing times. Financial statements are an important instrument in the company and affect all operational activities of the company. This is due to interests that require transparent financial reports to find out the company's growth, development and obstacles. To maintain the stability of the sustainability of the company's financial performance, the company needs an audit process, as stated in the Financial Services Authority Regulation No.29/POJK.04/2016 concerning Public Company Annual Reports to ensure the reliability of the financial reports presented. PSAK No.1 of 2015 states that the purpose of financial reports is to provide information regarding the financial position, financial performance and cash flows of entities that are useful to the majority of users of financial statements in making economic decisions. To maintain the stability of the sustainability of the company's financial performance, the company needs an audit process, as stated in the Financial Services Authority Regulation No.29/POJK.04/2016 concerning Public Company Annual Reports to ensure the reliability of the financial reports presented. PSAK No.1 of 2015 states that the purpose of financial reports is to provide information regarding the financial position, financial performance and cash flows of entities that are useful to the majority of users of financial statements in making economic decisions.

KAP having a good reputation can increase public trust in the financial reports produced by the company. According to Rivaldi Akbar and Ridwan (2019) KAP's reputation is seen from public trust in the performance obtained by the public accounting firm itself. The reputation of a public accounting firm is often proxied by the reputation of the auditor. KAPs with big names (Big Four) are considered as auditors who are more professional and have better quality than KAPs that do not have big names (Immanuel &

The Effect of Sak Compliance, Material Mistakes, Financial Distress on Audit Opinion and Kap's Reputation in Manufacturing Companies Listed on The Indonesia Stock Exchange in 2019-2021

Yuyetta, 2014). The reputation and good name of the KAP are also often aligned with the higher complexity of audit work than usual.

The audit process will produce an audit report, which is the media used by the auditor to communicate with the public in their environment. The auditor's opinion on the financial statements is a separate consideration for investors and other users of financial statements in making a decision. For shareholders and management, audit opinion can be used to analyze the condition of the company. According to (Cholifah Husti Laila and Novita, 2019) the auditor's opinion is a measure that requires the auditor to obtain adequate assurance about whether the financial statements as a whole are free from material misstatement, whether caused by fraud or error. Accounting Standard (SA) 705 states that an auditor should modify his opinion in the auditor's report when the auditor concludes that,

To maintain the continuity of the company's life, the company must pay attention to things that are very risky for the sustainability of the company's life. One aspect that needs to be considered is the financial aspect, because finance is the most important part of the company. the company's financial performance needs to apply SAK. This Financial Accounting Standard is a framework for preparing financial reports so that there is uniformity in the presentation of financial reports. Sak aims to make it easier for auditors and help readers of financial statements to understand financial statements. In Indonesia, SAK consists of 4 types, namely: PSAK-IFRS (Statement of Financial Accounting Standards-International Financial Report Standards), SAK-ETAP (Financial Accounting Standards for Entities Without Public Accounting),

Auditors in carrying out their duties are often faced with materiality and misstatement issues, especially misstatements that are ignored by the preparers of financial statements, which from the perspective of external auditors are known as uncorrected misstatements. This material misstatement was caused by fraud or fraud, non-compliance with laws and regulations.

The performance of the company's financial aspects is often in phases of ups and downs, a decline in the form of this financial aspect is called financial distress. Platt and Platt (2002) define financial distress as a condition in which a company's finances are in an unhealthy state or are in crisis. According to Elza Devi Laksmiati and Suci Atiningsih (2019) Financial distress can arise due to influences from within the company itself (internal) and from outside the company (external). The internal factors are cash flow difficulties, the large amount of debt and losses in the company's operations for several years. While the external factors are in the form of government policies that can add to the company's burden, an increased interest rate policy that causes an increase in the interest expense borne by the company.

Based on the description above, the researcher is interested in researching "The Influence of Sak Compliance, Material Misstatement, Financial Distress on Audit Opinion and KAP Reputation in Manufacturing Companies Available on the Indonesia Stock Exchange in 2019-2021".

Formulation of the problem

1. Does SAK Compliance have a significant effect on Audit Opinion?
2. Will a Material Misstatement Have a Significant Impact on the Audit Opinion?
3. Does Financial Distress have a significant effect on Audit Opinion?
4. Does SAK Compliance have a significant effect on KAP Reputation?
5. Does material misstatement have a significant effect on KAP's reputation?
6. Does Financial Distress have a significant effect on KAP's Reputation?
7. Does the Audit Opinion have a significant effect on KAP's Reputation?

Research purposes

Based on the formulation of the problem that has been described above, the objectives of this study are:

1. To analyze whether SAK Compliance has a significant effect on Audit Opinion.
2. To analyze whether Material Misstatement has a Significant Effect on Audit Opinion
3. To analyze whether Financial Distress has a significant effect on Audit Opinion
4. To analyze whether SAK Compliance has a significant effect on KAP Reputation
5. To analyze whether material misstatement has a significant effect on KAP's reputation
6. To analyze whether KAP's reputation has a significant effect on KAP's reputation
7. To analyze whether the Audit Opinion has a significant effect on KAP's Reputation

Benefits of research

1. This research is expected to be useful as a reference, insight, additional literature and studies for researchers for further research.
2. This research is expected to be useful for companies to determine the effect of SAK compliance, material misstatement, and audit risk on financial risk, financial distress and audit opinion. This research is expected to provide information for readers, especially investors, potential investors, and other parties for consideration.

The Effect of Sak Compliance, Material Mistakes, Financial Distress on Audit Opinion and Kap's Reputation in Manufacturing Companies Listed on The Indonesia Stock Exchange in 2019-2021

LITERATURE REVIEW

KAP's reputation

Auditor reputation is a factor that can increase auditor independence (Saputri, 2012). The reputation of a public accounting firm can be seen from its affiliation with a large universally applicable KAP or known as the Big Four KAP. Large CPA firms have a greater incentive to audit accurately, because they have more client-specific relationships that will be lost if the reports provided are inaccurate.

In Indonesia, KAPs affiliated with International KAPs (Big Four) are considered to be able to provide better audit quality than KAPs that are not affiliated. Efraim (2010) says that the size of the KAP shows the auditor's ability to act independently and carry out audits in a professional manner, because the KAP becomes less economically dependent on the client.

Audit Opinion

According to ISA audit opinion is a conclusion drawn on the results of financial reports with a series of supporting evidence and evaluation. Audit opinion according to SPAP (Public Accountant Professional Standards) is an opinion issued by an auditor after examining accounting standard financial reports. According to (Mulyadi 2013, 19) says that the auditor's opinion is an opinion issued by the auditor regarding the fairness of the audited financial statements, in all material respects, which is based on the suitability of the preparation of these financial statements with generally accepted accounting principles. According to Abdul Halim (2013: 73) an audit opinion is a conclusion of the fairness of the information that has been audited. It is said to be reasonable in the field of auditing if it is free from doubts and dishonesty (free from bias and dishonesty). and complete information (full disclosure). This is also still limited by the concept of materiality.

SAK compliance

Financial Accounting Standards (SAK) are Statements of Financial Accounting Standards (PSAK) and Interpretation of Financial Accounting Standards (ISAK) issued by the Standards Board of the Indonesian Association of Accountants (DSAK IAI) and the Sharia Standards Board of the Indonesian Institute of Accountants (DSAS IAI) as well as capital market regulatory regulations for entities under its control. Accounting standards in Indonesia refer to global scale theory, namely the International Financial Reporting Standards (IFRS). IFRS-based SAKs have been effective since 2014. IFRS is a single, high-quality global accounting standard and an accounting framework based on principles that includes strong professional judgment and clear and transparent disclosure of the economic substance of a transaction to reach a certain conclusion.

Financial Distress

Financial distress is an event of continuous decline in the company's financial performance within a certain period of time. For companies, financial distress is one of the most common causes of bankruptcy. Because it is different from the decline in ordinary profits, the nominal loss due to financial distress can be so large that it affects the smooth operation of the company. According to Hapsari (2012) stated that financial distress is a very severe liquidity problem that cannot be solved without changing the size of the company's operations or structure. Financial distress is a condition where the company's finances are in an unhealthy state or crisis. Financial distress occurs before bankruptcy and occurs when the company experiences losses.

Previous Research

1. The Effect of Company Financial Conditions, Company Size, Company Growth and KAP Reputation on Receiving Going Concern Audit Opinions in Mining Companies Listed on the Indonesia Stock Exchange in 2015-2017 (Rivaldi Akbar and Ridwan, 2018). The results of this study explain that the company's financial condition does not affect the acceptance of going-concern audit opinions in mining companies, company size affects the acceptance of going-concern audit opinions, company growth affects the acceptance of going-concern audit opinions, the reputation of the hood does not affect the going-concern audit opinions of companies. mining.
2. The Influence of Auditor Switching, Cap Reputation and Financial Distress on Going Concern Audit Opinion (Elza Devi Laksmiati and Suci Atiningsih, 2019). The research sample was obtained using a purposive sampling method by focusing on manufacturing companies listed on the Indonesia Stock Exchange for the 2012-2016 period. Based on the results of the analysis it is known that the auditor switching variable has no significant effect on the going concern audit opinion. Meanwhile, the KAP reputation and financial distress variables have a significant effect on going concern audit opinion.
3. The Influence of Financial Distress, Audit Opinion, and Profitability on Audit Report Lag (Oftika Sari et al, 2019). The results of this study indicate that financial distress has no effect on audit report lag, audit opinion has a negative effect on audit report lag, and profitability has a negative effect on audit report lag. The practical implications of this research are as a consideration for companies in planning field work as well as possible so that they can improve the accuracy of financial reporting or speed up the publication of audited reports.
4. The Effect of Audit Opinion on Change of Management Audit Feed and Auditor Reputation on Auditor Switching (Irawati Muslimah and Hotman Tohir Pohan, 2022). The results of this study are that Audit Opinion and Management Change have a positive

The Effect of Sak Compliance, Material Mistakes, Financial Distress on Audit Opinion and Kap's Reputation in Manufacturing Companies Listed on The Indonesia Stock Exchange in 2019-2021

effect on Audit Swiching, Audit fees, Leverage and Profitability have no effect on Audit Switching and Auditor reputation has a negative effect on audit switching.

5. The Influence of Financial Distress Conditions on Acceptance of Going Concern Audit Opinion with Good Corporate Governance as a Moderating Variable (Vania Tyas Utami and Abriandi, 2018).The test results show that financial distress has a negative effect on acceptance of going concern audit opinions. Good corporate governance as measured by managerial ownership is able to weaken the relationship between financial distress and acceptance of going-concern audit opinions, while the proportion of independent commissioners, institutional ownership, and audit committees is unable to moderate the relationship between financial distress and acceptance of going-concern audit opinions.

RESEARCH METHODS

In this study, researchers used a type of quantitative research. This type of quantitative research is a type of research that is based on concrete data, research data in the form of numbers that will be measured using statistics as a calculation test tool, related to the problem being studied to produce a conclusion (Sugiyono, 2018; 13).

The population in this study are manufacturing companies 2019-2021 using a purposive sampling data collection technique with a research sample obtained from 24 companies x 3 years = 72 sample companies.

Data processing techniques in this study use computer software that is used to analyze data through the Variance Based SEM approach or commonly known as Partial Least Square or better known as PLS.

RESULTS AND DISCUSSION

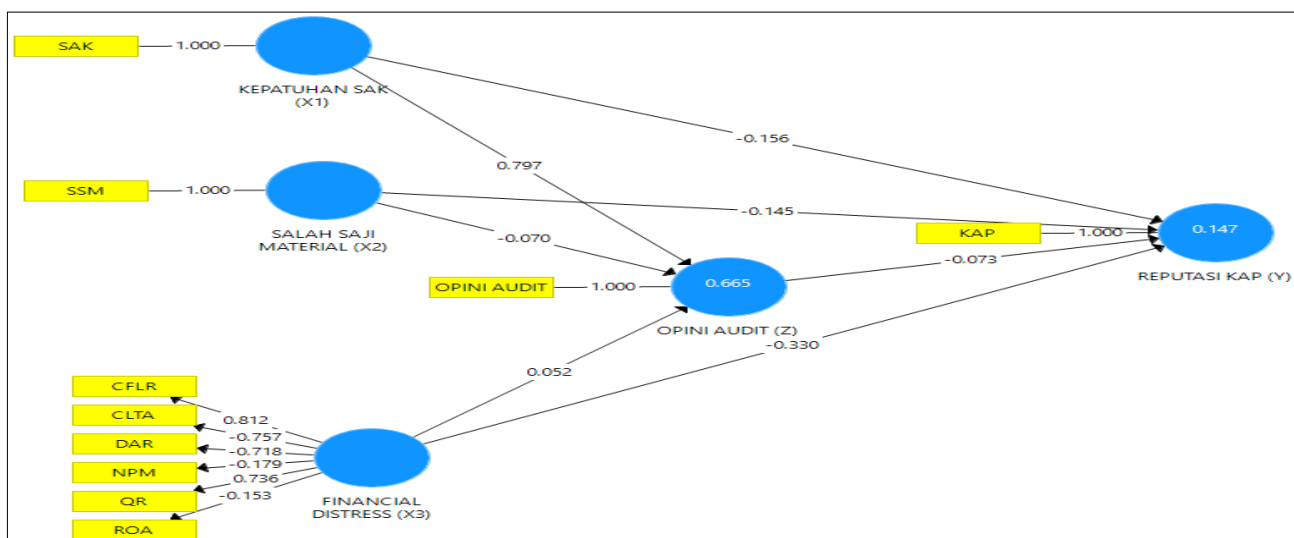


Figure 1.I Outer Model Before Dropping

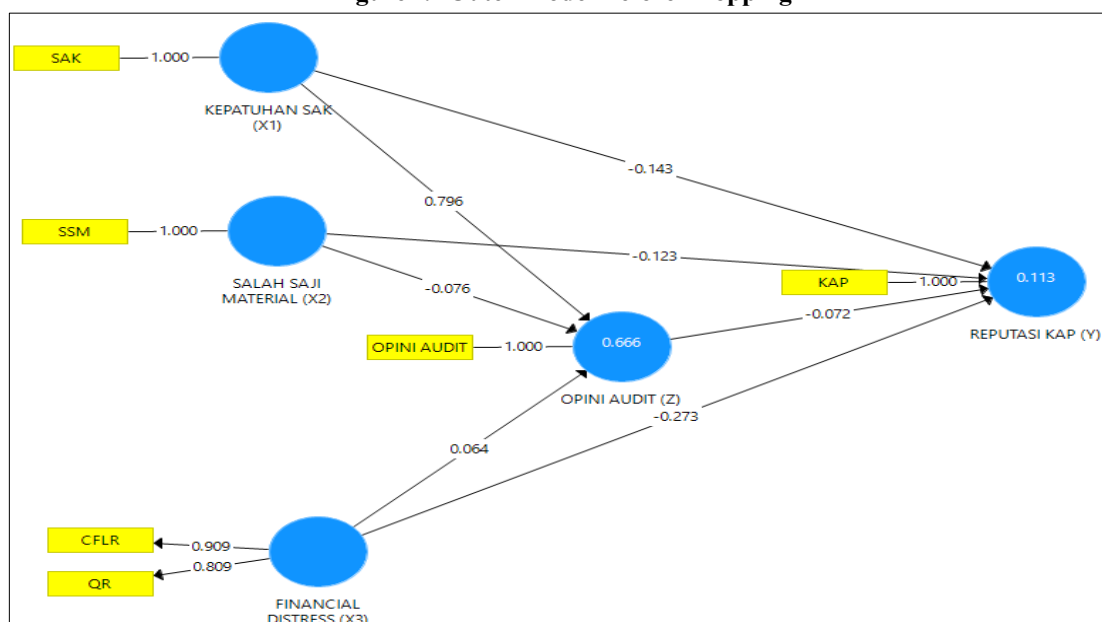


Figure 1.II Outer Model Evaluation

The Effect of Sak Compliance, Material Mistakes, Financial Distress on Audit Opinion and Kap's Reputation in Manufacturing Companies Listed on The Indonesia Stock Exchange in 2019-2021

Based on Figure 1.2 it shows that after changing the model it is known that all indicators of all variables have a loading factor value above 0.7. This means that all indicators have high validity so that they meet the requirements of convergent validity.

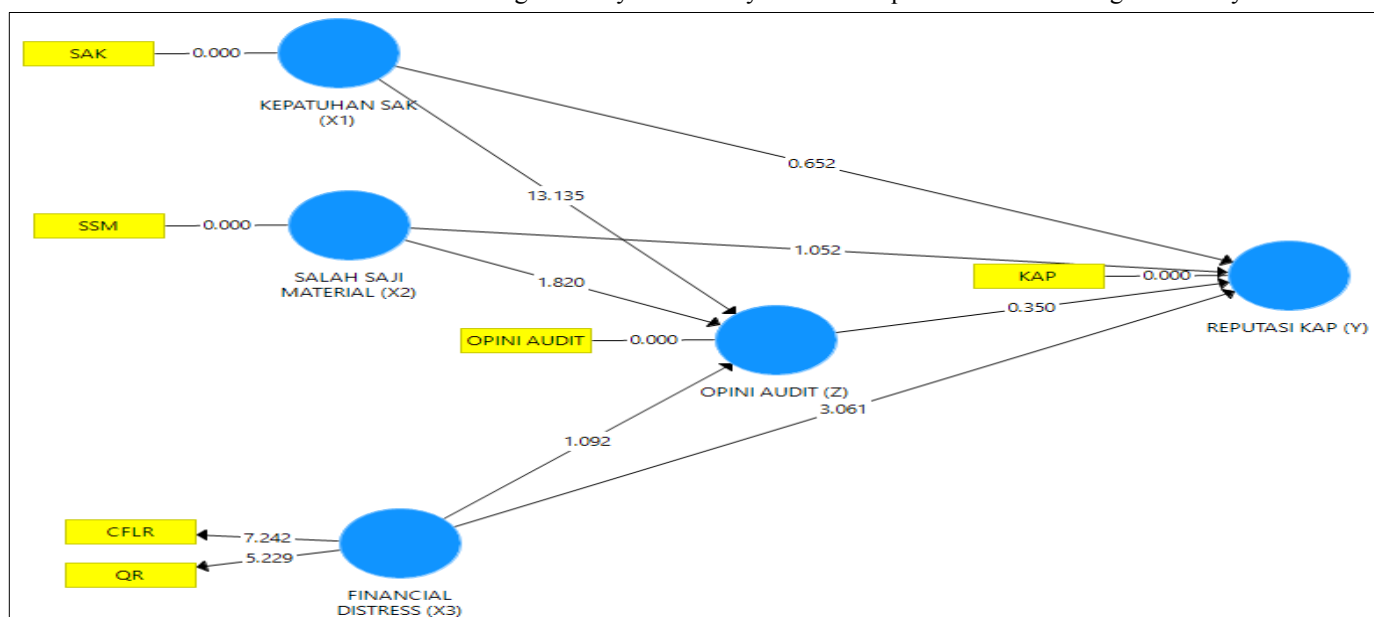


Figure 1.III Inner Model

Table 1.

	Original Sample (O)	Sample Means (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
FINANCIAL DISTRESS (X3) -> AUDIT OPINION (Z)	0.064	0.065	0.056	1.148	0.251
FINANCIAL DISTRESS (X3) -> KAP REPUTATION (Y)	-0.273	-0.268	0.091	3,008	0.003
SAK COMPLIANCE (X1) -> AUDIT OPINION (Z)	0.796	0.793	0.062	12,931	0.000
SAK COMPLIANCE (X1) -> KAP REPUTATION (Y)	-0.143	-0.143	0.221	0.646	0.519
AUDIT OPINION (Z) -> KAP REPUTATION (Y)	-0.072	-0.065	0.212	0.340	0.734
MATERIAL MISTAKES (X2) -> AUDIT OPINION (Z)	-0.076	-0.076	0.044	1,712	0.087
MATERIAL MISTAKES (X2) -> KAP REPUTATION (Y)	-0.123	-0.122	0.121	1.022	0.307

Table 1. shows the results of the PLS calculation which states the direct inter-variable effect. Based on the table above, it can be seen that of the 7 hypotheses processed in this study it can be declared accepted or significant if the T-Statistics > 1.96. There are 2 hypotheses which state positive significant and 5 hypotheses which state it is not significant.

H1: SAK Compliance has a significant effect on Audit Opinion

The relationship between SAK compliance with the audit opinion shows that the results of the Original Sample (O) are 0.796 which states that the two variables have a positive relationship and a t-statistic of 12.931, fulfilling the t-statistic standard > 1.96, so the first hypothesis of this study is accepted and significant. From the sample data it can be interpreted that SAK Compliance shows a relationship with audit opinion, so it can be said that SAK Compliance has a significant effect on Audit Opinion.

The Effect of Sak Compliance, Material Mistakes, Financial Distress on Audit Opinion and Kap's Reputation in Manufacturing Companies Listed on The Indonesia Stock Exchange in 2019-2021

H2: Material Misstatement has a significant effect on Audit Opinion

The relationship between material misstatement and financial distress shows that the results of the Original Sample (O) amounted to -0.076 which states that both variables have a negative relationship with a t-statistic value of 1.712, does not meet the t-statistic standard > 1.96, then the hypothesis both studies were rejected and not significant. From the sample data it can be interpreted that a material misstatement cannot show a relationship with the audit opinion variable, so it can be said that a material misstatement has no significant effect on the Audit Opinion.

H3: Financial Distress has a significant effect on Audit Opinion

The relationship between KAP reputation and financial distress shows that the results of the Original Sample (O) are 0.064 which states that the two variables have a positive relationship and the t-statistic is 1.148, not meeting the t-statistic standard > 1.96. So the third hypothesis of this study was rejected and not significant. From the sample data it can be interpreted that Financial Distress cannot show a relationship with Audit Opinion, so it can be said that Financial Distress has no significant effect on Audit Opinion

H4: SAK compliance has a significant effect on KAP reputation

The relationship between SAK compliance with the audit opinion shows that the results of the Original Sample (O) are -0.143 which states that both variables have a negative relationship with the t-statistic of 0.646, this value does not meet the t-statistic standard > 1.96. So the fourth hypothesis of this study was rejected and not significant. From the sample data it can be interpreted that the data for the SAK compliance variable cannot show a relationship with the KAP Reputation variable, so it can be said that SAK Compliance has a significant effect on Audit Opinion.

H5: Material misstatement has a significant effect on KAP's reputation

The relationship between material misstatement and audit opinion shows that the results of the Original Sample (O) are -0.123 which states that both variables have a negative relationship with a t-statistic of 1.022, this value does not meet the t-statistic standard > 1.96. So the fifth hypothesis of this study was rejected and not significant. From the sample data it can be interpreted that the data for the material misstatement variable cannot show a relationship with the KAP Reputation variable, so it can be said that Material Misstatement has no significant effect on KAP Reputation.

H6: Financial Distress has a significant effect on KAP's reputation

The relationship between material misstatement and KAP's reputation shows that the results of the Original Sample (O) are -0.273 which states that both variables have a negative relationship with a t-statistic of 3.008, this value meets the t-statistic standard > 1.96. Then the sixth hypothesis of this study is accepted and significant. From the sample data it can be interpreted that the data for the Financial Distress variable cannot show a relationship with the Reputation variable, so it can be said that Financial Distress has a significant effect on KAP Reputation.

H7: Audit Opinion has a significant effect on KAP's Reputation

The relationship between financial distress and audit opinion shows that the results of the Original Sample (O) are -0.076 which states that both variables have a negative relationship with a t-statistic of 0.340, this value does not meet the t-statistic standard > 1.96. So the seventh hypothesis of this study was rejected and not significant. From the sample data it can be interpreted that the data for audit opinion cannot show a relationship with KAP Reputation, so it can be said that Audit Opinion has no significant effect on KAP Reputation.

CONCLUSIONS AND RECOMMENDATIONS

Based on the analysis of the data described above, the following conclusions can be drawn:

- 1) Compliance with Financial Accounting Standards (SAK) has a positive and significant effect on audit opinions on manufacturing companies listed on the Indonesia Stock Exchange. This means that the more adherent to financial accounting standards, the more potential to get an unqualified opinion.
- 2) Material misstatement has no positive and significant effect on audit opinion in manufacturing companies listed on the Indonesia Stock Exchange.
- 3) Financial Distress has no significant effect on audit opinion on manufacturing companies listed on the Indonesia Stock Exchange.
- 4) The test results state that SAK compliance has no significant effect on KAP's reputation in manufacturing companies listed on the Indonesia Stock Exchange.
- 5) Material misstatement has no significant effect on KAP's reputation in manufacturing companies listed on the Indonesia Stock Exchange.
- 6) Financial Distress has a positive and significant effect on KAP's reputation in manufacturing companies listed on the Indonesia Stock Exchange. This means that companies that cooperate with quality KAPs can provide benefits to the company, especially in facing financial difficulties.
- 7) Audit Opinion has no significant effect on KAP's reputation in manufacturing companies listed on the Indonesia Stock Exchange.

The Effect of Sak Compliance, Material Mistakes, Financial Distress on Audit Opinion and Kap's Reputation in Manufacturing Companies Listed on The Indonesia Stock Exchange in 2019-2021

SUGGESTION

Based on the above conclusions, the researcher provides suggestions related to this research so that it can support future research, namely as follows:

1. It is hoped that future researchers can develop further by using a wider sample so that they can show more accurate results. If further research is interested in conducting research similar to the variables in this study, then the next researcher should add other variables that are not included in this study or use other types of companies listed on the Indonesia Stock Exchange and add the research time period.

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