

Navigating uncertainty: The dynamics of financial distress and opinion shopping ongoing concern audit opinions in the COVID-19 era

Ni Made Anggi Anggarini, Putu D'yan Yaniartha Sukartha*, Ni Luh Sari Widhiyani, Ni Made Dwi Ratnadi

Department of Accounting, Faculty of Economics and Business, Udayana University, Denpasar, Indonesia

*Corresponding Author(s) Email: dyansukartha@unud.ac.id

ABSTRACT

This study delves into the intricate relationship between financial distress and opinion shopping in the context of going concern audit opinions, particularly during the challenging COVID-19 pandemic. Focusing on non-financial firms listed on the IDX from 2019 to 2021, the study employed a non-probability, purposive sampling method for selecting relevant samples. Data collection was primarily conducted through non-participant observation, and logistic regression techniques were utilized for analysis. The novelty of this study lies in its temporal focus, situating the analysis within the unique financial and audit challenges posed by the pandemic. One of the key findings is the significant inverse correlation between financial distress, measured by the Altman Z-Score, and the likelihood of receiving a going concern audit opinion. The study demonstrates that increased financial distress significantly raises the probability of a firm receiving a going concern audit opinion. In contrast, the practice of opinion shopping, where firms might switch auditors to obtain a more favorable opinion, is found to decrease the likelihood of receiving such an opinion during the pandemic.

Keywords: Financial Distress; Opinion Shopping; Going Concern Audit Opinions; Logistic Regression Analysis; COVID-19

JEL Code:

M40, M41, G32

DOI:

10.31106/jema.v20i2.20747

Article History:

Received 2023-07-13

Reviewed 2023-08-08

Revised 2023-09-12

Accepted 2023-10-23

Licensed:

CC-BY

How to Cite:

Anggarini, N. M. A., Sukartha, P.

D. Y., Widhiyani, N. L. S., &

Ratnadi, N. M. D. (2023).

Navigating uncertainty: The dynamics of financial distress and opinion shopping ongoing concern audit opinions in the COVID-19 era. *JEMA: Jurnal Ilmiah Bidang Akuntansi dan Manajemen*, 20(2), 200-219. doi: 10.31106/jema.v20i2.20747

Introduction

The emergence and spread of the Coronavirus Disease (COVID-19) have caused substantial economic shifts in various nations, profoundly affecting different industry sectors in Indonesia. Amid these economic uncertainties precipitated by the pandemic, companies have been tasked with emphasizing the going concern principle, a foundational concept for financial reporting, indicating an organization's intent to persist in its operations for the foreseeable future (Guo et al., 2020). Concerns about an entity's ability to sustain its operations may result in the entity receiving a going concern audit opinion. Companies that are recipients of such opinions are often perceived as being at risk of struggling in the long term (Rahim, 2016). These audit opinions can significantly influence stakeholders' investment decisions.

The International Standards on Auditing (ISA) No. 570 posits that auditors have an obligation to evaluate going concern assumptions and assess management's viewpoint on the company's capacity to continue its operations. They are also required to determine if there is material uncertainty related to events or circumstances that might raise doubts about the entity's ability to maintain continuity. This then could lead to the issuance of a going concern audit opinion. Such opinions act as early warning signals, allowing businesses to preempt potential future losses in alignment with their sustainability plans (Gallizo & Saladrighes, 2016). Companies that receive going concern opinions might be perceived as nearing bankruptcy, given the negative connotations such opinions can carry among investors. This may deter investors, causing discontent among the auditees, who might attempt to influence these audit opinions (Kells, 2011). This is largely due to the connection between audit opinions and a company's financial health (Hardies et al., 2016).

Indeed, an entity's financial condition is a primary focus for auditors when issuing a going concern opinion (Desai et al., 2020). Companies facing financial distress will likely encounter disruptions in their operations, leading to negative net profits, potential bankruptcy, and inadequate operational cash flows (Noga & Schnader, 2013). Naturally, companies aim to avoid receiving a going concern audit opinion as it can erode stakeholder trust. The loss of this trust in company management can significantly jeopardize the company's future viability (Hadi, 2018). To prevent such audit opinions, some companies resort to opinion shopping, a practice involving the dismissal of current auditors in favor of those more likely to provide favorable opinions when faced with a concerning situation (Chen et al., 2017).

Drawing from the preceding discussions, the primary objective of this study is to investigate the relationship between the economic consequences of the COVID-19 pandemic and the heightened focus on the "going concern" principle within the financial reports of Indonesian corporations. Specifically, the research aims to explain the determinants influencing auditors' choices to give "going concern" opinions. Furthermore, this study seeks to uncover the consequences these opinions impose on corporations, with a specific focus on investor sentiments and managerial tactics, notably the practice of opinion shopping. Additionally, the research will review the broader impacts of such audit opinions on stakeholder confidence and the enduring sustainability of corporations amidst financial adversities.

Literature Review

Numerous studies have been conducted on the relationship between financial distress and the going concern audit opinion, yielding varied results, including several inconsistencies (Carson et al., 2013). Geiger and Rama (2006), Reynolds and Francis (2000), and DeFond et al. (2002) found a negative association between financial distress and the going concern audit opinion. In contrast, research from Cao et al. (2017), Brunelli et al. (2021), and Laksmi and Sukirman (2020) identified a positive relationship between financial distress and the going concern audit opinion. Laila (2021), however, reported there is no significant association between these variables.

Regarding the empirical investigation into the relationship between opinion shopping and the going concern audit opinion, studies by Chung et al. (2019) and Newton et al. (2016) discerned a negative correlation with issuing a going concern audit opinion. Contrarily, research outcomes by Carcello and Neal (2003) and Lennox (2000) suggested a positive connection between opinion shopping and the going concern audit opinion. However, Hardi et al. (2020) found no relation between opinion shopping and audit opinion.

Previous research results manifest inconsistencies concerning the relationship between financial distress, opinion shopping, and the going concern audit opinion. These disparities in research outcomes are conjectured to be influenced by other unexamined variables. Consequently, the current research incorporates company size, liquidity, profitability, solvency, and the sector as control variables. This study's novelty also includes employing the most recent data from 2019 to 2021 during the economic uncertainties posed by the COVID-19 pandemic. Furthermore, this study spans all corporate sectors registered in the Indonesia Stock Exchange (BEI), excluding the financial sector. Such an approach provides a

comprehensive and equitable overview of sectors in the BEI, offering a holistic representation of entities in Indonesia. Employing the latest Altman Z-Score model, specifically model III (Z"-Score), as a proxy for financial distress is another innovation of this research. This proxy is suitable for various sectors and industries and apt for developing countries like Indonesia. Given these innovations, this study analyzes the interrelations between financial distress, opinion shopping, and the acceptance of the going concern audit opinion during the COVID-19 pandemic.

Agency Theory

Agency theory is foundational in business practice, stemming from economic theory, decision theory, sociology, and organizational theory. Jensen and Meckling (2019) articulated that agency relationships are contractual ties between principals, in this context, shareholders, and agents, which refer to the management. The principal delegates decision-making authority to the agent based on agreed terms. However, this relationship often results in information asymmetry because agents typically possess more information about the company than principals do. Information asymmetry arises when presented financial information does not accurately reflect the company's true position.

The agent holds an ethical duty to maximize profits for principals. However, there's an inherent conflict: Agents also seek to optimize their welfare, which might lead them to act in ways that diverge from the principal's objectives (Jensen & Meckling, 2019). Without proper oversight, agents might engage in deceptive practices that misrepresent the company's true financial health. As responsible for drafting financial statements, agents might harbor ambitions to mold them to their favor, thus engaging in financial manipulation. The potential for such manipulation by agents necessitates the intervention of an independent intermediary between the principal and agent. This intermediary monitors the agent's behavior, ensuring actions align with the principal's interests and objectives (Gomez-Mejia & Wiseman, 2007).

Auditors serve as this independent third party. Their mission is to oversee managerial performance, ensuring actions harmonize with principal interests as conveyed in financial statements (Romadhon & Kusuma, 2020). For auditors to offer an unbiased, transparent evaluation, they must maintain their independence. Their scrutiny culminates in issuing an opinion on the fairness of financial statements prepared by the firm. Furthermore, auditors are responsible for assessing a company's ability to continue its operations, i.e., its going concern status. A high-quality auditor is more likely to rigorously inspect all facets of a financial

report, increasing the probability of issuing a going concern opinion. However, the information gap known to principals and agents allows agents to exploit auditors through practices like opinion shopping.

Shareholders make investment decisions based on the financial information presented by companies. However, according to agency theory, the interests held between shareholders (principals) and company management (agents) are not aligned, leading to information asymmetry between the two parties (Jensen & Meckling, 2019). To mitigate this information asymmetry, signaling theory postulates that companies are mandated to signal their internal condition to external parties through financial statements (Spence, 1978). In this context, companies rely on independent auditors to act as trusted messengers who provide valuable information to external stakeholders about the company's ability to stay in business shortly. By carefully examining and confirming the accuracy of these audited financial reports, stakeholders, including shareholders and other outsiders, can make smart decisions about the company's financial health, risks, and potential opportunities. This information helps them decide where to invest and keeps the corporate world transparent.

The Indonesian Institute of Certified Public Accountants (IAPI) stated in the application of SA 570 ongoing concerned during the COVID-19 pandemic that auditors are responsible for obtaining sufficient audit evidence about the appropriateness of the going concern assumption used by management in financial reports. Auditors are also tasked with concluding if there is any doubt about the company's ability to sustain its operations during the pandemic. Companies nearing bankruptcy tend to have poor financial health or are experiencing financial distress. The Z-Score analysis for financial distress can be considered by auditors when issuing a going concern audit opinion. The worse a company's financial condition, the higher the probability of receiving a going concern opinion. A low Z-Score indicates poor financial health, leading to financial difficulty and casting doubts over its business continuity. Such companies have a higher likelihood of getting a going concern audit opinion. This aligns with the research of Jamaluddin (2018), Widiatami et al. (2020), and Young and Wang (2010), which suggests that financial distress, proxied by the Altman Z-Score, has a negative relationship with the going concern audit opinion. Based on the explanation, the study's first hypothesis can be formulated as follows.

H₁: The lower the financial distress value, the higher the likelihood of the company receiving a going concern audit opinion.

Agency theory posits that misaligned interests between shareholders (principals) and company management (agents) can lead to information asymmetry (Jensen & Meckling,

2019). Naturally, every firm wishes to avoid a going concern audit opinion as it affects stakeholder trust. A loss of confidence in company management can jeopardize the firm's future sustainability (Settembre-Blundo et al., 2021). This prompts companies to exert undue influence or pressure on auditors. The asymmetry of information between principals and agents can also prompt the latter to engage in opinion shopping. The Securities and Exchange Commission defines opinion shopping as endeavors to find an auditor willing to support management's treatment of financial statements to achieve corporate objectives, even if it undermines the reliability of the firm's financial reports. Auditor switching is one manifestation of opinion shopping (Chan et al., 2006). Firms engaged in opinion shopping are likely to secure a clean audit opinion. This is consistent with studies by Chung et al. (2019), Newton et al. (2016), and Rahim (2016), which state that opinion shopping negatively correlates with the issuance of a going concern audit opinion.

H₂: The more frequently a company engages in opinion shopping, the lower the likelihood of the firm receiving a going concern audit opinion.

Methods

This study analyzed all non-financial companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period. Data was collected on the official IDX website, accessed via www.idx.co.id, and related company websites to download the audited annual financial statements. The study also made use of the OSIRIS database, which provides audited financial information across all company sectors, accessible via its official website, www.osiris.bvdinfo.com. The population for this research comprised non-financial companies listed on the IDX between 2019 and 2021. Samples were chosen through a purposive sampling technique based on the following criteria: a) non-financial companies that did not delist from IDX during the 2019-2021. b) Companies that experienced financial distress at least once during the observation period of 2019-2021.

In this study, the dependent variable examined was the going concern audit opinion (Y). The independent variables included financial distress (X₁) and opinion shopping (X₂). Control variables incorporated company size (X₃), liquidity (X₄), profitability (X₅), solvency (X₆), and ten company sector indices (X₇). The going concern audit opinion (Y) refers to the opinion or conclusion provided by auditors, highlighting doubts about an entity's continuity in future operations (Fitriani & Asiah, 2018). The going concern audit opinion variable was measured using a dummy variable approach. Companies receiving a going concern audit

opinion were coded as 1, while those receiving a non-going concern audit opinion were coded as 0.

Several key factors are pivotal in assessing a company's financial stability and audit opinions. Financial distress (X_1) represents a situation where a company faces declining or critical financial conditions preceding bankruptcy or liquidation. The first multivariate model for predicting bankruptcy was developed by Edward I Altman (1968) for manufacturing companies. Altman's Z"-score model III is considered versatile and applicable to various types of business domains, including manufacturing, non-manufacturing, private, or public enterprises (Altman et al., 2017). The formula for the Z"-score model Altman III can be seen in Model 1. A company's financial stability can be gauged through the Z"-score. A company is considered to be in the safe zone when its Z"-score is more than 2.60. Conversely, when the Z"-score lies between 1.10 and 2.60, it indicates that the company is in a vulnerable position. A Z"-score below 1.10 signifies that the company is in a financial distress zone.

$$Z'' = 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4 \quad (1)$$

Whereas,

X_1 : Ratio of Net Working Capital to Total Assets.

X_2 : Ratio of Retained Earnings to Total Assets.

X_3 : Ratio of EBIT (Earnings Before Interest and Taxes) to Total Assets.

X_4 : Ratio of Market Value of Stock to Book Value of Total Debt

"Opinion shopping" (X_2) signifies the practice where a company changes its auditor after receiving a "going concern" audit opinion in the prior year. This practice is represented through a binary variable: companies that switch auditors after receiving a "going concern" audit opinion are coded as 1, while those that do not make such a switch are coded as 0. Company size (X_3) reflects its magnitude, typically measured by the total assets it possesses (Model 2), with larger total assets indicating a more stable and robust financial condition. Liquidity (X_4) assesses a firm's capability to meet its short-term financial obligations using current assets and is proxied by the 'current ratio' (Model 3). Furthermore, profitability (X_5) plays a crucial role, representing a ratio that gauges a firm's gains or losses relative to all available assets. Here, profitability is approximated using the 'return on assets' (Model 4), providing insight into how effectively a company's assets generate profits. Lastly, solvency (X_6) evaluates a company's competence in meeting its obligations, encompassing both short-term and long-term commitments. Solvency is quantified through the 'debt to capital ratio' (Model 5), which unveils the extent to which a company's assets are financed by debt.

Table 1. Sample Selection Results

Number	Sample Criteria	Year			Total
		2019	2020	2021	
1.	Non-financial companies listed in the Indonesian Stock Exchange	568	606	639	1.813
2.	Delisted companies	(6)	(6)	(1)	(13)
3.	Companies not experiencing financial distress	(420)	(458)	(496)	(1.374)
Observation number		142	142	142	426

$$\text{Firm Size} = \text{Log natural Total Asset} \quad (2)$$

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities} \quad (3)$$

$$\text{Return on Assets} = \text{Net Income} / \text{Total Assets} \quad (4)$$

$$\text{Debt to Capital Ratio} = \text{Total Debt} / (\text{Total Debt} + \text{Total Equity}) \quad (5)$$

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + e \quad (6)$$

Whereas:

Y : Audit Opinion Going concern α : Constant

$\beta_{1,2,3,4,5,6}$: Regression coefficient $X_{1,2,3,4,5,6}$

X_1 : Financial Distress X_5 : Profitability Ratio

X_2 : Opinion Shopping X_6 : Solvability Ratio

X_3 : Company Size X_7 : Industry Sector

X_4 : Liquidity Ratio e : Error

According to the Indonesia Stock Exchange (BEI), after the implementation of the IDX-IC (Indonesia Stock Exchange Industrial Classification), companies are bifurcated into 12 sectors: 11 sector indices and one investment product. This research excludes the investment product sector, viewing it as a mere additional category for exchange system needs. The financial sector is also omitted due to the significant balance sheet distinctions present within financial entities. What might be considered high leverage (normal) for financial enterprises can be interpreted as distress for non-financial firms (Fama & French, 1992). The ten sector indices utilized as control variables in this study include the energy sector, basic goods, industry, primary consumer goods, non-primary consumer goods, health, property & real estate, technology, infrastructure, and transportation & logistics. These control variables

employ a dummy representation: 1 indicates the company belongs to the pertinent sector index, and 0 denotes otherwise. The analysis technique adopted in this research is logistic regression. The regression model equation applied to examine the relationship between financial distress, opinion shopping, and the going concern audit opinion as seen in Model 6.

Result and Discussion

The sample determination process yielded a sample of 142 companies with a total of 426 observation samples, as shown in Table 1. Table 1 indicates that the number of observations for non-financial companies listed on the Indonesia Stock Exchange for the period 2019-2021 consists of 426 data entries. Table 2 shows that the average value for the going concern audit opinion stands at 0.354. This figure indicates that 35.4% of the observed companies received a going concern audit opinion. Financial distress, proxied by the Altman Z"-Score, has an average value of -1.721, nearing its minimum threshold. This suggests that, on average, companies exhibit low financial distress values. The mean value for opinion shopping is 0.082, implying that 8.2% of the studied companies engage in opinion shopping. Company size is proxied using the natural logarithm of total assets. The average total asset value is approximately 9,656 million rupiah. This figure closely approaches the maximum value for the company size variable, indicating that among the sampled companies, a significant number are of considerable size. Liquidity, represented by the current ratio, has an average of 1.532%. This figure is close to the minimum observed data for the liquidity variable, suggesting that many companies in the sample have limited short-term financial obligations. Profitability, proxied by return on assets, averages -2.795%. This figure is near the minimum data point for the profitability variable, indicating that a significant portion of the sampled companies are operating at a loss. Solvency, proxied by the debt-to-capital ratio, has an average value of 0.738%. This figure approaches the minimum observed data for the solvency variable, suggesting that a substantial number of the studied companies have limited capabilities in meeting short-term financial commitments. Regarding the companies' classification based on sectors as determined by the Indonesia Stock Exchange (BEI), the distribution is as follows: 16.2% in the energy sector, 13.4% in raw materials, 9.2% in industry, 12% in non-primary consumer goods, 23.2% in primary goods, 1.4% in health, 5.6% in property, none in technology, 9.9% in infrastructure, and 7% in transportation and logistics. For analysis in this study, the STATA statistical application was employed to examine predictive relationships among variables. Testing was conducted using Pearson's correlation, logistic regression, and multicollinearity. When observations are not independent

Table 2. Descriptive Statistics Test Results

Variable	N	Min	Max	Mean	Std. Deviation
Audit Opinion Going Concerned (Y)	426	0	1	0.354	0.479
Financial Distress (X ₁)	426	-537.877	244.016	-1.721	41.279
Opinion Shopping (X ₂)	426	0	1	0.082	0.275
Company Size (X ₃) (in million Rupiahs)	426	0.0180	367311	9656	34712
Liquidity(X ₄) (%)	426	0	38.760	1.532	2.662
Profitability (X ₅) (%)	426	-65.810	73.010	-2.795	13.096
Solvability (X ₆) (%)	426	0.01	59.610	0.738	4.042
Company Sector (X ₇)					
1. Energy Sector	426	0	1	0.162	0.369
2. Material Sector	426	0	1	0.134	0.341
3. Manufacturing Sector	426	0	1	0.092	0.289
4. Consumer Goods Sector	426	0	1	0.120	0.325
5. Consumer Staples Sector	426	0	1	0.232	0.423
6. Health Sector	426	0	1	0.014	0.118
7. Property Sector	426	0	1	0.056	0.231
8. Technology Sector	426	0	0	0	0
9. Infrastructure Sector	426	0	1	0.099	0.298
10. Transportation and Logistics Sector	426	0	1	0.070	0.256

of one another, the residual errors will exhibit correlation. In regression models, each predicted value of an independent variable is assumed to be uncorrelated with the predicted values of other independent variables. If the residual errors of

For analysis in this study, the STATA statistical application was employed to examine predictive relationships among variables. Testing was conducted using Pearson's Correlation Test, Logistic Regression Analysis, Multicollinearity Test, and hypothesis analysis. When observations are not independent of one another, the residual errors will exhibit correlation. In regression models, each predicted value of an independent variable is assumed to be uncorrelated with the predicted values of other independent variables. If the residual errors of

two or more observations are correlated, as indicated by a Pearson Correlation value less than -0.6 or greater than 0.6, this signifies the presence of autocorrelation or a strong inter-variable correlation. Based on the Pearson Correlation results presented in Table 3, none of

the tested variables show symptoms of autocorrelation as their values neither fall below -0.6 nor exceed 0.6. Next, in the logistic regression analysis, a constant value of 0.6 suggests that, in the absence of financial distress, opinion shopping, and controlling variables, companies possess a 60% probability of receiving a going concern audit opinion. The Pseudo R^2 value is 0.342, indicating that the independent variables, financial distress and opinion shopping, account for 34.2% of the variation in receiving a going concern audit opinion, with a probability level of 0.00, confirming the model's fitness and rejecting the null hypothesis. The equation for the logistic regression model above can be written as Model 7.

$$Y = 0.6 - 0.116 X_1 - 0.983 X_2 - 0.018 X_3 - 0.361 X_4 - 0.028 X_5 + 3.235 X_6 - 11.887 X_7 + e \quad (7)$$

Whereas:

Y : Audit Opinion Going concern	
X ₁ : Financial Distress	X ₅ : Profitability Ratio
X ₂ : Opinion Shopping	X ₆ : Solvability Ratio
X ₃ : Company Size	X ₇ : Industry Sector
X ₄ : Liquidity Ratio	e : Error

Furthermore, to assess sensitivity, this study also employed linear regression to ascertain potential variations when substituting the logistic regression model. The findings from this model are consistent with those presented in Table 4, demonstrating the robustness of the results across analytical models. The study also conducted a Multicollinearity Test, yielding an average VIF of 2.89 for the independent variables. This value, being less than 3, indicates an absence of multicollinearity in the regression model, ensuring a reliable prediction capability and the distinct contribution of each independent variable.

The Relationship between Financial Distress and Going Concern Audit Opinion

The logistic regression analysis (Table 4) results affirm the study's first hypothesis (H₁), indicating a significant negative correlation between financial distress, represented by the Z-Score, and the issuance of going concern audit opinions during the COVID-19 pandemic. A declining Z-Score increases the likelihood of a company receiving a going concern audit opinion. The empirical examination using the Z'-Score ratio reveals a regression coefficient of -0.116, signifying statistical significance at the 0.002 level. These findings align with previous research by Gallizo and Saladrigues (2016), Zdolsek et al. (2019), and others, thus substantiating the established inverse relationship between financial distress and the issuance of going concern audit opinions.

Table 4. Logistic Regression Analysis

Audit Opinion Going Concerned (Y)	Coef.	Robust Std. Error	z	P > z 	95% Conf. Interval	Interval
Financial Distress (X ₁)	-0.116	0.038	-3.07	0.002	-0.189	-0.042
Opinion Shopping (X ₂)	-0.983	0.605	-3.28	0.001	-3.169	-0.797
Company Size (X ₃)	-0.018	0.053	-0.34	0.734	-0.123	0.087
Liquidity (X ₄)	-0.361	0.242	-1.49	0.136	-0.835	0.114
Profitability (X ₅)	-0.028	0.012	-2.32	0.020	-0.052	-0.004
Solvability (X ₆)	3.235	0.811	3.99	0.000	1.646	4.825
Company Sector (X ₇)						
1. Energy Sector	-1.525	0.546	-2.79	0.005	-2.595	-0.455
2. Material Sector	-0.947	0.508	-1.86	0.063	-1.943	0.050
3. Manufacturing Sector	-2.504	0.704	-3.56	0.000	-3.884	-1.125
4. Consumer Goods Sector	-4.171	0.657	-6.35	0.000	-5.459	-2.884
5. Consumer Staples Sector	-1.607	0.461	-3.48	0.000	-2.511	-0.702
6. Health Sector		(Omitted)				
7. Property Sector	0.616	0.824	0.75	0.454	-0.998	2.231
8. Technology Sector		(Omitted)				
9. Infrastructure Sector	-0.923	0.530	-1.74	0.082	-1.962	0.117
10. Transportation and Logistics Sector	-0.826	0.473	-1.75	0.080	-1.753	0.100
Cons. (α)	0.600	1.164	0.52	0.606	-1.680	2.881

The results reinforce the established notion that issuing a going concern opinion is inherently controversial, a conclusion supported by an extensive body of research conducted by accounting scholars (Brunelli et al., 2023). These studies underscore the variability in results, attributable primarily to international discrepancies in financial reporting standards (Jaafar & McLeay, 2007; Kvaal & Nobes, 2010). Criticisms of going concern-related research further highlight a persistent issue: the tendency to overemphasize qualitative data. This includes a disproportionate focus on the perceived extent of financial distress at the expense of quantitative data, such as the formal audit opinion (Myers et al., 2018). Consequently, this study has been meticulously designed to minimize confounding variables

within the research period. It specifically concentrates on the period characterized by the rampant spread of COVID-19 within the Indonesian context. This approach aims to isolate and examine the profound economic repercussions of the pandemic and how these, in turn, influence the issuance of audit opinions as a reflection of financial distress. Under conditions where economic uncertainties precipitated by the pandemic are causing widespread financial distress, ensuring that the measures and surrounding corporate environments accurately represent the actual state of financial distress is imperative.

Reflecting on the findings, it is evident that higher degrees of financial distress, as indicated by lower Z-scores, correlate with an increased likelihood of auditors issuing a going concern opinion for listed companies in Indonesia during the pandemic. Notably, most companies in Indonesia seldom receive opinions other than unqualified ones (Krishna & Nadya, 2020). Consequently, we did not categorize the going concern opinions about the type of audit opinion received. This unique context makes Indonesia an ideal setting to study the relationship between financial distress and auditors' issuance of going concern opinions. By focusing on this distinctive environment, the research offers valuable insights into the dynamics between financial health and auditor judgment during periods of significant economic upheaval.

The Relationship between Opinion Shopping Frequency and The Likelihood of a Company Receiving a Going Concern Audit Opinion

The second hypothesis (H₂) asserts that opinion shopping significantly and negatively impacts the going concern audit opinion. Testing using dummy variables yielded a regression coefficient of -0.983, significant at the 0.001 level, supporting H₂. This aligns with agency theory, highlighting management's interest in shaping financial reports to align with organizational goals, not necessarily those of stakeholders. The information asymmetry rooted in agency theory provides a loophole for opinion shopping practices. Companies inevitably aim to avoid the reception of going concern audit opinions due to the potential undermining of stakeholder trust. The findings bolster the claims of Chung et al. (2019), Newton et al. (2016) and others, reaffirming the negative relationship between opinion shopping and the reception of going concern audit opinions. The erosion of trust in corporate management inevitably influences the company's future viability (Leonard & Trisnawati, 2015). This trust deficit pushes companies to exert pressure on auditors, leading to scenarios where, post auditor change, companies tend to receive non-going concern audit opinions.

Financially distressed companies have been observed to possess a significant incentive to engage in opinion shopping to evade the issuance of a going concern opinion (Chung et al., 2019). In the context of a pandemic, where most companies are likely experiencing financial distress, it becomes crucial to examine the relationship between opinion shopping behaviors and the avoidance of concerned opinions. This examination is particularly important as, according to Chung et al. (2019), no clear, systematic evidence supports this behavior's prevalence. Thus, this research aims to contribute to the existing literature by elucidating whether such a relationship is evident within the Indonesian context. Indonesia presents an optimal setting for this study due to its distinct environment, where any opinion other than an unqualified one is considered adverse (Krishna & Nadya, 2020). Consequently, companies are highly motivated to lobby against the issuance of such opinions (Averio, 2020).

Another critical aspect of this investigation is the quality of auditors about opinion shopping. Chung et al. (2019) assert that opinion shopping is most likely to occur when clients transition from higher-quality auditors to lower-quality ones. This is attributed to the perception that lower-quality auditors are more inclined to yield to client demands. Another factor to consider is the potential risk of litigation (Kang et al., 2019). With Indonesia classified as a country with lower litigation risk for auditors, it is plausible that auditors may exhibit a greater propensity for engaging in opinion shopping.

Moreover, while an ASEAN Briefing article discusses opinion shopping and concern opinions in Indonesia, it highlights that companies failing to comply with audit and tax requirements can expect penalties. However, it does not specifically address the litigation risk for auditors. The mention of penalties and the potential for imprisonment for issuing false tax and accounting documents suggests that while regulations are in place, their direct impact on auditors and their effectiveness in practice remain unclear.

Conclusion and Suggestion

This study sought to examine the factors associated with the reception of going concern audit opinions, with a specific focus on financial distress and opinion shopping, among companies listed on the Indonesia Stock Exchange for 2019-2021. The primary conclusions drawn from this research are twofold: Firstly, financial distress, represented by the Z-Score, maintains a significant negative relationship with going concern audit opinions during the COVID-19 pandemic. Secondly, opinion shopping also negatively correlates with going concern audit opinions during this period.

However, this study has its limitations. It specifically focuses on a timeframe within the COVID-19 pandemic, characterized by economic anomalies. Therefore, future research is encouraged to expand its scope to the post-pandemic recovery phase when economic conditions are presumed to have normalized. Another limitation is the omission of the financial sector from the study. Subsequent research endeavors might consider focusing on this sector to understand the factors influencing the receipt of going concern audit opinions. Furthermore, since this study primarily employs quantitative methodology, future researchers could consider adopting alternative methodologies, such as qualitative approaches, to delve deeper into these findings and gain richer insights.

References

- Altman, E. I. (1968). Financial ratios, discriminant analysis, and the prediction of corporate bankruptcy. *The journal of finance*, 23, 589-609. <https://doi.org/10.2307/2978933>
- Altman, E. I., Iwanicz-Drozowska, M., Laitinen, E. K. & Suvas, A. (2017). Financial distress prediction in an international context: A review and empirical analysis of Altman's Z-score model. *Journal of International Financial Management & Accounting*, 28, 131-171. <http://dx.doi.org/10.1111%2Fjifm.12053>
- Averio, T. (2020). The analysis of influencing factors on the going concern audit opinion—a study in manufacturing firms in Indonesia. *Asian Journal of Accounting Research*, 6(2), 152-164. <http://dx.doi.org/10.1108/AJAR-09-2020-0078>
- Brunelli, S., Carlino, C., Castellano, R., & Giosi, A. (2021). Going concern modifications and related disclosures in the Italian stock market: do regulatory improvements help investors in capturing financial distress? *Journal of Management and Governance*, 25, 433-473. <https://doi.org/10.1007/s10997-020-09537-7>
- Cao, J., Kubick, T. R., & Masli, A. N. (2017). Do corporate payouts signal going-concern risk for auditors? Evidence from audit reports for companies in financial distress. *Review of Quantitative Finance and Accounting*, 49, 599-631. <https://doi.org/10.1007/s11156-016-0602-0>
- Carcello, J. V., & Neal, T. L. (2003). Audit committee characteristics and auditor dismissals following “new” going-concern reports. *The accounting review*, 78(1), 95-117. <https://doi.org/10.2308/accr.2003.78.1.95>

- Carson, E., Fargher, N. L., Geiger, M. A., Lennox, C. S., Raghunandan, K., & Willekens, M. (2013). Audit reporting for going-concern uncertainty: A research synthesis. *Auditing: A Journal of Practice & Theory*, 32(Supplement 1), 353-384. <https://doi.org/10.2308/ajpt-50324>
- Chan, K. H., Lin, K. Z., & Mo, P. L.-l. (2006). A political-economic analysis of auditor reporting and auditor switches. *Review of Accounting Studies*, 11, 21-48. <https://doi.org/10.1007/s11142-006-6394-z>
- Chen, Y., Eshleman, J. D., & Soileau, J. S. (2017). Business strategy and auditor reporting. *Auditing: A Journal of Practice & Theory*, 36(2), 63-86. <https://doi.org/10.2308/ajpt-51574>
- Chung, H., Sonu, C. H., Zang, Y., & Choi, J.-H. (2019). Opinion shopping to avoid a going concern audit opinion and subsequent audit quality. *Auditing: A Journal of Practice & Theory*, 38(2), 101-123. <https://doi.org/10.2308/ajpt-52154>
- DeFond, M. L., Raghunandan, K., & Subramanyam, K. R. (2002). Do non-audit service fees impair auditor independence? Evidence from going concern audit opinions. *Journal of Accounting Research*, 40(4), 1247-1274. <https://doi.org/10.1111/1475-679X.00088>
- Desai, V., Desai, R., Kim, J. W., & Raghunandan, K. (2020). Are going-concern issues disclosed in audit reports associated with subsequent bankruptcy? Evidence from the United States. *International Journal of Auditing*, 24(1), 131-144. <https://doi.org/10.1111/ijau.12183>
- Fama, E. F., & French, K. R. (1992). The cross-section of expected stock returns. *The Journal of Finance*, 47(2), 427-465. <https://doi.org/10.1111/j.1540-6261.1992.tb04398.x>
- Fitriani, M. D. & Asiah, A. N. (2019). Pengaruh Profitabilitas, Likuiditas Dan Ukuran Perusahaan Terhadap Opini Audit Going Concern. *Jurnal Manajemen Dan Akuntansi*, 19.
- Gallizo, J. L., & Saladrigues, R. (2016). An analysis of determinants of going concern audit opinion: Evidence from Spain stock exchange. *Intangible Capital*, 12(1), 1-16. <http://dx.doi.org/10.3926/ic.683>
- Geiger, M. A., & Rama, D. V. (2006). Audit firm size and going-concern reporting accuracy. *Accounting Horizons*, 20(1), 1-17. <https://doi.org/10.2308/acch.2006.20.1.1>

- Gomez-Mejia, L. R., & Wiseman, R. M. (2007). Does agency theory have universal relevance? A reply to Lubatkin, Lane, Collin, and Very. *Journal of Organizational Behavior*, 28(1), 81-88.
- Guo, Y., Delaney, D., & Ahmed, A. (2020). Is an auditor's propensity to issue going concern opinions a valid measure of audit quality? *Australian Accounting Review*, 30(2), 144-153. <https://doi.org/10.1111/auar.12300>
- Hadi, H. K. (2018). Is It True That Transformational Leadership Style Can Shape Employees Motivation and Performance? *JEMA: Jurnal Ilmiah Bidang Akuntansi dan Manajemen*, 15(2), 123-133. <https://doi.org/10.2308/acch-50481>
- Hardi, H., Widguna, M., Hariyani, E., & Putra, A. A. (2020). Opinion shopping, prior opinion, audit quality, financial condition, and going concern opinion. *The Journal of Asian Finance, Economics and Business (JAFEB)*, 7(11), 169-176. <https://doi.org/10.13106/jafeb.2020.vol7.no11.169>
- Hardies, K., Breesch, D., & Branson, J. (2016). Do (fe) male auditors impair audit quality? Evidence from going-concern opinions. *European Accounting Review*, 25(1), 7-34. <https://doi.org/10.1080/09638180.2014.921445>
- Jaafar, A., & McLeay, S. (2007). Country effects and sector effects on the harmonization of accounting policy choice. *Abacus*, 43(2), 156-189. <https://doi.org/10.1111/j.1467-6281.2007.00224.x>
- Jamaluddin, M. (2018). The effect of financial distress and disclosure on going concern opinion of the banking company listing in Indonesian Stock Exchange. *International Journal of Scientific Research and Management*, 6(01), 64-70. <https://doi.org/10.18535/ijssrm/v6i1.em10>
- Jensen, M. C., & Meckling, W. H. (2019). Theory of the firm: Managerial behavior, agency costs and ownership structure *Corporate governance* (pp. 77-132): Gower.
- Kang, M., Lee, H. Y., Mande, V., & Woo, Y. S. (2019). Audit firm attributes and auditor litigation risk. *Abacus*, 55(4), 639-675. <https://doi.org/10.1111/abac.12171>
- Kells, S. (2011). The seven deadly sins of performance auditing: Implications for monitoring public audit institutions. *Australian Accounting Review*, 21(4), 383-396. <https://doi.org/10.1111/j.1835-2561.2011.00150.x>

- Krishna, K. & Nadya, F. (2020). The Effect of Independence, Integrity, Professionalism, and Professional Skepticism on the Accuracy of Giving Audit Opinion (The Case of Audit Board of the Republic of Indonesia). *Advances in Economics, Business and Management Research*, 127, 5-10.
- Kvaal, E., & Nobes, C. W. (2010). International differences in IFRS policy choice. *SSRN Accounting and Business Research*, Forthcoming. <https://ssrn.com/abstract=1466693>
- Laila, N. U. (2021). Pengaruh Financial Distress, Pertumbuhan Perusahaan, Audit Lag, dan Ukuran Kantor Akuntan Publik terhadap Opini Audit Going Concern (Studi Pada Perusahaan Jasa Non Keuangan yang Terdaftar di Bursa Efek Indonesia Tahun 2017-2019). *Jurnal Ilmiah Mahasiswa FEB*, 9(2). Retrieved from
- Laksmi, B., & Sukirman, S. (2020). Financial Distress Moderates the Effect of KAP Reputation, Auditor Switching, and Leverage on the Acceptance of Going Concern Opinions. *Accounting Analysis Journal*, 9(3), 200-207. <https://doi.org/10.15294/aaj.v9i3.39563>
- Lennox, C. (2000). Do companies successfully engage in opinion-shopping? Evidence from the UK. *Journal of accounting and economics*, 29(3), 321-337. [https://doi.org/10.1016/S0165-4101\(00\)00025-2](https://doi.org/10.1016/S0165-4101(00)00025-2)
- Leonard, D., & Trisnawati, I. (2015). Pengaruh karakteristik dan fundamental perusahaan terhadap pengungkapan modal intelektual. *Jurnal Bisnis Dan Akuntansi*, 17(2), 168-177. <https://doi.org/10.34208/jba.v17i2.28>
- Mutchler, J. F., Hopwood, W., & McKeown, J. M. (1997). The influence of contrary information and mitigating factors on audit opinion decisions on bankrupt companies. *Journal of Accounting Research*, 35(2), 295-310. <https://doi.org/10.2307/2491367>
- Myers, L. A., Shipman, J. E., Swanquist, Q. T., & Whited, R. L. (2018). Measuring the market response to going concern modifications: *The importance of disclosure timing*. *Review of Accounting Studies*, 23, 1512-1542. <https://doi.org/10.1007/s11142-018-9459-x>
- Newton, N. J., Persellin, J. S., Wang, D., & Wilkins, M. S. (2016). Internal control opinion shopping and audit market competition. *The accounting review*, 91(2), 603-623. <https://doi.org/10.2308/accr-51149>

- Noga, T. J., & Schnader, A. L. (2013). Book-tax differences as an indicator of financial distress. *Accounting Horizons*, 27(3), 469-489. <https://doi.org/10.2308/acch-50481>
- Rahim, S. (2016). Pengaruh Kondisi Keuangan Perusahaan, Kualitas Audit dan Opinion Shopping Terhadap Penerimaan Opini Going Concern. *Jurnal Ilmiah Akuntansi Dan Bisnis*, 11(2), 75-83. <https://doi.org/10.24843/JIAB.2016.v11.i02.p02>
- Reynolds, J. K., & Francis, J. R. (2000). Does size matter? The influence of large clients on office-level auditor reporting decisions. *Journal of accounting and economics*, 30(3), 375-400. [https://doi.org/10.1016/S0165-4101\(01\)00010-6](https://doi.org/10.1016/S0165-4101(01)00010-6)
- Romadhon, F., & Kusuma, I. W. (2020). Does managerial ability enhance earnings quality? The moderating role of corporate governance quality and ownership concentration. *JEMA: Jurnal Ilmiah Bidang Akuntansi dan Manajemen*, 17(2), 105-120. [10.31106/jema.v17i2.6067](https://doi.org/10.31106/jema.v17i2.6067)
- Ruiz-Barbadillo, E., Go´mez-Aguilar, N., & Carrera, N. (2009). Does mandatory audit firm rotation enhance auditor independence? Evidence from Spain. *Auditing: A Journal of Practice & Theory*, 28(1), 113-135. <https://doi.org/10.2308/aud.2009.28.1.113>
- Settembre-Blundo, D., González-Sánchez, R., Medina-Salgado, S., & García-Muiña, F. E. (2021). Flexibility and resilience in corporate decision making: a new sustainability-based risk management system in uncertain times. *Global Journal of Flexible Systems Management*, 22(Suppl 2), 107-132. <https://doi.org/10.1007/s40171-021-00277-7>
- Spence, M. (1978). Job market signaling *Uncertainty in economics* (pp. 281-306): Elsevier.
- Widiatami, A. K., Tanzil, N. D., Irawadi, C., & Nurkhin, A. (2020). Audit Committee's Role in Moderating the Effect of Financial Distress Towards Going Concern Audit Opinion. *International Journal of Financial Research*, 11(4), 432-442. <https://doi.org/10.5430/ijfr.v11n4p432>
- Young, A., & Wang, Y. (2010). Multi-risk level examination of going concern modifications. *Managerial Auditing Journal*, 25(8), 756-791. <https://doi.org/10.1108/02686901011069542>
- Zdolsek, D., Jagric, T. & Kolar, I. (2019). A glance through two decades of Slovene-related research in auditing. *Economic and Social Development: Book of Proceedings*, 86-94.

About the Authors

Ni Made Anggi Anggarini, an accomplished undergraduate hailing from the Department of Accounting at Udayana University, is on a dedicated path toward a promising career in the accounting field. Her unwavering commitment to honing her accounting expertise is truly commendable. Anggarini is actively gearing up to embark on her journey as a certified professional accountant, driven by her passion for the industry. Her noteworthy contributions to this work include authoring the content, diligently refining the data, and carrying out a rigorous analysis, underscoring her commitment to academic excellence.

Putu D'yan Yaniartha Sukartha, a prominent figure in the academic field of accounting within the Faculty of Economics and Business, Udayana University, serves as the esteemed supervisor overseeing this work. His expertise spans diverse domains, including Accounting, Taxation, and Information Systems at Udayana University. He has made invaluable contributions to this work, including co-authoring the paper, devising the analytical framework, spearheading data collection efforts, providing crucial analytical tools, and offering essential support in translation and proofreading tasks.

Ni Luh Sari Widhiyani, a prolific academic affiliated with the Faculty of Economics and Business at Udayana University, where she has established herself as a prominent figure in the realm of accounting. Her active engagement in scholarly activities encompasses a wide range of contributions, including research papers, articles, and presentations for both international and national journals and conferences. Her invaluable contributions to this project include refining the content, meticulous proofreading, and ensuring the paper's overall quality and coherence.

Ni Made Dwi Ratnadi, an accomplished academic from the Faculty of Economics and Business at Universitas Udayana, renowned for groundbreaking research on ownership structure and agency problems in corporate settings. Additionally, her work on student career interest in public accounting underscores the significance of self-motivation and Certified Public Accountants knowledge. Contributions include content refinement, thorough proofreading, and study fine-tuning.