

The Influence of Auditor Type and Financial Performance on Auditor Opinions in Manufacturing Companies

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Article Info

Article history:

Received : 11 October 2023

Published : 01 January 2024

Keywords:

Games

Literacy

Method

Info Artikel

Article history:

Diterima : 11 Oktober 2023

Publis : 01 Januari 2023

Abstract

The research is directed to find empirical evidence regarding the effect of auditor type and financial performance on WTP audit opinion. Auditor Type is peroxide as Local and No Local Auditor Type. In measuring financial performance, EVA is used. The audit opinion of WTP and non-WTP is a form that represents the opinion of the auditor in this study. Purposive sampling is the method used in determining the sample, with a total of 138 companies. Logistic regression was used in analyzing the data through SPSS 23.0. The conclusion of the study is that the audit opinion of WTP has a significant influence on the type of auditor and the company's financial performance.

Abstrak

Penelitian diarahkan agar dapat menemukan bukti empiris mengenai pengaruh tipe auditor dan kinerja keuangan pada opini audit WTP. Tipe Auditor diprosikan sebagai Tipe Auditor yang Lokal dan Non Lokal. Dalam mengukur kinerja keuangan digunakan alat ukur EVA. Opini audit WTP dan non WTP merupakan bentuk yang mewakili Opini auditor pada penelitian ini. Purposive sampling merupakan metode digunakan dalam penentuan sampel, dengan jumlah 138 perusahaan. Regresi logistik digunakan dalam menganalisis data melalui SPSS 23.0. Kesimpulan penelitian adalah opini audit WTP memiliki pengaruh yang signifikan pada Tipe Auditor dan kinerja keuangan perusahaan.

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1. INTRODUCTION

In developing its business, companies still face financial problems, so good management is needed so that the company's finances do not have problems. A company has a main target in operating, one of which is to obtain the highest profit. However, this is determined by the efficiency of financial management and healthy financial performance so that they can obtain maximum profits and maintain the company. As a form of management responsibility for the sustainability of a company, financial reports are used, as well as a benchmark for management performance. Financial reports can provide information for internal and external company users for decision making and these reports also reflect all the activities of a company. To ensure that a financial report is an accountable report, it must be audited, because there are doubts about the fairness of the financial report prepared if it has not been audited. Auditors can provide audit opinions on financial reports through audit stages (Rahman and Siregar: 2012).

Fahmi in Pongoh (2013) believes that financial reports are not only a description of information about the condition of a company's financial statements, but can also be a picture of the company's financial performance. Astuti and Arini (2018) stated that financial performance is a form of the results that have been achieved by a company. Herawaty (2008) states that management information is a reflection of the company's value in the eyes of the owners. As the party who has more information and to provide good company value in the eyes of the owner, it is possible for company managers to achieve performance by implementing accounting to obtain certain profits. Financial ratios and EVA are standard financial performance measurements. The book "The Quest for Value" written by George Bennet Stewart introduces the concept of EVA. Several companies

in Indonesia apply the EVA concept in assessing their financial performance. Initially around 1996 it was PT. United Tractors, Tbk as a user of the EVA method (Lihawa et al, 2018). One standard for measuring financial performance in determining added value used by investors in considering their investments is the EVA method (Hefrizal: 2018).

A company can determine its financial capabilities and weaknesses through financial performance measuring tools, either through financial ratios or using EVA analysis (Aisyiah, et al: 2013). Financial report assessment can be done through financial ratio analysis. However, it is still difficult for stakeholders to determine appropriate financial ratios in assessing financial performance (Dewi and Santosa, 2019). In assessing financial performance, a company must consider the value of the company in addition to profit.

In previous research the author examined financial performance using the Z score, so in this research the EVA method is used. According to Sawir (2015), EVA analysis is used to measure the positive contribution of a particular investment to investors' assets. Referring to Adam and Sumartana (2018), economic value added is a reduction in operating profit after tax with annual costs from the company's total equity by considering the targets investors and lenders want to achieve.

A financial report is said to be responsible and accountable if there is an auditor's opinion as a guarantee regarding the fairness of the financial report that has been prepared. The opinion of Zahra and Chariri (2013) states that an entity that has good performance, is free from nepotism, collusion and corruption is not a guarantee for the issuance of a WTP opinion.

Aprinia's research (2016) found that the going concern auditor's opinion had a significant effect on the liquidity ratio. Ardiani, et al (2012) examined financial conditions as measured by the revised Altman models, the results of the study found that financial conditions had no effect on the acceptance of going concern audit opinions. Chan et.al cited from Zahra and Chariri (2013) differentiate between non-local auditors and local auditors. The findings of Wang, et al (2008) are that local BUMNs tend to use local auditors compared to non-local auditors. Chan et al. (2010) cited from Zahra and Chariri (2013) found that the type of auditor has a positive effect on audit opinion. The research results of Zahra and Chariri (2013) found that the type of auditor has a positive and significant effect on the auditor's opinion. So the first hypothesis is:

H1; Local auditors have a positive influence on WTP Opinion.

According to Ramadhany (2004), company health is actually a reflection of the company's financial condition. Financial ratios are a benchmark in analyzing a company's financial condition. Setiyanti (2010) states that the financial performance of a company is determined by financial conditions and WTP is influenced by good financial conditions. Ramadhany's (2004) opinion states that a company's financial condition can describe the actual level of health. The company's financial management is carried out by the management department as an agent, so a neutral third person is needed to bridge between the principal as the owner of the company and the management. The third party in question is a financial auditor who is expected to be impartial to anyone in auditing financial reports.

Agency theory explains the agency relationship in which the company owner (principal) gives work authority and decision-making authority to (the agent) in completing the work. The goal of every company is to maximize profits and therefore managers employed to manage the affairs of the company on behalf of shareholders are responsible for achieving that goal. Therefore, managers' decisions and actions must result in increased profits (Jensen & Meckling, 1976). The presentation of profits by managers in financial reports often becomes a reference for investors or company owners to find out the condition of their company. According to Komalasari (2004), investors and users will trust more easily if the company's financial condition and performance are reflected in good terms and have received a fair statement from the auditor.

Financial performance is reflected in statements about the fairness of financial reports from auditors, this can increase the level of trust of users of financial reports, including shareholders (Sari, 2010). According to Kartika (2012), the probability for a company to obtain an audit opinion is not significantly influenced by financial conditions. The results of research conducted by

Indrawati (2019) are that WTP audit opinions are significantly influenced by financial performance.

H2: Financial conditions have a positive influence on the acceptance of WTP audit opinions

In previous research on state-owned companies, both financial and non-financial, by Zahra and Chariri (2013), it was found that giving audit opinions was positively and significantly influenced by the type of auditor, while this research examined the influence of the type of auditor on manufacturing companies listed on the IDX. This research examines the influence of the type of auditor and the company's financial condition on the auditor's opinion, especially WTP. Based on the hypothesis as explained, the research model is as follows:

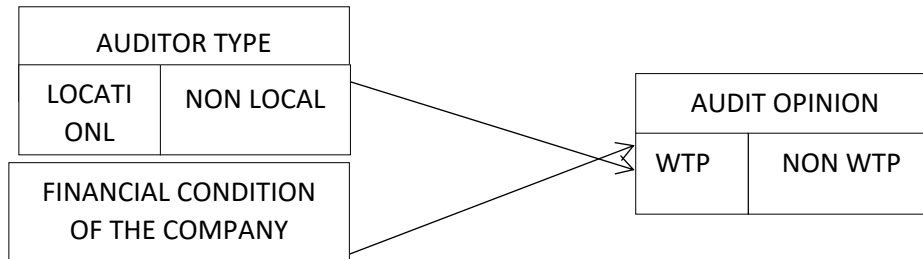


Figure 1. Research Model

Source: Research Data, 2022

2. RESEARCH METHOD

The type of research used is associative by looking at causal correlation. And manufacturing companies listed on the Indonesian Stock Exchange (BEI) in 2022 are the objects of research. The data used is secondary obtained on the official website www.idx.com and the official website of the sample company. The population used is manufacturing companies listed on the IDX in 2022. The total research sample is 138 companies. Purposive sampling method is a method for determining the sample. The aim of the research is to explain the influence of auditor type and financial performance on the auditor's opinion using logistic regression data analysis techniques. The author's previous research used Z'Score, while in this research it uses Economic Value Added as a standard for measuring financial performance. EVA is added value to shareholders. The formula in Tunggal cited from Aisyiah Nurul (2013) is:

$$EVA = NOPAT \times \text{Capital Charge}$$

Several stages of EVA calculation according to Hefrizal (2018) include:

1. Net Operating After Tax (NOPAT)

NOPAT is the profit obtained from a certain amount of capital, and the formula is: $NOPAT = EBIT - TAX$

2. Invested Capital (IC)

IC is the result of presenting several estimates on the balance sheet based on the perspective of capital invested by creditors as well as the company's own capital. And the formula is: $\text{Invested Capital} = \text{Total Debt \& Equity} - \text{Current Liabilities}$

3. Weighted Average Cost Of Capital (WACC)

WACC is the sum of the capital costs of shareholder capital and the company's current and long-term debt based on market value according to their relative proportions in the capital structure. The formula is: $WACC = [(D \times rd) (1 - Tax) + (E \times Re)]$

Information:

D: Capital Level, with the formula: $\text{Amount of Debt} / \text{Amount of Debt \& Equity} \times 100\%$

Rd: Cost Of Debt (Cost of Debt), the formula is: $\text{Interest expense} / \text{total debt} \times 100\%$

Tax: Tax, with the formula $\Rightarrow \text{Tax Expense} / \text{Net Profit before Tax} \times 100\%$

E: Equity, with the formula: $\text{Total Equity} / \text{Total Debt \& Equity} \times 100\%$

Re: Cost of Equity (Cost of Capital), the formula is $= \text{Net profit after tax} / \text{total equity} \times 100\%$

4. Capital Charge (CC)

CC is the amount of cash flow to substitute for the risk of capital invested by investors, the formula is: $\text{Capital Charge} = \text{WACC} \times \text{Invested Capital}$

5. Economic Value Added (EVA)

If the EVA value owned by a company is positive, it means that management has the ability to realize added value to the company. On the other hand, a company is said to experience destroying/destroying value, if it has a negative value. The formula is: $\text{EVA} = \text{NOPAT} \times \text{Capital Charge}$

6. Determining Criteria for assessing Financial Performance

In his book Rudianto (2006) cited by Adiguna (2017: 435) that the provisions for measuring financial performance are:

1. An EVA value > 0 means that there is a process of adding economic value, causing the company's financial performance to be in good condition.
2. EVA value = 0, then economically the company's financial performance is said to be balanced.
3. The EVA value < 0 means that there is no increase in the company's economic value so that the financial performance is not good, the profits obtained do not match the prospects of the capital owner.

In research using logistic regression data analysis techniques, the stage carried out is testing the model with the Chi-Square measuring tool on the Hosmer and Lemeshow tables (Ghozali: 2016). Then test the model partially or simultaneously with the G test or Wald test to see the significance of the model in the output of the Omnibus Test of Model Coefficient. After that Nagelkerke's R Square is used to determine the coefficient of determination. Next, a multicollinearity test was carried out, in this case a correlation matrix was used to see the correlation between the independent variables. With the stipulation that multicollinearity between independent variables occurs if the correlation value is below 0.8 (Kuncoro, 2004). Before estimating the regression coefficient parameters for logistic regression, a classification table is used to determine the true and false estimated values.

The formula used is as follows:

$$\text{OPN} = \beta_0 + \beta_1\text{LOC} + \beta_2\text{FIN} + e$$

Information:

β : Regression Coefficient

ϵ : Residual Error

OPN: Opinion (dummy variable; OPN = 1 if WTP opinion, OPN = 0 if non WTP opinion)

LOC: Auditor Type (Dummy Variable; Local=1, Non-Local= 0)

FIN: the Company's financial condition

3. RESEARCH RESULTS AND DISCUSSION

The results of the sample screening were 138 companies as samples.

Table 1. Company Details in terms of Auditor Type and Auditor Opinion

Description	WTP Opinion		Total	Non WTP Opinion		Total
	Frequency	Percentage (%)		Frequency	Percentage (%)	
Local Auditor Type	88	65%	136	4	40%	10
Non-Local Auditor Type	48	35%		6	60%	

Source: Processed data, 2023

Table 1 shows that the number of companies that use local auditors is 92 companies, while manufacturing companies that use non-local auditors are 54 companies, meaning that manufacturing companies that use non-local auditors are fewer than companies that use local auditors.

The findings are WTP audit opinions on manufacturing companies that use local auditors, where local auditors are greater, namely 88 times compared to those that use non-local auditors,

namely only 48 times. Meanwhile, Non-WTP audit opinions on manufacturing companies used local auditors 4 times, while manufacturing companies used non-local auditors only 6 times.

The EVA index value is a display of the average value of a company's financial performance. The analysis results are in Table 2.

Table 2. EVA analysis results

Description	Minimum value	Maximum Value	Amount	Average
EVA value	-6.23901E+21	8.81223E+24	1.265E+25	8.661E+22

Source: Processed data, 2023

The average value of the FIN variable is 8.66122E+22 with a minimum value of -6.23901E+21 and a maximum value of 8.81223E+24. The average EVA value is positive, meaning that the average company is in a healthy condition, although there are still some whose values are extreme below the average. The highest and lowest values are shown by the maximum and minimum values of the research variables.

The Goodness of fit Test results show a significance value of 0.680 which is above 0.05, through the Hosmer and Lemeshow table in their assessment, so the null hypothesis is rejected. Likewise, the results of the simultaneous tests in the Omnibus Test table show a significant value of 0.055, where the value is higher than alpha 0.05, meaning that the independent variables auditor type and financial performance do not have a significant effect on the dependent variable WTP audit opinion.

Table 3. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	67.133a	,039	,099

Source: Processed data, 2023

According to Ghozali (2016) it is the same as R Square in multiple regression. The number 0.099 in the Nagelkerke R Square means that 9.9 percent of the dependent variable can be explained by the independent, so that 90.01 percent is explained by variables outside the model. The Classification Plot value in the classification table describes the ability of a model to predict (Ghozali, 2016).

Table 4. Classification Table

	Observed	Predicted		
		Auditor's Opinion 0	Auditor's Opinion 1	Percentage Correct
Step 1	Auditor's Opinion	0	10	,0
		1	136	100.0
	Overall Percentage			93.2

Source: Processed data, 2023

The Overall Percentage value of 0.93 describes the probability that a company will receive a WTP opinion. The value is almost close to 1, which means that the logistics model as a whole is a good model. According to Hendayana (2013), the model is said to be better if the Overall Percentage value is closer to 1.

The correlation matrix in logistic regression describes the results of multicollinearity tests between independent variables. If there are no symptoms of strong correlation, then the model is a good model.

Table 5. Correlation Matrix

Step 1		Constant	AUDITOR TYPE	EVA CRITERIA
		Constant	1,000	-,419
	LOC	-,419	1,000	,052

<i>FIN</i>	-.815	.052	1,000
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Source: Processed data, 2023

The model formed is a good model, because the correlation coefficient value is still below 0.8. According to Free (Kuncoro, 2004:240), there is no serious multicollinearity if the correlation coefficient value is below 0.8.

Table 5. Variables in the Equation

		B	S.E	Wald	df	Sig.	Exp(B)
Step 1a	<i>LOC</i>	.924	.682	1,839	1	.175	2,520
	<i>FIN</i>	-.692	.353	3,835	1	.050	.501
	Constant	3,166	.765	17,129	1	.000	23,718

Source: Processed data, 2023

Based on the results of the analysis, it can be seen that the logistic regression equation is:

$$OPN = 3.166 + 0.924LOC - 0.692FIN$$

Statistically, with an alpha value of 0.05, a significant influence of the independent variables was found on giving WTP opinions. Likewise with the Wald criteria, where auditor type (LOC) is 1.839 and financial performance (FIN) is 3.835. The greater the strength of the influence of the independent variable on the dependent variable is indicated by the greater the Wald value (Zahran and Hariri, 2013).

The SPSS test results above show a positive coefficient on the LOC variable, namely 0.924 with a Wald value of 1.839 at a significance level of 0.05, so it can be concluded that the WTP audit opinion is significantly influenced by the type of auditor, so the first hypothesis can be accepted. This is the finding of Zahra and Chariri (2013) that the influence of auditor type has a significant effect on WTP opinion and has a positive relationship.

The FIN variable has a coefficient value of -0.692 while the Wald value is 3.835 at an alpha of 0.05 with significance at the 5% level, so the conclusion is drawn that financial performance has a significant influence on the WTP audit opinion. So the second hypothesis can be accepted and has a negative association. The results of this research are that the company's financial condition has a significant effect on the WTP audit opinion. This is in line with the second hypothesis.

4. CONCLUSION

The conclusion from the research is that the type of auditor has a positive effect on the WTP audit opinion, which means that local auditors have a significant influence on giving a WTP opinion, just as the financial performance of a company has a negative and significant effect on the WTP audit opinion. This illustrates that when a company's financial performance increases, the probability of a company getting an unqualified opinion decreases.

Suggestions for further research development are that future research can be carried out on different objects, and further research can be developed by using a combination of the financial ratio method and the EVA method for assessing financial performance, can add other variables such as auditor independence and KAP size. .

5. THANK-YOU NOTE

We would like to express our gratitude to the information service providers and managers of the Jakarta Stock Exchange who always provide information about companies on the Jakarta Stock Exchange via the web. www.idx.com and friends at Muhammadiyah University of Mataram who have helped provide facilities so that this writing can be completed.

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