

ANALYSIS OF AUDIT QUALITY BEFORE AND DURING PANDEMIC AT FOOD & BEVERAGES COMPANY

R. Wedi Rusmawan Kusumah¹⁾, Helmi P. Adriani²⁾, Kirana A. Safitri³⁾, Dhika P. Agustin⁴⁾,
Resy Oktavia⁵⁾, S. Ayulia Wendari⁶⁾

¹⁻⁶⁾ Faculty of Economics and Business, Widyatama University,
Bandung – Indonesia

Corresponding author : kirana.alviona@widyatama.ac.id

Abstract

This study focuses on audit quality in assessing audit type, financial performance, company size, and gearing ratio in companies Food and Beverages before and during the pandemic. The purpose of this study is to evaluate the role of audit quality as the basis for analyzing audit quality in assessing the type of audit, financial performance, company size, and the current gearing ratio of a company. The method used is a quantitative research method where this study proves the variables with certain theories and uses the Multiple Regression Analysis method with a sample of 25 company data. The data collection method is done by collecting data on companies Food and Beverages listed on the Indonesia Stock Exchange. This data analysis method compares. The results of this study indicate that all variables in this study do not have a positive effect on audit quality.

Keywords: audit quality, audit type, financial performance, company size, and gearing ratio

Introduction

Food and beverage companies are companies in the food and beverage sector which are one of the industrial sector categories on the Indonesia Stock Exchange (IDX) which have the opportunity to develop rapidly due to the increasing number of people in Indonesia, so the need for food and beverages is increasing. The food and beverage sector is one sector that is experiencing increased growth along with the growing population in Indonesia. The need continues to increase, because of the habits of people in Indonesia who enjoy fast food. Therefore, competition between companies in the food and beverage sector is increasing.

Since the occurrence of Covid-19 which has hit Indonesia since the beginning of 2020 which has caused disruption to the global economy, this has affected several food and beverage sectors which have experienced instability. This Covid-19 pandemic also cannot be underestimated by all companies because it has a very large impact on company revenues, even if companies take this pandemic lightly, the company will go bankrupt. It can be seen from the title taken, namely "*analysis of audit quality before and during the covid-19 pandemic in the food and revegetation sector*" which aims to find out how the quality of the audit can still run well and remain professional in its implementation.

The Covid-19 pandemic that hit Indonesia had a broad impact on public accounting firms. ISA 250 "This ISA is designed to assist the auditor in identifying material misstatements in the financial statements caused by non-compliance with laws and regulations. However, the auditor is not responsible for preventing and cannot be expected to detect non-compliance with all laws and regulations. so that the auditor in carrying out his work requires more skill and honesty to behave carefully and thoroughly based on professional standards and the existing professional code of ethics. (www.kpap.go.id). So it takes more time to analyze and determine the results of a quality audit report.

Audit quality is information that can assist the audit in detecting the occurrence of misstatements in the financial statements. In this case, a public accountant needs to be careful in providing audit quality, this is because audit quality can provide information related to financial statements which can later become the basis for its users. The auditor profession will be increasingly accountable in carrying out its professional ethics. Auditors provide several factors that have an influence on audit quality. This is because the auditor must be able to understand the company's financial statements in order to produce adequate audit quality. Audit quality is determined by competence and independence which has an influence on audit quality.

Literature Review

Agency Theory

Theory plays an important role for shareholder owners (company owners) where the management of the company has been given to professional parties in the field. Jensen and Meckling (1976) Scott (2000) provide a view of agency theory as game theory which is a contractual model involving several parties, called agents or in other words management and principals as shareholders.

In its delivery, independent auditor services are needed to explain agency theory. If the audit quality is realized in accordance with the standards, it takes an auditor who knows the process of running the company, it will increase the growth of the company's performance in the hope of a better change.

Statement Of Financial

Statement Of Financial are a means of financial information of a company that presents the results of a company's performance during a specified period. This Financial Report is prepared and presented for the benefit of internal or external parties who have an interest in the company's financial data.

Financial Ratio Analysis

According to Kasmir (2014:104) financial ratios are activities to compare the numbers in the financial statements. Comparisons can be made between one component with components in one financial report or between components in the financial statements. Then the numbers being compared can be in the form of numbers in one period or several periods.

Financial Performance

According to Sukhemi (2007:23) financial performance is the result of the achievement of a company in that period and provides information about the health of the company. (Sukhemi, 2007, Financial Performance Evaluation, Alfabeta. Bandung). The results of the work of a company will describe how the company is. From this description, it can be seen the achievements the company has achieved in a period.

Type of Audit

Auditor is a party that acts as an intermediary between management and external parties (investors). This type of audit can show how professional an auditor is in examining a company's financial statements. There is a category in the type of audit where the big four KAPs consist of large KAPs that have better audit quality and small KAPs that are not yet included in the big four.

Company Size

According to Nunnaly & Bernstein company size is a step in generating numbers with a predetermined standard to explain the measurement results. The size of this company is intended for the average of sales results during the current and future periods. In the calculation of sales results, there has been a reduction in the amount of fixed costs each month during the current and future periods.

Gearing Ratio

According to Carey (2001), the result of the *gearing ratio* is a calculation of total assets and total loans so that the *gearing ratio* in large companies can indicate that the quality of service guarantees is high. With a *gearing ratio* that is high enough, it can lead to a large enough risk for the company where the error rate is getting bigger and results in unfavorable consequences for external auditors.

The Relationship between Audit Type and Audit Quality

According to Defon and Jiambalvo in Tandiontong (2016), the type of audit has an effect on audit quality. As a bridge between the levels of professional accountants who are responsible and honest regarding the performance of companies that have been audited so as to provide confidence to external parties such as investors. Investors have more confidence in audited financial report data and produce quality financial reports. Therefore, the company will choose a Public Accounting Firm that investors can trust. The type of audit used in this study uses a public accounting firm *big four* and a non office *big four*. The KAP's are *big four* considered capable of finding *fraud* in the financial statements presented by the company. The theory that strengthens this hypothesis is agency theory. From the statement above, the hypothesis could be as follows:

H1: Type Audit significant positive effect on audit quality

Relations Financial Performance With Quality Audit

Relationship financial performance with quality audits that of assessing the financial performance of the company if the financial performance shows the condition Integration healthy or vice versa and assess the level *going concern* company's. Getting better performance Integration finances then the company is able to survive and *growth* so that invite the confidence of investors to invest in the company's air or even vice versa. The main target of investors is the level of company profitability which is measured by the profit earned by the company. When the company gets high profits, it means that the company is able to pay a quality auditor so that it gets quality audit results.

Financial performance is represented by ROA or return of assets. ROA is a measure of the company's level of profit on the assets used to generate profits for the company. Assets are able to assess the resources owned by the company, the results obtained are compared, operational results or all results. So that agency theory is needed in this study because it avoids the interests of the *principal* and *agent*. From the statement above, the hypothesis that can be taken is as follows:

H1: Financial Performance has a significant positive effect on Audit Quality.

Relationship between Company Size and Audit Quality.

Assessing the size of the company is seen from the size of the company size. To find out the size of the company, it can be measured by the total assets owned by the company. The greater the assets owned by the company, the more the company can be categorized as a large company. Meanwhile, if the company's assets are low, the company shows a small company size. High assets result in the main spotlight for investors to invest. So that the financial statements can show good performance. So that it gives a good influence for the company to improve audit quality to the maximum. From the statement above, the hypothesis could be as follows:

H1:Size Company significant positive effect on audit quality.

Relationships With Quality Audit Ratio Gearing

Gearing ratio is the ratio between total debt by total assets. Then the greater the assets owned by the company, the company is considered able to pay off the loans owned by the company. Monitoring of the performance of this management is needed. According to PMK No.222/Pmk.010/2008 concerning credit company loans and credit re-loans, it is stated that the gearing ratio guarantees a business of a maximum of 10 (ten) times, other wise it is given the opportunity to adjust for a maximum of 3 (three) months to meet the requirements. The gearing level. If the company has high gearing, the company can be at risk where there is a bigger error and has bad consequences for the external auditor. From the statement above, the hypothesis could be as follows:

H1:Gearing Ratio significant positive effect on Audit Quality.

Framework

Based on the design hypothesis and the above background, the research develops into a frame of mind following

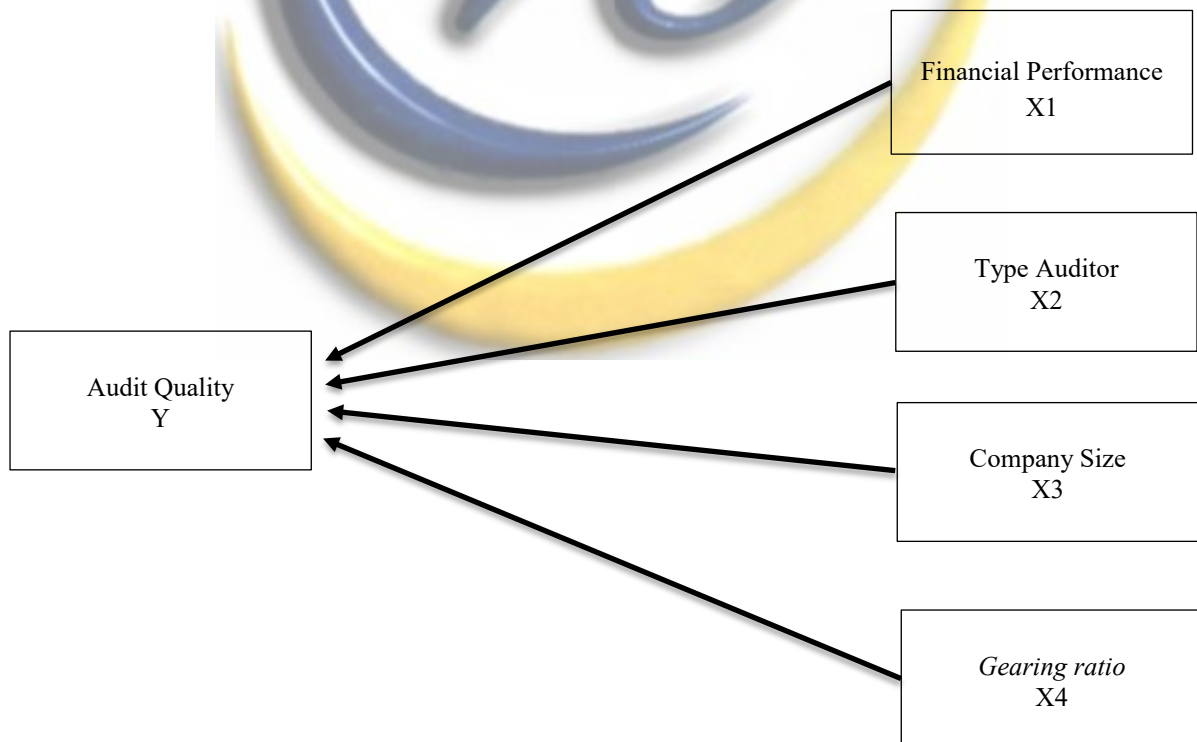


Figure 1. Thinking Framework
Source: author, (2021)

Research Methods

Type of Research This

Type of research uses quantitative research methods where data is in the form of numbers or numbers so that the results of data collection are numerical. This study explains the variables of company performance, audit type, company size, gearing ratio to audit quality.

Research Variables

Financial Performance

One of the efforts to find out audit quality information can be measured by one of them from the financial performance of a company. Financial Performance is an analysis conducted to see the extent to which a company has implemented by using the rules of financial implementation properly and correctly. A good company's financial performance is the implementation of the applicable rules that have been carried out properly and correctly. (Fahmi, 2018:142).

$$\text{ROA} = \text{Net Income} : \text{Average Total Assets}$$

Figure 2. Financial Performance

Source: Prihadi (2013:154)

The characteristics of ROA performance are said to be good if they have a value of > 30% (Kamsir, 2015)

Type of Audit

According to Soekrisno Agoes (2015:4) in his book entitled "*Auditing*" states whereas Audit is an examination conducted critically and systematically, by an independent party, on the financial statements that have been prepared by management, with the aim of being able to provide an opinion regarding the fairness of the financial statements.

This type of audit will look at the level of professionalism of the auditor in auditing a financial report. This type of audit is categorized as large KAP which is included in the engagement *Big Four* and is considered to have better audit quality and small KAP which has not entered into the engagement *Big Four*. Another advantage can be seen from the large number and variety of clients handled by the KAP, the large number of service offerings, the wide geographical coverage, which includes international affiliations and the large number of audit staff in a KAP. (Hamid, 2013).

Company Size Company

size is very influential on how companies get funds in Capital Companies so that it has the possibility of having a scale effect in costs and making larger companies able to earn more profits. Company size can be determined based on the highly correlated profit, assets, labor, and others. (Sawir, 20004:102).

$$\text{Company Size} = \text{Logarithm of Total Assets}$$

Figure 3. Company Size Company

Characteristics of Company Size, the higher the assets, the higher the company's performance.

Gearing Ratio

Gearing Ratio can show how much the company depends on debt in its capital structure. *Gearing Ratio* is a financial ratio to compare the quality of the owner with the borrower.

The formula for calculating the *Gearing Ratio*:

$$\text{Gearing Ratio} = \text{Total Loans} : \text{Total Assets}$$

Figure 4. Gearing Ratio

Characteristics of the Gearing Ratio is that the higher the Gearing Ratio, the higher the risk of a company due to various bad consequences for external auditors. (Manik and friends, 2019).

Audit Quality

Public Sector defines that audit quality is compliance with professional standards and requirements that

must be considered in accordance with the agreement. Meanwhile, according to the State Financial Auditing Standards, the results of audit quality inspections are the results of inspections that include the presence of internal controls, weaknesses, deviations from laws and regulations or non-compliance, which must be accompanied by a response from the responsible official or leader in the entity being audited.

The quality of the work is related to how well the work is done compared to the rules that have been set. (Mardisar and Sari, 2007). In order for the auditor to have audit quality that is in line with expectations, the auditor

must perform his duties according to predetermined standards. Meanwhile, according to SPAP (2011:150.1). The rules or standards that have been set, the auditor can perform his duties as well as possible so as to produce an excellent and quality audit.

Tabel 1. Sample, types, and data sources

In this study, the population taken were all food and beverage sector companies listed on the Indonesian stock exchange in 2019-2020 totaling 25 companies.

No	Sample Criteria	Total
1	Food and beverage sector companies listed on the Indonesia Stock Exchange from 2019 to 2020	25
2	Food and beverage sector companies do not publish complete annual financial reports for the period 2019 to 2020 on the IDX official website (www.idx.co.id)	0
The number of companies that meet the criteria for the research sample		25

Source : www.idx.co.id Reprocessed (data)

This research was conducted on food and beverage sector companies listed on the Indonesian stock exchange in 2019-2020 which type of data is quantitative because the data is in the form of numbers that can be measured and calculated. Sources of data used are secondary data sources obtained on the company's web in question.

Tabel 2. Data Table Assumption Classical Studies

Classical Assumption Test	Standar Value	Test Statistic	Results
Test Multicoloniarity	VIF <10 and Value Tolerance > 0.1	Value VIF on each variable at 1.006, 1.472, 1.464 and 1.007, the value of tolerance to each variable of 0.994, 0.679, 0.683 and 0.993	There is no multicollinearity
Test Heteroscedasticity	Heteroscedasticity Test Sig value > 0.05	Sig value of each variable 0.069, 0.426, 0.902, 0.333	There is no heteroscedasticity
Autocorrelation Test	Durbin Watson Table	Dw test value 2.104 the value is between dU and 4-dU.	There is no autocorrelation.

Source: SPSS Data Processing (2021)

Result and Discussion

The steps to test the hypothesis are t-test and the coefficient of determination. The t-test serves to analyze the level of influence (regression) partial between the independent and dependent variables. The coefficient of determination test is used to see how much the ability level of all independent variables affects the dependent variable.

Tabel 3. Table of Hypothesis Test Results

Hypothesis	B	Sig	Conclusion
H0: Financial Performance has no positive significant effect on Audit Quality	-0.041	0.383	Supported
H0: Audit type has no significant positive effect on Audit Quality	0.028	0.651	Supported
H0: Company size has no positive significant effect on Audit Quality	-0.001	0.923	Supported
H0: Gearing Ratio has no positive significant effect on Audit Quality	0.035	0.561	Supported
<i>Adjusted R Square</i>		-0.055	Not Good

Source: SPSS Data Processing (2021)

The table above produces the following equation:

$$\hat{Y} = 0.987 - 0.041 X_1 + 0.028 X_2 - 0.001 X_3 + 0.035 X_4$$

At the level of the coefficient of determination -0.055 or -5.5% which gives the results of the independent variables on financial performance research, auditor type, company size, *gearing ratio* which gives an effect of -5.5% of the audit quality and others are influenced by variables outside of this study.

1. Financial Performance has no effect on audit quality.

The results of the study show that financial performance has no effect on audit quality by giving a significant value of 0.383 (above 5%), Financial performance in this study is represented by profitability (ROA). With a low return on assets, it indicates the company is not able to run its internal control system.

2. The type of audit has no effect on audit quality.

The results of the study provide an explanation of the significant level of 0.651 (above 5%), then the results obtained indicate that the type of auditor has no effect on audit quality. This theory cannot confirm agency theory. This is due to the fact that the pandemic COVID-19 provides a view that the company's current condition is unstable financially and otherwise. The results of audit quality cannot be determined by a statement that the company is audited by the Big Four KAP.

3. Size has no effect on audit quality.

The Firm results of the study provide an explanation of the significant level where the results show 0.923 (above 5%), then the results obtained indicate that firm size has no effect on audit quality. Firm size is not affected or confirmed by agency theory because this theory cannot confirm the size of the company that has an influence on audit quality in this sector.

4. Gearing Ratio has no effect on audit quality.

The results of this study provide an explanation of how significant the level is where the results show 0.561 (above 5%), then the results obtained indicate that the *gearing ratio* has no effect on audit quality. Companies that have *gearing ratio* a low show that the company has low debt, it provides a low risk in the rate of return and has a positive influence on the company.

Conclusion

- Financial performance gives results that financial performance has no effect on audit quality and cannot be proven by agency theory
- The type of audit provides an explanation of the significant level which indicates that the type of audit has no effect on audit quality and cannot be proven by agency theory
- Size the company gives an account of a significant level where the results obtained indicate that company size does not affect the quality of the audit and can not prove the agency theory
- Gearing ratio provides an explanation of how significant level where the results obtained indicate that the *gearing ratio* had no effect on audit quality

Advice

In this study, the variables studied were financial performance, audit type, company size, gearing ratio and audit quality. Where the period used in this study is only 2 (two) years, and only uses data from Food and Beverage companies whose company names are listed on the Indonesia Stock Exchange (IDX). The suggestion that the researcher can convey is that researchers who will conduct further research can increase the period and

can also add other independent variables such as solvency, profitability, audit standards and so on.

References

- Sukhemi. (2007). Financial Performance Evaluation .
- Wilahsitha, AA, & Putri, SY (2021). *The Role of Accountants in Adapting to New Normal Life Amid the Covid-19 Pandemic*, 4.
- Hasanah, AN (2018). Company Size . *Effect of Firm Size, Audit Tenure on Audit Quality*, 3.
- Manik, T., & Laksito, H. (2018). Type of Auditor with Audit Quality. *Factors Affecting Audit Quality* , 2.
- Listiyowati, Andika, Fitria, Wahyu, & Rizki. (2020). Audi Quality Analysis Before and During the Covid-19 Pandemic in Tourism Sector Companies. *Audi Quality Analysis Before and During the Covid-19 Pandemic in Tourism Sector Companies*.
- Oentoro, VP (2019, September 23). *The Influence of Company Size on Audit Quality and Company Size*. Retrieved from The Effect of Audit Tenure, Audit Committee and Company Size on Audit Quality Empirical Study on Food & Beverage Companies Listed on the Indonesia Stock Exchange for the 2014-2017 Period: <http://repositori.buddhidharma.ac.id/344>
- Sunarsih, NM, Munidewi, IA, & Masdiari, NK (2021, August 02). *Profitability, Audit Quality, Audit Opinion*. Retrieved from Effect of Company Size, Profitability, Solvency, Audit Quality, Audit Committee on Report Lag: <https://www.ejournal.warmadewa.ac.id/index.php/krisna/article/view/3736>
- Indonesia Stock Exchange, *Annual Financial Report*. 2019 and 2020. (accessed at <http://www.idx.co.id>)

