

The Factors That Cause a Publicly Listed Company in The Indonesian Stock Exchange to Be Given an Adverse Audit Opinion

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ABSTRACT

This study aims to analyze the factors that cause the financial statement of a publicly listed company in the Indonesian Stock Exchange to be given an adverse audit opinion by the independent auditor in 2020. A financial statement is important to the users as a basis of decision-making. Hence, in order to assure whether or not the company's financial information has been faithfully represented, companies are required to undergo the financial statement audit process where independent auditors will evaluate and state an audit opinion based on the assessment made during the audit process. The researcher uses the explanatory case study methodology to further understand the explanation for this phenomenon. The data used for this research is taken from the company's financial statement and disclosure from 2018 to 2021. The data and results of this study have shown the presence of material findings in the company's financial statement, which is not stated according to Indonesia's generally accepted accounting principle (SAK), misuse of asset, as well as the violation of good corporate governance principles.

Keywords: Adverse Audit Opinion, Corporate Governance, Material Findings, Misuse of Asset

JEL Classification: G33, G30, G39

INTRODUCTION

Financial statement is essential for the basis of stakeholders' decision making. Hence, in order to assure the financial statement users that the information given has been fairly stated, the role of an auditor is needed to give an opinion based on an independent third-person perspective through an audit process. A company with a good audit opinion is believed to have presented the company's financial information fairly (Arens et al., 2017).

In this research, there happens to be a publicly listed company in the Indonesian Stock Exchange (IDX), namely PT HOME, that was given an adverse audit opinion by the auditor. Generally, (Hery, 2019). such cases where a publicly listed company was given an adverse audit opinion can be hardly seen. In fact, in the past ten years, PT HOME was the only publicly listed company that was given an adverse audit opinion. This problem stimulates the researchers to analyze PT HOME's information and financial statements.

The main theory for this research is the agency theory. From this theory, the researchers focus on the principles of Good Corporate Governance (GCG), audit and audit opinion. According to The Law of The Republic of Indonesia Number 40 of 2007 Concerning Limited Liability Companies, a company that implements the GCG principles will usually comply with every regulation made by the authorities, (Boediono, 2017). including the activity of conducting a General Meeting of Shareholders (GMS) whenever the company needs to discuss important agendas. This research will involve the presence of a compliance audit to analyze if the company has followed the procedure and the regulations that have been set by the authorities. (Kiel, 2005). Aside from that, the research will also involve the presence of financial statement audit to determine whether the company's financial statement has met the criteria that have been fixed by the Indonesian Generally Accepted Accounting Principles (GAAP), which is known as Standar Akuntansi Keuangan (SAK).

If there are such cases where the company does not comply with the regulations determined by the authorities, nor meet the criteria set by the SAK, the financial statement of that certain company is likely to depart from a standard unqualified report. One of the opinions that can be given by the auditor includes the adverse audit opinion. An adverse audit opinion is given when a financial statement contains a highly material misstatement that the rationality of the financial information provided by the company is questioned. Financial statement with such audit opinion normally contains the absence of conformity and does not reflect the company's financial information in accordance with SAK (Arens et al, 2017).

LITERATURE REVIEW

This research is based on the principle of disclosure of information for public companies on the basis of independent auditor reports based on facts and audit records and accounting rules applicable in Indonesia. According to Article 90 and Article 91 of the 2007 Law on Limited Liability Companies, The GMS must be drawn up and signed by the chairman of the meeting and at least 1 (one) shareholder appointed from and by the participants of the GMS. Signature is not required if the minutes of the GMS are made with a notarial deed. Shareholders can also make binding decisions outside the GMS provided that all shareholders with voting rights agree in writing by signing the proposal in question. Public Offering is a securities offering activity carried out by issuers to sell securities to the public based on the procedures regulated in Law Number 8 of 1995 concerning the Capital Market and its implementing regulations.

Furthermore, SAK is a Statement and Interpretation issued by the Financial Accounting Standards Board of the Indonesian Institute of Accountants (Ikatan Akuntan Indonesia, 2018) and the Sharia Accounting Standard Board of the Indonesian Institute of Accountants as well as capital market regulatory regulations for entities under their supervision, among others, PSAK 1 (Current Assets) – assets will be realized in a period of twelve months after the reporting period, PSAK 9 (Prepaid Expenses) – Prepaid expenses are intended as expenses that have been incurred, which will be used for future activities of the company. PSAK 15 (Investments in Associates) – Investments in associates should be accounted for using the equity method, PSAK 65 (Consolidated Financial Statements) – Consolidation of investees begins from the date the investor gains control of the investee and ends when the investor loses control of the investee.

Fraudulent financial statements where fraudulent actions committed by financial statement makers when compiling a financial report can be carried out in a manner such as fraud in financial reporting, is an act of fraud committed by financial statement preparers by manipulating the contents of financial statements so that looks fundamentally beautiful and Misappropriation of assets, Involves the theft of the entity's assets, both material and immaterial.

RESEARCH METHOD

The methodology used for this research is the explanatory case study method (Robert. KY. 2014). The research will be done by finding out the factors that cause the financial statement to be given an adverse audit opinion (Adewale, 2014).. After that, the researchers will look into the company's information, financial statement and facts regarding the adverse opinion. Then, the researchers will check and compare to analyze whether or not the company has followed the procedure and the regulations set by the authorities. And at last, the researchers will evaluate and draw a conclusion based on the process that has been carried out.

This research will be using documentary methods to collect the data needed (Sugiyono. 2015). The data for this research is taken from PT HOME's disclosure and financial statement in 2018-2021, which is mostly obtained from IDX's official website. Thereafter, the researchers will perform a data analysis based on the method that has been stated by Miles and Huberman (2018). The methods include data reduction, where from all the collected data, the researchers will only select the data that are related to the focus of the research. Then, data display will be done on the data that can answer the research problem. Last, the researchers will draw a conclusion or verification based on the phenomenon's explanation and cause-effect.

RESULT

The independent auditor's report, the basis for adverse audit opinion is stated in notes 8 and 33 of the accompanying notes to the consolidated financial statements. PT HOME is unable to assure the investment made to PT TIS. Thus, many elements in the accompanying consolidated financial statement will have a material overall effect.

To begin with, the source of the fund that was invested in PT TIS is earned from the limited public offering II done in June 2019. According to the final prospectus and disclosure, the purpose of this corporate action initially was to raise working capital, realizing the subsidiary company's property projects, renovating hotel buildings and to restore PT HOME's deficit conditions. However, there was a change of plan in October

2019. PT HOME decided to exercise the fund raised to acquire PT TIS (as in investment), renovate hotel and working capital. According to the given disclosure, investment was made to PT TIS as there was an option to develop land banking-based property project and the project is expected to add significant value to the company. Yet, PT HOME has not carried out accountability for the realization of the use of proceeds from the public offering at the nearest annual GMS nor has met the requirements regarding changes to the use of proceeds from the public offering as required by the Article 7 and Article 9 OJK Regulation Number 30/POJK.04/2015 Concerning Report on the Realization of the Use of Proceeds from the Public Offering.

Based on what was written in note 8 about Prepaid Expenses, PT HOME has deposited Rp 2.183.475.565.811 to PT TIS as an investment in 2019 before PT HOME has a legal standing and approval from the shareholders that is commonly gained from a GMS or signatures in relevant proposal. Hence, this shows that PT HOME does not comply with Article 78 and Article 91 The Law of The Republic of Indonesia Number 40 of 2007 Concerning Limited Liability Companies. Thus, PT HOME has not fulfilled the elements of GCG for the investments to be made, (Alexander, 2004).. Another point that was stated in note 8 is that PT HOME has not followed the principles of legal certainty, information disclosure, fairness and sustainability of the investment inclusion. (Kaswell & Johnson, 2013). The fairness of the investments made is questionable because PT TIS was just established in 2018 and has not carried out operations nor has experience in managing business activities. Hence, the transaction does not meet the principles of fairness and sustainability for the investment made.

At the end of financial year 2019, acquisition of PT TIS has yet been done. The deposit was recorded by the company as a prepaid investment (sub-account) in the prepaid expense account. Normally, such transactions should have been recorded using an equity method and a consolidated financial statement shall be immediately prepared right after the investment transaction was done, as stipulated in PSAK 15 and PSAK 65.

According to note 33 about Subsequent Events After the Statement of Financial Position, PT HOME was given a written instruction from the Indonesian Financial Services Authority (OJK) to withdraw the funds earned from the limited public offering II amounting to Rp 1.994.564.429.400 which has been deposited as a prepaid investment to PT TIS.

In order not to get another adverse audit opinion from the auditor, PT HOME is obliged to withdraw the funds invested to PT TIS. However, the execution is faced with issues that are related to fund access and the controlling shareholders. Up to April 2021, the acquisition of PT TIS, the land bank procurement process for the purpose of developing land banking-based property projects, together with the hotel renovation plan has not been implemented due to the problems related to the controlling shareholders and the hotel's foreclosed collateral status.

DISCUSION

This research also found many findings that require further explanation. One of which is the findings that there is a difference of Rp 191.646.758.197 between the fund raised from the limited public offering II (Rp 1.994.564.429.400) and the fund invested to PT TIS (Rp 2.183.475.565.811) which is originated from Bank Mayapada's loan. According to the information given from PT HOME's financial statement in 2019 (note 14), PT HOME obtained Rp 300.000.000.000 loan from Bank Mayapada for working capital. However, according to the disclosures given in April 2021, there is no clear information

about the latest developments regarding the loan funds and there has been no change in the balance of the loan since December 31, 2019.

The other findings that can be found in this research is that PT HOME has no idea which PSAK was not followed till the financial statement was given an adverse audit opinion. PT HOME also declared that there were no public accounting firms that were willing to do an audit on PT HOME considering the problems that are related to the controlling shareholders. Other than that, there also happened a situation where the directors and commissioners of PT HOME were resigning. Based on the disclosures given, the directors and commissioners were resigning because of business sustainability issues and PT HOME's GCG that has not been running well ever since there was a change in PT HOME's shareholder structure in July 2018. At last, regardless of the fact that OJK has given a written instruction to withdraw the invested funds from PT TIS, there was another additional deposit made by PT HOME to PT TIS amounting to Rp 3.932.500.000 which derives from PT HOME's cash account. All in all, PT HOME has invested around 88,23% of the total asset to PT TIS as a prepaid investment. Considering the conditions of PT TIS, the funds invested by PT HOME should be enough to make PT HOME the parent company of PT TIS. (Otoritas Jasa Keuangan, 2019)

CONCLUSION

Based on the analysis that has been carried out, the financial statement of PT HOME is suitable to be given an adverse audit opinion as there are highly material findings that are not recorded according to the SAK. Then, the situation is unclear whether PT HOME has significant influence or control over PT TIS as the transfer of funds is not recorded as an investment (acquisition). In this case, PT HOME is at risk of losing the funds invested to PT TIS. Besides, the written instruction given by OJK to PT HOME indicates that authorities have detected an irregularity in the investment made by PT HOME to PT TIS. Another thing that can be seen from this research is that there happens to be a misuse of assets which can be seen from the exercise of the fund raised from the limited public offering II and Bank Mayapada's loan. And finally, there is also an absence of compliance to the GCG principles as well as regulatory instructions and regulations that can be seen through the transactions made by PT HOME to PT TIS. In such wise, these factors may indicate the presence of red flags in PT HOME's financial statement. (Groenendijk, 1997). However, to further confirm the presence of red flags, (Akbar & Vujić, 2014), further in-depth research is needed.

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Processing of data based on facts revealed in the media and official channels of IDX and OJK as well as correspondence that can be shown by confirmation letters from several interested parties as well as analysis of other supporting data with correlations related to the results of financial statement audit reports by institutions that have special certifications and competencies, can be a measure that can be accounted for in processing data and analyzing the research flow that will show the results that have been described previously.

DECLARATION OF CONFLICTING INTERESTS

This research has several results that will be interrelated with various interests, both internal to the company and the interests of regulators who regulate the procedures for submitting financial statements that are good and correct as well as rules regarding the protection of accountability for accounting information that will not make the public will have different views and will be detrimental to many parties who are interested in the information.

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