ABSTRACT

This study aims to examine the effect of financial distress (FD) on the probability of receiving a going concern opinion (GCO) by analyzing the mediating role of real activities manipulation (RAM) and the moderating effect of strategic typology (TS). The urgency of this research is based on the role of the GCO as an audit decision that has significant implications for doubts regarding a company's ability to maintain its business continuity. This motivates management of distressed firms to engage in RAM in order to influence auditor assessments. In addition, differentiation of corporate strategy based on TS also has the potential to affect managerial responses to such pressure, as each strategic type demonstrates distinct decision-making patterns and earnings management tendencies.

Based on Agency Theory and Contingency Theory, this study is designed to capture the dynamics of interaction between financial pressure, managerial opportunistic behavior, and the company’s business strategy orientation from the Auditor’s perspective. The research sample consists of manufacturing firms listed on the Indonesia Stock Exchange for the period 2015–2023, which are analyzed using logistic regression, OLS, and the Sobel test.

The research results show that Financial Distress (FD) has a significant positive effect on the probability of receiving a Going Concern Opinion (GCO), indicating that the higher the company's financial distress, the greater the likelihood that the auditor will issue a GCO.

Next, FD has a significant positive effect on Real Activities Manipulation (RAM), particularly through abnormal overproduction (RAM1), indicating that companies experiencing FD tend to increase production activities abnormally to maintain short-term profit and operational performance. Conversely, the effect of FD on abnormal discretionary expenses (RAM2) is not significant, suggesting that reductions in discretionary expenses merely reflect defensive measures by companies to maintain liquidity, rather than intentional active earnings manipulation. Meanwhile, FD has a significant negative effect on abnormal operating cash flow (RAM3), indicating that a decline in abnormal cash flow is indeed detrimental; however, low cash flow is a normal consequence for distressed companies and is therefore not always considered evidence of manipulation. Instead, actions (RAM3) such as increasing sales through price discounts or the relaxation of credit terms actually become positive signals perceived by auditors, thus potentially lowering the probability of issuing a GCO.

The test results show that abnormal overproduction (RAM1) has a significant positive effect on the auditor's probability of issuing a GCO and partially mediates the increase of FD's influence on the auditor's probability of issuing a GCO. Conversely, abnormal discretionary expenses (RAM2) do not exhibit any significant effect or mediating role. Meanwhile, abnormal cash flow (RAM3) has a significant negative effect on the probability of receiving a GCO and partially mediates with a negative direction, thereby weakening the influence of FD on the probability of receiving a GCO. A decrease in abnormal cash flow reflects an increase in RAM practices through accelerated sales, price discounts, or relaxation of credit terms to boost short-term revenue.

The results of the moderation test indicate that Strategic Typology (TS) is cumulatively able to moderate the influence of FD on GCO with a negative direction, meaning that TS moderation is able to reduce the possibility of distressed companies receiving GCO. However, partially only Defender-type companies show a marginal moderating effect with a positive direction on the probability of receiving GCO when interacting with FD, while analyst and prospector-type companies show insignificant results. This finding indicates that the characteristics of Defender companies that emphasize efficiency, operational stability, and cost control actually provide a signal of business continuity risk when the company is not growing and reflects the condition of the company experiencing financial pressure so that auditors tend to assess Defender companies with the risk of receiving GCO. although the FD factor remains dominant in the auditor's consideration of GCO acceptance.

This study contributes to the audit and earnings management literature by providing evidence that the intensity of RAM and TS affects the assessment of GCO in companies experiencing FD. This research offers practical implications for auditors, regulators, and investors in enhancing risk assessment and professional skepticism when evaluating companies under financial distress.

Keywords:
Financial distress, Going Concern Opinion, Real Activities Manipulation, Strategic Typology, Prospector Strategy, Agency Theory, Contingency Theory.