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HOW EFFECTIVE THE QUALITY OF AUDITORS THE MODERATES THE RELATIONSHIP BETWEEN FINANCIAL RATIOS AND FINANCIAL DISTRESS

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ABSTRACT

This study aims to determine the effect of financial ratios on financial distress in the next period, and the quality of auditors can reduce the effect of financial ratios on financial distress in the next period. The method used in this study is a quantitative method using moderated regression analysis. The population in this study was manufacturing companies in 2016 and 2017. In selecting the research sample using the purposive sampling method, with a total of 137 company years. The dependent variable is financial distress. The independent variable is divided into three variables of profitability, leverage, and liquidity. The moderating variable is auditor quality. This study provides evidence that financial distress in the next period is influenced by profitability and leverage, and does not prove that financial distress in the next period can be moderated by auditor quality. Thus, the role of auditors needs to be increased when the company experiences financial distress.

***Keywords**: Profitability, Leverage, Liquidity, Auditor Quality, Financial Distress*

1. INTRODUCTION

In this modern era, companies that have no innovation will come through problems. This phenomenon is proven by the existence of many growing businesses, but other companies have not developed over the past 6 decades, due to internal and external factors (Inekwe, et al., 2018). According to Ross et al. (2010), companies with financial pressures and the inability to develop the business will run into the risk of financial distress.

Financial distress becomes a phenomenon that also occurs in Indonesia. This phenomenon even occurs in some large companies. The presence of this

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financial distress arises as a signal if the company does not make any improvements that will run into bankruptcy (Dwijayanti, 2010). Several large companies that suffered bankruptcy in recent times were PT Sariwangi Agricultural Estate Agency (SAEA) and PT Plantation Airlines Indorub Sumber Wadung (MPISW), PT Nyonya Meneer, PT Modern Internasional Tbk (MDRN) through its subsidiary, PT Modern Sevel Indonesia, and Kodak (Ningrum, 2019). These conditions indicated that financial distress could be a bad signal for the company, and inflicted financial losses to many parties.

Based on these phenomena, many studies aim to predict financial distress for companies (Alifiaha, et al., 2013). The company avoids the things that cause bankruptcy because it is inflicted financial losses to shareholders, employees, and the economy (Husna & Rahman, 2012). The condition of financial distress arises because the company cannot fulfill its obligations. According to the signal theory, companies that come through financial distress can be indicated by the presence of poor financial ratio signals (Kristanti, et al., 2016).

The financial ratios which could become the signal of financial distress are profitability, liquidity, and leverage ratios. Companies with high profitability ratios provide evidence of the success of the company to maintain business continuity Amanah et al. (2014) for the low and negative profitability could be the signal that they are run into financial distress. Low liquidity proves that the company is unable to fulfill the obligation for the future and it was affecting the success of the company (Durrah, et al., 2014), so it becomes a signal that they are suffered because of the financial distress. Leverage was a cost associated with bankruptcy (D'Mell & Sivaprasad, 2015) in order the higher ratio will make the heavier burden by the company at the time of bankruptcy, so the higher this ratio will prove the company has the financial distress.

When the company has a phase of financial distress, management must increasingly be aware and take many of various efforts to overcome these financial problems to prevent the occurrence of bankruptcy (Dwijayanti, 2010). Salloum, et al. (2014) reported that nowadays corporate governance was very important. Good corporate governance can improve the relationship of

accountability between company participants to protect the integrity of stakeholders. One form of good governance is the presence of qualified auditors. Qualified auditors will provide recommendations on what they find to improve financial ratios so that in the further period the level of financial distress will be lower.

Many studies examine the relationship of financial ratios to financial distress, but they have not tried to predict whether financial ratios could be a signal for financial distress in the future. Qualified auditors will reduce the influence of poor financial ratios on financial distress because auditors will provide recommendations so that they will not worsen in the future. This study aims to determine how the influence of financial ratios on financial distress in the further period, and whether qualified auditors will be effective in minimizing the effect of financial ratios on financial distress in the further period.

2. LITERATURE REVIEW AND HYPOTHESES

The relationship between auditor quality, financial ratio, and financial distress cannot be separated from the existence of theory and previous research. The theory that supports this relationship is signaling and agency theory. Signal theory was developed by Ross (1977) with the attention of this theory that information influences the attitudes or behavior of those who receive the information, in order, if the information is positive it will be good news, and otherwise (Setiawan & Widyawati, 2014). If the result of financial performance is favorable which is shown by financial ratios, it will be increasingly trusted by the market (Wolk &Tarney, 1997). The signal theory thus points out how a company should give their signals to users of financial statements, regarding the condition of the company (Susilowati & Turyanto, 2011), if the condition of a bad company is raised by financial ratios, then the company will run into financial distress. The presence of qualified auditors is appropriate according to the signal theory and agency theory, it weakens the negative relationship of poor financial performance to financial distress, and reduces the negative actions of managers during financial distress.

Profitability

The profitability ratio is a measure of a company's return on investment and also shows the company is in a good condition. Profitability is a ratio that shows the company's ability to make profits (Van Horne & Warchowich, 2005). Therefore, there is a negative correlation between profitability and financial distress (Alifiaha, et al., 2013). This relationship has been examined by Husna and Rahman (2012) by evaluating the performance of Islamic banks in Malaysia. The results show that profitability has a negative impact on the performance of companies that play a role in financial distress. Several studies show different results such as Kristanti, et al. (2016) and Alifiaha, et al. (2013). Both studies researched different locations, Kristanti, et al. (2016) conducted research in Indonesia and Alifiaha, et al. (2013) in Malaysia, the results of both showed that profitability does not affect financial distress. Based on theoretical considerations and previous research, although several studies have been shown different results, it tends that companies with high profitability would less the problems of financial distress in the further period.

H1: Profitability is negatively related to financial distress.

Leverage

The leverage ratio expresses the proportion of a company's capital by comparing liabilities and equity because a higher level of leverage will increase the possibility of future financial distress. This research shows that there is a positive correlation between the debt ratio and the leverage ratio represented by financial distress (Alifiaha, et al., 2013). There were several studies which have been shown in a positive relationship such as Chen, et al. (2014) showed the crisis in the company happened when financial distress arises because the value of assets is depressed and did not adequately fulfill long-term obligations, and Lifiaha, et al. (2013) in consumer product sector companies in Malaysia and Husna thus also according to Rahman (2012) Islamic banks in Malaysia showed the debt ratios must be considered carefully in order the companies have not run into financial distress. Akhtar, et al. (2012) also mentioned that companies that have an increase

in company risk which includes leverage, will require high profitability to cover their debts, but often when the level of leverage is too high it will cause companies to run the risk of default and financial distress. However, several studies in Indonesia showed that leverage did not have a positive effect on financial distress, as Kristanti, et al. (2016) as well as Princess and Merkusiwati (2014). Based on theoretical considerations and previous research, although several studies show different results, many research results show that the higher level of leverage will increase the possibility of financial distress in the further period and according to the signal theory. Thus the hypothesis is arranged as follows.

H2: Leverage is positively related to financial distress.

Liquidity

The liquidity ratio represents the company's ability to repay short-term debts that are due. Liquidity must be considered because it is the most critical issue in the organization (Husna & Rahman, 2012). Research conducted by Chiaramonte and Casu (2016) in Europe shows that as liquid ownership increases, the likelihood of failure and financial distress will decrease. Therefore, high liquidity indicates their ability to not suffer financial distress. This result is consistent with many previous studies, including Alifiaha, et al. (2013) by showing that debt ratios including liquidity must be considered carefully so that the company has not run into financial distress. However, several studies show different results, mentioned that liquidity did not affect financial distress, that was reported in previous research by Kristanti, et al. (2016) in Indonesia, Chen, et al. (2014), and Putri and Merkusiwati (2014) in manufacturing companies in Indonesia Stock Exchange for the period 2009--2012. Therefore, according to the signal theory and other research, this study expects that there is a negative relationship between the liquidity ratio to financial distress, then the hypothesis will be formulated as follows.

H3: Liquidity is positively related to financial distress.

Quality Auditor

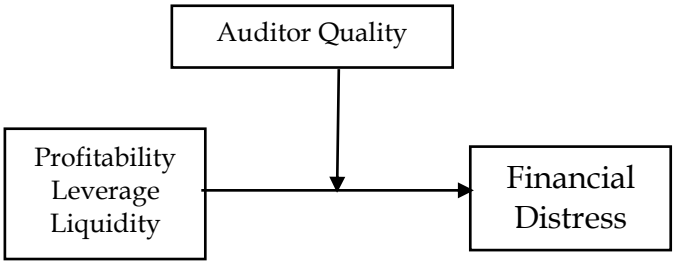
In the capital market to function properly, a high-quality external auditor is needed. A qualified auditor will try to maintain his reputation to avoid audit failures (Skinner & Srinivasan, 2012). Qualified auditors will certainly provide good service, including providing recommendations on audit findings that can be used by the company to be better in the future. Several studies showed that the role of the audit is very good on the tendency of companies that have financial distress, reported the research by Salloum, et al. (2014). This study was designed to examine the impact of the Audit Committee on the National Bank of Lebanon. Sample surveys were conducted in 2009 and 2011. The results showed that the frequency of audit committee meetings was negatively correlated with financial distress. These results indicated that qualified auditors will try to reduce the possibility of companies might have a bad condition. But there were studies not shown the same results, mentioned in the research by Putri and Merkusiwati (2014). Their research was conducted in manufacturing companies on the Indonesian Stock Exchange between 2009 and 2012. These results show that the corporate governance mechanism (the ability of the audit quality) has no significant impact on financial distress. We believe that qualified auditors will be able to help companies in poor performance in the order they avoid the financial distress conditions. Companies that have low profitability and liquidity, but have high leverage, with the existence of a qualified auditor role, the auditor will provide recommendations so that they can avoid financial distress conditions, so the hypothesis is formulated as follows:

H4a: Quality auditors will strengthen the negative relationship of profitability to financial distress.

H4b: Quality auditors will weaken the positive relationship of leverage to financial distress.

H4c: Quality auditors will strengthen the negative relationship of liquidity to financial distress.

Figure 1 Research Model



Source: Researcher

3. METHODS

Population and Samples

The population used in this study are manufacturing companies that have audited their financial statements and published financial statements on the Indonesian Stock Exchange or the company's official website in 2016 and 2017. In the selection of research samples using a purposive sampling method, in order, there are sample selection criteria which the company has to complete data needed in research calculations. Based on the companies data search result, the population of the company is 156 firm years. From this population, several companies did not fulfill the criteria such as incomplete financial statement data so that the samples used in this study are 137 firm years.

Operational Definition and Variable Measurement

The researcher used financial distress as the dependent variable. Kordestani et al. (2011) reported that financial distress is a phase of financial emergencies, financial distress is the stage between bankruptcy and financial urgency. There are several measurements, as follows: Z Score Model, Zeta Model, O-Score Model, Zmijewski Model, and CAMEL Ratio. This study using the O-Score model. This method was chosen because based on previous research such as the research by Meeampol, et al. (2014), Muzir and Chaglar (2009), Ilmi, et al. (2015), include Imelda and Alodia (2017), the O Score model has high accuracy compared to other methods, even according to Imelda and Alodia (2017) in Indonesian manufacturing companies in 2010-2014, the O-score model has an accuracy of 73%, higher than the Altman model, which is 61%. Based on these studies proven

that the O-Score method is the most predictive method for measuring financial distress, this model was calculated according to the following formula:

$$T = -1.32 - 0.407\log(TA_t/GNP) + 6.03\frac{TL_t}{TA_t} - 1.43\frac{WC_t}{TA_t} + 0.0757\frac{CL_t}{CA_t}$$

$$-1.72X - 2.37\frac{NI_t}{TA_t} - 1.83\frac{FFO_t}{TL_t} + 0.285Y - 0.521\frac{NI_t - NI_{t-1}}{|NI_t| + |NI_{t-1}|}$$

Description:

T= O-Score

TA_t = total assets

GNP = Gross National Product Price index level

TL_t = total liability

WC_t = working capital

CL_t = current liability

CA_t = current asset

X = 1 if TL> TA, 0 otherwise

NI_t = nett income

NI_{t-1} = nett income prior year

FFO_t = funds from operations

Y = 1 if the net loss for the last two years, 0 otherwise

To read this model, if it has a value > 0.38, the company comes through financial distress, in order, the higher O-Score possibility financial distress by the company was increasing gradually.

This study using variables of profitability, leverage, and liquidity as independent variables. The agency ROA ratio is used to make a profit by using the comparison between the total profit after tax and the assets, so that the lower the value of the profit ratio, the company is more likely to suffer from the financial crisis in a further period. The leverage of this research uses the ratio of the total liabilities to total assets. Followed by an increasing leverage ratio, the company has the possibility higher come of the high financial distress condition in the further period. On liquidity using a comparison between total current assets and current liabilities. Followed by decreasing the liquidity ratio, which makes the

company will increase in the poor conditions of financial distress in a further period.

This study using the moderating variable, which is the quality of the auditor. This study uses dummy variables to determine the value of the variable, KAP (Kantor Akuntan Publik) affiliated with the Big Four is worth = 1 because it is considered to have good auditor quality, KAP that is not affiliated with the Big Four is worth = 0 because it is considered to have poor quality auditors.

Analysis Method

This study using hypothesis testing using the moderated regression analysis (MRA) model, which is the multiplication of the independent variables and their moderation (Liana, 2009). The analysis technique used in this study is using a tiered regression analysis method. The regressions model was used to have to pass the classical assumption test. The classic assumption test used included the normality test and the heteroscedasticity test. The tests conducted in this study was calculated according to the following formula:

FDt+1=α+ß1.PROF+ß2.LEV+ß3.LIQ+€.....(Model 1)

FDt+1=α+ß1.PROF+ß2.LEV+ß3.LIQ+ ß4.AQ+€.....(Model 2)

FDt+1=α+ß1.PROF+ß2.LEV+ß3.LIQ+ß4.AQ+ß5.PROF.AQ+ß6.LEV.AQ+ß7.LIQ.AQ+€..(Model 3)

Description:

FDt + 1= financial distress period 2017

α = constants

ß1-ß7 = regression coefficient

PROF = profitability period 2016

LEV = leverage period 2016

LIQ = liquidity period 2016

AQ = auditor quality period 2016

€ = error

Model 1 is used for testing hypotheses 1,2 and 3, while Model 2 and Model 3 are used to test hypotheses 4a, 4b, and 4c.

4. RESULT

This research begins with the results of descriptive statistics to find out an overview of the research data. The results of the descriptive analysis are shown in Table 1.

Table 1. Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
Profitability	-0,55	0,55	0,0510	0,11595
Leverage	0,08	5,06	0,5447	0,51499
Liquidity	0,11	15,17	2,2054	1,89659
Auditor Quality	0,00	1,00	0,3869	0,48882
Financial Distress	-9,24	32,67	-0,2658	4,06344

Source: Processed Data

Table 1 was illustrated some research results. The profitability showed an average value of 0.0510. This result expressed that manufacturing companies in Indonesia generally gained profits with average positive values. But the standard deviation on profitability is 0.11595 so it was higher than the average value. This result indicated that there was a high range or deviation from the maximum value of 0.55 and a minimum of 0.55. It is known that leverage had an average value of 0.5447. These results indicated that manufacturing companies in Indonesia, in general, had a total debt value that was higher than the value of equity. The standard deviation of leverage was 0.51499 so it means lower than the average value. This result indicated there was no high range or deviation from the maximum value of 5.06 and minimum, which is 0.08. From this result, liquidity showing an average value of 2,2054. These results indicated the manufacturing companies in Indonesia generally had higher current assets than current loans. The standard deviation of liquidity is 1.89659 so it was lower than the average value, which means there was no high range or deviation from the maximum value of 15.17 and the minimum was 0.11. The auditor quality showed an average value of 0.3869, and this illustrated that manufacturing companies in Indonesia are generally audited by Non-Big 4 auditors. The standard deviation on auditor

quality was 0.48882 which is higher than the average value, results from this indicated a high range or deviation from the maximum and minimum values. In financial distress, the average value is 0.2658. This result shows that manufacturing companies in Indonesia are generally far from the problem of financial distress. The standard deviation in financial distress was 4.06344 in order higher than the average value. This result indicated that there was a high range or deviation from the maximum value of 32.67 and a minimum of 9.24.

In further research was conducted by testing hypotheses. The results of hypothesis testing are shown in Table 2.

Table 2. Regression Analysis

Model	Variable	Coefficients	T	Sig.	Adjusted R Square
Model 1	(Constant)	0,375	2,942	0,002	0,783
	Profitability	1,705	3,082	0,001	
	Leverage	1,096	12,506	0,000	
	Liquidity	0,049	0,837	0,797	
Model 2	(Constant)	0,443	3,166	0,001	0,785
	Profitability	1,632	2,944	0,002	
	Leverage	1,083	12,294	0,000	
	Liquidity	0,037	0,626	0,733	
	Auditor Quality	0,160	1,159	0,126	
Model 3	(Constant)	0,450	3,280	0,001	0,795
	Profitability	1,784	3,230	0,001	
	Leverage	1,059	12,211	0,000	
	Liquidity	0,048	0,827	0,794	
	Auditor Quality	1,003	1,026	0,155	
	ModProf	1,528	0,489	0,313	
	ModLev	1,301	1,505	0,931	
	ModeLiq	0,111	0,231	0,591	

Description: ModProf = moderation of profitability with audit quality, ModLev = moderation of leverage with audit quality, ModLiq is moderation of liquidity with audit quality.

Regression test results for hypothesis testing 1,2,3 evaluation were illustrated in Model 1. Hypothesis 1 which shows a negative relationship of

profitability to financial distress in the further period, shows the coefficient = 1,705 and t-score = 3,082, and significance = 0.001 (0.001 <0.05), so that because the coefficient and t-scores are negative and significant, hypothesis 1 is accepted, so the lower the level of profitability, the more difficult the financial signal will be in the further period.

Hypothesis 2 which shows a positive relationship of leverage to financial distress in the further period, shows the coefficient number = 1.096 and t-score = 12.506, and significance = 0,000 (0,000 <0.05), the coefficient number with t-score positive and significant then hypothesis 2 is accepted, then the higher level of leverage it will be a signal of expenditure difficulties in the further period.

Hypothesis 3 which shows the negative correlation of liquidity to financial distress in the further period, shows the coefficient number = 0.049 and t-score = 0.837, and significance = 0.797 (0.797> 0.05), causing the coefficient number with t-score is positive and not significant, then hypothesis 3 is rejected, then the lower the level of liquidity, it is not necessary for financial distress in the further period.

In testing hypothesis 4 begins by looking at Model 2 about the role of quality auditors being independent variables, the calculation results of coefficient numbers = 0.160 and t-score = 1.159, and significance = 0.126 (0.126> 0.05, then significant) because the coefficient and t-score numbers are negative and not significant, the auditor's quality can be directly proven to not affect financial distress in the further period. In the next test to study the moderate hypothesis and answer hypotheses 4a, 4b, and 4c, it can be seen from Model 3. Hypothesis 4a which shows audit quality could link a negative relationship between profitability to financial distress in the further period, showing the coefficient number = 1.528 and t-score = 0.489, and significance = 0.313 (0.313> 0.05), because the coefficient and t-score are positive and not significant then hypothesis 4a is rejected, then qualified auditors cannot increase low profitability against financial distress in the future. Hypothesis 4b which shows audit quality can weaken the positive relationship between leverage and financial distress in the further period, showing the coefficient = 1.301 and t-score = 1.505, and significance = 0.931

(0.931> 0.05) because it is a number coefficient and t-scores are positive and not significant, then hypothesis 4b is rejected, so acceptable quality auditors cannot reduce the high influence on financial distress in the future. The 4c hypothesis that shows audit quality established a negative relationship between liquidity and financial distress in the further period, showing the coefficient number = 0.111 and t-score = 0.231, and significance = 0.591 (0.591> 0.05), in order, the coefficient number and t-score are positive and not significant, so hypothesis 4c is rejected, so that a qualified auditor is accepted cannot reduce the low liquidity of financial distress in the future.

This result in testing the coefficient showed an increase in the presence of moderating variables. The results of testing Model 1 showed the number 0.783, these results indicated that the independent variables in the regression model can be accepted 78.3% variant of the independent variables, and 21.7% an explanation of the factors outside the regression model. The addition of auditor quality variables in the regression model depicted in Model 2, which the influences of the auditor's quality is not significant but it is proven to enlarge the regression model with the number 0.785. The results of testing Model 2 showed many 0.785, it was illustrated that the independent variables in the regression model can be accepted 78.5% variants of the independent variables, and 21.5% an explanation of the factors outside the regression model. The addition of auditor quality variables as a moderating variable in the regression model is described in Model 3 because the moderating effect of auditor quality is not significant but it is proven that the regression model is more sophisticated with the number 0.795. The results of testing Model 3 show the number 0.795. This result shows that the independent variable in the regression model can be accepted 79.5% of the variance of the independent variable, and 20.5% is an explanation of the factors outside the regression model.

5. DISCUSSION

Based on the results of hypothesis testing, hypotheses 1 and 2 are accepted while hypotheses 3 and 4 are rejected. The acceptance in the first hypothesis was illustrated that in manufacturing companies in Indonesia, besides, while they have more ability to earn profits in the next period it getting away from the conditions of financial distress. The results of this study are consistent with previous studies such as the research of Husna and Rahman (2012) on Islamic banks in Malaysia by showing that the higher the ability of Islamic banks in Malaysia to obtain profits, it getting away from the conditions of financial distress. These results indicate that the profitability of manufacturing companies in Indonesia is the main factor that drives companies to stay proper in financial terms. With the high level of profitability, they could get more funds used to fulfill the obligations and develop their company. Companies with the ability to obtain high profits against financial distress conditions in the future. These results can be input for investors to invest in companies in Indonesia with good profitability and the regulators to ensure that the company's profitability is a reliable number, and not from the results of data manipulation.

The second hypothesis shows that companies with high leverage conditions increased the possibility come through financial distress in the future, which means the results showed this hypothesis was accepted. This hypothesis was accepted to record that in manufacturing companies in Indonesia if they have a higher level of total debt compared to equity. It increased the possibility of financial distress condition in a further period. This result according to Chen, et al. (2014) which shows that the crisis in the company arises because the value of assets is depressed and does not adequately fulfill long-term obligations, and Lifiaha, et al. (2013) and Husna and Rahman (2012) in Malaysia by showing that debt ratios must be considered so that the company does not experience financial distress, and Akhtar, et al. (2012) which states that companies that have a high degree of leverage will cause companies to ran the risk of default and ran into financial distress. This result gives input to manufacturing companies in Indonesia

to maintain the ratio of total debt they have because the ratio of their debt is getting bigger. It increased the possibility of financial distress condition in the further period. This research became reference material that provides information to managers and principals of the company to maintain their total debt so that it is still in a safe condition for the company. Investors must also be more careful if they invest in companies that have a high level of the total debt when compared to equity. Regulators can also make regulations to give obligations to companies to maintain the condition of the company to have a healthy proportion of capital.

The third hypothesis showed that the company's ability to fulfill its current obligations has not proven to affect the conditions of the company's difficulties. These results provide evidence that manufacturing companies in Indonesia that are unable to fulfill their smooth obligations. They will run into financial distress in the further period, and otherwise. These results against the research by Chiaramonte and Casu (2016) in Europe which shows that the possibility of financial failures and difficulties will decrease with increasing liquidity ownership, and Alifiaha, et al. (2013) shows that the debt ratio must be considered carefully so that the company did not run into financial distress. However, this study accordance with several other studies, Kristanti, et al. (2016) in Indonesia, Chen, et al. (2014), and Putri and Merkusiwati (2014) in manufacturing companies in Indonesia Stock Exchange for the period 2009--2012. These results further reinforce many previous studies, especially Kristanti, et al. (2016) and Putri and Merkusiwati (2014) that have been done in Indonesia, that there is no relationship between liquidity and financial hardship conditions. The results of this study can be proven because the company even though it has a low level of current assets, the action always in the further period will experience financial distress because it could be that the company can issue debt or shares or still look for alternative ways to prevent financial distress. It is well known that the result provides input for investors not worried about the condition of the company's current liability because even though it has high current liabilities it is not always a bad signal for the company to come through the financial distress condition in the further period.

The auditors' quality is proven that they are unable to provide input to companies that have poor financial ratios to be aware of financial distress in the future. These results prove that in manufacturing companies in Indonesia, even though the auditor is qualified. It cannot provide recommendations on audit findings that can be used by the company to be better in the future. Several studies showed the same results, Putri and Merkusiwati's research (2014) which showed that in manufacturing companies in the Indonesia Stock Exchange 2009--2012 period, corporate governance mechanisms including the competence of audit committees did not have a significant effect on financial distress. These results can be input for KAP and regulators. A good KAP does not prevent a company from financial distress, so KAP must pay attention to and maximize their recommendations to minimize the occurrence of financial distress in a further period. This research is also an input to regulators to make regulations for auditors to further strengthen the recommendations they provide to companies to avoid the adverse conditions experienced by the company.

6. CONCLUSION

This study provides evidence that financial distress in the next period is influenced by profitability and leverage, and does not prove that financial distress can be influenced by the level of leverage and moderated by the quality of the auditor. These results can be input for investors to invest in companies in Indonesia with good profitability and low leverage, and can be input to regulators to ensure that the company's profitability is a reliable number, and not from the results of data manipulation. Regulators can also make regulations to give obligations to companies to maintain the condition of the company to have a healthy proportion of capital. This research can also be an input for KAP and regulators, KAP must pay attention and maximize their recommendations so that they can minimize financial distress in a further period. This research is also an input to regulators to make regulations for auditors to further strengthen the recommendations which they provide to avoid the adverse conditions by the company.

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