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# Risk Assessment With Audit Tool and Linked Archive System (ATLAS) Methods on Going-Concern During The Covid-19 Pandemic

*I Made Agus Putrayasa, Made Dana Saputra, Ni Wayan Kurnia Dewi
Accounting Department
Politeknik Negeri Bali
Badung, Indonesia
madeagusputrayasa@pnb.ac.id*, danasaputra@pnb.ac.id, wayankurniadewi@pnb.ac.id

***Abstract*— The risk-based audit approach focuses on identifying and assessing material risks as well as risks that have the potential to hinder business strategy. Moreover, this approach will help the auditor plan a more targeted audit to make the implementation and reporting stage easier. This risk-based audit approach can be applied through the ATLAS, consisting of risk assessment, risk responses, and reporting. This audit approach focuses on evaluating strategic, financial, operational, regulatory, and other risks faced by organizations, such as risks to the company's going concern during the covid 19 pandemic. Given the current conditions, economic uncertainty worldwide, and increasing business and operations for many entities can challenge the auditor's judgment in conducting accounting examinations. The auditor should also consider the impact of the auditor's evaluation on management's assessment of the entity's ability to continue as a going concern. This study aims to map going concern risk assessments during the COVID-19 pandemic using the ATLAS. The sample in this study is the company's 2020 financial statements which in their preparation apply the financial accounting standards of entities without public accountability (SAK ETAP), with the business fields of hotels, advertising, contractors, trade, travel, communication services, cooperatives, health clinics, and Education. Data analysis was conducted using a comparative descriptive method on implementing the audit stages, risk assessment, namely in the financial, operational, and other aspects, and testing with Z-Score analysis. Mapping going concern risk assessment during the covid-19 pandemic using the ATLAS shows that first of all the hotel, contractor, travel business facing bankruptcy condition, secondly the cooperative business, education fall in the grey area and finally the type of business advertising, trading, communication services, health clinics in non-bankrupt conditions.**

***Keywords*— *Risk-Based Approach, Risk Assessment*, ATLAS, Z-Score**

## I. INTRODUCTION

Audit planning that is carried out properly can result in an efficient and effective audit [3]. Good audit planning will improve audit quality; research related to audit quality was carried out [9]-[10]. Another thing related to audit quality is research from [2] which states the ATLAS can improve audit quality. In order to improve audit quality, auditors are required to use effective and efficient strategies; one of the strategies that auditors can use is a *risk-based approach.* This approach focuses on identifying and assessing material risks and those that can hinder business strategy. *The risk-based approach* will help the auditor develop a more targeted audit plan to make it easier for the auditor at the implementation and reporting stages.

This risk-based accounting audit approach can be applied through the ATLAS, which consists of three stages: *risk assessment, risk response, and reporting* [6]. This examination approach focuses on evaluating strategic, financial, operational, regulatory, and other risks faced by organizations, such as risks to the company's going concern during the COVID-19 pandemic. Research [5] states that the COVID-19 pandemic is an event in which the *external environment is* relatively *uncontrollable* or outside the company's control. The direct impact of business entities is related to conventional business activities in marketing, finance, human resources, and operations. The business sectors whose development was constrained and even experienced a decline during the COVID-19 pandemic were the transportation, tourism, shopping centers, and trade businesses *offline* which only focused on direct consumer visits. Auditing Standard 570 [4] states that an entity's going-concern is seen as staying in business for a predictable future. The general-purpose financial statements are prepared

on a going concern basis unless management intends to liquidate the entity or cease operations.

Altman analysis is an analysis used in measuring bankruptcy performance which is not fixed but develops from time to time. This analysis identifies several types of financial ratios essential in influencing an event and develops it into a conclusion.

Prediction adjustments for financial difficulties are made for non-public manufacturing companies with changes in the coefficients of each ratio, as well as for companies non-manufacturing by removing the ratio of sales to total assets and changing the market value of equity to book value of equity, as well as changing the coefficients for each ratio [13]. The adjustment resulted in the prediction model for bankruptcy or financial distress as follows: Z" = 6.56 X1 + 3.26 X2 + 6.72 X3 + 1.05 X4. This modified Altman model is an approach that is considered flexible because it can be used in various types of business fields and is very suitable for use in developing countries such as Indonesia [14].

## II. Research Methods

### *2.1 Sample*

The sample in this study is the company's 2020 financial report which in its preparation applies the Financial Accounting Standards for Entities Without Public Accountability (SAK-ETAP), with the business fields of hotel, advertising, contractors, trade, travel, communication services, cooperatives, health clinics, and Education.

### *2.2 Data Analysis*

The analysis was carried out using a comparative descriptive method, namely comparing and analyzing the company's going-concern based on the ATLAS. Mapping *going-concern risk assessments* are carried out in different business fields with explanations at each stage following audit standards covering financial, operational, and other aspects and using Z-Score testing.

Financial aspects include analysis of:

- The position of net liabilities or net current liabilities.
- Loans with fixed repayment terms approaching maturity with no realistic prospects for repayment
- Indication of withdrawal of financial support by creditors.
- Negative operating cash flows, as indicated by historical or prospective financial statements.
- Poor key financial ratios.
- Substantial operating losses or significant decreases in the value of assets used to generate cash flows.
- Long-paying or unsustainable dividends.
- Inability to repay creditors on the due date.
- Inability to comply with the terms of the loan agreement.
- Changes in transactions with suppliers, namely from credit transactions to cash transactions when shipping.
- Inability to obtain funding for essential new product development or other essential investments.

Operational aspects include analysis of:

- Management's intention to liquidate the entity or to cease operations.
- Loss of key management without replacement.
- The loss of a major market, major customer, franchise, license, or major supplier.
- Labor difficulties.
- Lack of supply of goods/materials.
- The emergence of a very successful competitor.

Other Aspects include analysis of:

- Non-compliance with capital requirements or other statutory provisions.
- Legal cases faced by the entity which, if successful, could result in claims against the entity that are unlikely to be met by the entity.
- Changes in laws and regulations or government policies that are expected to have a negative impact on the entity.
- Damage to assets resulting from uninsured or underinsured natural disasters.

Z-Score testing aims to predict the condition of a company in bankruptcy, a gray area and not bankrupt, i.e:

$$Z = 6.56\ X1 + 3.26\ X2 + 6.72\ X3 + 1.05\ X4 \quad (1)$$

Note:

X1 = Working Capital / Total Asset

X2 = Retained Earning / Total Asset

X3 = EBIT / Total Asset

X4 = Book Value of Equity / Book Value of Liability.

With the discriminant zone as follows:

Z”>2.9 = safe zone (not bankrupt)

1.23<Z”2.9 = gray zone (gray area)

Z” <1.21 = distress zone (Bankrupt)

## III. RESULTS AND DISCUSSION

Covid-19 had a negative impact on the company's performance [7]. This pandemic has had much impact on a country's economy. Some companies are also having difficulty continuing their operations. The study results [12] stated that many companies experienced an economic crisis during the covid-19 pandemic. The company experienced cash flow problems resulting from sales that continued to decline, a decrease in market capitalization value [11].

The going-concern risk during the COVID-19 pandemic is important information reflected in the company's financial statements. Auditing Standard 570 describes going concern, which can be applied to ATLAS. Mapping the *risk assessment* of the company's going concern during the COVID-19 pandemic includes a material uncertainty in financial, operational, and other aspects. *The going concern risk assessment is* carried out by testing the Z-Score and testing financial, operational, and other aspects of nine types of companies: hotels, advertising, contractors, trade, travel, communication services, cooperatives, health clinics, and education businesses. It is dominantly influenced by operational loss activities and the inability to pay off debts on the due date in the financial aspect. The operational aspect shows that management has no intention to liquidate the company or stop its operations. Management believes that after the covid-19 pandemic ends, it will gradually be followed by recovering the company's condition. Other conditions indicate no changes in laws and regulations or government policies expected to have an adverse impact on the entity.

Analysis of procedures and activities related to going -concern was then tested with the Z-score. Z-Score is used to predict whether a company is in bankruptcy, *a grey area*, and not bankrupt. The test results on nine types of companies can be seen in Table I.

Table I. Going concern Analysis - Risk Assessment with Z-Score

| Type of Business | Value Z-Score | Prediction |
|---|---|---|
| Hotel | (2.44) | Bankrupt |
| Advertising | 5.32 | Not Bankrupt |
| Contractor | (0.02) | Bankrupt |
| Trade | 3.49 | Not Bankrupt |
| Travel | 0.36 | Bankrupt |
| Communication Services | 5.22 | Not Bankrupt |
| Cooperative | 2.05 | Gray Area |
| Health Clinic | 4.66 | Not Bankrupt |
| Education | 2.59 | Gray Area |

Based on the mapping *risk assessment* of going-concern with Z-Score testing and financial, operational and other aspects, it shows; firstly the type of business hotel, contractor, travel in bankrupt condition secondly cooperative business type, Education in *the gr*ey area. Finally, the advertising, trading, communication services, and health clinic business are in non-bankrupt condition. Research [8] states that the COVID-19 pandemic has affected the going concern of property sector companies. Companies experiencing financial problems and having the potential for bankruptcy increased from 2% at the end of 2019 to 51% at the end of June 2020. Research [1] states that companies experience financial difficulties and predict bankruptcy in hotels, restaurants & tourism sub-sector companies in the future Covid-19 pandemic. Companies that initially entered the safe category with low risk became vulnerable categories (*a grey area*). This area indicates a financial and liquidity risk and a decline in the company's ability to grow, which allows for bankruptcy.

## IV. CONCLUSION

Mapping *risk assessment* of going-concern during the covid-19 pandemic using ATLAS shows the hotel, contractor, and travel company in a bankrupt condition, while the type of cooperative and Education business in a condition *gr*ey area. On the other hand, the type of business advertising, trading, communication services, health clinics in non-bankrupt conditions.

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