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Empirical Study on the Effect of Financial Distress, Audit Delay, and Audit Opinion on Auditor Switching in Indonesia's Financial Sector

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ABSTRACT

This research aims to analyze and test the influence of Financial Distress, Audit Delay, and Audit Opinion on Auditor Switching. This research method uses a quantitative type of research. The type and source of data in this research is secondary data in the form of financial reports of companies listed on the Indonesia Stock Exchange (IDX) for 2020-2023. The sampling technique used a purposive sampling method to obtain 61 samples of observation data. Data processing in this research used IBM SPSS (Statistical Product and Service Solution) version 25 software. The results of this research explain that financial distress has a positive effect on auditor switching, audit delay has no effect on auditor switching, and audit opinion has a positive effect on auditor switching. This research contributes to the literature by providing empirical insights into the factors influencing auditor switching in the financial sector, which can help improve corporate governance and auditing practices. Financial Distress may lead companies to switch auditors to regain investor trust, Audit Delay could signal inefficiencies affecting auditor retention, and Audit Opinion can shape stakeholders' perceptions, influencing auditor selection decisions

Keywords: *Financial Distress, Audit Delay, Audit Opinion, Auditor Switching*

1. Introduction

The replacement of auditors of public accounting firms carried out by a company is called auditor switching, aiming to maintain independence, objectivity, and public trust (Rahmitasari et al., 2021). There are two types of switching auditors, namely mandatory and voluntary. Mandatory auditor switching is a consequence of the implementation of applicable regulations with the aim of increasing the independence of auditors. Meanwhile, voluntary auditor switching occurs when a company decides to change its public accounting firm, even though it has not passed the assignment period regulated by the government.

The phenomenon related to switching auditors in Indonesia, namely PT. Wanaartha Life Insurance (WanaArtha Life), This company committed a criminal act of money laundering, the insurance company's business license was revoked by the OJK. This happens because the company cannot close debts with its assets, either through capital deposits by controlling shareholders or by requesting investors. The manipulation of financial statements by PT WanaArtha Life caused the OJK to sanction the relevant auditors, including public accountants Nunu Nurdiyaman and Jenly Hendrawan from Crowe Indonesia, whose licenses were revoked. Nunu was also sanctioned by the Ministry of Finance to freeze his permit for 15 months. The Public Accounting Firm of Kosasih, Nurdiyaman, Mulyadi, Cahyo, and Partners, who were auditors of WanaArtha Life's reports from 2014-2019, also received sanctions. This case shows the need for switching auditors to maintain the independence of auditors (Octaviano, 2023).

In this context, when a company experiences a financial crisis and is on the verge of bankruptcy, the views of people who have interests inside and outside the company will be influenced by the company's financial condition. Therefore, the company improves all subjective judgments and is careful when

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presenting information about the company's actual financial condition (Swandewi & Badera, 2021). The business situation will encourage auditor turnover to avoid disclosing the actual financial condition and reduce the cost of auditing financial statements.

The findings of this study are consistent with the research conducted by Apriliani and Nurkholis, (2024) found that financial difficulties had a positive impact on auditor turnover. This study indicates that financial difficulties are a driver for companies to change auditors, because companies at risk of bankruptcy tend to increase the subjectivity assessment and prudence of auditors.

However, research (Azlin and Taqwa, 2023), found that financial distress had no effect on auditor switching. This study shows that the change of auditors that occurs when the company is experiencing financial problems will incur additional costs which further worsen the company's financial condition. This is due to the need for new auditors to understand and deepen the client's business environment, which requires significant time and will extend the auditor's working hours. The consequence of this situation is an increase in audit costs.

In addition to financial difficulties, audit delays can also affect the change of auditors. Audit delay is the amount of time it takes to complete an audit of financial statements calculated from the date of the independent auditor's report minus the date of the financial statements. If the audit is late, it can be detrimental to financial statement users in making decisions because the financial statement information becomes less relevant, which has an impact on shareholders (Swandewi & Badera, 2021).

The results of the study are supported by research Sujiati et al. (2024) which found that audit delays had a positive impact on switching auditors. This study indicates that the delay in the submission of the company's annual financial statements is caused by auditors taking longer to complete the audit of the company's annual financial statements. This situation can trigger a change of auditors so that the audited annual financial statements can be completed on time according to the predetermined time frame.

However, research Tiwi et al., (2023) It is not in line because the audit delay has no effect on the switching auditor. This study shows that the company will try to provide an explanation related to the delay by conveying acceptable reasons so as not to affect the decision-making of stakeholders in the interests of its investment. The company will retain its auditors if it obtains results that are in accordance with the company's wishes, even if there are delays in the audit process, and will continue to use audit services that are in accordance with the company's capabilities and quality.

In addition to financial distress and audit delays, there are other factors that have an impact on the conduct of auditor switching, namely audit opinions. An audit opinion is the opinion of a public accountant after examining the client's financial statements about its credibility (Azlin & Taqwa, 2023). All companies generally expect a reasonable and unaltered opinion. If this opinion is not met, management may change the auditor to meet expectations (Fenny et al., 2020).

The results of this study are supported by research Octarisa et al., (2024) which emphasizes that audit opinions have a positive impact on switching auditors. This study reveals that when a company receives a reasonable opinion without exception, the decision to change auditors tends to be smaller because the opinion is in line with the company's expectations. Auditor opinions provide invaluable information for companies, especially in decision-making by investors. Companies desperately want a fair opinion without exception to increase their credibility and attract investors. If the auditor does not provide a fair opinion without exception, then the company tends to turn to another Public Accounting Firm (KAP) that can provide an opinion that is in line with their expectations.

However, research Pratama and Shanti (2022) emphasized that the audit opinion does not affect the company's decision to change auditors. This study shows that auditor opinions provide useful information for users of financial statements, especially for external parties, because they are very useful in decision-making. Companies that have or have not received a Fair Opinion Without Exception cannot be predicted to change auditors, because the audit opinion is related to the results of the audit of the fairness of the company's financial statements.

Although previous studies have examined auditor switching, this research specifically focuses on the financial sector, offering novel insights into how industry-specific financial conditions affect auditor switching decisions. The financial sector was chosen due to its critical role in the economy and stringent regulatory environment, where auditor switching can significantly impact stakeholder trust and financial transparency

Based on the phenomenon and the existence of research gaps from the previous study study, the author was triggered to review the study on the influence of financial distress, audit delay, and audit opinion on switching auditors, because there were inconsistencies in the results of previous studies. In this study, the population studied is the financial sector, because this sector has the most significant relationship and impact on companies and governments. Therefore, it is important to conduct further research on the influence of Financial Distress, Audit Delay, and Audit Opinion on Switching Auditors in the financial sector. Thus, the researcher is interested in exploring more deeply whether these variables have an impact on switching auditors in the financial sector.

2. Research Method

Literature Review

Agency Theory

The theory of agency proposed by Jensen and Meckling (1976) in (Purba, 2023) Explain the relationship between company management as agents and company owners as principals. The principal is the party who instructs the agent to carry out various activities on his behalf. Company owners want to get complete information about the company's activities, including how management manages the invested funds. Through the accountability report prepared by management, the principal obtains the necessary information and can assess the agent's performance in each period. This difference in interests is the reason for the change of auditor or auditor switching (Suryanta & Kuntadi, 2022). If the existing auditor does not have a view that is in line with the company, then it is likely that the auditor will be switched.

Signalling Theory

Signal theory was proposed by Spence (1973) in (Purba, 2023) explains that the sender of information (the owner of the information) provides signals that reflect the condition of the company that is useful to the recipient (investor). The information received by investors can be in the form of positive signals (good news) or negative signals (bad news). A positive signal appears when a company's profit increases, while a negative signal occurs when a profit decreases. Therefore, information is very important for investors and business people, because it provides an overview of the company's past, present, and future conditions that affect business continuity. Investors in the capital market need complete, relevant, accurate, and timely information as the basis for analysis for investment decision-making.

Auditor Switching

Auditor switching is the replacement of auditors or public accounting firms of a company to maintain independence, objectivity, and public interest (Rahmitasari et al., 2021). Auditor replacement or auditor switching can be required by applicable regulations (mandatory) with the aim of maintaining the independence of auditors. In addition, companies can also replace auditors on their own initiative (voluntary), although there are no obligations or time limits determined.

Financial Distress

According to Rahmitasari et al., (2021). Financial Distress is a condition of an unstable company and is at risk of bankruptcy. In such a situation, companies tend to pay more attention to the subjective evaluation of auditors and consider replacing auditors with more independent ones to gain the trust of investors. Excessive spending, many illiquid assets, improper financial planning, and revenue threaten to reduce the company's financial performance. These auditors can be assigned to various locations or companies that have diverse characteristics and conditions (Ningrum et al., 2021). Persistent losses that have an impact on the company's poor cash flow management (Nainggolan et al., 2022). Ideally, the company must maintain cash inflows greater than its debt obligations in order to meet its obligations to creditors (Christa et al., 2023).

Audit Opinion

According to Hayati et al., (2021), audit delay is the auditor's delay in completing the audit according to the specified time. According to OJK regulations, annual financial statements must be submitted without the end of the third month after the date of the annual financial report. If the entity has not provided annual financial statements until the end of the third month after the date of the annual financial statements, the submission is considered late, or the audit is delayed. Audit delay is calculated based on the number of days that have passed since the submission or publication of the annual financial statements, which must be more than three months from the date of the annual financial statements.

Signalling Theory

According to Kuntadi (2020) An audit opinion is the result of an examination of the company's financial statements by an independent auditor in accordance with audit standards. All administrative financial records of the company will be checked to ensure their accuracy, credibility, and integrity. Then, based on the evidence of a successful audit, the audit committee will draw conclusions and include those conclusions in the audit report. Stakeholders can use this perspective in the decision-making process.

Research Methods

This study uses a quantitative research design, which aims to analyze specific populations and samples through numbers and statistics. The sample selection used purposive sampling with the following criteria: (1) financial sector companies listed on the Indonesia Stock Exchange (IDX) during 2020-2023, (2) companies that consistently published audited financial reports during the observation period, and (3) companies that experienced auditor switching within the timeframe. This approach ensures the relevance and accuracy of the data in reflecting the phenomenon under study. These criteria were chosen to ensure the sample reflects companies that are actively engaged in reporting practices and are subject to regulations that could influence auditor switching decisions

Conceptual Framework

The conceptual framework of this study is based on literature review and previous research, which are as follows:

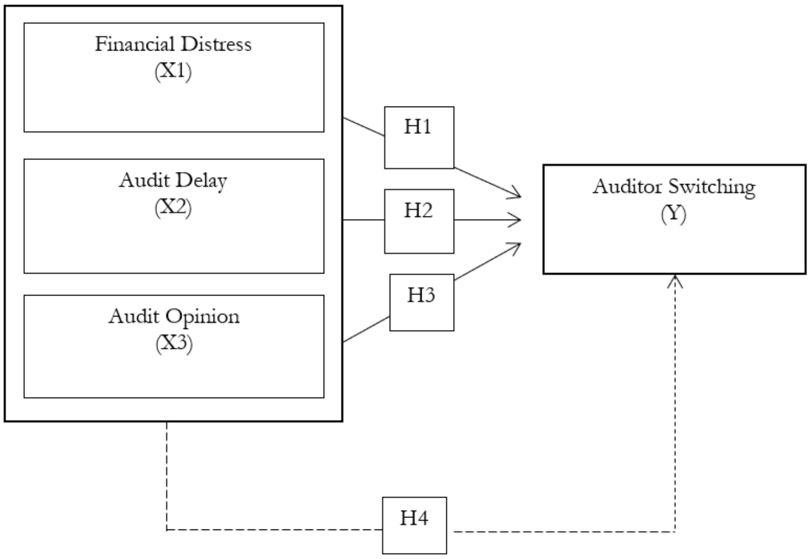

Figure 1. Conceptual Framework
Source: Author, 2025

3. Result and Discussions

1. The Effect of Financial Distress on Auditor Switching

Based on partial statistical tests, financial distress has proven to have a positive and significant influence on the company's decision to carry out auditor switching. This is indicated by a regression coefficient of 0.179 and a significance level of 0.003 (below 0.05). The findings confirm that there is a positive relationship between financial distress and auditor switching. This study supports the hypothesis (H1) that financial distress positively affects switching auditors.

Research is supported by studies Apriliani and Nurkholis, (2024) which concludes that financial distress positively affects switching auditors. Financial distress conditions are a driving force for companies to change auditors. Companies that have the potential to experience bankruptcy tend to increase the subjectivity assessment and prudence of auditors.

However, these results contradict the research Azlin and Taqwa, (2023) which concludes that financial distress has no effect on switching auditors. Changing auditors in companies with poor financial conditions can lead to increased costs, which further worsens the company's financial condition. This happens because new auditors need time to understand the intricacies of the client's business, potentially extending the duration of their work and ultimately increasing audit costs.

2. The Effect of Audit Delay on Auditor Switching

Based on the results of the partial statistical test, it can be concluded that audit delay does not have a significant influence and tends to have a negative correlation with switching auditors. This indicator is indicated by a regression coefficient value of -0.003 and a significance level of 0.580, which < 0.05. The findings confirm that there is no relationship between audit delay and auditor switching. Therefore, it can be concluded that the results of this study do not support the second hypothesis that audit delay has a positive influence on auditor switching, so the H2 hypothesis is rejected.

Research supported by studies Tiwi et al., (2023) which concludes that audit delay has a negative and insignificant effect on auditor switching. This shows that the company will try to provide an explanation regarding the delay by conveying acceptable reasons so as not to affect the decision-making of stakeholders in the interests of its investment. The company will retain its auditors if it obtains results that are in accordance with the company's wishes, even if there are delays in the audit process, and will continue to use audit services that are in accordance with the company's capabilities and quality.

This research is not in line with the research Sujiati et al., (2024) which found that audit delay had a positive effect on auditor switching. Delays in submitting the company's annual financial statements can be interpreted as taking longer for the auditor to complete the audit. As a result, companies may consider replacing auditors in the hope that the audited annual financial statements can be completed on time.

3. The Influence of Audit Opinions on Auditor Switching

The results of the partial statistical test show that audit opinions have a positive and significant influence on switching auditors. This is evidenced by the regression coefficient value of 2.732 and the significance level of 0.000, which is below 0.05. The findings confirm that there is a positive relationship between audit opinions and switching auditors. Thus, the results of the study support the third hypothesis (H3) which states that audit opinions have a positive influence on switching auditors.

This research is in line with a study conducted by Octarisa and Syamsuri, (2024) which concludes that audit opinions have a positive and significant effect on switching auditors. This shows that when a company obtains a WTP opinion, the decision to enforce the auditor switching is likely to be lower because the decision results are as desired by the company. The quality of audit opinions is a determining factor in the decision to replace auditors. Auditor opinions play an important role in providing information for companies, especially for investors in making decisions. Companies generally seek a fair opinion without exception to increase credibility and attractiveness in the eyes of investors. Consequently, if the auditor does not provide such an opinion, the company may look for another KAP that can meet their expectations regarding the audit opinion.

However, this result is contrary to Pratama and Shanti, (2022) which concludes that the audit opinion has no influence on the switching auditor. The findings confirm that the auditor's opinion remains relevant for financial statement users, especially external parties in decision-making. Companies with WTP or non-WTP opinions cannot necessarily be predicted to change auditors, because audit opinions emphasize more assessing the fairness of financial statements, not on the auditor who implements them.

4. The Effect of Financial Distress, Audit Delay, and Audit Opinion on Auditor Switching

Based on simultaneous statistical tests, this study found that financial distress, audit delay, and audit opinion simultaneously affected auditor switching. The findings are supported by a Chi-Square value of 50.991 with a df of 3 and a significance level of 0.000, below the threshold of 0.05. This confirms that the three freedoms simultaneously affect the switching auditor. Thus, it can be concluded that the results of the study support the fourth hypothesis (H4) which states that financial distress, audit delay and audit opinion influence auditor switching.

This research is in line with a study conducted by Apriliani & Nurkholis, (2024), (Sujiati et al., 2024) and Octarisa & Syamsuri, (2024) which emphasizes that financial distress, audit delay and audit opinion together affect auditor switching.

However, these findings contradict Azlin & Taqwa, (2023), Tiwi et al., (2023) and Pratama and Shanti, (2022) which emphasizes that financial distress, audit delay and audit opinion have no effect on auditor switching. Organizations tend to pay more attention to the subjective evaluation of auditors and consider replacing auditors with more independent ones to gain the trust of investors. Excessive spending, excess illiquid assets, poor financial planning, and the threat of declining revenue can lower a company's financial performance. These auditors can be assigned to various locations or companies that have diverse characteristics and conditions (Ningrum et al., 2021). As a result, the company continues to suffer losses and cash flow management becomes poor. Companies that manage to maintain their cash flow greater than their debt obligations can pay creditors with the funds they have (Christa et al., 2023).

The statement is consistent with agency theory and signal theory, which states when a company faces unstable financial conditions. In their critical positions, directors and agents need to find the best solution to solve the problem for the benefit of the company. If there is a conflict between the leadership and the agent that damages trust, this can encourage auditor switching.

The positive influence of Financial Distress on auditor switching suggests that companies facing financial instability may seek new auditors to gain fresh perspectives or to restore investor confidence. This aligns with Agency Theory, where management seeks to mitigate conflicts with stakeholders by demonstrating transparency through auditor changes."

Although Audit Delay was found to have no significant effect, it is possible that companies provide acceptable explanations for delays, mitigating stakeholder concerns. This could indicate that companies prioritize maintaining relationships with existing auditors over immediate replacements, especially when delays are perceived as reasonable.

The significant effect of Audit Opinion on auditor switching highlights the importance of perceived credibility. Companies dissatisfied with received audit opinions may seek auditors who align with their expectations, especially when opinions impact stakeholder decisions and corporate reputation.

4. Conclusion

Based on the formulation of the problem and the discussion of the results of the research that has been explained, several things can be concluded, namely: 1) The variable of financial distress has a positive effect on switching auditors. 2) The audit delay variable had no effect on the switching auditor. 3) Audit opinion variables have a positive effect on switching auditors. 4) The variables of financial distress, audit delay and audit opinion have a simultaneous effect on auditor switching.

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