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Factors Influencing Auditor Switching: Insights from Audit Opinion, Audit Delay, and ROA

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Abstract

This research aims to measure the impact of audit opinion, audit delay, and Return on Assets (ROA) on auditor switching in manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. This study is a descriptive quantitative research. The data in this study were obtained from secondary data of annual financial reports of manufacturing companies for the period of 2019-2023. The population in this study consists of 173 manufacturing companies listed on the Indonesia Stock Exchange in 2019-2023. The sample in this research consists of companies selected based on certain criteria. The data analysis techniques used are descriptive statistics and logistic regression analysis, using SPSS 25 software. The results of this study show that audit opinion and Return on Assets (ROA) do not partially affect auditor switching, while audit delay has a positive effect on auditor switching.

Keywords : Audit Opinion, Audit Delay, Return on Assets (ROA), Auditor Switching

Introduction

Financial statements are structured reports that present the financial position and performance of an entity. They offer relevant information about an entity's financial status, performance, and changes, which are essential for decision-making and accountability by management to shareholders (Yusriwarti, 2019). Companies listed on the Indonesia Stock Exchange are required to have their financial statements audited by an independent auditor or a Public Accounting Firm (KAP). These audited statements act as benchmarks for evaluating management's performance and help foster stakeholder trust in the company.

The Enron scandal in the early 2000s serves as a stark example of the devastating impact that financial statement manipulation can have on the global economy. In collaboration with its auditor, Arthur Andersen, Enron falsified financial reports to conceal its debts, which ultimately led to the company's bankruptcy and a significant erosion of investor confidence (Pattiasina et al., 2021). This event resulted in widespread financial losses across global markets, prompted regulatory reforms such as the Sarbanes-Oxley Act, and severely damaged the credibility of corporate accounting. Healy and Palepu, (2003) noted that the scandal triggered a crisis in investor trust regarding financial reporting and corporate governance.

The role of auditing is crucial in ensuring and enhancing the quality of financial statements (Wahyuni et al., 2024). This responsibility is closely tied to the independent auditor, who plays an essential role in conducting an unbiased and objective evaluation of the financial statements prepared by the company. The auditor provides an opinion on whether the financial statements fairly present the company's financial position and performance in all material respects (unqualified opinion). In other words, the independent auditor ensures that the financial statements are both relevant and reliable. As a result, companies aim to maintain the integrity of their financial reports to foster trust among stakeholders. However, the longer a company retains the same auditor, the greater the risk of diminished auditor independence (Sriwardany & Dewi, 2021). This was exemplified in the largest audit scandal in history in 2001, involving Enron and Arthur Andersen, one of the Big Five accounting firms, which was found guilty of manipulating financial statements and compromising its independence.

An example of financial mismanagement occurred at PT. Indofarma (INAF), leading to state losses amounting to IDR 371.8 billion, as reported by CNBC Indonesia in May 2024. According to INAF's financial statements, audited by the Public Accounting Firm (KAP) Hendrawinata Hanny, Erwin & Sumargo, Indofarma reported a net profit attributable to the parent entity of IDR 27.58 million in 2020. This figure marked a dramatic decline of 99.65% from IDR 7.96 billion in 2019. In 2021, the company experienced a net loss attributable to the parent entity of IDR 37.58 billion, a reversal from the IDR 27.58 million profit in 2020. By 2022, INAF reported a loss of IDR 428 billion, a staggering year-on-year (YoY) increase of 1,056% from the IDR 37 billion loss in 2021. In the first half of 2023, Indofarma posted a loss of IDR 120.34 billion, an increase from the previous IDR 90.71 billion loss.

Several studies have examined the factors influencing auditor switching, with particular attention to audit opinion, audit delay, and return on assets (ROA). Budiastuti, Kusumaningrum, and Pertiwi, (2022) investigated the relationship between audit opinion, auditor switching, and audit delay in companies listed on the Indonesia Stock Exchange. Their findings showed that audit opinion had a negative but insignificant effect on audit delay, while auditor switching had a significant positive impact on audit delay. Interestingly, ROA was found to have no significant effect on audit delay. The study suggests that factors such as management behavior and company size may have a greater influence on audit delay than ROA.

In contrast, Sembiring and Yuliana, (2019) examined the impact of audit delay, client size, prior year's audit opinion, KAP reputation, and ROA on voluntary auditor turnover in the property and real estate sector. Their findings indicated that all these factors, including ROA, significantly influenced voluntary auditor turnover, which is consistent with the results of Pransiska et al. (2024) and Noviani & Aminah, (2023). However, their study did not investigate the direct relationship between audit opinion and auditor delay, nor did it consider the potential moderating effect of corporate governance factors, which could offer deeper insights into the drivers of auditor turnover.

Similarly, Lestari, Suryanto, and Mahendra, (2021) studied the effects of audit opinion, audit delay, auditor reputation, and management changes on voluntary auditor

switching. They found that both audit opinion and audit delay had significant effects on auditor switching, while auditor reputation and management changes had no significant impact. Their study emphasizes the importance of audit opinion and delay in influencing auditor switching. However, it does not address the role of ROA as a financial performance measure in determining the likelihood of auditor change, which represents an area that warrants further exploration.

Despite these valuable insights, a research gap remains regarding the specific interplay between audit opinion, audit delay, and ROA in the context of auditor switching. While previous studies have examined these factors individually, there is limited research that integrates them into a comprehensive model. Additionally, the inconsistent findings about the influence of ROA on auditor switching highlight the need for more focused research to clarify its role in this dynamic. This gap in the literature presents an opportunity for researchers to explore how these factors collectively influence auditor switching decisions.

This study makes a contribution by integrating audit opinion, audit delay, and Return on Assets (ROA) into a comprehensive model, addressing a research gap where these factors have previously been explored in isolation. While earlier research has focused on the individual effects of these variables on auditor switching, there has been limited attention to their combined influence. The study also highlights the inconsistent findings regarding ROA's role in auditor switching, underscoring the need for further research to clarify its impact. Additionally, it suggests that moderating factors such as corporate governance should be considered to provide a deeper understanding of the dynamics of auditor turnover.

Literature Review

Agency Theory

Jensen & Meckling, (1976) propose agency theory, which explains the relationship between the principal (shareholders) and the agent (managers), where shareholders entrust managers to run the company on their behalf. The principal expects the agent to make decisions in their best interest. However, since agents have more access to information and may have different goals, conflicts of interest often arise. Therefore, in

agency theory, oversight mechanisms like audits are needed to ensure that agents act in the principal's best interest.

Auditor Switching

Auditor switching refers to a company's decision to replace its external auditor previously appointed to audit the company's financial statements. According to Apriliani & Nurkholis, (2024) auditor switching can be influenced by internal factors within the company, such as dissatisfaction with the previous auditor, as well as external factors, including regulatory requirements in Indonesia. Auditor switching can improve perceptions of audit independence and the quality of financial statements, especially in the eyes of stakeholders.

Audit Opinion

An audit opinion is the professional statement provided by an auditor as a conclusion regarding the fairness of a company's financial statements. According to Manurung et al., (2021) the audit opinion is issued after the auditor has reviewed the financial statements based on applicable auditing standards. This opinion serves as an important indicator for stakeholders to assess the reliability and integrity of a company's financial statements.

Audit Delay

Audit delay is the period between the company's fiscal year-end date (December 31) and the date when the independent auditor's report is signed. According to Subiyanto et al., (2022) audit delays can affect stakeholders' perceptions of the timeliness and reliability of a company's financial reporting. Delayed audits are often seen as a negative signal, which can reduce the informational value of financial reports and increase the risk of information asymmetry.

Return on Assets (ROA)

Return on Assets (ROA) is a ratio used to measure a company's ability to generate profits from its assets. Respika, (2020) explains that ROA reflects the company's efficiency in utilizing its assets for operations. The higher the ROA, the better the company's performance in generating profits from its available assets.

The Relationship Between Audit Opinion and Auditor Switching

The reliability of a company's financial statements is often assessed through the audit opinion provided by the auditor. According to Subiyanto et al. (2022), audit opinions significantly influence external perceptions of a company, such as those of investors. In line with agency theory, where the independent auditor acts as an intermediary between the principal (shareholders) and the agent (management), a company may choose to switch auditors if the opinion provided is unfavorable. This strategy aims to seek a more favorable audit opinion in future assessments, thereby enhancing the company's external credibility. This is supported by the findings of Budiastuti, Kusumaningrum, and Pertiwi, (2022) who highlighted that a company's desire to improve its image and investor confidence could lead to auditor switching when the opinion is unsatisfactory. Therefore, the following hypothesis is proposed;
Hypothesis 1 (H_1): Audit opinion affects auditor switching.

The Relationship Between Audit Delay and Auditor Switching

Audit delay refers to the time taken by an auditor to complete the audit of the financial statements. According to Jensen & Meckling, (1976) audit delays can create uncertainty and negative speculation regarding the company's ability to manage information, which may increase the risk of information asymmetry. This uncertainty can prompt companies to switch auditors in order to improve the speed of financial reporting. Sembiring and Yuliana, (2019) found that audit delay is a significant factor in voluntary auditor switching, suggesting that longer delays may motivate companies to seek auditors who provide timelier reports. This is further supported by research from Pransiska et al. (2024), which emphasized that audit delay can be a significant trigger for auditor switching as companies seek to reduce uncertainty and improve investor trust. Thus, we propose the following hypothesis;
Hypothesis 2 (H_2): Audit delay affects auditor switching.

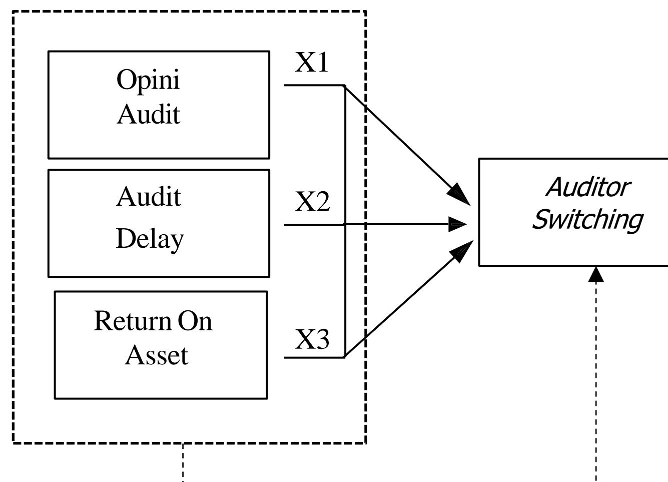
The Relationship Between Return on Assets (ROA) and Auditor Switching

Return on Assets (ROA) measures a company's ability to generate profits from its assets. According to agency theory, when a company's performance, as reflected by ROA, does not meet expectations, conflicts may arise between the principal and agent. Farida, (2018) argued that companies with high ROA may be more likely to switch auditors to maintain a positive image and reassure investors. On the other hand, companies with declining ROA might engage in auditor switching to improve asset management and restore stakeholder confidence. The findings of Lestari, Suryanto, and Mahendra, (2021) also suggest that financial performance, as measured by ROA, plays a critical role in influencing the decision to switch auditors. Moreover, research by Noviani & Aminah, (2023) corroborated the idea that changes in financial performance, including ROA, can lead to auditor switching, as companies aim to enhance their financial reputation. Based on these findings, we propose the following hypothesis;

Hypothesis 3 (H_3): Return on Assets (ROA) affects auditor switching.

Based on theoretical and empirical studies, the research model is illustrated as follows:

Research Model



Method

This study employs a quantitative approach aimed at exploring the relationships between multiple variables (Sugiyono, 2020). Data is collected from the financial

statements of companies and analyzed using statistical methods to identify correlations between the variables. The study's population consists of 173 manufacturing companies, from which a sample of 23 companies is selected using purposive sampling based on specific criteria (Sugiyono, 2020). These criteria ensure that the sample is representative of the population and relevant to the research objectives. Financial statements serve as the primary research instrument, with a dummy variable used to denote auditor switching: a value of 0 indicates no auditor switching, while a value of 1 signifies auditor switching (Sugiyono, 2020). This variable is used to assess the impact of various factors on auditor switching. Data analysis is conducted using descriptive statistical tests and logistic regression analysis. The logistic regression analysis includes assessing the model's fit, evaluating the overall model, calculating the coefficient of determination, utilizing a classification matrix, applying the regression model, and performing the Wald test to determine the significance of individual predictors. This methodology provides a comprehensive understanding of the factors influencing auditor switching in the selected companies.

Research Results

Classical Assumption Tests

Model Feasibility Assessment

The feasibility of the regression model was assessed using Hosmer and Lemeshow's Goodness of Fit Test. If the Hosmer and Lemeshow Goodness of fit statistic is greater than 0.05, the model can predict the observed values well, meaning it fits the data (Ghozali, 2016). The test results showed a Chi-square value of 12.522 with a significance (p) of 0.129. Since the significance value is greater than 0.05, it is concluded that the model can predict the observed values accurately.

Overall Model Evaluation

The overall model was evaluated by comparing the initial and final values of the -2 Log Likelihood (-2LL). The initial -2LL value was 159.346 (Block Number = 0), and after incorporating the three independent variables, the final -2LL value decreased to 151.490 (Block Number = 1). This reduction indicates that the regression model has improved and fits the data better.

Coefficient of Determination (Nagelkerke's R Square Test)

Based on the logistic regression test results, the Nagelkerke R Square value was 0.088, meaning that the independent variables explain 8.8% of the variability in the dependent variable (auditor switching). The remaining 91.2% is explained by other factors outside the research model. This relatively low R Square value is common in cross-sectional data due to large variation between observations. However, for time-series data, the coefficient of determination is usually higher (Ghozali, 2016). The R Square value in this study is comparable to that of Wijayani, (2010) which was 14.1%.

Classification Matrix

The classification matrix shows the predictive accuracy of the regression model in forecasting auditor switching. The model accurately predicts that 60.9% of companies will switch auditors. Specifically, it forecasts that 33 companies (55.9%) will switch auditors out of the 23 companies that actually made the switch, and 19 companies (66.1%) will not switch auditors, out of the 23 companies that did not engage in auditor switching. This demonstrates that the regression model has a reasonable level of accuracy in predicting auditor switching.

Wald Test (Partial Test)

The Wald test was used to assess the significance of audit opinion, audit delay, and return on assets (ROA) in influencing auditor switching. The results show that audit opinion does not significantly affect auditor switching, indicating that companies are unlikely to change auditors based solely on the opinion. However, audit delay has a positive and significant impact on auditor switching, suggesting that longer delays increase the likelihood of a change. Lastly, ROA does not significantly influence auditor switching, meaning that profitability measured through ROA is not a decisive factor in the decision to switch auditors.

Discussion

The Relationship between Audit Opinion and Auditor Swiching.

The analysis showed that audit opinion does not significantly influence auditor switching. This finding suggests that companies are less likely to change auditors solely based on the opinion issued by the auditor. Despite audit opinions being crucial in

providing an assessment of a company's financial health, the results indicate that companies may prioritize other factors, such as management strategies or auditor reputation, over the audit opinion when deciding to switch auditors. This is consistent with findings from previous studies, which suggest that audit opinion alone does not serve as a decisive factor in auditor switching decisions.

The Relationship between Audit Delay and Auditor Swiching

The results demonstrated a significant and positive relationship between audit delay and auditor switching. Longer audit delays increase the likelihood of a company switching auditors. Audit delay may signal inefficiencies in the auditing process, which could lead to negative perceptions from shareholders or stakeholders. According to agency theory, when audit delays occur, they can lead to increased uncertainty and risk of information asymmetry. Companies may choose to switch auditors to enhance the speed of financial reporting, thus reducing potential concerns about the reliability of the financial statements. This finding aligns with previous research that emphasizes the impact of delayed audits on auditor switching behavior.

The Relationship between Return on Assets (ROA) and Auditor Swiching

The study found that Return on Assets (ROA) does not have a significant effect on auditor switching. Despite ROA being a key measure of a company's financial performance, the analysis indicates that profitability, as measured by ROA, is not a decisive factor when companies consider changing auditors. Companies with high ROA may still opt for auditor switching to improve management strategies or investor perceptions, but ROA itself does not seem to be a driving force behind these decisions. Similarly, a decline in ROA does not necessarily prompt companies to switch auditors as a corrective action. This result contrasts with some prior studies, which suggested that financial performance indicators like ROA could play a role in influencing auditor switching behavior.

Conclusion, Recommendation, Limitations and Future Research

Conclusion

Based on the findings of this study, it can be concluded that audit opinion does not have a significant effect on auditor switching, indicating that companies are unlikely to change auditors solely based on the audit opinion provided. In contrast, audit delay has a significant positive impact on auditor switching, suggesting that longer audit delays increase the likelihood of a company switching auditors. This implies that delays in audit reporting may prompt companies to seek new auditors in order to enhance the speed of financial reporting and reduce uncertainty. Additionally, Return on Assets (ROA) does not significantly influence auditor switching, indicating that financial performance, as measured by ROA, is not a decisive factor in the decision to change auditors. Overall, these findings suggest that audit delay plays a more substantial role in driving auditor switching decisions compared to audit opinion or ROA.

Recommendation

Based on the findings, it is recommended that companies focus on minimizing audit delays by improving coordination and streamlining processes to ensure timely financial reporting, as audit delay significantly influences auditor switching. While audit opinion does not seem to impact auditor switching, companies should maintain transparency and ensure opinions reflect their financial health. Additionally, companies should consider a broader range of financial performance indicators beyond ROA, such as profitability margins, to better understand auditor switching behavior. Strengthening communication and transparency with auditors can also help reduce dissatisfaction and prevent unnecessary auditor changes.

Limitations and Future Research

This study has several limitations that should be considered. First, the relatively low R-square value of 8.8% suggests that other factors not included in the model may also play a significant role in auditor switching, such as corporate governance or industry-specific variables. Additionally, the research is limited to manufacturing companies, and the results may not be generalizable to other sectors. Future research could expand the sample to include various industries and incorporate other potential

variables, such as corporate governance practices and industry characteristics, to provide a more comprehensive understanding of the factors influencing auditor switching. Furthermore, longitudinal studies could offer deeper insights into how audit delays, audit opinion, and ROA impact auditor switching over time.

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