

# **The Moderation of Financial Discernment In Analyzing The Effect of Audit Opinion, Management Change, and Audit Delay on Voluntary Auditor Switching In Banking Companies Listed on The Indonesia Stock Exchange**

**Deden Iwan Kusuma**

*Sekolah Tinggi Ilmu Ekonomi YKPN Yogyakarta, Indonesia  
dedeniwankusuma.dik@gmail.com*

## **ABSTRACT**

In Indonesia, the development of public companies is one of the influencing factors for the emergence and development of the public accounting profession. This study aims to analyze the influence of audit opinions, management changes, and audit delays on voluntary auditor switching by moderating the variables of financial difficulties. This study is focused on banking companies listed on the Indonesia Stock Exchange (IDX) for a certain period. The research method uses moderation regression analysis with secondary data obtained from the company's annual report. The results show that audit opinions and audit delays have a significant influence on voluntary auditor switching. The change of management did not show a significant influence on the decision to replace the auditor. In addition, the variable of financial difficulties moderated the relationship between audit opinions and voluntary auditor switching, but did not moderate the relationship between audit delay or management change and voluntary auditor switching. These findings provide important insights for banking companies in making strategic decisions related to the selection of external auditors and financial management.

**Keywords:** audit opinion, management change, audit delay, financial difficulties, voluntary auditor switching, banking company

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## **INTRODUCTION**

In Indonesia, the development of public companies is one of the influencing factors for the emergence and development of the public accounting profession. The need for accountant services is caused by the company's desire to present financial statements fairly. Stakeholders urgently need the reliability of financial statements because they can influence decision-making. Personal interests are influences that can potentially reduce the reliability of a financial report. Therefore, the company needs auditors who are expected to be able to bridge the interests of the management and stakeholders as the party that provides information. Auditors or so-called third parties are known for their strong independent attitude to assess the fairness of the results of the company's financial statements which is a guarantee for the company to publish its financial statements, (Kencana, Rofingatun, & Simanjuntak, 2018). For an auditor, having a strong independent attitude is an important role so that when assessing the fairness of the company's financial statements, it is free from the influence of related parties. The independence of an auditor is also one of the ethics of an audit profession (Publik, 2001). An auditor who has a long-term cooperative relationship with his client will result in a threat to his independence due to the emergence of emotional connection between the auditor and the client. The decline in the quality and competence of an auditor is also a result of this relationship.

The replacement of auditors is one of the issues that has become a topic of discussion among accountants, academics, and other interested parties. The pros and cons are due to government policies that require the replacement of auditors in companies. Auditor replacement is divided into 2 (two) types, namely auditor replacement mandatory (mandatory) and the replacement of auditors Voluntary (voluntary). Replacement mandatory (mandatory) occurs due to government regulations that require the replacement of auditors regulated by Government Regulation No. 20 of 2015 concerning Public Accountant Practices, in Article 11 paragraph (1) it is stated that the provision of audit services or historical financial information to an entity by a Public Accountant is limited to a maximum of 5 (five) consecutive years. The next type of auditor replacement is the replacement of auditors Voluntary (voluntary). This type of auditor turnover can occur due to factors that come from both parties, both auditors (e.g. Fee Audit or audit quality) or client companies (e.g. management changes or financial difficulties) (Fauziyyah, Sondakh, & Suwetja, 2019).

The cooperative relationship between the auditor and the client or the company can be the cause of a detrimental influence on the independence of the auditor or the KAP itself. According to Arens et al. (2011) independence means taking an unbiased point of view. Auditors must not only be independent in facts, but must also be independent in appearance. Independence in fact exists when the auditor is truly able to maintain an unbiased attitude throughout the audit, while independence in appearance is the result of other interpretations of this independence. Based on the provisions contained in SPAP (2011) PSA No.4 (SA section 220.1), this standard requires an auditor to be independent, which means that he is not easily influenced because he carries out his work in the public interest. It can be concluded that an auditor is not allowed to take sides with anyone's interests because of his expertise, he will also lose his impartiality which is very important to maintain his freedom of opinion.

One of the phenomena related to auditor switching quoted from [www.kompas.com](http://www.kompas.com) is the case that occurred in the banking industry, namely Bank Bukopin in 2018. The case regarding the receipt of income from credit cards at Bank Bukopin is different from the existing reality. Profit in 2016 was recorded at Rp1.08 trillion, but in 2017 in the financial report it was recorded at Rp183.53 billion. Bukopin's management explained that the erroneous recording occurred in the previous five years not only from January to July 2017 and also during that period the company still earned revenue from the credit card business, but in reality it was not. The existence of this case resulted in the company replacing auditors in 2018 by using audit services from Amir Abadi Jusuf, Aryanto, Mawar and Partners with Saptoto Agustomo as the person in charge. Bank Bukopin changed auditors because KAP Purwantono, Sungkoro and Surja were unable to detect fraud in credit card receipts when their services were used in 2017.

Auditor switching The factors that affect it have been widely studied and have different results. Moreover auditor switching in Voluntary Many are carried out by companies which result in negative impacts caused by doing auditor switching. Existence auditor switching in Voluntary making the company incur greater costs because it has to get a new auditor and also from the side of the new auditor must be able to adapt to the company environment so that there is a possibility of a good impact on the company. Based on research that has been conducted by Sari and Nazar (2020), it shows that factors that affect auditor switching be Audit delay while the audit opinion and Financial distress has no effect on auditor switching on the company. Meanwhile, research conducted by Yasar (2015) shows that the factors that affect the occurrence of auditor switching is a negative audit opinion. Based on research by Solowea and Murdiawati (2015), changes in management, financial difficulties, and the size of public company accountant clients are factors that influence companies to perform auditor switching. Meanwhile, research conducted by Hudaib and Cooke (2005) is a factor that affects the occurrence of auditor switching be Financial distress and there is a change of directors.

Things about auditor switching is interesting to be used as research and makes researchers interested in conducting research again on auditor switching.

This research was carried out with reference to research that has been conducted by Mahariyani et al. (2022) by using independent variables of audit opinion and audit report lag. The researcher also added variables that were not included in the Mahariyani et al. study. (2022), namely a change of management. The variable of management change was chosen because the occurrence of voluntary auditor switching can be caused by a change of management that replaces the auditor due to the trust factor. The auditor will be dismissed voluntarily if the company does not receive the audit opinion as expected by the company and also seeks a KAP that is in accordance with the company's needs.

The change of management that occurs in the company can be caused by a change in the board of directors. Policies in the company will change if the company changes the board of directors, both directors and commissioners. Therefore, with the change of management, it is hoped that public accounting firms that are partners of the company can cooperate to produce opinions that are in accordance with the expectations of the new management. If there is a change in management, it will directly or indirectly encourage the auditor to switch because the new company's management tends to look for a Public Accounting Firm (KAP) that is in accordance with the management policy, thus, the change of management can affect the auditor switching (Andra, 2012).

The next variable used by the researcher is financial difficulty. According to Faradilla and Yahya (2016), financial difficulties are a bad condition when a company's finances decline and can result in bankruptcy. In companies, financial position statements have an influence on decision-making to maintain or replace the KAP used by the company. This can show how the company's performance can be reflected in the condition of the financial statements presented. In this study, the researcher saw the impact that occurred due to the Covid-19 pandemic regarding financial difficulties in the company. Based on research conducted by Lorenza et al. (2022) obtained the results, namely that there was a significant difference in Return on Assets (ROA) before the Covid-19 pandemic and during the Covid-19 pandemic to stock prices which had an impact on the disruption of banking performance in asset management, because customers had difficulty paying their credit obligations. This allows companies to conduct auditor switching which is supported by research that has been conducted by Agiatuti and Suputra (2016) and Puspayanti (2018) showing that financial difficulties have a positive effect on switching auditors. The results of this study are in line with the research that has been conducted by Yudha et al, (2018) which obtained the results that financial difficulties have a positive effect on switching auditors.

In this study, the researcher is interested in researching banking companies because banking companies are one of the financial sub-sectors that have an important role in the economy in Indonesia. In addition, the Covid-19 pandemic has made banking companies very important as financial intermediaries to the community. Banking companies, in addition to acting as financial intermediaries, are also a type of business that relies on the trust of the public who use banking services. If there is an issue or problem regarding the bank's unhealthy performance, the public and investors tend to withdraw funds from the bank. Therefore, banking companies are required to perform well. It can be concluded that banking companies have a responsibility to maintain their performance in all conditions.

Banking companies that are experiencing financial difficulties are likely to experience delays in publishing financial statement information so that the public and investors will assume that the company is experiencing bad conditions. This causes the company to decide to conduct an auditor switching. In addition to avoiding delays in the submission of financial statement information, it is also to minimize the occurrence of audit opinions issued outside of a reasonable opinion without exception.

Based on the previously explained matters, this study aims to examine the influence of audit opinions, management changes, and audit delays on voluntary auditor switching with financial difficulties as a moderator in banking companies listed on the IDX in Indonesia. The results of this study are expected to be useful to provide views and insights into auditing specifically for voluntary auditor switching.

The research conducted by Mahariyana, Afrah Junita, and Tuti Meutia (2022) examines the effect of audit opinions and audit report lag on voluntary auditor switching in industrial companies listed on the IDX. The study introduces financial distress as a moderating variable to analyze whether it influences the relationship between audit opinions, audit report lag, and voluntary auditor switching. The independent variables in this study are audit opinions and audit report lag, while the dependent variable is voluntary auditor switching. Financial distress is positioned as a moderating factor to assess its potential impact on the relationship between the other variables.

The findings indicate that audit opinions, audit report lag, and financial distress do not significantly affect voluntary auditor switching. Additionally, financial distress fails to moderate the influence of audit opinions and audit report lag on voluntary auditor switching. These results suggest that other factors may play a more critical role in determining auditor switching within industrial companies, highlighting the need for further research to explore additional variables that could influence this phenomenon.

This study introduces a novel approach by integrating financial difficulties as a moderating variable in examining the effects of audit opinion, management changes, and audit delays on voluntary auditor switching. While previous research has focused primarily on individual factors influencing auditor switching, this study provides a comprehensive analysis of their combined impact, particularly in the context of the Indonesian banking sector during a post-pandemic period. This adds depth to the understanding of how financial challenges interact with governance and operational factors in driving auditor selection decisions.

The primary objective of this study is to analyze the influence of audit opinions, management changes, and audit delays on voluntary auditor switching in banking companies listed on the Indonesia Stock Exchange, with financial difficulties serving as a moderating variable. By focusing on these relationships, the study aims to provide insights into strategic decision-making processes related to auditor changes in the banking sector.

The findings of this study are expected to provide practical benefits for banking companies in navigating the complexities of auditor switching decisions, especially under financial distress. Additionally, it contributes to academic literature by highlighting the moderating role of financial difficulties, offering policymakers and industry stakeholders evidence-based insights for enhancing regulatory frameworks and corporate governance practices in the banking industry.

## **METHOD**

The research method used in this study is a quantitative method with a purposive sampling approach, where the sample is selected based on specific criteria relevant to the research objectives. The sample consists of banking sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2023 period, totaling 49 companies. The purposive sampling technique was chosen because it allows the researcher to select companies that meet the requirements, such as publishing complete financial statements and annual reports, as well as experiencing external auditor turnover during the study period. The data used in this study is secondary data obtained from company documentation, books, scientific journals, and the official websites of IDX and the respective banking companies. The variables in this study include independent variables (audit opinion, management change, and audit delay), the dependent variable (voluntary auditor switching), and the moderating variable

(financial difficulties) measured using the DER (Debt to Equity Ratio). This study aims to examine the effect of independent variables on voluntary auditor switching, with financial difficulties as the moderating variable, using quantitative data processed through statistical analysis.

## RESULTS AND DISCUSSION

### Partial Hypothesis Testing (*Wald Test*)

Based on the calculations presented in table 4.7, it can be interpreted as follows:

1. The influence of audit opinion on *voluntary auditor switching* has a regression coefficient of 15.450 and a significance value of  $0.043 < 0.05$ . Therefore, audit opinions have a positive and significant effect on *voluntary auditor switching*. From this it can be concluded that the first hypothesis is accepted.
2. The effect of management change on *voluntary auditor switching* had a negative regression coefficient value of -0.104 and a significance value of  $0.775 > 0.05$ . Therefore, the change of management does not have a significant effect on *voluntary auditor switching*. It can be concluded that the second hypothesis is accepted.
3. The effect of financial difficulties on *voluntary auditor switching* has a negative regression coefficient value of -0.441 and a significance value of  $0.205 > 0.05$ .
4. The effect of *audit delay* on *voluntary auditor switching* has a negative regression coefficient of 3.470 and a significance value of  $0.036 < 0.05$ . Therefore, *audit delay* has a positive and significant effect on *voluntary auditor switching*. It can be concluded that the fourth hypothesis is accepted.

### Simultaneous Hypothesis Testing (*Test F*)

The F test can be done by comparing the calculated F value with the F table and paying attention to the significance value of 0.05 in the following way:

1. At a value of probability significance  $> 0.05$ ,  $H_0$  is accepted and  $H_a$  is rejected.
2. At a value of significance probability  $< 0.05$ ,  $H_0$  is rejected and  $H_a$  is accepted.

**Table 1 Omnibus Test of Model Coefficients**

		Chi-square	Df	Sig.
Step 1	Step	19.241	4	0.001
	Block	19.241	4	0.001
	Type	19.241	4	0.001

Source : data processed by SPSS 13,2023

Based on the table above, the significance value in the Omnibus test model of  $0.001 < 0.05$  can be concluded that the independent variables simultaneously (together) affect the dependent variables, namely *voluntary auditor switching*.

### Discussion

The following is a table of recapitulation of the results of the hypothesis test:

**Table 2 Recapitulation of Hypothesis Analysis Results**

Hypothesis	Description	Conclusion
1	Audit opinion has a positive effect on <i>voluntary auditor switching</i>	Accepted
2	Management change has a positive effect on <i>voluntary auditor switching</i>	Rejected
3	Financial difficulties have a positive effect on <i>voluntary auditor switching</i>	Rejected
4	<i>Audit delay</i> has a positive effect on <i>voluntary auditor switching</i>	Accepted

Source: SPSS 13,2023 data processing results

### **The Effect of Audit Opinion on *Voluntary Auditor Switching***

The results of the first hypothesis test concluded that the audit opinion variable (OA) at the significance level was  $0.043 < 0.05$  and the regression coefficient was 15.450. The results obtained in this study show that audit opinions have a positive effect on *voluntary auditor switching*. The results obtained show that companies tend to carry out *voluntary auditor switching*, which is likely to be able to provide opinions according to the company's wishes if the company gets an unreasonable opinion without exception from the previous auditor.

Basically, the company will carry out *voluntary auditor switching* with an auditor who is able to provide a fair audit opinion without exception with a reason. The results obtained in this study are in line with the research conducted by Gunady (2013) and Sabeni *et al.* (2014), in his research that obtained audit opinion results that had a positive effect on *voluntary auditor switching* stated that when a company gets an unreasonable opinion without exception, the company tends to switch *auditors* due to the desire from the management to get a perfect opinion to attract investors.

### **The Effect of Management Change on *Voluntary Auditor Switching***

In this study, the result of the regression coefficient of management change is -0.104, meaning that for every 1 percent increase that occurs in the variable of management change, the level of *voluntary auditor switching* will decrease by 0.104. Based on the significant value obtained, which is 0.775, it means that the significant value is greater than 0.05. This shows that the change of management does not have a significant effect on *voluntary auditor switching*.

Companies can do *voluntary auditor switching*, but this does not always lead to a change in policy to use the services of auditors, so companies do not need to do *voluntary auditor switching*. The results obtained in this study are in line with the results of research conducted by Natalia (2023) which states that management change does not have a significant effect.

### **The Effect of Financial Difficulties on *Voluntary Auditor Switching***

The results of the third hypothesis test gave the result that the variable of financial difficulty (KK) with a negative regression coefficient result of -0.441 and a significance value of  $0.205 > 0.05$ . It can be concluded that the third hypothesis is rejected or there is no effect between financial difficulties and *voluntary auditor switching*. According to Haryetti (2010), when the company is in a condition of financial difficulty, the company will take into account the cost of paying for audit services and prefer KAP with a lower service offer than the previous KAP. The results obtained in this study are in line with research that has been conducted by Pasaribu (2017) which states that financial difficulties have no effect on *switching auditors*.

### **The Effect of Audit Delay on *Voluntary Auditor Switching***

In this study, the regression coefficient was 3.470 and the significance value was  $0.036 < 0.05$ . It can be concluded that the *audit delay* variable has a positive effect on *voluntary auditor switching*. The results of the study prove that the longer an auditor completes his independent auditor's report, the more likely the company is to switch *auditors*.

The length of time an auditor completes his or her duties will affect investors' reaction to the company, resulting in a decrease in trust from investors in the company because investors assume that the delay is a sign that the company is in an unhealthy state. This research is in line with research that has been conducted by Rimadani (2018) and Adelia (2022) which stated that *audit delay* has a positive and significant effect on *auditor switching*.

## **CONCLUSION**

Based on the research conducted, the following conclusions were obtained: Audit opinion has a positive effect on voluntary auditor switching, as evidenced by a significance level that does not exceed the predetermined threshold ( $\alpha$ ) of 0.05, indicating that companies tend to switch auditors voluntarily when they receive a qualified opinion or an opinion other than unqualified, to align with their expectations. However, the hypothesis regarding the effect of management change on voluntary auditor switching is not supported, as the significance level exceeds 0.05, suggesting that minimal management changes occurred during the study period, limiting its impact. Similarly, the hypothesis about financial difficulties affecting voluntary auditor switching is not supported, with significance levels exceeding 0.05, potentially due to high costs associated with switching auditors, which may not be justified by the company's stable or unhealthy financial condition. In contrast, audit delay shows a positive effect on voluntary auditor switching, demonstrated by a significance level within the acceptable range ( $\alpha \leq 0.05$ ), indicating that delays in financial reporting prompt companies to switch auditors to mitigate further delays or issues caused by previous auditors.

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