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Influence of Audit Opinion, Financial Distress, and Audit Delay on Voluntary Auditor Switching

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ABSTRACT: Audit switching refers to the practice where an organization changes its external auditor after a certain period. This is often done to enhance the independence and objectivity of the audit process, mitigate risks of complacency, and ensure fresh perspectives on financial reporting. It can also be influenced by regulatory requirements or a desire to improve the quality of the audit. The purpose of this research is to examine and analyze the effect of audit opinion, financial distress, and audit delay on voluntary auditor switching in food and beverage subsector companies listed in Indonesia Stock Exchange from 2018-2022. The sampling method was purposive sampling. This research analysis technique uses binary logistic regression analysis using the SPSS 25 software. The results showed that audit delay affects voluntary auditor switching, while audit opinion and financial distress has no effect on voluntary auditor switching.

KEYWORDS: Voluntary Auditor Switching, Audit Opinion, Financial Distress, Audit Delay.

INTRODUCTION

Auditor switching is expected to prevent a long relationship between the auditor and the client, where the relationship can later reduce the independence of the auditor which results in the auditor not carrying out his duties in accordance with the code of ethics of the public accounting profession (Kholipah & Suryandari, 2019). There are two auditor switching practices, namely mandatory and voluntary. The mandatory implementation policy is regulated in PMK No. 17 / PMK.01 / 2008. It is different from voluntary which occurs when the client suddenly changes auditors outside the provisions of the rules that require it. According to Nainggolan & Sianturi (2021) Voluntary auditor switching can be caused by the auditor resigning or the client terminating the audit contract. The decision to change auditors voluntarily often raises public questions because ideally the change of auditors is carried out mandatory (Widnyani & RM, 2018).

The case occurred at PT SNP Finance in 2018, allegedly defaulting on the Postponement of Debt Payment Obligations (PKPU) of IDR 4.07 trillion. Based on the press release issued by OJK in October 2018, SNP Finance received a WTP opinion. However, in reality the results of the OJK examination showed that the opinion that had been given did not reflect the company's actual finances. This certainly caused financial losses for many parties, including 14 banks. OJK finally imposed sanctions in the form of cancellation of registration for AP Marlinna and Merliyana Syamsul who were members of KAP Satrio, Bing, Eny & Rekan.

Audit opinion is given as a form of auditor assessment after examining the financial statements. Every company management definitely wants to get an unmodified opinion. But often management does not get the opinion they expect from the auditor, because in reality the audited financial statements do not reflect the company's finances fairly. Audit opinion can trigger clients to change their auditors when clients do not agree with the audit opinion given by the auditor in the previous year (Sambo & S, 2022).

Financial distress means that the company is having difficulty in meeting its financial obligations. A company in serious financial distress will pose a risk of delisting. According to Hestyaningsih et al. (2020), unhealthy financial conditions will give rise to a situation where the company changes KAP to adjust the company's financial condition so that there is no increase in audit costs.

Audit delay shows the time required for the auditor to complete the audit report in accordance with the audit engagement contract. Delays or non-compliance from the auditor will further extend the audit time. According to Zahirah & Meini (2022), the Covid-19 pandemic situation is also an obstacle because it changes the way auditors complete audit reports, from initially interacting with clients face-to-face to online. Therefore, company management and auditors need to establish a good cooperative relationship in order to discuss the duration of time needed to complete the audit process.

LITERATURE REVIEW

Stakeholder Theory

Stakeholder theory is an approach that focuses on the welfare of stakeholders, both individuals or groups of people who have an interest in the company. This view emphasizes that a company does not only operate for its own interests, but must also provide benefits to stakeholders. There are 3 categories of stakeholders, namely primary stakeholders, supporting stakeholders, and key stakeholders. The main goal of the stakeholder theory approach is to achieve a fair balance between the interests of all parties involved. The interaction between the company and stakeholders must be reciprocal, where the company provides benefits to its stakeholders, and stakeholders provide support to the company's activities.

Agency Theory

This theory explains that an agency relationship arises when a principal (the person giving the order) engages an agent (the person executing the order) to carry out tasks on behalf of the principal by giving the agent decision-making authority. This theory leads to the assumption that the principal and agent will compete with each other for their own personal interests. Information asymmetry refers to the imbalance of information between the principal and the agent, where the agent often has more information than the principal, which can cause agency problems. The purpose of this agency theory is to minimize conflicts of interest and align the interests of the principal and agent, as well as increase high transparency in reporting and corporate governance. It is important for agents to provide clear and accurate information in order to build trust between the principal and the agent.

Auditor Switching

According to Chadegani, et al (2011) in Sriwardany & Dewi, (2021) the decision to change auditors involves changing the incumbent auditor, resulting in a different choice of audit firm quality to readjust the characteristics of the audit firm to the demands of changing or developing client needs. According to PMK Regulation No. 17/PMK.01/2008 Article 3 Paragraph 1, auditor changes are mandatory because there are regulations that require companies to do so. It is explained that the provision of audit services carried out by KAP is a maximum of 6 (six) consecutive financial years and by a Public Accountant is allowed for a maximum of 3 (three) consecutive financial years. Meanwhile, voluntary auditor changes are carried out when the company chooses to change auditors on its own decision, not on the basis of regulations that require it. Voluntary auditor changes can be caused by both the auditor's and the client's perspectives. The sudden change of auditors will raise suspicions from users of financial statements who will then question the real reasons.

METHODOLOGY

Types of research

This type of research is quantitative data research, namely research that is used to examine a particular population or sample and emphasizes statistical data analysis with the aim of testing predetermined hypotheses (Sugiyono, 2017:23).

Population and Research Sample

The population in this study were food and beverage sub-sector companies listed on the Indonesia Stock Exchange (IDX) in 2018-2022 which were accessed through the official IDX website (www.idx.co.id). The sample determination in this study used a purposive sampling technique. The criteria set in this study are: 1. Food and beverage companies listed on the IDX in 2018-2022 2. Companies that publish audited financial statements during 2018-2022 3. Companies that publish financial statements in rupiah during 2018-2022 4. Companies that have positive equity value 5. Companies that did not conduct an IPO during 2018-2022 From the results of applying this method, a total of 40 sample companies were obtained with a total number of observation data of 200 data.

Data Analysis Methods

The data analysis method used is logistic regression analysis because the dependent variable in this study is binary or dichotomous which is coded 1 and 0. This study uses the SPSS 25 software program as a data processing tool. The logistic regression model in this study is as follows:

$$Ln\frac{\mathbf{VAS}}{\mathbf{1-VAS}} = \boldsymbol{\alpha} + \boldsymbol{\beta}\mathbf{1}X_1 + \boldsymbol{\beta}\mathbf{2}X_2 + \boldsymbol{\beta}\mathbf{3}X_3 + e$$

Keterangan:

VAS	: *Voluntary Auditor Switching*
α	: Constants
β1, β2, β3	: Regression Coefficient

X_1 : Auditor's Opinion (OA)
X_2 : *Financial distress* (FD)
X_3 : Audit *delay* (AD)
e : *error*

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1: Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
Opini Audit	200	0	1	0,99	0,071
Financial Distress	200	0,013	29,317	1,654	3,204
Audit Delay	200	46	272	91,69	31,381
Voluntary Auditor Switching	200	0	1	0,08	0,264

According to Table 1, the audit opinion (X1) shows the lowest value of 0 owned by companies that obtain opinions other than Unmodified and the highest value of 1 owned by companies that obtain Unmodified opinions. The average value of the audit opinion is 0.99 and the standard deviation is 0.071. Financial distress (X2) shows the lowest value of 0.013 in the Campina Ice Cream Industry Tbk (CAMP) company in 2020 and the highest value of 29.317 in the Jaya Agra Wattie Tbk (JAWA) company in 2022. The average value of financial distress is 1.654 and the standard deviation is 3.204. Audit delay (X3) shows the lowest value of 46 in the company Multi Bintang Indonesia Tbk (MLBI) in 2018 and the highest value of 272 in the company Central Proteina Prima Tbk (CPRO) in 2020. The average value of audit delay is 91.69 and the standard deviation is 31.381. Voluntary auditor switching (Y) shows the lowest value of 0 owned by food and beverage companies that did not change auditors during the study period and the highest value of 1 owned by food and beverage companies that did change auditors during the study period. The average value of voluntary auditor switching is 0.08 and the standard deviation is 0.264.

Hypothesis Testing

Hypothesis test is used to test whether the independent variables of audit opinion, financial distress, and audit delay are able to influence the dependent variable of voluntary auditor switching partially. Decision making is carried out using a significance level of α of 5% (0.05). Based on the results of the logistics analysis above, the following equation is obtained:

$$\boldsymbol{Ln}\frac{\mathbf{VAS}}{\mathbf{1-VAS}} = \mathbf{16,303 - 20,740OA - 0,180FD + 0,022AD} + \boldsymbol{e}$$

The results that can be concluded based on the table are:

1) The coefficient value of the audit opinion variable is -20.740 with a significance of 1.000. From these results it can be concluded that audit opinion has no effect on voluntary auditor switching.
2) The coefficient value of the financial distress variable is -0.180 with a significance of 0.259. From these results it can be concluded that financial distress has no effect on voluntary auditor switching.
3) The coefficient value of the audit delay variable is 0.022 with a significance of 0.020. From these results it can be concluded that audit delay has an effect on voluntary auditor switching.

DISCUSSION

1. The effect of audit opinion on voluntary auditor switching the test results show that the audit opinion variable has a coefficient value of -20.740 with a significance value of 1.000, which means it is greater than 0.05. so it can be concluded that audit opinion has no effect on voluntary auditor switching. this condition may be caused by the companies that are the research samples almost all receiving unmodified opinions. therefore, this does not encourage companies to carry out voluntary auditor switching because they are satisfied with the opinions received. companies will continue to use the old auditor if they continue to get opinions that meet expectations, because if they change auditors, it is not certain that the new auditor will provide the opinion desired by the party. the results of this study support the results of previous studies by sari, et al. (2018) and harnanto, et al. (2019) which stated that audit opinion has no effect on voluntary auditor switching.
2. The effect of financial distress on voluntary auditor switching the test results show that the financial distress variable has

a coefficient value of -0.180 with a significance value of 0.259, which means it is greater than 0.05. so it can be concluded that financial distress does not affect voluntary auditor switching. this is because the high cost of audit supervision when financial conditions are unstable is likely to trigger financial distress in the company. therefore, deciding not to carry out auditor switching, because it will have an impact on increasing agency cost burdens. in this situation, companies facing financial distress choose to improve the company's image in order to attract investors and potential investors. the results of this study support the results of previous studies by deliana, et al. (2021) and sriwardany & dewi (2021) which stated that financial distress has no effect on voluntary auditor switching.

3. The effect of audit delay on voluntary auditor switching the test results show that the audit delay variable has a coefficient value of 0.022 with a significance value of 0.020, which means it is less than 0.05. so it can be concluded that audit delay has an effect on voluntary auditor switching. if there is a delay in the announcement of financial reports due to audit delay, it will affect investor response. companies that experience delays in the publication of audited financial reports due to audit delays tend to prefer to change auditors in the following fiscal year in order to regain investor trust. the results of this study support the results of previous studies by yanti & badera, (2018) and rahmadhani, et al. (2023) which state that audit delay has an effect on voluntary auditor switching.

CONCLUSION

Based on the results of data analysis and testing of research data that have been conducted, the following conclusions can be drawn: 1. Audit opinion does not affect voluntary auditor switching in food and beverage sub-sector companies listed on the IDX in 2018-2022. 2. Financial distress does not affect voluntary auditor switching in food and beverage sub-sector companies listed on the IDX in 2018-2022. 3. Audit delay affects voluntary auditor switching in food and beverage sub-sector companies listed on the IDX in 2018-2022.

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