

Auditor Switching On Regional Development Banks

Amiruddin Junus¹, Sri Sundari², Zulkifli Sultan³, Siti Zakina Azzahra⁴

¹Department of Accounting, Faculty of Economics and Business, Universitas Hasanuddin, Makassar, Indonesia, amiruddinj64@gmail.com

²Department of Accounting, Faculty of Economics and Business, Universitas Hasanuddin, Makassar, Indonesia, sriamir66@gmail.com

³Department of Management, Faculty of Economics and Business, Universitas Terbuka, South Tangerang, Indonesia, zulkifli_sultan@ecampus.ut.ac.id

⁴Department of Accounting, Faculty of Economics and Business, Universitas Hasanuddin, Makassar, Indonesia, zakinazzahra@gmail.com

Abstract

The aim of this research is to investigate the act of auditor switching at the eastern Indonesian Regional Development Bank (BPD). There are several factors that influence auditor switching, including the issuance of a going concern opinion, financial distress, audit tenure, and changes in company management. The data was obtained from the published financial statements of the Regional Development Bank (BPD) and the results of the Focus Group Discussion (FGD). This research uses a quantitative approach by analyzing secondary data in the form of the financial statements of Regional Development Banks (BPD) from 2017 to 2022, using logistic regression techniques. The findings showed that, in contrast to financial hardship and audit tenure, going concern opinions and changes in management have an impact on auditor switching. This provides an explanation of how changes in banking management (BTN) and the going concern opinion that was given to an auditor can affect auditor switching. Conversely, financial distress and audit tenure experienced by the company have no impact on auditor switching. This research can provide recommendations on business management and improving the quality of financial statements in BPD. Additionally, it can also provide references for regulators regarding auditor switching practices carried out by banks in Indonesia.

Keywords: auditor switching; audit tenure; changes in management; financial distress; and going concern opinion

1. INTRODUCTION

Management needs qualified auditors who are able to meet the demands of rapid company growth. If this cannot be fulfilled, it is likely that the company will change its current auditor. By replacing the auditor with an auditor who is considered to have a better name, the company's reputation will also be raised among investors (Zubir, 2020). In agency theory, shareholders are treated as principles and management as agents, in which management is a party contracted by shareholders to work in the interests of shareholders (Jensen and Meckling, 1976). Management is given some power by shareholders to carry out operations and be able to improve company performance. As a result, management is obligated to account to shareholders for all of its efforts. Agency theory states that independent auditors must be able to minimize differences in interests that occur between principals and agents by monitoring and examining activities carried out by interested parties.

Auditor switching is often associated with adverse selection and moral hazard between agent and principle. Agency theory states that independent auditors should be able to minimize differences in interests that occur between principals and agents by monitoring and examining activities carried out by interested parties. Furthermore, the company itself or management tends to want the auditor to give an unqualified opinion on its financial statements. Therefore, the type of opinion outside of an unqualified opinion is not desired by client management and is seen as not very beneficial to users of financial statements (Willingham and Charmichael, 1997: 351).

According to Kusuma and Farida (2019), auditor switching can occur voluntarily or mandatorily. If the auditor switching occurs voluntarily, then the causal factors can come from the client side, such as experiencing financial distress. Meanwhile, if the change occurs on a mandatory basis, as happens in Indonesia, it occurs because of mandatory regulations. It is feared that this act of auditor switching will

affect the quality of the audit itself. To maintain the possibility of opinion shopping among companies, several countries have implemented regulations related to auditor switching. The Enron scandal has at least prompted regulators in the United States to issue the Sarbanes-Oxley Act (SOX). One of the things regulated in SOX is audit services. In Indonesia, the provision of general audit services for the financial statements of an entity is carried out by the Public Accounting Firm (KAP) for 5 (five) consecutive financial years and by a public accountant for 3 (three) years; this is regulated in the Decree of the Minister of Finance No. 423/KMK.06/2002. This regulation was later refined in Minister of Finance Regulation No. 17/PMK.01/2008, where the provision of general audit services on the financial statements of an entity is carried out by KAP for 6 (six) consecutive financial years and by a public accountant for a maximum of 3 (three) consecutive financial years.

The Regional Development Bank (BPD) is a bank that is owned and managed by the respective regional leaders. Regional leaders will change every five years. Likewise, the management of BPD will experience change or alteration. This, of course, results in a change in policy regarding auditors who will conduct an examination of the BPD's financial statements.

Wati (2020), Darmayanti (2021), and Dewi *et al.* (2023) examined the phenomenon of auditor switching that was associated with audit opinion conditions, audit delay, audit fees, audit tenure, company growth, company size, financial distress, changes in management, and the size of the Public Accounting Firm (KAP). The results of this research indicate that there are several different research results that influence auditor switching. In this research, several factors examined in influencing auditor switching are: going concern opinion, changes in management, financial distress, and audit tenure. This is because there are still differences in research results.

This research was inspired by previous research conducted by Wati (2020), Darmayanti *et al.* (2021), and Dewi *et al.* (2023), which examined the phenomenon of auditor switching, which is associated with financial distress, audit opinion, changes in management, audit delay, audit tenure, audit fee, going concern opinion, company size, and Public Accounting Firm (KAP) size. The purpose of this research is to examine and analyze the effect of financial distress, going concern opinion, changes in management, and audit tenure on management decisions in making auditor changes by Regional Development Banks (BPD). Previous research analyzed auditor switching in companies that have gone public (listed on the Indonesia Stock Exchange).

2. LITERATURE REVIEW

Financial distress is a condition where a company is experiencing a financial crisis phase and is on the verge of bankruptcy. Companies experiencing financial distress will affect the views of several interested parties, both internal and external. Therefore, companies will tend to increase all subjective assessments and be cautious when disclosing the company's actual financial condition. The condition of the company experiencing financial distress causes the company to change auditors (Dewi *et al.*, 2023). This is to avoid audit opinions that explain the actual condition of the company's financial statements and ensure the integrity of the financial information submitted by the company (Nurbaity and Elisabet, 2023). However, according to Darmayanti (2021) and Wati (2020), financial distress has a negative effect on auditor switching.

A going concern opinion is an indicator that there is doubt about the sustainability of the operations of a business entity, government, or certain groups. Companies that get a going concern opinion tend to change their auditors (Lutfi & Sari, 2019). This is expected to change the opinion given by the auditor. The company or agency hopes for a new policy for managing and improving the company's operations so that it can overcome the problems it is facing. Likewise, there is good cooperation between the new auditor and the company's management.

Audit tenure is the period of time required to provide audit services to certain clients by the Public Accounting Firm (Shockley, 1981). Audits with long tenors can cause the quality of auditor performance competencies to tend to decrease significantly over time and lead to the perception that auditors find it difficult to act independently. This is due to the possibility of a personal relationship that is considered to interfere with auditor independence (Dewi *et al.*, 2020; Nasser *et al.*, 2006). Audit

tenure is related to signal theory, where if financial reports are submitted on time, it will be good news and provide good signals to the public, and vice versa. This makes audit tenure one of the factors that influence auditor turnover (Dewi *et al.*, 2023).

Darmayanti *et al.* (2021) state that changes in management are changes in the company's board of directors. This is due to the decision of the general meeting of shareholders or the directors quitting of their own accord. Policy changes may occur due to new management. The company will look for a public accountant (auditor) who is in line with company policy and its accounting reporting. In other words, changes in management allow auditor switching.

3. RESEARCH METHODOLOGY

This research describes and analyzes the research on auditor switching as the dependent variable and going concern opinion, financial distress, audit tenure, and changes in management as independent variables. The population of this research is the financial statements of Regional Development Banks (BPD) in eastern Indonesia from 2019 to 2024, consisting of BPD South Kalimantan, Central Kalimantan, North East Kalimantan, Bali, NTB, NTT, Susebar, Southeast Sulawesi, and Sulutgo.

The source of research data is an important factor that is taken into consideration in determining data collection methods. The data source in this research is secondary data. According to Sekaran and Bougie (2009), secondary data is obtained by analyzing financial statement information. The data in this research are information about going concern opinion, financial distress, audit tenure, and the presence or absence of management changes. Measurement of going concern opinion variables, changes in management, and auditor switching uses dummy variables, such as if there is a change in management given the number 1 and if there is no change in management given the number 0. Meanwhile, audit tenure is measured based on additional audit time, and financial distress is measured using the Z Score value.

The data analysis technique in this research is based on a logistic regression model. In research, the possibility of problems arising in regression analysis is quite often in matching the prediction model to a model entered into a series of data. For the validity of the results of the two regression analyses, a classical assumption test was first carried out, consisting of a normality test, a multicollinearity test, and a heteroscedasticity test.

A logistic regression test was used to analyze the hypothesis in this research. This test was used due to the use of dummy variables. In addition, we're also using the coefficient of determination (R²) test, which is a test to measure how far the model's ability to explain the independent variables. Moreover, the F test is conducted to test whether simultaneously the independent variables are able to explain the dependent variable well or to test whether the model used is fixed or not, in which the sig value of 0.000a < 0.05 indicates that the independent variables together have a significant effect on the dependent variable. And lastly, the t test is conducted to partially determine the effect of the independent variable on the dependent variable in the logistic regression equation, assuming that other variables are considered constant.

4. RESULT AND DISCUSSION

Data testing in this research was carried out in several stages, including descriptive analysis, classical assumption testing, and regression analysis to test the hypothesis.

4.1 Descriptive Statistics

The following are the explanations of the descriptive research variables (going concern opinion, financial distress, audit tenure, and changes in management) as in the table above. The going concern opinion, which uses a dummy variable and shows an average of 0.46, means that in general, the going concern opinion of the Regional Development Bank (BPD) is that it can continue its business. Likewise, the average financial distress, which uses the Z Score value indicator, has an average value of 5.4546, meaning that the Regional Development Bank (BPD) is a healthy bank. Moreover, audit tenure has an average value of 1.57, meaning that the length of the audit conducted by the auditor is around 1.57 months. And this is a normal thing to happen. BPD change in management has an average value of

0.54, meaning that most of the Regional Development Banks (BPD) make changes in management. Lastly, auditor switching has an average value of 0.67, meaning that most of the Regional Development Banks make auditor switching.

Table 1. Descriptive Statistics

	N	Min.	Max.	Mean	Std. Deviation
Going concern opinion	54	0	1	.46	.503
Financial distress	54	1.05	10.36	5.4546	2.65080
Audit tenure	54	1	3	1.57	.716
changes in management	54	0	1	.54	.503
Auditor Switching	54	0	1	.67	.476

Source: Author's, 2025

4.2 Regression Model Feasibility Test Analysis

Table 2. Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	7.310	8	.504

Source: Author's, 2025

The table above shows the value of Hosmer and Lemeshow's goodness of fit test research data of 7,310 and a significance value of 0.504. The significant level is greater than 0.05, so this research model is able to predict its observation value, or it can be said that this research model is acceptable because it is in accordance with the observation data.

4.3 Simultant Test

Table 3. Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
	Step	28.352	4	.000
Step 1	Block	28.352	4	.000
	Model	28.352	4	.000

Source: Author's, 2025

Based on the significance value of 0.000, it can be stated that simultaneously, the going concern opinion, financial distress, audit tenure, and changes in management in this research affect auditor switching. The results of this research indicate that overall, at the Regional Development Bank (BPD) in eastern Indonesia, these factors are factors that can influence auditor switching. This is due to the fact that BPD is a regional leader whose ownership changes every five years.

4.4 Nagelkerke R² Test Analysis

The magnitude of the coefficient of determination in the logistic regression model is indicated by the Nagelkerke R Square value. The Nagelkerke R Square has a value of 0.567, which means that the variability of the dependent variable that can be explained by the independent variable is 56.7%, while the remaining 43.3% is explained by other factors outside the research model. These factors include audit delay, KAP size, or KAP reputation.

Table 4. Nagelkerke R² Results

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	40.391 ^a	.408	.567

Source: Author's, 2025

4.5 Hypothesis Test Analysis

		Variables in the Equation					
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	X1	2.344	1.029	5.193	1	.023	10.424
	X2	1.073	.929	1.334	1	.248	2.925
	X3	.379	.601	.397	1	.529	1.460
	X4	3.775	1.033	13.358	1	.000	43.601
	Constant	-2.823	1.454	3.767	1	.052	.059

Source: Author's, 2025

The table above shows that variable X1 (going concern opinion) and variable X4 (changes in management) have a significance value below 0.05. This shows that going concern opinion and changes in management have an effect on auditor switching at the Regional Development Bank (BPD). The going concern opinion provides an overview of doubts about the continuation of the company's operations, both in terms of finance and performance. The opinion provides a view that there are doubts about the company's operational performance and provides negative predictions for stakeholders to invest in. Therefore, banking management (BPD) changes auditors so that they can work together in making policies to improve the performance of the company or banking (BPD). The results of this research are in line with the results of research conducted by Wati (2020). Likewise, with the change in management, the ownership of the Regional Development Bank is with the local government. If the local government changes, it will also have an impact on the management of the Regional Development Bank, which will also have an impact on the determination of the auditor who will carry out the examination of the financial statements. In other words, changes in management have an impact on auditor switching, which means the results of this research are in line with Darmayanti *et al.* (2021).

Meanwhile, variable X2 (financial distress) and variable X4 (audit tenure) have a significance level above 0.05. This indicates that financial distress and audit tenure do not cause the management of the Regional Development Bank (BPD) to do auditor switching. The engagement relationship or audit tenure experienced by the company has no effect on the occurrence of auditor switching. The relationship restrictions are carried out in order to maintain the professionalism of both parties, namely the client and the auditor, and not to fulfill personal interests without considering the quality of the audit results obtained. This does not cause auditor switching, which is often thought to neutralize a company after a long relationship. A relationship that is too long will lead to sympathy between the auditor and the client, who will try to resolve their respective personal interests without considering the quality of the audit results obtained. These results are consistent with the results of Wati's research (2020), which states that audit tenure has a negative effect on auditor switching. Likewise, previous research (Darmayanti *et al.*, 2021; Wati, 2020) states that financial distress has a negative effect on auditor switching.

5. CONCLUSION

The results of the research explain that going concern opinion and changes in management of Regional Development Banks (BPD) affect auditor switching that was done by BPD. However, financial distress and audit tenure do not affect the auditor switching that was done by BPD. In other words, the results showed that financial distress and audit tenure are not factors that cause companies to do auditor switching. This is because auditees that are insolvent and experiencing an unhealthy financial position are more likely to bind their auditors to maintain the trust of shareholders and creditors and reduce

the risk of litigation. This research supports agency theory, which states that there are differences in interests between management and company owners. In addition, this theory proves that if there is a conflict between management and shareholders, it can lead to a change in management. In other words, the new BPD management can work with the new auditor to implement integrated policies that can improve the banking management operating system (BPD). This research can provide recommendations to local governments and BPD management on business management and improving the quality of financial statements in BPD. Additionally, it can also provide references for regulators regarding auditor switching practices carried out by banks in Indonesia.

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