

THE INFLUENCE OF GOING CONCERN AUDIT OPINION, AUDIT FEE, AND INCOME MANIPULATION ON AUDITOR SWITCHING WITH FINANCIAL DISTRESS AS A MODERATING VARIABLE

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Abstract – This study investigates the influence of going concern audit opinion, audit fees, and income manipulation on auditor switching, with financial distress as a moderating variable, in energy sector companies listed on the main and development boards of the Indonesia Stock Exchange. A total of 46 companies were selected using purposive sampling, resulting in 184 firm-year observations over a four-year period. Data were collected through documentation techniques and analyzed using logistic regression in SPSS version 30. The findings reveal that going concern audit opinions and income manipulation do not significantly affect auditor switching. However, audit fees have a significant positive effect on auditor switching. Furthermore, financial distress moderates the relationship between audit fees and auditor switching, amplifying the likelihood of companies changing auditors when experiencing financial distress. These results highlight the role of financial pressure in audit decision-making processes and indicate that cost considerations become more prominent when companies are under financial strain. The study suggests that regulators and stakeholders should pay closer attention to audit fee arrangements, especially in financially distressed firms, as they may impact auditor independence and the quality of financial reporting.

Keywords: Going Concern Audit Opinion, Audit Fee, Manipulate Income, Financial Distress

I. INTRODUCTION

Public companies listed on the Indonesia Stock Exchange (IDX) are required to publish audited financial statements to uphold transparency and accountability to stakeholders. Independent auditors play a crucial role in ensuring that these reports are reliable and free from material misstatements. However, long-term auditor-client relationships may impair auditor independence, potentially compromising audit quality. In response, Government Regulation No. 20 of 2015 mandates auditor rotation every five years, allowing reappointment only after a two-year break.

Auditor switching can be mandatory due to regulation or voluntary at the discretion of management. Voluntary switches are often influenced by client-side factors such as financial distress, audit fees, and income manipulation (Nadhilah, 2023), as well as auditor-related factors like going concern opinions. These determinants have shown inconsistent results across prior studies (Marisa et al., 2022; Naibaho et al., 2024; Rahmadhani et al., 2023; Yunita, 2022).

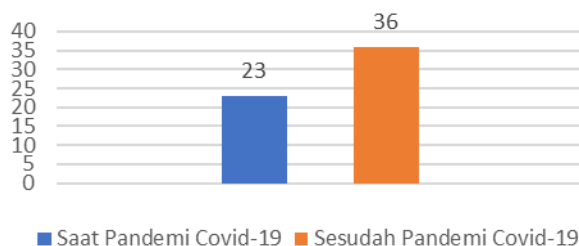


Figure 1. Tendency of Auditor Switching

Source: Data Processed by Researchers (2024)

The trend of auditor switching in Indonesia has shown a noticeable increase in the aftermath of the COVID-19 pandemic. As shown in Figure 1, from 2020 to 2023, there were 46 energy sector companies listed on the IDX. During the pandemic (2020–2021), 23 companies switched auditors. This figure increased to 36 companies in the post-pandemic period (2022–2023), indicating heightened auditor turnover following the economic and operational disruptions caused by the pandemic. This increase suggests that both mandatory and voluntary auditor switching became more prevalent, potentially due to greater financial pressure, regulatory scrutiny, and shifting audit risk assessments in the energy sector. Notable cases also illustrate this phenomenon. In 2018 and 2019, PT Garuda Indonesia replaced its auditor—Tanubrata Sutanto Fahmi Bambang & Partners (BDO affiliate)—with PwC Indonesia following controversy over misstated 2018 financial reports. The company was later required to restate its profit of USD 809 thousand to a loss of USD 175 million, revealing significant accounting irregularities. Similarly, PT Cakra Mineral Tbk switched auditors in 2021 after receiving a disclaimer opinion, which preceded its delisting from the IDX due to persistent financial distress and unresolved liabilities exceeding its total assets.

The energy sector, heavily affected by the pandemic, saw declining coal production, falling commodity prices, and logistical restrictions (Mulyana, 2020). These challenges not only threatened business continuity but also triggered the issuance of going concern opinions, which in turn influenced auditor switching behavior. The sector became the third-highest recipient of going concern opinions, after transportation and consumer cyclical (Shafira et al., 2023).

Against this backdrop, this study aims to examine the effect of going concern audit opinions, audit fees, and income manipulation on auditor switching in energy companies listed on the IDX. It also introduces financial distress as a moderating variable, based on the notion that distressed firms may seek auditors who offer more favorable audit outcomes or lower audit fees (Nasir, 2018). By addressing this issue, the study contributes to a better understanding of auditor switching dynamics during periods of economic uncertainty.

II. LITERATURE REVIEW

Agency Theory

Agency theory describes the contractual relationship between principals (e.g., shareholders) and agents (e.g., company management), where principals delegate authority to agents to act on their behalf (Jensen & Meckling, 1976). Conflicts may arise due to the divergence of interests between the two parties, as managers may prioritize personal gain over shareholder wealth. In the context of auditor switching, agents are responsible for preparing financial statements, which could be subject to bias or manipulation. Therefore, independent auditors serve as a monitoring mechanism to reduce information asymmetry and align managerial behavior with shareholder interests.

When a going concern audit opinion is issued, signaling potential operational risks, management may experience a conflict of interest. To mitigate reputational damage or investor concern, firms may choose to switch auditors. This decision can help restore credibility and reduce agency conflicts, especially when management seeks a more favorable audit opinion.

Going Concern Audit Opinion

According to ISA 570 (IAPI, 2021), auditors are required to assess an entity's ability to continue as a going concern and to express an opinion that reflects this evaluation. Going concern opinions are issued when there is substantial doubt about a company's ability to sustain operations for at least one year from the reporting date. Such opinions often include an emphasis-of-matter paragraph highlighting uncertainties related to financial obligations, liquidity, or operational viability. This opinion may prompt auditor switching as firms seek to avoid the negative implications of such disclosures (Naibaho et al., 2024; Yunita, 2022).

H1: Going concern audit opinion (GCAO) has a positive effect on auditor switching

Audit Fee

Audit fees represent the remuneration received by public accounting firms for their audit services. These fees are typically stipulated in an engagement letter and are influenced by factors such as audit complexity, client risk, required expertise, and time commitment (Agoes, 2018).

Higher audit fees may motivate firms, particularly those under financial strain, to switch auditors in search of more cost-effective alternatives. However, fee reductions should not compromise auditor independence or audit quality. Studies have shown mixed results regarding the relationship between audit fees and auditor switching (Marisa et al., 2022; Rizky et al., 2023).

H2: Audit fee (AF) has a positive effect on auditor switching

Income Manipulation

Income manipulation, or earnings management, occurs when managers alter reported earnings to meet internal targets or influence investor perception. Since earnings are a critical indicator of firm performance, they are susceptible to distortion for personal or strategic reasons. Short-term accruals such as accounts receivable or inventory—are often used in these manipulations, especially when compensation is tied to performance metrics (DeFond, 1992; Healy, 1985).

Management may seek auditor switching to avoid detection by a rigorous or skeptical auditor (Woo & Koh, 2001). New auditors may lack historical context, making it easier for management to obscure prior financial irregularities. However, empirical evidence remains divided on the strength and consistency of this relationship.

H3: Income manipulation (IM) has a positive effect on auditor switching

Financial Distress

Financial distress refers to a company's inability to meet its financial obligations in a timely manner (Brigham & Daves, 2018). It may manifest in several stages, from early signs of deteriorating cash flow to insolvency and eventual bankruptcy. Common indicators include liquidity problems, declining profitability, excessive debt, and loss of stakeholder confidence. Distressed firms are more likely to switch auditors in an attempt to secure a favorable opinion or reduce audit costs, especially when facing heightened scrutiny or regulatory pressure.

H4: Financial distress (FD) can strengthen the effect of going concern audit opinion on auditor switching

Firms in financial distress are also more cost-sensitive. If audit fees become burdensome or negotiations with the auditor fail, management may choose to switch auditors to reduce expenses. Prior studies, Nasir (2018) support the role of financial distress as a moderating factor in the relationship between audit fees and auditor switching.

H5: Financial distress (FD) can strengthen the effect of audit fee on auditor switching

Auditor Switching

Auditor switching refers to the replacement of an existing auditor or public accounting firm with another. This may be mandated by regulations or initiated voluntarily by company management. In Indonesia, Government Regulation No. 20/2015 requires the rotation of individual auditors every five years, particularly for companies in regulated sectors such as banking, insurance, and state-owned enterprises.

Auditor switching is influenced by various client-related factors—such as financial performance, changes in ownership, or dissatisfaction with prior audits—as well as auditor-related factors including audit fee, reputation, and audit quality (Zikra & Syofyan, 2019).

III. METHODS

This study examines the relationship between three independent variables (going concern audit opinion, audit fee, and income manipulation), one moderating variable (financial distress), and one dependent variable (auditor switching). A quantitative approach is used, with secondary data collected from audited financial statements and auditor reports of energy companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023.

This study employs a quantitative approach and applies logistic regression analysis to test the hypotheses. Descriptive statistics are first used to describe the characteristics of each variable. The dependent variable, auditor switching, is measured using a dummy variable (1 if switching occurred, 0 if not). The going concern audit opinion is also measured as a dummy variable. The audit fee is measured as the natural logarithm of the audit fee disclosed in financial statements (Adli & Suryani, 2019). Income manipulation is measured using the ratio of working capital accruals to total assets, following (Larson et al., 2017), and financial distress is measured by the Debt to Asset Ratio (DAR), calculated as total liabilities divided by total assets (Ariyani & Rahmaita, 2024).

Logistic regression is applied to examine how the independent variables influence auditor switching. Furthermore, Moderated Regression Analysis (MRA) is used to assess whether financial distress moderates the effect of the going concern audit opinion and audit fee on auditor switching. Model evaluation is conducted through the Hosmer and Lemeshow test, overall model fit test (-2LogL), and Nagelkerke R Square.

Hypothesis testing is performed at a 5% significance level using p-values. The results aim to determine whether the presence of financial distress strengthens or weakens the relationship between the independent variables and auditor switching.

IV. RESULTS AND DISCUSSION

Tabel 4.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std Deviation
GCAO	184	0	1	,22	,414
AF	184	11,23	17,82	13,8072	1,22902
IM	184	-178,05	155,47	-,6507	21,19250
AS	184	0	1	,44	,498
FD	184	,00	,96	,4508	,22222
Valid N (listwise)	184				

Table 4.1 provides the following descriptive statistics for the study:

The study uses 184 data points from 46 companies, covering the pre- and post-COVID-19 periods (2020-2023). Three variables are included: Going Concern Audit Opinion, Audit Fee (Ln of Company X's Audit Fee), Income Manipulation (proxied by the short-term accruals-to-total-assets ratio), and Financial Distress (measured by the Debt to Asset Ratio, DAR).

Going Concern Audit Opinion: The variable ranges from 0 to 1, with a mean of 0.22 and a standard deviation of 0.414, indicating significant variability.

Audit Fee: The minimum value is 11.23 (PT Perdana Karya Perkasa Tbk, 2020-2021), and the maximum is 17.82 (PT Adaro Energy Indonesia Tbk, 2023). The mean is 13.81, with a standard deviation of 1.23, suggesting low variability.

Income Manipulation: Ranges from -178.05 (PT Darma Henwa Tbk, 2021) to 155.47 (PT Darma Henwa Tbk, 2020). The mean is -0.65, with a high standard deviation of 21.19, indicating high variability. Financial Distress (DAR): The minimum value is 0.00 and the maximum is 0.96, with a mean of 0.45 and a standard deviation of 0.22, indicating low variability.

Table 4.2 Hosmer and Lemeshow's Test

Step	Chi-square	df	Sig.
1	4,439	8	0,815

Based on the Table 4.4, the significance value is 0.815, which is greater than the 5% significance level ($0.815 > 0.05$). Therefore, the null hypothesis (H_0) is accepted, indicating that the model is suitable for predicting observations effectively.

Tabel 4.3 Beginning -2 Log Likelihood (-2LL) (Blok Number = 0)

Iteration History^{a,b,c}

Iteration	-2 Log likelihood	Coefficients Constant
Step 0 1	212,261	-0,369
2	212,261	-0,374
3	212,261	-0,374

Tabel 4.4 Ending -2 Log Likelihood (-2LL) (Blok Number = 1)

Iteration History^{a,b,c}

Iteration		-2 Log likelihood	Constant	Coefficients			
				GCAO	AF	MI	FD
Step 0 1	1	210,230	-1,606	0,310	0,074	-0,006	0,0291
	2	210,220	-1,670	0,321	0,078	-0,007	0,301
	3	210,220	-1,671	0,321	0,078	-0,007	0,310

Tabel 4.5 Compare Beggining -2LL and Ending -2LL

Block Number = 0	Block Number = 1	Description
212,261	210,220	Fitted

The -2 Log Likelihood (LL) values show an initial value of 212.261 and a final value of 210.220 after adding independent variables. This decrease in -2LL suggests that the model fits the data well and that the inclusion of independent variables improves model fit.

Tabel 4.6 Hasil Koefisien Determinasi (Negalkerke R Square)

Step	-2 Log Likelihood	Cox & Snell R Square	Nagelkerke R Square
1	210,220 ^a	0,084	0,210

Table 4.6 presents a Nagelkerke R^2 of 0.210, indicating that the independent variables explain 21% of the variability in the dependent variable. The remaining 79% is influenced by factors not included in the model.

Tabel 4.7 Logistic Regression

Variables in the Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 ^a	GCAO	0,321	0,374	0,738	1	0,390	1,378
	AF	0,078	0,142	0,300	1	0,038	1,081
	IM	-0,007	0,008	0,618	1	0,142	0,993
	FD	0,301	0,787	0,146	1	0,702	1,351
	Constant	-1,671	1,918	0,758	1	0,384	0,188

a. Variable(s) entered on step 1: GCAO, AF, IM, FD.

The regression results show that the positive coefficient for going concern audit opinions (0.321) is not significant, as the p-value of 0.390 is greater than 0.05, leading to the rejection of H1. For audit fees, the negative coefficient (-0.078) is significant ($p = 0.038, < 0.05$), confirming a positive relationship with auditor switching, so H2 is accepted. The income manipulation variable, with a coefficient of -0.007 and a p-value of 0.142 (greater than 0.05), is not significant, leading to the rejection of H3.

Tabel 4.8 Moderated Regression Analysis (MRA)

Variables in the Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 ^a	GCAO	-0,220	0,896	0,060	1	0,806	0,803
	AF	0,167	0,348	0,230	1	0,632	1,181
	IM	-0,007	0,008	0,645	1	0,422	0,993
	FD	3,026	9,215	0,108	1	0,743	20,612
	GCAO*FD	1,226	1,763	0,484	1	0,487	3,408
	AF*FD	0,222	0,676	0,108	1	0,042	0,801
	Constant	-2,737	4,705	0,338	1	0,561	0,065

b. Variable(s) entered on step 1: GCAO, AF, IM, FD, GCAO*FD, AF*FD

The interaction between financial distress and going concern opinions shows a positive coefficient (1.226), but the p-value of 0.487 (greater than 0.05) indicates no significant effect, resulting in the rejection of H4. In contrast, the interaction between financial distress and audit fees has a significant positive coefficient (0.222) with a p-value of 0.042 (less than 0.05), supporting H5 and suggesting that financial distress strengthens the relationship between audit fees and auditor switching.

V. CONCLUSION

1. The going concern audit opinion has no effect on auditor switching.
2. Audit fees have a positive effect on auditor switching.
3. Income manipulation has no effect on auditor switching.
4. Financial distress does not strengthen the effect of the going concern audit opinion on auditor switching.
5. Financial distress can strengthen the effect of audit fees on auditor switching

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