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The Effect of Auditor Turnover, Financial Distress, and Audit Delays on Audit Quality in Pharmaceutical Manufacturing Companies Listed on the Indonesia Stock Exchange (2020-2023)

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ABSTRACT
This study examines the influence of auditor switching, financial distress, and audit delay on audit quality in pharmaceutical manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period. The issue of audit quality gained heightened attention following the investigative findings of Indonesia's Supreme Audit Board (BPK) on PT Indofarma Tbk, which revealed significant financial irregularities despite the issuance of clean audit opinions by the same public accounting firm. Using a quantitative approach and secondary data obtained from audited annual reports, the study analyzes 44 firm-year observations drawn from 11 companies that met the sampling criteria. Logistic regression is employed to evaluate whether the independent variables significantly influence the likelihood of receiving a high-quality audit, measured through Big Four affiliation. The findings show that auditor switching and audit delay do not significantly affect audit quality, indicating that changes in audit firms and variations in audit completion time do not determine the rigor of audit outcomes. Conversely, financial distress demonstrates a significant negative effect, suggesting that firms facing higher financial pressure receive lower audit quality, potentially due to increased risk perceptions and stricter auditor scrutiny. These results contribute to the literature by providing updated empirical evidence from a highly regulated and vulnerable industrial subsector. The study offers theoretical reinforcement for agency theory and practical insights for regulators, auditors, and corporate management regarding factors that may influence audit quality reliability.

Keywords: Audit Quality, Auditor Switching, Financial Distress, Audit Delay, Pharmaceutical Industry.
JEL Code: M41, M42, G30, G32, C12

I. Introduction

Audit quality plays a critical role in strengthening the credibility of financial reporting and maintaining the integrity of capital markets. For publicly listed companies, particularly those traded on the Indonesia Stock Exchange (IDX), audited financial statements serve as a fundamental reference for investors, creditors, regulators, and other stakeholders in making economic decisions. High-quality audits ensure that

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financial reports are reliable, transparent, and free from material misstatements, thereby fostering market confidence and supporting healthier economic environments. Conversely, inadequate audit quality undermines the trustworthiness of financial information and potentially exposes stakeholders to misjudgment and financial risk. Hence, the effectiveness, independence, and competence of auditors remain central determinants of the quality and usefulness of audited financial statements.

The recent case involving PT Indofarma Tbk, a well-known pharmaceutical manufacturer in Indonesia, underscores the urgency of examining audit quality in contemporary corporate settings. The Supreme Audit Board of Indonesia (Badan Pemeriksa Keuangan, BPK) conducted an investigative audit covering fiscal years 2020 through the first half of 2023 and uncovered indications of financial irregularities that contributed to an estimated state loss of IDR 371.8 billion. These findings emerged despite the company having been audited consistently by the same Public Accounting Firm (Kantor Akuntan Publik, KAP), Kreston HHES, which issued unmodified audit opinions in both 2020 and 2021. The contradiction between the clean audit opinions provided by Kreston HHES and the subsequent detection of fraud by BPK raises fundamental concerns regarding the effectiveness of external audits, the independence of auditors, and the factors that may impair audit quality within publicly listed firms.

Indofarma's financial performance during this period further exacerbates these concerns. The company reported declining profitability beginning in 2020, followed by significant losses in 2021 and 2022, and continuing into the first semester of 2023. Despite these deteriorating financial indicators—which ideally should heighten auditor skepticism—the external audits failed to identify material irregularities later revealed by regulatory investigation. This situation highlights potential vulnerabilities in the audit process, including auditor-client familiarity, reduced independence, insufficient risk assessment, or delayed detection of corporate financial distress. As a result, public trust in the reliability of audited financial statements and auditor professionalism has been disrupted, amplifying the importance of understanding the determinants of audit quality within this industry context.

Audit quality is influenced by a wide range of factors, both internal and external to the auditing process. Prior research identifies auditor switching, financial distress, and audit delay as among the most common determinants. Auditor switching refers to a company's decision to change its external auditor or audit firm. According to Rakha and Sofia (2022), auditor switching is often motivated by independence concerns, audit fee considerations, or dissatisfaction with prior audit services. Long audit engagements may lead to reduced auditor independence and heightened familiarity risks, which could compromise audit quality. However, empirical findings related to auditor switching remain inconsistent. For instance, Budiantoro et al. (2021) found a negative effect of auditor switching on audit quality, suggesting that the learning curve for new auditors may hinder thorough examination of client financial statements. In contrast, Rakha and Sofia (2022) reported a positive relationship, indicating that new auditors may provide more objective assessments. These conflicting results reflect the need for further empirical validation, particularly in industries with higher risk profiles, such as pharmaceuticals.

Financial distress is another factor often linked to changes in audit quality. Financial distress describes a condition in which a firm faces significant difficulty in meeting its financial obligations due to liquidity constraints, declining profitability, or deteriorating operational performance (Syafanisa Lizara & Subiyanto, 2022). Firms experiencing financial distress may have stronger incentives to manipulate earnings or conceal unfavorable financial information, which poses additional challenges for auditors. Empirical evidence regarding this relationship also varies. Syafanisa Lizara and Subiyanto (2022) reported that financial distress has a significant negative effect on audit quality, suggesting that distressed firms are more likely to receive lower-quality audits, possibly due to increased audit complexity. Meanwhile, Rahman (2021) found the opposite, indicating a significant positive effect, implying that auditors might adopt stricter procedures when auditing distressed firms. These inconsistencies again signal a gap that warrants further investigation.

Audit delay, defined as the length of time required for auditors to complete the audit process from the company's fiscal year-end to the issuance date of the audit report, is also considered an important indicator of audit quality. Longer audit delays are often interpreted as signals of audit complexity, potential

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internal control weaknesses, or financial reporting issues. Rizal and Yohanes Riky (2023) argue that prolonged audit delays can diminish the relevance and timeliness of financial information, thus impairing audit quality. Prior empirical studies similarly reveal contradictory findings. Darmawan (2021) identified a negative influence of audit delay on audit quality, while Sinaga et al. (2021) demonstrated a positive effect, suggesting that longer audit periods may reflect more thorough audit procedures. These inconsistent outcomes highlight the need for more context-specific examinations.

Given these discrepancies in the existing literature, a research gap clearly exists, especially within the pharmaceutical subsector of Indonesia's manufacturing industry. Previous studies have frequently examined audit quality determinants in the broader manufacturing sector or across various industries but have rarely focused exclusively on the pharmaceutical subsector, which possesses distinct characteristics such as higher regulatory scrutiny, complex supply chains, and heightened financial risk—particularly during and after the COVID-19 pandemic. Moreover, most prior research employed data covering periods before 2020, whereas the period 2020–2023 provides more contemporary insights, especially considering the financial turbulence experienced by pharmaceutical firms due to pandemic-related procurement, operational disruptions, changes in demand, and increased regulatory oversight. This study seeks to address these gaps by analyzing the influence of auditor switching, financial distress, and audit delay on audit quality among pharmaceutical manufacturing companies listed on the Indonesia Stock Exchange for the period 2020–2023. By integrating these three variables within a single empirical framework, the study contributes to existing literature by offering a more comprehensive perspective on factors influencing audit quality in a critical and highly regulated industry. The findings are expected to enhance theoretical understanding of audit quality determinants, provide practical insights for regulators and audit practitioners, and strengthen investor confidence in audited financial statements from this subsector.

II. Literature Review and Hypothesis Development

2.1. Agency Theory

Agency theory provides the foundational framework for understanding the relationship between shareholders (principals) and managers (agents) in modern corporations. According to Dinillah and Djamil (2024), agency theory explains how conflicts arise when managers possess more information about the firm's operations than principals, leading to information asymmetry and potential opportunistic behavior. To mitigate these issues, principals employ external auditors as independent third parties to evaluate the accuracy of financial statements prepared by management. Independent auditors help reduce agency costs by detecting fraud, preventing misstatements, and ensuring that financial information adheres to established accounting standards. Through this monitoring function, auditors strengthen the credibility of financial reporting and support rational investment decisions. However, agency problems may also occur in the auditor–client relationship when auditors become economically dependent on clients, creating risks of compromised independence. Dinillah and Djamil (2024) emphasize that such dependence can weaken professional skepticism, especially during long audit engagements, thereby reducing audit quality. Consequently, agency theory is closely tied to determinants of audit quality, such as auditor switching, financial distress, and audit delay.

2.2. Audit Quality

Audit quality refers to the degree to which an audit can detect material misstatements and accurately report them in the audited financial statements. Pamungkas et al. (2022) define audit quality as the probability that auditors uncover and disclose violations within a client's accounting system while adhering to ethical and professional audit standards. Rakha and Sofia (2022) similarly describe audit quality as the alignment of audit processes with predetermined auditing principles, emphasizing competence, independence, and rigorous

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evaluation of evidence. Mulyadi (2019) highlights that audit quality reflects a systematic and objective examination of economic activities to assess their conformity with established criteria. One common proxy for audit quality is the size of the audit firm. In Indonesia, the Big Four audit firms—Ernst & Young, Deloitte, KPMG, and PwC—are widely perceived as delivering higher-quality audits due to extensive training, strong reputational incentives, and global audit methodologies. Research frequently measures audit quality using a dummy variable, where companies audited by Big Four firms receive a value of 1 and those audited by non-Big Four firms receive a value of 0 (Rakha & Sofia, 2022). This proxy reflects the expectation that larger firms face greater reputational risk and are therefore more inclined to perform accurate and independent audits.

2.3. Auditor Switching

Auditor switching refers to a company's decision to replace its external auditor, either due to regulatory mandates or managerial discretion. Mulyadi (2017) explains that auditor switching may occur because of disagreements concerning financial statement presentation or disclosure. Voluntary switching is often driven by dissatisfaction with audit fees, audit quality, or a desire for a more accommodating auditor. Rakha and Sofia (2022) identify two broad categories of determinants: client-related factors—such as financial difficulties, changes in management or ownership, and initial public offerings (IPO)—and auditor-related factors, including audit fee considerations and perceived audit quality. From an agency perspective, switching may enhance independence by reducing the familiarity threat that arises from long audit tenures. However, it may also create short-term declines in audit quality because newly appointed auditors lack client-specific knowledge and require time to understand internal controls and operational complexities. Empirical findings in prior studies remain inconclusive, reflecting both beneficial and detrimental effects of auditor switching. Measurement of auditor switching typically involves a dummy variable coded 1 for firms that change auditors and 0 for those that do not (Mulyadi, 2017).

2.4. Financial Distress

Financial distress represents a condition in which a firm struggles to meet its financial obligations or experiences declining operational performance. Arifin (2018) defines financial distress as a situation where a company's operating cash flows are insufficient to satisfy current obligations, such as credit repayments or interest expenses, prompting corrective actions such as restructuring or asset liquidation. According to Syafanisa Lizara and Subiyanto (2022), financial distress may motivate managers to manipulate earnings or present overly optimistic financial statements to obscure underlying problems. This creates additional challenges for auditors, who must exercise heightened skepticism when assessing distressed firms. Although financial distress does not always lead to bankruptcy, it is widely considered an early warning stage preceding potential insolvency. To measure financial distress, many studies employ the debt-to-equity ratio (DER), which compares the firm's total liabilities to its total equity (Arifin, 2018). Higher DER values generally signal elevated financial risk and increased audit complexity, potentially influencing the quality of audit outcomes.

2.5. Audit Delay

Audit delay is defined as the time lag between the end of a company's fiscal year and the issuance date of the independent auditor's report. Prolonged audit delays may reduce the relevance, reliability, and timeliness of financial information made available to stakeholders. Rizal and Yohanes Riky (2023) argue that longer audit delays are often associated with internal control weaknesses, audit complexity, or operational inefficiencies. Additionally, delays may arise when auditors require more time to gather sufficient and appropriate evidence, particularly for firms experiencing financial irregularities or reporting challenges. In Indonesia, regulatory standards require that audited financial statements be completed within 90 days after year-end; issuing audit reports beyond this deadline reflects audit delay. Rakha and Sofia (2022) highlight that

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audit delay is typically measured as the number of days between December 31 and the audit report date, and is frequently operationalized using a dummy variable, where 1 indicates the presence of audit delay and 0 otherwise. Audit delay serves not only as an output measure of audit timeliness but also as a potential signal of deeper financial or operational issues within the firm.

2.6. Hypothesis Development

A hypothesis or basic assumption is a provisional answer to a research problem, which remains tentative because its truth must still be verified. Such a proposed answer is temporary in nature and will be tested for validity using data collected through empirical research.

H1: Auditor switching has an effect on audit quality in pharmaceutical manufacturing companies listed on the Indonesia Stock Exchange (IDX).
H2: Financial distress has an effect on audit quality in pharmaceutical manufacturing companies listed on the Indonesia Stock Exchange (IDX).
H3: Audit delay has an effect on audit quality in pharmaceutical manufacturing companies listed on the Indonesia Stock Exchange (IDX).

III. Research Method

This study employs a quantitative research approach, which emphasizes the analysis of numerical data and statistically measurable relationships among variables. Quantitative research enables the discovery of empirical patterns through systematic measurement, statistical testing, and model estimation. The data used in this study are secondary in nature and were obtained indirectly through publicly available sources, specifically the audited annual financial statements published on the official website of the Indonesia Stock Exchange (www.idx.co.id). To examine the influence of auditor switching, financial distress, and audit delay on audit quality, this study applies panel data regression using logistic regression analysis, which is appropriate for models involving dichotomous dependent variables.

The research was conducted using data from pharmaceutical manufacturing companies listed on the Indonesia Stock Exchange. Although the institutional context of the study was associated with the Investment Gallery of STIEM Bongaya Makassar, the data analysis itself focuses exclusively on financial information disclosed by firms during the 2020–2023 period. The study was designed to be completed within three months in 2025, covering stages of data collection, sample selection, coding, statistical processing, and interpretation. The population in this study consists of all pharmaceutical manufacturing firms listed on the Indonesia Stock Exchange from 2020 to 2023. Based on purposive sampling— a non-probability sampling technique that selects samples according to predetermined criteria—only firms that published complete annual financial statements and provided all data required for the study variables were included. From an initial population of 13 companies, 2 firms were excluded for incomplete disclosures, resulting in a final sample of 11 firms. Given the four-year observation period, the study generated 44 firm-year observations for analysis.

Data for this research were obtained through documentation techniques, involving systematic collection and review of secondary data such as annual reports, auditor information, audit report dates, and financial indicators related to leverage and audit timeliness. All variables were operationalized using established measurements validated by prior literature. Auditor switching (X1) was measured using a dummy variable coded 1 if a company changed its external auditor from the previous year, and 0 otherwise (Mulyadi, 2017). Financial distress (X2) was measured using the Debt-to-Equity Ratio (DER), calculated as total liabilities divided by total equity and multiplied by 100 percent, following Arifin (2018). Audit delay (X3) was measured using a dummy variable coded 1 if the audit report lag exceeded 90 days after the fiscal year-end, and 0 if completed within the regulatory timeframe (Rizal & Yohanes Riky, 2023). Audit quality (Y) served as the

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dependent variable and was measured using a dummy variable coded 1 for firms audited by Big Four auditors and 0 for firms audited by non-Big Four firms (Pamungkas et al., 2022; Rakha & Sofia, 2022).

Analytical procedures began with descriptive statistical analysis to summarize the characteristics of the variables, including minimum, maximum, mean, and standard deviation values (Ghozali, 2021). Logistic regression analysis was then employed to examine the probability of a firm receiving a high-quality audit based on the independent variables. Logistic regression is appropriate because the dependent variable is dichotomous, and the method does not require the assumptions of normality or homoscedasticity typically associated with linear regression models. The logistic regression model used in this study is expressed as:

$$\ln\left(\frac{P}{1-P}\right) = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + e$$

where $P$is the probability of receiving a high-quality audit, $\alpha$is the constant, $b_i$represents the regression coefficients, and $e$is the error term. Model evaluation was conducted through several goodness-of-fit assessments. The likelihood ratio test, using the −2 Log Likelihood (−2LL), was used to compare the initial model with the final model to determine overall fit. A decreasing −2LL value indicates that the model better fits the observed data. Hosmer and Lemeshow's Goodness-of-Fit Test was used to assess whether the predicted probabilities were consistent with the actual outcomes. A significance value greater than 0.05 indicates that the model adequately fits the data. The study also assessed the model's explanatory power using Nagelkerke's R-square, which provides an adjusted measure of how much variance in audit quality can be explained by the independent variables.

Hypothesis testing was conducted using the Wald test, which examines the significance of each regression coefficient individually. A p-value below 0.05 indicates that the respective independent variable has a statistically significant effect on audit quality. Through this combination of descriptive analysis, model estimation, and hypothesis testing, the methodological framework ensures rigorous empirical examination of the relationships among auditor switching, financial distress, audit delay, and audit quality in pharmaceutical manufacturing firms listed on the Indonesia Stock Exchange.

IV. Results and Discussion

4.1. Research Result

a. Descriptive Statistical Analysis

Descriptive statistical analysis is used to analyze by describing or depicting the collected data as it is without the intention of drawing general conclusions or generalizations. The descriptive table in this study is as follows:

Table 1. Descriptive Analysis Results

N	Minimum	Maximum	Mean	Standard Deviation	
Auditor Switching	44	.00	1.00	.0227	.15076
Financial distress	44	.15	3.82	.8414	.81974
Audit delay	44	.00	1.00	.1591	.36999
Valid N (listwise)	44				

Based on the table above, it shows that the Auditor switching variable (X1) has a minimum value of 0.00, a maximum value of 1.00 and an average value of 0.0227 with a standard deviation of 0.15076. This shows that the distribution of data for all Auditor switching variables can be said to be less good because the standard deviation value is greater than the average value. Furthermore, the Financial distress variable (X2) has a minimum value of 0.15, a maximum value of 3.82, and an average value of 0.8414 with a standard deviation of 0.81974. This shows that the distribution of data for all Financial distress variables can be said to

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be good because the average value is greater than the standard deviation. Furthermore, the Audit delay variable (X3) has a minimum value of 0.00, a maximum value of 1.00, and an average value of 0.1591 with a standard deviation of 0.36999. This indicates that the distribution of data for all Audit delay variables can be said to be less than good because the standard deviation value is greater than the average value.

b. Assessing the overall model fit

This test is used to see whether the hypothesized model fits the data or not. By comparing the values between. -2 log likelihood (-2LL) at the beginning (Block Number = 0) with a value of -2 log likelihood (-2LL) at the end (Block Number = 1). If there is a decrease in the value between -2LL at the beginning (Block Number = 0) and the value of -2LL at the end (Block Number = 1), it indicates that the hypothesized model fits the data. The results of the model fit test can be seen in the following table:

Table 2. Log Likelihood Block 0

Coefficients			
Iteration		-2 Log likelihood	Constant
Step 0	1	60,633	.182
	2	60,633	.182

Table 3. Log Likelihood Block 1

Iteration History a, b, c, d						
Coefficients						
Iteration		**-2 Log likelihood**	**Constant**	**Auditor Switching**	**Financial distress**	**Audit Delay**
Step 1	1	42,366	1,379	.897	-1,381	-.350
	2	37,448	2,163	1,476	-2,519	-.700
	3	36,351	2,653	2,191	-3,325	-.936
	4	36,265	2,800	3.113	-3,595	-.981
	5	36,258	2,812	4.112	-3,619	-.982
	6	36,255	2,812	5.114	-3,619	-.982
	7	36,254	2,812	6,114	-3,619	-.982
	8	36,254	2,812	7.115	-3,619	-.982
	9	36,254	2,812	8.115	-3,619	-.982
	10	36,254	2,812	9.115	-3,619	-.982
a. Method: Enter						
b. Constant is included in the model.						
c. Initial -2 Log Likelihood: 60,633						
d. Estimation terminated at iteration number 10 because maximum iterations has been reached. Final solution cannot be found.						

Based on tables 2 and 3 above, it shows a comparison between the values of -2LL block 0 and -2LL block 1. From the calculation results. The 2LL value shows that the value of the first block (Block Number = 0) is 60,633 and the -2LL value in the second block (Block Number = 1) is 36,254. With these results, it can be concluded that the second regression model is better, because there is a decrease in value from the first block to the second block.

c. Testing the feasibility of the regression model

This test is carried out using the Goodness of fit test which is measured by looking at the significance in the Hosmer and Lemeshow Test table as follows:

Table 4. Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	6,401	8	.602

Based on table 4 above, it can be seen that the Chi-square value of the study is 6.401 and the sig value is 0.602. A significance value greater than 0.05 indicates that Ho is accepted and there is no difference between the predicted and observed classifications. Therefore, the logistic regression model can be used for further analysis.

d. Logistic Regression Analysis Results

The following are the results of the logistic regression test to determine the coefficients for each variable, which can be seen in the following table.

Table 5. Logistic Regression ResultsVariables in the Equation

B			SE	Wald	df	Sig.	Exp(B)
Step 1a	Auditor Switching	9.115	270,820	.001	1	.973	9089.487
	Financial distress	-3,619	1,194	9,182	1	.002	.027
	Audit delay	-.982	1.125	.762	1	.383	.374
	Constant	2,812	.849	10,967	1	.001	16,641

Variable(s) entered on step 1: Auditor Switching, Financial distress, Audit delay. Based on the results of logistic regression processing in the table above, the following equation is obtained:

$$Ln\ (P1-p) = 2.812 + 9.115X1 - 3.619X2 - 0.982X3$$ This means:

1) The constant value of 2.812 means that if the coefficient of the independent variable is ignored, then the probability that a company will improve its audit quality is 2.812.
2) The coefficient of the Auditor switching variable is 9.115, meaning that an increase of 1 unit will cause audit quality to increase by 9.115 or vice versa.
3) The coefficient of the Financial distress variable is -3.619, meaning that an increase of 1 unit will cause a decrease in audit quality of -3.619 or vice versa.
4) The audit delay variable coefficient of -0.982 means that an increase of 1 unit will cause a decrease in audit quality of -0.982.

e. Wald test

This test was conducted to determine whether each independent variable, namely Auditor switching, financial distress and audit delay, had an influence on the dependent variable, namely Audit Quality. Partial audit. If the sig value is <0.05, it can be concluded that the independent variable partially influences the dependent variable. Conversely, if the sig value is >0.05, the independent variable partially does not influence the dependent variable. The results of the Wald test can be seen in the following table:

Table 6. Wald Test Variables in the Equation

B			SE	Wald	df	Sig.	Exp(B)
Step 1a	Auditor Switching	9.115	270,820	.001	1	.973	9089.487
	Financial distress	-3,619	1,194	9,182	1	.002	.027
	Audit delay	-.982	1.125	.762	1	.383	.374
	Constant	2,812	.849	10,967	1	.001	16,641

Based on table 6 above, it can be explained as follows:

1) The constant of 2.812 means that if the coefficients of other independent variables are ignored, the probability of an audit quality will increase by 2.812.
2) Auditor switching shows a coefficient value of 9.115 with a significance level of 0.973, which is greater than 0.05. This indicates that auditor switching has no partial and significant effect on audit quality. Therefore, H1 in this study can be rejected.
3) Financial distress shows a coefficient value of -3.619 with a significance level of 0.002, which is less than 0.05. This indicates that financial distress partial has a negative and significant effect on audit quality. Thus, it can be said that H2 in this study is accepted.
4) Audit delay shows a coefficient value of -0.982 with a significance level of 0.383, which is greater than 0.05. This indicates that audit delay has no partial and insignificant effect on quality. Therefore, H3 in this study can be rejected.

f. Coefficient of Determination (Nagelkerke's R Square)

This test was conducted to determine the extent to which the combination of independent variables, namely Auditor switching, Financial distress, and Audit delay, is able to explain the dependent variable, namely Audit quality. The results of the determination coefficient test (Nagelkerke's R Square) can be seen in the following table:

Table 7. Coefficient of Determination

Model Summary			
Step	**-2 Log likelihood**	**Cox & Snell R Square**	**Nagelkerke R Square**
1	36,254a	.425	.569

Based on table 7 above, the Nagelkerke R Square value is 0.569 (56%) and the Cox & Snell R Square value is 0.425 (42%). So the independent variables, namely Auditor switching, Financial distress and Audit delay, are able to explain the dependent variable, namely Audit quality, by 56%, while the rest is explained by other factors.

4.2. Discussion

a. The Influence of Auditor Switching on Audit Quality in Pharmaceutical Subsector Manufacturing Companies Listed on the Indonesian Stock Exchange.

Based on the hypothesis testing conducted in this study, the coefficient value for the Auditor Switching variable was 9.115 with a significance level of 0.973, which is greater than 0.05. This indicates that Auditor Switching does not have a significant effect on Audit Quality. In other words, there is no meaningful relationship between changes in auditors and the level of audit quality provided. Whether a company frequently changes its auditor or maintains the same auditor over time does not necessarily influence the quality of the audit received. Auditor switching does not automatically lead to a decline in audit quality, nor does it guarantee improvement. An examination of the Auditor Switching data and Audit Quality data further supports this finding. During the 2020–2023 period, most pharmaceutical companies listed on the IDX that engaged in auditor switching continued to select Non–Big Four audit firms. Only a small number transitioned to or from Big Four firms. This pattern indicates that auditor switching within this subsector does not typically involve changes between Big Four and Non–Big Four auditors, the basis on which audit quality is measured in this study. Consequently, the lack of variation in auditor type helps explain why auditor switching did not show a significant effect. These findings are consistent with Darmawan (2021), who reported that auditor switching does not significantly affect audit quality. However, they contradict Rakha and Sofia (2022), whose results suggest that auditor switching does influence audit quality.

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b. The Influence of Financial Distress on Audit Quality in Pharmaceutical Manufacturing Companies Listed on the Indonesia Stock Exchange

The hypothesis testing results show that the Financial Distress variable has a coefficient value of –3.619 with a significance level of 0.002, which is lower than 0.05. This indicates that Financial Distress has a significant negative effect on Audit Quality. These results imply that a higher level of financial distress—reflecting a company's decreasing ability to meet its short-term obligations—is an important factor influencing the auditor's assessment of audit quality. A company experiencing financial distress increases the auditor's concern regarding its ability to continue as a going concern. As financial distress intensifies, auditors tend to apply stricter evaluation procedures, which may lead to lower audit quality assessments or greater caution in issuing favorable audit opinions. These findings are consistent with Yuliyani and Sumunar (2023), who found that financial distress significantly affects audit quality. However, they contradict the results of Damayanty (2022), who reported no significant influence of financial distress on audit quality.

c. The Influence of Audit Delay on Audit Quality in Pharmaceutical Manufacturing Companies Listed on the Indonesia Stock Exchange

The hypothesis testing results indicate that the Audit Delay variable has a coefficient value of –0.982 with a significance level of 0.383, which is higher than 0.05. This means that Audit Delay does not have a significant effect on Audit Quality. The duration of time required by auditors to complete the annual audit does not influence the auditor's assessment of audit quality. In other words, longer or shorter audit completion times do not determine whether the audit will be performed by a Big Four or Non–Big Four firm, nor do they influence the level of audit rigor applied. Analysis of the Audit Delay data and Audit Quality data also supports this conclusion. The variation in audit delay (total days of audit completion) among pharmaceutical companies appears relatively small and does not follow a pattern corresponding to audit quality. For instance, some companies experienced long audit delays but were still audited by Big Four firms, while others with shorter audit delays were audited by Non–Big Four firms. This lack of a consistent pattern suggests that audit delay is not a determining factor in audit quality within this subsector. These findings align with Rakha and Sofia (2022), who found that audit delay does not significantly affect audit quality, but contradict Harianja and Sinaga (2022), who reported a significant influence of audit delay on audit quality.

V. Conclusion

The results of this study provide empirical evidence regarding the influence of auditor switching, financial distress, and audit delay on audit quality in pharmaceutical manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2023 period. The findings indicate that auditor switching does not have a significant effect on audit quality, suggesting that the replacement of audit firms—whether frequent or infrequent—does not necessarily determine the rigor or quality of the audit work. Financial distress, however, demonstrates a significant negative effect on audit quality, implying that firms experiencing deteriorating financial conditions are more likely to receive lower audit quality assessments. Conversely, audit delay is found to have no significant impact on audit quality, indicating that the length of time required to complete the audit does not inherently reflect differences in audit rigor or auditor competence within this subsector.

Theoretically, this study reinforces the relevance of agency theory by showing that financial distress reflects heightened agency risk, thereby influencing how auditors evaluate their clients. The significant negative effect of financial distress on audit quality highlights the auditor's increased skepticism when assessing firms with weakened financial positions. From a managerial perspective, the results emphasize the importance for corporate leaders to maintain strong financial health and transparent financial reporting practices, as distress signals may trigger stricter audit scrutiny. Additionally, the lack of significant effects from auditor switching and audit delay suggests that managerial decisions regarding auditor rotation or audit timing should be based on strategic considerations rather than expectations of audit quality differences.

Regulators may also interpret these findings as an indication that audit firm size and perceived timeliness do not fully capture the complexities of audit quality in specialized industries such as pharmaceuticals.

This study has several limitations that should be acknowledged. The sample is limited to 11 pharmaceutical manufacturing companies over a four-year observation period, which may restrict the generalizability of the findings across other sectors or longer time horizons. The study also uses a limited set of independent variables and relies on proxy measurements—such as Big Four affiliation—to represent audit quality, which may not capture the full multidimensional nature of audit quality. Future research could expand the sample size, include additional industries, or incorporate longer time periods to improve external validity. Researchers are also encouraged to add other relevant variables such as audit tenure, corporate governance mechanisms, earnings management indicators, or auditor industry specialization to further deepen the analysis. Moreover, the use of alternative audit quality metrics or mixed-method approaches may provide more comprehensive insights into how audit quality is shaped within different organizational and regulatory contexts.

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