Ilomata International Journal of Tax and Accounting

OPEN ACCESS

RECEIVED 21 February 2026
ACCEPTED 2 April 2026
PUBLISHED 30 April 2026

CITATION
Vasini NNN, Susilowati D, (2026). The Effect of External Audit Quality, Auditor Reputation, and Auditor Rotation on the Financial Performance of Conventional Banks in Indonesia. Ilomata International Journal of Tax and Accounting. 7 (2), 1-13.
doi: 10.61194/ijtc.v7i2.2207

TYPE Original Research
PUBLISHED 30 April 2026
DOI 10.61194/ijtc.v7i2.2207
VOL 7 Issue 2 April 2026

The Effect of External Audit Quality, Auditor Reputation, and Auditor Rotation on the Financial Performance of Conventional Banks in Indonesia

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Abstract

This study examines the impact of external audit quality, auditor reputation, and auditor rotation on the financial performance of conventional banks in Indonesia. A panel data regression approach is applied to a sample of 28 conventional banks listed on the Indonesia Stock Exchange from 2020 to 2024, yielding 140 bank-year observations, and a Random Effects Model is used as the estimator. Bank financial performance is proxied by return on investment (ROI), measured as net profit after tax divided by total earning assets, as these assets represent the primary source of bank income and reflect the effectiveness of core banking asset management. External audit quality is proxied by the number of OJK-licensed Public Accountants within a Public Accounting Firm; auditor reputation is measured by the auditor's sanction history; and auditor rotation is defined as changes in Public Accountants within the same firm. The results show that external audit quality is positively associated with bank financial performance (☐ = 0.0016), while auditor reputation is also positively associated (☐ = 0.0012). In contrast, auditor rotation shows a negative association (☐ = -0.0019). The strongest positive coefficient is found in external audit quality, whereas auditor rotation shows the strongest effect in absolute magnitude. These findings support Agency Theory by emphasizing the role of external auditing as a monitoring mechanism to reduce information asymmetry. This study contributes methodologically by introducing auditor-level proxies within the OJK regulatory framework and offers practical implications for regulators and Public Accounting Firms in strengthening supervisory effectiveness in the banking sector.

KEYWORDS

external auditor, banking sector, financial performance, regulatory oversight.

Introduction

The banking industry constitutes a fundamental pillar of national financial stability. Strong bank financial performance is a key indicator of effective risk management, operational efficiency, and public trust in financial institutions (Mahesa et al., 2025). In the context of a closely monitored banking industry, bank financial performance is assessed not only by profitability but also by the efficient utilization of economic resources, particularly in fund management and the management of total earning assets invested in lending and investment activities, under a regulatory oversight governance framework (Amalia et al., 2024).

The stability of the national financial system is significantly influenced by the banking sector's ability to prudently manage funds and total earning assets. From a Good Corporate Governance perspective, the management of funds and total earning assets not only aims to maintain financial performance but also serves as a risk control mechanism and enforces managerial accountability (Nurmansyah, 2024). Based on agency theory, GCG helps mitigate conflicts of interest and information asymmetry (Singh, 2025). Therefore, the government has implemented various policies to

strengthen liquidity and performance in the banking industry (Bank Indonesia, 2025), including large-scale placements of government funds across several banks, thereby increasing demand for transparency and reliable financial reporting (Kemenkeu, 2025). This situation underscores the external audit's role as an oversight mechanism in banking governance, ensuring that financial information is presented fairly and in a manner that is accountable. Corporate governance principles developed in the agency literature are applied more stringently in the banking sector due to its high-risk profile (Kim, 2022).

The implementation of governance principles in the Indonesian banking sector is supervised by the Financial Services Authority (OJK), as regulated by POJK 13/POJK.03/2017 and POJK 9/POJK.03/2023 (Otoritas Jasa Keuangan, 2017a, 2023b). These regulations govern auditor competency standards, licensing obligations, and assignment periods to maintain auditor independence. While audits are institutionally affiliated with Public Accounting Firms (KAP), the responsibility for ensuring audit quality ultimately lies with the Public Accountant (AP) who signs the report and oversees the examination of the bank's financial statements. This regulatory structure demonstrates that the effectiveness of monitoring in Indonesian banking does not depend solely on the institution, making the characteristics of individual auditors a key component in assessing the effectiveness of external audits in the banking sector (Shalhoob, 2024).

Despite these regulations, strict oversight does not necessarily guarantee effective audit monitoring. A recent example is the alleged Letter of Credit (L/C) fraud case valued at approximately IDR 1.28 trillion that occurred at PT Bank Woori Saudara 1906 Tbk. (BWS) in 2023 (MetroTVNews, 2025). The case revealed weaknesses in internal controls and delays in detecting irregularities, indicating that the presence of an OJK-licensed Public Accounting Firm does not automatically ensure effective audit monitoring (Bank Woori Saudara Indonesia 1906 Tbk, 2025). This phenomenon highlights the importance of examining auditor-level characteristics, including the structure of audit assignments, the professional track record of individual auditors, and auditor rotation patterns, as these factors may influence the effectiveness of external audit monitoring in the banking sector and the mitigation of information asymmetry in financial reporting.

Previous studies have shown inconsistent results. Some studies found that external audit quality positively impacts financial performance, as reflected in increased credibility of financial reports and stakeholder trust (Haddad, 2022; Huda & Zulfiqar, 2023). However, other studies have found that external audit quality has no impact on financial performance, suggesting that the benefits of audits are not always reflected in company performance (Erniwati, 2020; Ifeanyichukwu et al., 2023). Auditor reputation also yields inconsistent findings. Some studies show that highly reputable auditors can improve a company's financial performance by enhancing the credibility of financial reports (Judijanto & Iskandar, 2024; Siagian, 2023). On the other hand, some findings suggest that auditor reputation does not always have a direct impact on improving a company's financial performance, particularly when reputation is measured at the institutional level of the Public Accounting Firm (Latif et al., 2023; Wardhana & Kusumawardhany, 2022)

Findings pertaining to auditor rotation also show mixed results. Research by Bansal (2025) shows that companies that conduct audit firm rotations have significantly higher firm value than those that do not. In line with this statement, studies examining mandatory auditor rotation report that regulatory-mandated auditor changes can enhance auditor independence, potentially improve audit quality, and support financial performance (Deliu & Olariu, 2023). However, research by Novita & Fatima (2024) found no correlation between auditor rotation and financial performance, particularly in the non-banking industry context, which measures auditor rotation at the audit institution level.

Although various studies have examined the effect of external audits on financial performance, most prior studies have focused on audit characteristics at the Public Accounting Firm (KAP) level. Furthermore, audit variables are generally examined separately and rely on general financial performance proxies, without specifically accounting for industry characteristics and varying regulatory frameworks. In the Indonesian context, particularly in the banking sector, external auditors are supervised by the Financial Services Authority (OJK), which has specific provisions regarding auditor licensing and assignments. However, research examining the effects of external audit quality, auditor reputation, and auditor rotation on bank financial performance within the OJK regulatory framework simultaneously remains scarce.

The novelty of this research lies in the use of auditor-level characteristics to measure external audit mechanisms in the banking sector. Prior studies generally proxied for external audit quality using a public accounting firm (KAP) scale or its Big Four affiliation (Alsmady, 2022; Zahid et al., 2022). This study measures external audit quality based on the number of Public Accountants (partners) licensed by the OJK to audit banks within a single KAP, reflecting the capacity and structure of bank audit engagements. Compared with firm-level proxies, this auditor-level approach allows the analysis to capture the internal distribution of licensed partners and the assignment structure of bank audit engagements, which may not be observable when audit quality is measured solely by firm size or Big Four affiliation.

Previous studies measured auditor reputation based on Big Four affiliation or the KAP's reputation (Alharasis et al., 2025; Handajani et al., 2024). This study measures auditor reputation based on the auditor's track record of compliance, including a history of professional sanctions from supervisory authorities. Therefore, an auditor's reputation is understood as a reflection of professional integrity and compliance. Previous research generally examined auditor rotation in the context of changes in Public Accounting Firms or audit tenure (Federsel, 2025; Harber et al., 2024). In this study, auditor rotation is defined as the change of Public Accountants (partners) within a single Public Accounting Firm, serving as a regulatory oversight instrument to maintain auditor independence in evaluating the effectiveness of bank productive asset management, rather than merely as a means of fulfilling formal obligations.

Furthermore, previous research on measuring banking financial performance generally used conventional indicators such as ROA or ROE (Pratomo et al., 2025), which do not fully reflect the effectiveness of a bank's core asset management. In the banking industry, the primary source of income is earnings from assets, including loans, securities, and other investments. These assets represent the main channel through which banks generate revenue from their intermediation activities. This study uses Return on Investment (ROI) based on total earning assets, as these are the primary source of bank revenue and fall directly under managerial responsibility for investment activities. Therefore, ROI based on total earning assets is considered more relevant for depicting a bank's true financial performance than ROI based on total assets. Nevertheless, the use of ROI based on earning assets is closely related to the institutional characteristics of the banking studies and may not be directly generalizable to non-financial sectors with different asset structures and performance indicators.

Thus, this research aims to analyze how external audit quality, auditor rotation, and auditor reputation affect bank financial performance, as measured using ROI based on total earning assets. In theory, this research is expected to

Table 1. Comparison of Measurement Proxies in Prior Studies and This Study

Variable	Proxy Used in Prior Studies	Proxy Used in This Study	Expected Analytical Benefit
Bank Financial Performance	ROA, ROE, or ROI based on total assets. (Pratomo et al., 2025; Shubita, 2023)	ROI based on total earning assets. $ROI = \frac{Net\ profit\ after\ tax}{Total\ earning\ assets} x100\%$	Directly reflects the efficiency of managing earning assets, which represent the primary source of bank revenue.
External Audit Quality	Public Accounting Firm Size or Big Four Affiliation. (Alsmady, 2022; Zahid et al., 2022)	Number of OJK-licensed Public Accountants within a Public Accounting Firm.	Reflects the audit capacity and partner structure involved in bank audit engagements.
Auditor Reputation	Big Four affiliation or institutional reputation of the audit firm. (Alharasis et al., 2025; Handajani et al., 2024)	Individual Public Accountant sanction history.	Captures the professional track record and compliance behavior of the signing auditor.
Auditor Rotation	Audit firm rotation or audit tenure. (Federsel, 2025; Harber et al., 2024)	Rotation of Public Accountants within the same Public Accounting Firm.	Reflects variation in auditor assignment while controlling for firm-level audit environment.

Source: Author's compilation from prior literature

contribute to the existing literature on banking audits by examining Agency Theory as a monitoring mechanism in minimizing information asymmetry. The findings are of practical relevance to regulators, auditors, and bank management by supporting efforts to improve supervisory practices and enhance audit quality in the financial services sector.

To clarify the contribution of this study, the table contrasts the measurement approaches commonly used in prior research with the proxy variables adopted in this study, as presented in Table 1.

Agency Theory

Agency theory describes the contractual relationship between agents (management) and principals (shareholders), whose differing interests create information asymmetry. This occurs because management has access to more information about the company's condition than shareholders do (Jensen & Meckling, 1976). In the Indonesian banking industry, agency conflicts are increasingly complex because banks not only represent shareholders' interests but also manage large-scale public funds and assets under strict regulatory oversight (Borio, 2020). Liquidity and credit risks, as well as regulatory compliance obligations, underscore the need for governance mechanisms that mitigate information asymmetry and maintain accountability for fund management.

From an Agency Theory perspective, monitoring mechanisms are a crucial element of banking governance, ensuring that management decisions align with stakeholder interests (Olumoh & Sanni, 2025). The reliability of the information generated by these mechanisms serves as the basis for evaluating bank financial performance as an indicator of fund management performance. Financial performance is measured by profitability indicators such as Return on Investment (ROI), which reflects management's capacity to generate returns through the efficient and sustainable allocation of funds, including earnings from assets allocated to investment and lending activities. Therefore, Agency Theory provides a conceptual foundation for understanding the role of external audit characteristics as a banking governance mechanism that reduces information asymmetry and supports bank financial performance.

Bank Financial Performance

A bank's financial performance reflects the effectiveness of fund management, allocation to productive activities, and risk control, all of which are related to the sustainability of banking performance and stability (Saeed et al., 2020). In the banking sector, financial performance is closely linked to the bank's success in managing productive investments and disbursing credit to customers. Strong financial performance demonstrates the bank's ability to efficiently manage its financing portfolio and maintain the quality of its fund disbursements, thereby strengthening public trust in the banking industry (Haddad, 2022). As financial intermediaries entrusted with public funds, banks exhibit institutional features that distinguish them from non-financial sector entities. The management of public funds through financing activities, including investment placement and credit distribution, provides the conceptual basis for assessing banks' financial performance. These activities constitute the primary source of banking operating income.

Agency Theory suggests that a bank's financial performance allows principals to evaluate the effectiveness of managerial fund management. Information asymmetry prevents shareholders and stakeholders from directly observing management's investment decisions and credit policies (Wu et al., 2020). Therefore, financial performance is used to evaluate the extent to which managerial actions align with the interests of principals and prudent banking principles.

Within the banking governance framework, the external audit serves as an independent oversight mechanism that strengthens accountability, transparency, and discipline in banks' financial reporting. External audit quality, auditor reputation, and auditor rotation represent governance instruments based on external oversight designed to minimize information asymmetry between the management and stakeholders. Therefore, the variables in this study are analyzed as mechanisms of banking governance that influence the evaluation of bank financial performance.

External Audit Quality

External audit quality is conceptualized as the joint probability that auditors detect material irregularities in financial statements and report them objectively while preserving professional independence throughout the engagement (DeAngelo, 1981; Tampubolon et al., 2024). From the banking audit perspective, external audit quality reflects the auditor's individual competence as well as the audit organization's ability to maintain the quality and independence of the audit process for the bank's core profit-generating activities, particularly those related to investment and credit distribution, aligning with the complexity of business activities and regulatory oversight inherent in the banking sector.

This research measures external audit quality by the number of Public Accountants (APs) licensed by the OJK to

conduct bank audits within a Public Accounting Firm (KAP). The assignment structure, which involves more than one licensed AP, enables role division, quality-control review processes, and oversight of professional judgment in evaluating the fairness of bank financial statements. In banking audits, the examination of investments and credit disbursements, which are the primary source of bank revenue, requires thoroughness, prudence, and adequate evaluation (Pham et al., 2025). Therefore, the presence of more than one licensed auditor helps ensure that audit judgment does not rely solely on a single individual, which can reduce the risk of material misstatement and encourage a more balanced assessment of the fairness of the recognition and measurement of investment and credit management results, thereby increasing the reliability of financial information used in evaluating a bank's financial performance. The Agency Theory perspective explains that external monitoring mechanisms are required to reduce conflicts of interest and limit information gaps between management and stakeholders. Improving the reliability of financial information through an effective audit structure strengthens monitoring effectiveness, thereby making evaluations of a bank's financial performance more objective and credible (Almaqtari et al., 2024).

Empirical findings in several studies indicate a link between external audit quality and financial performance (Haddad, 2022; Huda & Zulfiqar, 2023).

Based on the above explanation, the first hypothesis is formulated as follows:

H1: External audit quality has a positive effect on bank financial performance.

Auditor Reputation

Auditor reputation refers to stakeholders' perceptions of the integrity and track record of Public Accountants (APs) in performing audit assignments in accordance with professional standards (Quick et al., 2024). In this study, auditor reputation is positioned at the individual AP level, reflected in compliance with professional standards and audit engagement track record, including involvement in previous violations. This approach aligns with the Indonesian banking audit oversight framework, which emphasizes personal accountability of AP for audit quality. The characteristics of auditor reputation are reflected in compliance with professional standards and audit engagement track record, including AP involvement in violations or sanctions in prior periods. These characteristics demonstrate the auditor's quality in terms of professional judgment in determining the level of accuracy, prudence, and compliance with established audit procedures.

Public Accountants with a track record of compliance with professional standards tend to face greater reputational pressure from stakeholders, thereby strengthening incentives to maintain audit quality, limit tolerance for deviant reporting practices, and reduce the opportunity for opportunistic management behavior (Almaqtari et al., 2024). Improving the audit process can strengthen the reliability of the financial information presented by the bank. More reliable financial information minimizes information asymmetry between principals and management and increases stakeholders' confidence in their ability to assess a bank's financial condition and performance. Therefore, a higher auditor reputation can create financial reporting conditions that support better bank financial performance. The agency theory framework positions the external audit as a monitoring mechanism that mitigates conflicts of interest and information asymmetry between management and principals. This context explains that auditor reputation is one of the characteristics that influences the effectiveness of the monitoring function.

Empirical findings indicate that the characteristics of auditor reputation are related to the monitoring process and perceptions of company performance (Judijanto & Iskandar, 2024; Siagian, 2023). However, inconsistent results in institution-based reputation measurements of public accounting firms (Latif et al., 2023; Wardhana & Kusumawardhany, 2022) underscore the need to measure reputation at the individual level of Public Accountants in the banking context.

Drawing on the theoretical framework and empirical foundations, the following hypothesis is formulated:

H2: Auditor reputation has a positive effect on bank financial performance.

Auditor Rotation

Auditor rotation is a regulatory oversight policy instrument established by regulators to limit long-term relationships between auditors and clients, with the aim of maintaining the independence and objectivity of audit examinations (Knechel, Frederick, Fisher, E., et al., 2013). In this research, auditor rotation refers to the frequency of changes in Public Accountants (APs) within a Public Accounting Firm (KAP) over a specific period. AP changes, whether mandated by provisions or driven by internal engagement factors, reflect the dynamic nature of the audit relationship between the client and the auditor. The emphasis on rotation at the individual AP level aligns with the banking audit accountability framework, namely, the professional responsibility for the audit report inherent in the AP as the signatory of the independent audit report.

AP rotation is seen as a governance mechanism that can encourage more objective audit assessments and limit the risk of weakening professionalism from continuous audit engagements with the same entity. The frequency of AP rotation can affect the level of professional skepticism and the auditor's prudence in evaluating the fairness of financial reports, particularly regarding the outcomes of fund management in investment activities and bank credit disbursement (Asmoro et al., 2022). Agency theory explains that potential conflicts of interest and information asymmetry require external control mechanisms to maintain the objectivity of the audit process and limit excessive closeness between auditors and clients, thereby sustaining the independence and effectiveness of the auditor's monitoring function in assessing the fairness of financial reporting.

Several studies have concluded that audit rotation positively affects financial performance, although the results vary across institutional and industry contexts (Bansal, 2025; Tessema & Abou-El-Sood, 2023). However, other studies also report that frequent auditor changes may reduce audit effectiveness due to the loss of client-specific knowledge and learning effects during the early engagement period (Lim, 2025).

This issue is particularly relevant in highly regulated sectors such as banking, where audit engagements require a deep understanding of complex financial instruments, credit risk assessment, and regulatory compliance. Consequently, although auditor rotation may enhance auditor independence, excessive rotation may weaken audit monitoring when auditors have insufficient time to accumulate client-specific expertise. Based on this reasoning, the third hypothesis is formulated as follows:

H3: Auditor rotation has a negative effect on bank financial performance.

Model Specification

A multiple linear regression model is utilized to evaluate the relationship between the independent and dependent variables. The regression equation is formulated as follows:

$$KKB_{it} = \alpha + \beta_1 KA_{it} + \beta_2 RA_{it} + \beta_3 ROT_{it} + \mu_i + \varepsilon_{it}$$

This study focuses on auditor-level characteristics as the primary explanatory variables in order to isolate the monitoring

role of external auditors in the banking sector. Therefore, no additional control variables are included in the baseline model. However, bank financial performance may also be associated with other bank-specific factors. To address potential specification concerns, robustness checks are conducted using heteroskedasticity-robust standard errors to ensure that statistical inference remains reliable despite potential model specification limitations.

Where:

KKB : Bank financial performance
KA : External audit quality
RA : Auditor reputation
ROT : Auditor rotation
α : Constant
$\beta 1, \beta 2, \beta 3$: Regression coefficients
i : Bank
t : Year of observation
μi : Bank-specific effect
ε : Error term

Methods

Research Type

This study adopts a quantitative approach to analyze the effects of external audit quality, auditor reputation, and auditor rotation on the financial performance of banks listed on the Indonesia Stock Exchange (IDX). Secondary data were collected from annual reports, independent audit reports, official websites of the OJK and the IDX, and the profiles of the Public Accounting Firms that conduct the audits. In the dynamic banking sector, this study utilized panel data to capture changes in bank financial performance over time while accounting for differences in bank characteristics. Data analysis was performed using EViews software. The study uses panel data covering the 2020-2024 period. The final sample comprises 140 bank-year observations, obtained using purposive sampling criteria and excluding incomplete observations. Based on the Chow, Hausman, and Lagrange Multiplier tests, the Random Effect Model was selected as the main estimation approach.

Population and Sample

The population of this study was 42 conventional banks listed on IDX. The selection of the banking sector was based on its strategic role in maintaining the stability of the national financial system and on the OJK's strict supervision. The object of this study was conventional banks, as they have varying operational characteristics, funding structures, and profitability indicators compared with Sharia banks. The sampling technique used a purposive sampling method under the following criteria: (1) conventional banks listed on the IDX during the 2020-2024 observation period; (2) publication of complete annual financial reports; (3) external auditor information shown in the annual report; (4) the use of Rupiah in presenting financial reports. The number of samples meeting the criteria is presented in the data processing results; (5) audited financial reports; (6) data providing tracking of the number of APs licensed by the OJK, the history of individual AP sanctions, and AP changes during the study period; (7) reporting profits during the observation years. The criterion requiring banks to report profits during the observation years was applied to maintain comparability and consistency in calculating ROI as a profitability-based performance indicator. Since this study focuses on the relationship between auditor-level characteristics and positive bank performance outcomes, observations with persistent loss conditions were excluded from the baseline sample. This restriction helps ensure that the ROI measure consistently reflects the efficiency of earning asset management rather than distress-related financial conditions. Nevertheless, excluding loss years may limit generalizability and should be interpreted with caution, as it may reduce variation in bank performance. ROI in this study is calculated as net profit after tax divided by total earning assets. Conceptually, this ratio may take negative values when banks experience losses. However, to maintain comparability and ensure consistent interpretation of profitability-based performance, this study restricts the sample to profit-reporting observations. The sample selection process and final sample size are presented in Table 3.

The operational definitions, measurement proxies, and scales of the variables used in this study are presented in Table 4. The selection of a threshold of three or more OJK-licensed partners was based on the structure of banking audits, which generally involves at least three key functions: an engagement partner, a quality control review partner, and a specialist partner in the banking sector. Public accounting firms with three or more OJK-licensed partners are considered to have sufficient audit capacity to handle the complexity of banking audits. This consideration is also consistent with the regulatory framework governing the use of Public Accountants in financial service institutions under POJK 13/POJK.03/2017 and POJK 9/POJK.03/2023 (Otoritas Jasa Keuangan, 2017b, 2023a), which emphasizes auditor competency and assignment requirements in banking audits. This approach also aligns with the literature emphasizing the relationship between the number of partners and audit capacity (Knechel et al., 2013).

Although auditor rotation in financial institutions is subject to regulatory requirements, partner rotation may still occur across banks and years due to engagement restructuring or internal partner reassignment within Public Accounting Firms. Such changes may arise from internal engagement planning, partner workload allocation, or specialization requirements for banking audits. Consequently, even when regulatory tenure limits remain constant, the signing Public Accountant may change across observation periods, creating variation in auditor assignments across banks and years.

Auditor rotation is measured by the number of Public Accountants who change within a single Public Accounting Firm during the observation period. This approach was chosen because mandatory rotation regulations primarily define the maximum tenure of auditors and therefore tend to be formally homogeneous across banks. However, partner-level changes may still occur across engagements due to internal partner reallocation, engagement restructuring, or regulatory compliance cycles within Public Accounting Firms. Consequently, measuring rotation at the Public Accountant level allows this study to capture meaningful variation in audit engagement dynamics that may influence the effectiveness of external monitoring within the banking sector.

Research Location

This study was conducted on conventional banks listed on the BEI and supervised by the Financial Services Authority (OJK). The banking sector was selected based on its industry characteristics, including high levels of regulation, the complexity of managing productive assets, and its strategic role in the stability of the national financial system. The scope of this research encompassed all conventional banks that met the sample criteria during the observation period.

Instrumentation or Tools

This study utilized secondary data obtained from annual financial reports of banks, independent auditor reports, the official website of the Financial Services Authority (OJK), the Indonesia Stock Exchange, and profile information on Public Accounting Firms (KAP). The financial performance variable was measured using ROI based on total earning assets. The variable for external audit quality was proxied by the number of Public Accountants (APs) licensed by the OJK to audit banks

Table 2. Variable construction and coding procedures

Variable	Indicator/ Proxy	Coding Procedure	Data Source
Bank Financial Performance (Y)	Return on Investment (ROI) $ROI = \frac{Net\ profit\ after\ tax}{Total\ earning\ assets} x100\%$	Financial data were collected from audited annual financial statements and calculated using the ROI formula based on earning assets.	Bank annual reports published on the Indonesia Stock Exchange (IDX)
External Audit Quality (X1)	Number of APs licensed to audit banks from OJK in one Public Accounting Firm	The number of Public Accountants licensed to audit banks was identified from the official OJK Public Accountant registry and matched with the Public Accounting Firm listed in the independent auditor report. Dummy coding was applied: 1 = OJK-licensed bank audit partners ≥ 3 0 = OJK-licensed bank audit partners < 3	OJK Public Accountant registry; Independent auditor reports.
Auditor Reputation (X2)	AP violation/ sanction track record	The name of the signing Public Accountants was traced in OJK sanction announcements. Dummy coding was applied: 1 = no sanction history 0 = sanctioned	OJK enforcement publications.
Auditor Rotation (X3)	Number of AP changes in one Public Accounting Firm	Auditor names signing the independent auditor reports were compared across years within the same Public Accounting Firm to identify partner rotation. Numerical (Count) was applied.	Independent auditor reports in bank annual reports.

Source: Secondary Data

Table 3. Purposive Sampling

Description	Number
Conventional banks listed on the Indonesia Stock Exchange for the 2020-2024 period	42
Observation data for conventional banks listed on the Indonesia Stock Exchange for the 2020-2024 period	210
Banks reported a net loss in certain observation years	(15)
Unaudited financial statements during the observation years	(5)
Data not containing required auditor information during the observation years	(50)
Final sample size analyzed	140

Source: Secondary Data

Table 4. Operational variables

Variable	Operational Definition	Indicator/ Proxy	Formula/Category	Scale
Bank Financial Performance (Y)	The bank's ability to generate net profit from the utilization of total earning assets invested in investment and lending activities. (based on the ROI concept as a profitability ratio; (Shubita, 2023)	Return on Investment (ROI)	$ROI = \frac{Net\ profit\ after\ tax}{Total\ earning\ assets} x100\%$	Ratio
External Audit Quality (X1)	The capacity of external audit oversight reflected in the auditor assignment structure within a public accounting firm. (DeAngelo, 1981)	Number of APs licensed to audit banks from OJK in one Public Accounting Firm	1= OJK-licensed bank audit partners ≥ 3 0= OJK-licensed bank audit partners < 3	Dummy
Auditor Reputation	The track record and compliance of individual	AP violation/ sanction track	1= never been sanctioned 0= ever been sanctioned	Dummy

Variable	Operational Definition	Indicator/ Proxy	Formula/Category	Scale
(X2)	Public Accountants in performing audit assignments based on professional standards. (Quick et al., 2024)	record		
Auditor Rotation (X3)	The rotation of the Public Accountant signing the audit report within a single public accounting firm (KAP) as a mechanism to maintain audit independence and objectivity. (Tessema & Abou-El-Sood, 2023)	Number of AP changes in one Public Accounting Firm	Total AP changes during the research period	Numerical (Count)

Source: Secondary Data

within a single KAP. Auditor reputation was measured based on the history of professional sanctions at the individual AP level, while auditor rotation was measured by the number of AP changes within a single KAP during the study period.

Data Collection Procedures

Data were collected through documentation, including searches for and downloads of annual financial reports and independent auditors' reports from the official websites of the Indonesian Stock Exchange (IDX) and the Financial Services Authority (OJK). Information regarding audit permits and the sanction history of Public Accountants was obtained from official OJK publications, including the Public Accountant registry and enforcement announcements available on the OJK website.

The identification of OJK-licensed Public Accountants and sanction histories was conducted based on the reporting periods corresponding to the study sample (2020–2024). The names of signing Public Accountants reported in the independent auditor reports were matched with the OJK Public Accountant registry and enforcement announcements to verify licensing status and sanction history.

The detailed coding protocol for each variable, including indicators, coding procedures, and data sources, is presented in Table 2. All data were selected using predetermined purposive sampling criteria and then aggregated into panel data to capture variation across banks and over time.

Data Analysis

The analysis applies panel data regression to assess the impact of external audit quality, auditor rotation, and auditor reputation on bank financial performance. Descriptive statistics summarize the characteristics of the variables. The appropriate estimation model was selected based on the Chow, Hausman, and Lagrange Multiplier tests. All computations were processed using EViews.

Ethical Approval (Optional)

This research used secondary data from public documents and did not involve direct respondents; therefore, no specific ethics approval was required. All data used was open and accessible through official, accountable sources.

Result and Discussion

As shown in Table 5, the descriptive statistics show that the bank's financial performance (ROI) had an average of 0.015 and a standard deviation of 0.003. The maximum value of the financial performance variable was 0.028, while the minimum value was 0.010. This indicates variation in the rate of return on total earning assets between banks during the observation period, albeit within a relatively moderate range.

The external audit quality was 0.521, with a standard deviation of 0.501. As a dummy variable (0 and 1), this value indicates that approximately 52.1% of observations were audited by a Public Accounting Firm with more than 3 licensed public accountants for bank audits conducted by the Financial Services Authority (OJK), while the remainder did not meet this criterion.

Auditor reputation had an average of 0.635 and a standard deviation of 0.482. This value indicates that the majority of observations were audited by Public Accountants with no history of sanctions during the study period.

Meanwhile, the auditor rotation variable had an average of 0.278 and a standard deviation of 0.449. This value indicates that the frequency of Public Accountant changes within a single Public Accounting Firm (KAP) was relatively low during the observation period.

EViews software provides several tests to help determine which of the three models is most efficient. To select the appropriate estimation method, a model selection test was performed by comparing the results of the Common Effect Model, Fixed Effect Model, and Random Effect Model. The tests performed included three types of tests: the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test, which are explained below:

The Chow test results (Table 6) show a probability value of 0.000, indicating statistical significance at the 5 percent level. Accordingly, the fixed-effects model is preferred over the common-effects model.

The Hausman test results (Table 7) report a probability value ($p = 0.738$), supporting the use of the random effects model over the fixed effects model.

The LM test (Table 8) yields a significant result ($p = 0.000$), indicating that the random-effects model is preferred over the common-effects model.

Classical Assumption Test

Panel data regression was conducted after verifying the classical assumptions to ensure that the independent variable serves as an unbiased estimator. These classical assumption tests included normality, autocorrelation, heteroscedasticity, and multicollinearity.

Figure 1 of the normality test yields a p-value of 0.073, indicating that the residual data are normally distributed.

The results of the multicollinearity test in Table 9 show that all independent variables have Variance Inflation Factor (VIF) values below the commonly accepted threshold of 10. This indicates that multicollinearity is not present in the regression model, and the independent variables do not exhibit strong linear relationships that could distort the estimation result.

The heteroscedasticity test results presented in Table 10 show mixed evidence. While the F-statistic and Obs*R-squared test are not statistically significant ($p > 0.05$), the Scaled

explained SS test is significant (p = 0.01520), indicating

Table 5. Descriptive Analysis

	Y	X1	X2	X3
Mean	0.015579	0.521429	0.635714	0.278571
Median	0.014893	1.000000	1.000000	0.000000
Maximum	0.028548	1.000000	1.000000	1.000000
Minimum	0.010412	0.000000	0.000000	0.000000
Std. Dev.	0.003071	0.501334	0.482957	0.449906
Skewness	1.475657	-0.085793	-0.564032	0.987868
Kurtosis	6.275796	1.007360	1.318132	1.975882
Jarque-Bera	113.4064	23.33365	23.92371	28.88869
Probability	0.000000	0.000009	0.000006	0.000001
Sum	2.181010	73.00000	89.00000	39.00000
Sum Sq. Dev.	0.001311	34.93571	32.42143	28.13571
Observations	140	140	140	140

Source: Secondary Data

Table 6. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.232484	(27,109)	0.0000
Cross-section Chi-square	130.713712	27	0.0000

Source: Secondary Data

Table 7. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.261044	3	0.7384

Source: Secondary Data

Table 8. LM Test

	Hypothesis Testing		
	Cross-section	Time	Both
Breusch Pagan	71.30097	0.208545	71.50952
	(0.0000)	(0.6479)	(0.0000)

Source: Secondary Data

potential heteroscedasticity. Therefore, the presence of heteroscedasticity cannot be fully ruled out, and the results should be interpreted with caution.

In this context, the estimated coefficient remains consistent; however, heteroscedasticity may affect the efficiency of the standard errors rather than the consistency of the estimators. To address this issue, White heteroscedasticity-consistent standard errors are used in the robustness analysis to ensure that the statistical inference remains reliable. The robustness test result, reported in Table 14, shows that the coefficient signs and statistical significance remain consistent with the baseline model.The autocorrelation test results (Table 11) show that the probability values for both the F-statistic (p = 0.1032) and Obs*R-squared (p = 0.1416) exceed the 5 percent significance level. These results indicate no evidence of autocorrelation in the residuals, suggesting that the regression model satisfies the independence assumption. This result implies that the error terms are independently distributed across observations, supporting the reliability of the regression estimates.

Panel Data Regression Model

The hypotheses are tested using a panel-data regression framework to evaluate the association between external audit quality, auditor rotation, and audit reputation, and bank financial performance.

The model specification and regression results are presented in Table 12.

$$KKB_{it} = 0.014518 + 0.001582KA_{it} + 0.001202RA_{it} - 0.001895ROT_{it} + \mu_i + \varepsilon_{it}$$

The regression results indicate that external audit quality (X1) is positively associated with bank financial performance. As a dummy variable, a change from 0 to 1 in audit quality is associated with an increase in ROI of 0.001582, and is significant at p < 0.001, indicating a positive association with bank financial performance at the 5 percent significance level.

Auditor reputation (X2) is also positively associated with bank financial performance, indicating that banks audited by Public Accountants without a history of sanctions tend to exhibit higher ROI with an increase of 0.001202 (p = 0.007).

In contrast, auditor rotation (X3) is negatively associated with bank financial performance. A higher frequency of Public Accountant changes within the same Public Accounting Firm is associated with a 0.001895 decrease in ROI; this effect is statistically significant (p = 0.002).

From an economic perspective, the coefficient of 0.001582 represents approximately 10.16 percent of the average ROI (0.015579), indicating that the effect is not only statistically significant but also economically meaningful. Overall, the coefficients' direction and significance are consistent with theoretical expectations derived from Agency Theory. Accordingly, Hypotheses H1 and H2 are supported with a positive association, whereas H3 is supported with a negative association.

Model Fit Test

As shown in Table 13, the model is statistically significant as indicated by the F-statistic (F = 24.91091; Prob. F = 0.000), suggesting that the independent variables jointly explain variations in bank financial performance. The adjusted R-squared value of 0.340 indicates that approximately 34.0 percent of the variation in bank financial performance is explained by external audit quality, auditor reputation, and auditor rotation, while the remaining variation is attributable to other factors not included in the model.

The selection of the Random Effect Model is supported by the Hausman test results, which indicate that the random effect specification is appropriate. This implies that unobserved heterogeneity across banks is assumed to be uncorrelated with the independent variables. Under this assumption, the Random Effect Model provides efficient and consistent estimates for

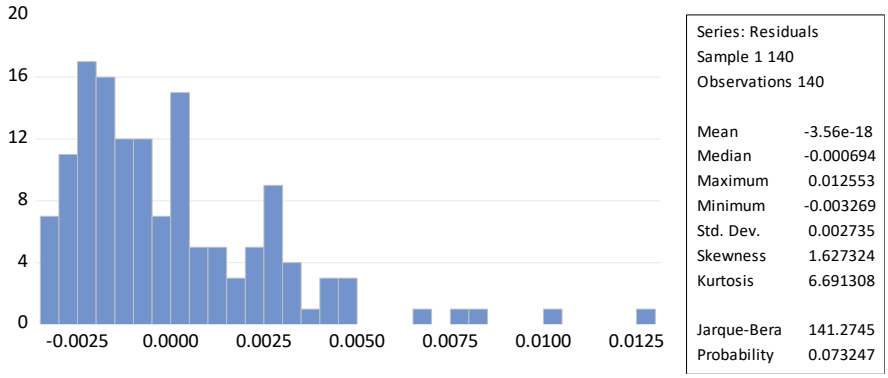

Figure 1. Normality Test
Source: Secondary Data

Table 9. Multicollinearity Test

	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
C	4.31E-07	7.897174	NA
X1	2.49E-07	2.373899	1.136080
X2	3.29E-07	3.826316	1.393872
X3	3.76E-07	1.917616	1.383423

Source: Secondary Data

Table 10. Heteroscedasticity Test

F-statistic	1.294888	Prob. F (3,136)	0.2788
Obs*R-squared	3.887867	Prob. Chi-Square (3)	0.2738
Scaled explained SS	10.44036	Prob. Chi-Square (3)	0.0152

Source: Secondary Data

Table 11. Autocorrelation Test

F-statistic	1.362527	Prob. F (70,66)	0.1032
Obs*R-squared	82.74272	Prob. Chi-Square (70)	0.1416

Source: Secondary Data

Table 12. Regression Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.014518	0.000640	22.67128	0.0000
X1	0.001582	0.000372	4.257170	0.0000
X2	0.001202	0.000443	2.711016	0.0076
X3	-0.001895	0.000493	-3.847267	0.0002

Source: Secondary Data

Table 13. Simultaneous Test

R-squared	0.354633
Adjusted R-squared	0.340397
S.E. of regression	0.001924
F-statistic	24.91091
Prob(F-statistic)	0.000000

Source: Secondary Data

panel data analysis.

The robustness test results presented in Table 14 indicate that the estimated coefficients remain consistent in both direction and statistical significance relative to the baseline model, confirming the stability of the empirical finding. In the robustness specification, the baseline regression model and sample remain unchanged; the analysis continues to use the same set of profit-reporting banks and the same model specification. The robustness test differs only in the error structure, where White heteroscedasticity-consistent standard errors are applied to address the potential heteroscedasticity identified in the diagnostic tests.

Specifically, external audit quality (X1) shows a statistically significant and positive association with bank financial performance ($p < 0.001$), indicating that higher audit capacity is associated with improved bank financial performance.

Auditor reputation (X2) is also positively and significantly associated with bank financial performance ($p = 0.0062$), suggesting that auditors without a history of sanctions are associated with more reliable financial outcomes. In contrast, auditor rotation (X3) exhibits a statistically significant negative association with bank financial performance ($\beta = 0.001864$; $p < 0.001$), indicating that a higher frequency of auditor changes is associated with lower bank financial performance. Overall, these results confirm that the findings are robust across model specifications.

Interpretation of Key Findings

The effect of external audit quality on bank financial performance

The regression analysis indicates that external audit quality has a positive effect on banks' financial performance, with a p-value of 0.000 ($p < 0.05$). Therefore, hypothesis (H1) is accepted. This finding indicates that banks audited by Public Accounting Firms with an assignment structure involving at least three OJK-licensed Public Accountants are empirically able to generate higher ROI. In substance, this result indicates that external audit capacity is a relevant factor in explaining variations in banks' financial performance. In this study, audit quality is proxied by the number of OJK-licensed Public Accountants within a Public Accounting Firm, with a threshold of ≥ 3 partners reflecting a more structured audit assignment. This condition is also supported by the descriptive statistics, with a mean of 0.72 and a mode of 1, indicating that most observations pertain to Public Accounting Firms with more than 3 OJK-licensed partners, suggesting that such audit structures are commonly implemented in practice.

In the context of Indonesian banking, which is closely monitored by the OJK and regulated under POJK No. 9/POJK.03/2023 (Otoritas Jasa Keuangan, 2017b, 2023a), this finding indicates that an audit structure involving more than one licensed AP provides space for the division of audit roles, internal review processes, and differences in professional perspectives in assessing the fairness of recognitiauditoron and bank financial performance, so that the resulting financial information more accurately reflects the bank's economic condition. This relationship should be interpreted primarily as an improvement in the reliability and

Table 14. Robustness Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.014808	0.000261	56.79866	0.0000
X1	0.001201	0.000223	5.372402	0.0000
X2	0.000628	0.000226	2.781137	0.0062
X3	-0.001864	0.000267	-6.991059	0.0000

Source: Secondary Data

credibility of financial reporting (measurement effect), rather than a direct enhancement of the bank's underlying economic performance. This improved the reliability of management and stakeholders, thereby strengthening the effectiveness of external monitoring mechanisms. The accuracy of this financial information may contribute to improved managerial decision-making and support risk control processes, which are associated with better financial performance outcomes (Knechel et al., 2013; Tessema & Abou-El-Sood, 2023).

This finding is consistent with Agency Theory, which characterizes external auditing as a supervisory mechanism that alleviates the informational gap between management and stakeholders. Thus, the presence of multiple licensed auditors not only reflects audit capacity but also strengthens the monitoring function through role differentiation and layered verification processes that directly address information asymmetry. These findings extend prior understanding by emphasizing that audit effectiveness is shaped not only by the presence of external audits but also by the structure and capacity of individual-level auditor assignments. These results align with findings emphasizing the performance-enhancing effects of audit quality and audit capacity on corporate financial performance (Haddad, 2022; Huda & Zulfiqar, 2023).

The effect of auditor reputation on bank financial performance

The subsequent regression indicates that auditor reputation has a positive effect on bank financial performance, with a p-value of 0.007, which is less than 0.05; thus, hypothesis (H2) is accepted. This finding indicates that banks audited by Public Accountants, without a history of sanctions, tend to have a higher incentive to maintain their reputation. This positive correlation is demonstrated by the Public Accountant's position, which is directly responsible for the quality of professional judgment reflected in the audit opinion. Auditors with a track record of compliance with professional standards tend to exercise greater caution when evaluating the fairness of financial reporting, especially in areas that require judgment, such as revenue recognition, loss reserve establishment, and credit risk assessment. This cautionary behavior enhances the credibility of reported financial information, rather than directly altering the bank's operational performance. The findings support the theoretical propositions of Agency Theory, which views auditor reputation as a control mechanism for the emergence of information asymmetry, thereby strengthening the monitoring function of bank management. Auditors without a history of sanctions face high reputation costs if they fail to detect or disclose deviation. This creates a stronger incentive to limit tolerance for management's opportunistic reporting practices.

In this study, auditor reputation helps lessen information asymmetry between stakeholders and management, thereby improving the reliability of financial performance measurement. The finding supports the research by Judijanto & Iskandar (2024) and Siagian (2023), which shows a link between auditor reputation, reporting quality, and perceptions of company performance.

The effect of auditor rotation on bank financial performance

The regression analysis indicates that auditor rotation negatively affects bank financial performance, with a coefficient of -0.001895 and a p-value of 0.002, which is less than 0.05. Therefore, hypothesis (H3) is accepted, indicating a negative effect. Bank financial performance, as proxied by ROI, is essentially a managerial achievement reflecting the effectiveness of the bank management in productive asset management. The ROI value is derived from audited financial statements, so the reliability of financial performance information is inextricably linked to the external auditors' role. Financial performance reports are a managerial responsibility, while auditors assess the fair presentation of the financial statements through the audit process and the application of professional judgment, which serves as the basis for measuring ROI.

This negative impact can be explained by the characteristics of banking audits, which require an in-depth understanding of the bank's risk exposure, risk portfolio, and internal control framework. Frequent Public Accountant changes limit the accumulation of client-specific knowledge needed to assess the effectiveness of audit procedures, particularly during the initial period of the assignment, potentially weakening professional judgment in assessing accounting estimates, credit risk, and the adequacy of reserves. This explanation is consistent with prior audit literature, which highlights that auditor rotation may reduce client-specific knowledge and increase learning costs during early engagement periods (Knechel et al., 2013; Tessema & Abou-El-Sood, 2023).

In the Indonesian banking context, audits must be conducted by Public Accounting Firms and Public Accountants licensed by the OJK, as regulated under POJK No. 13/POJK.03/2017 and POJK No. 9/POJK.03/2023 (Otoritas Jasa Keuangan, 2017b, 2023a), which requires auditors to possess specific competencies in banking regulations and financial risk characteristics. Specific competencies in banking regulations and financial risk characteristics. This implies that only a limited pool of auditors is qualified to audit banks, and effective audits rely heavily on the accumulation of specialized knowledge regarding evolving banking regulations and risk profiles.

From a theoretical perspective, these findings reflect a formal tension between auditor independence and auditor expertise. Mandatory rotation policies are designed to enhance independence by limiting long-term auditor-client relationships. However, frequent rotation may reduce the accumulation of auditor-specific expertise, particularly in highly regulated sectors such as banking. Consequently, while independence is strengthened, the loss of expertise may weaken the effectiveness of audit judgments and monitoring functions.

This finding indicates a trade-off between formal independence and the effectiveness of the monitoring function in Public Accountants. From an Agency Theory perspective, auditors are positioned as an external oversight mechanism aimed at reducing information asymmetry and limiting opportunistic management behavior. Consequently, the auditor's oversight function in limiting opportunistic management behavior becomes suboptimal, thereby preventing the full minimization of information asymmetry. This result aligns with the findings of Lim (2025) and Tessema & Abou-El-Sood (2023), who found that auditor rotation negatively affects bank financial performance.

Comparison with Previous Studies

The analysis reveals that external audit quality and auditor reputation are positively associated with the bank's financial performance, while auditor rotation has a negative effect. The findings regarding external audit quality align with research by Haddad (2022) and Huda & Zulfiqar (2023), which show that external audit quality is associated with the higher integrity and transparency of financial reports and supports company performance.

However, this study extends prior literature by employing auditor-level proxies, specifically the number of OJK-licensed Public Accountants. In this study, audit quality is measured by the number of OJK-licensed Public Accountants (≥ 3 partners) at the auditor level. This approach provides a more granular perspective compared to prior studies that rely on firm-level proxies such as Big Four affiliation. Furthermore, the findings suggest that the positive relationship between audit quality and financial performance is driven not solely by institutional reputation but also by the capacity and structure of audit assignments at the individual-auditor level. In the context of the Indonesian banking sector, which is subject to strict OJK supervision, these results highlight the role of regulatory and industry-specific factors in shaping the effectiveness of external audit mechanisms.

The finding regarding auditor reputation is also consistent with those of Judijanto & Iskandar (2024) and Siagian (2023), which show that a strong auditor reputation contributes to higher perceived reliability in financial reporting. However, this study extends prior findings by demonstrating that auditor reputation, measured at the individual Public Accountant level using professional sanction history, serves as a more direct proxy for auditor integrity than institution-based measures used in previous studies. This distinction suggests different monitoring dynamics, as individual-level reputation is more directly linked to auditor accountability and professional incentives in the audit process. These differences in measurement approaches may explain variations in prior empirical results regarding the role of auditor reputation in financial performance.

Meanwhile, the research findings on auditor rotation align with those of Lim (2025) and Tessema & Abou-El-Sood (2023), which show that auditor rotation can negatively affect a company's financial performance. Beyond confirming prior findings, this study provides additional insight by showing that the negative effect of auditor rotation is particularly pronounced in the banking sector, which operates under strict OJK supervision and requires specialized auditor competence. This indicates that contextual factors, such as regulatory complexity and industry-specific requirements, may play an important role in shaping the relationship between auditor rotation and bank financial performance. Therefore, the findings of this study offer a potential explanation for variations in prior findings by highlighting the importance of both measurement approaches and institutional context in determining audit effectiveness.

Limitations and Cautions

Although this study provides an empirical contribution to the banking audit literature, several limitations should be noted. First, the bank's financial performance in this study is measured using ROI based on total earning assets, reflecting the effectiveness of the bank's core asset management. Because this proxy relies on earning assets as the primary source of bank revenue, its application is particularly relevant to the banking industry. Therefore, the measurement approach used in this study may be less applicable to other sectors whose revenue structures differ from those of banks.

Second, this study focuses on auditor characteristics as an external monitoring mechanism, so the model emphasizes auditors' role in explaining banks' financial performance. Second, this study focuses solely on conventional banks listed on the Indonesia Stock Exchange; thus, generalizing the findings to the sharia banking sector or non-bank financial institutions requires caution. In addition, the relationship examined in this study may be influenced by factors outside the model and potential relationship; therefore, future research may consider applying advanced econometric approaches, such as instrumental variables, lagged variables, or Generalized Method of Moments (GMM), to strengthen the analysis.

Recommendations for Future Research

Future research may extend the sample to include Islamic banking institutions or other financial institutions to gain a more holistic view of the effectiveness of external audit mechanisms. Future studies may also incorporate additional control variables, such as bank size, capital adequacy, credit risk, or operational efficiency, to enrich the analysis. In addition, a longitudinal design may be considered to examine the dynamics of the correlation between auditor characteristics and long-term financial performance. Future research may also develop measurements of audit quality and auditor reputation by combining quantitative indicators and qualitative approaches, thereby providing a deeper understanding of auditors' roles in supporting banking sector stability and performance.

Conclusion

The analysis indicated that external audit quality contributes positively to banks' financial performance. An audit engagement structure involving at least three OJK-licensed Public Accountants reflects stronger external audit capacity, thereby supporting the effectiveness of the monitoring function and strengthening the credibility of bank financial performance disclosure. Auditor reputation is positively associated with the quality of banks' financial performance information, indicating that a Public Accountant without a history of negative sanctions strengthens management oversight, thereby providing a more reliable picture of the bank's financial performance. Auditor rotation is negatively associated with banks' financial performance, suggesting that frequent auditor changes can limit auditors' understanding of banks' characteristics and risks, thereby reducing the effectiveness of the monitoring function.

Overall, these findings suggest that bank financial performance is associated with external audit characteristics that are not only institutional in nature but also inherent in the individual Public Accountant and the audit engagement structure. These findings support Agency Theory by reinforcing the role of external audit as a monitoring mechanism to mitigate information asymmetry, particularly in the context of the banking sector, which involves a broader principal structure consisting of depositors, regulators, and other stakeholders. In this context, banks act as agents that mediate financial intermediation, thereby extending the traditional agency framework from a single principal-agent relationship to a more complex multi-principal setting. Compared with prior studies that commonly rely on firm-level proxies of audit quality, such as Public Accounting Firm size or Big Four affiliation, this study introduces auditor-level proxies that capture more directly the characteristics of individual auditors and audit engagement structures in the banking sector. Specifically, the number of OJK-licensed Public Accountants within a Public Accounting Firm reflects audit capacity in banking audits, while sanction history provides a direct indicator of auditor compliance and professional integrity. By focusing on these auditor-level characteristics, this study offers a more granular perspective on how external audit mechanisms relate to bank financial performance.

From a practical perspective, these findings highlight implications for regulators and Public Accounting Firms in enhancing the effectiveness of external audit practices in the banking sector. Strengthening audit capacity through adequate partner allocation, maintaining auditor integrity, and ensuring appropriate engagement continuity are essential to support reliable financial reporting and effective monitoring mechanisms. These findings also highlight the importance of considering auditor-level characteristics in regulatory frameworks to improve the quality of supervision in the

financial services industry.

Author contributions

The first author contributed to the research idea conceptualization, framework formulation, data compilation and processing, and preparation of the initial draft of the manuscript.

The second author contributed to refining the methodological design, validating and interpreting the analysis results, and critically revising the manuscript's academic content.

The final manuscript was reviewed and approved by both authors prior to submission.

Acknowledgements

The authors gratefully acknowledge the support of the academic institute and regulators for providing access to public data via the official websites of the Indonesia Stock Exchange and the Financial Services Authority. Appreciation also extended to the academic advisors for their guidance and constructive input throughout the research process.

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