

THE DETERMINANT FACTORS OF AUDITOR SWITCHING IN THE COMPANY

Edy Suprianto¹, Maharani Safitri² & Mufarokah³

¹Universitas Islam Sultan Agung
edysuprianto@unissula.ac.id

²Universitas Islam Sultan Agung
mufa@unissula.ac.id

³Universitas Islam Sultan Agung
Maharanisfr99@gmail.com

Abstract

The latest rule is that the auditor must change clients after being audited three times by the same auditor. This phenomenon is something interesting to study. This study purpose is to test the factors which affect auditor switching. The population is all real estate and property industries listed on the Indonesia Stock Exchange. The results can be concluded that the variable financial distress, audit opinion and audit delay have a positive and significant effect on auditor switching. Meanwhile, the Public Accounting Firms and audit committee size variables did not prove to affect auditor switching. This result implies that the auditor must pay attention to the above factors

Keywords: *audit opinion, financial distress, audit delay, Public Accounting Firm size, audit committee, and auditor switching*

1. INTRODUCTION

Auditor switching is carried out within a certain period of time with the company's own wishes (voluntary) or maybe because of an obligation (mandatory) which has been regulated in the Minister of Finance Regulation Number 17/PMK.01/2008 concerning "Public Accountant Services". Public accounting services can be performed a maximum of 3 (three) consecutive financial years. However, the latest regulation explains that an auditor switching is mandatory only if the company has been audited by the same public accountant for five consecutive years. According to Wijayani, E.d, Januarti (2011) auditors who have a long relationship with clients can bring high dependency consequences, so that they can build a strong loyalty relationship which ultimately affects their mental attitude and opinion. This research is supported by research conducted by Wayan et al., (2013) stating that a long engagement period can affect auditors in establishing excessive family relationships. This relationship can threaten the decline of audit quality and auditor competence when evaluating evidence (Utami, 2021).

According to Wayan et al., (2013) If there is an auditor switching outside the established regulatory provisions, it can arouse suspicion from investors; thus, it is important to know the causal factors. It is necessary to examine the factors that cause these companies to conduct auditor switching (Budiyo, and Serly, 2021). The client's decision to make voluntary auditor switching is interesting for further study because there are many factors behind the decision of auditor switching. Retna Safrilina and Siti Muawanah (2019) and Pawitri and Yadyana (2015) state that audit opinion, Public Accounting Firms size, financial distress, and audit committee affect auditor switching. Some of the research results that explain the effect of auditor switching include (Safrilina and Muawanah, 2019 and Yanti, 2017). Meanwhile, Effendi and Rahayu's research (2015), Manto and Lesmana Wanda (2018) and Safrilina and Muawanah (2019) those variable do not effect on auditor switching.

Research by Pratitis (2012), Adha and Noch (2017), Manto and Lesmana Wanda (2018) found that the financial distress variable affects auditor switching. Companies experiencing financial distress or difficulties will choose to do auditor switching due to saving costs for auditing services. According to Yanti (2017), financial distress has no effect on auditor switching. Based on the research results of Safriliana and Muawanah (2019) concluded that audit committees have an effect on auditor switching, whereas according to Fenadi (2019), audit committees have no effect on auditor switching. Research that has been conducted by Pawitri and Yadnyana (2015), Fenadi (2019) has succeeded in proving that audit delay has a significant effect on auditor switching. The occurrence of audit delays will tend to choose auditor switching due to avoiding delays in the publication of financial statements on the capital market. Based on a review of previous research, research related to auditor switching has not been found. Based on the Regulation state that auditor switching must be made when a company is audited by the same public accountant for five consecutive years has not covered in this study. Therefore, researchers will link this research with regulatory changes by focusing only on auditor switching.

2. THEORY AND HYPOTHESIS DEVELOPMENT

According to agency theory, management as an agent is assumed to have personal interests and want to maximize their interests. In this agency theory, the auditor will be asked to provide a statement regarding the fairness of the financial statements. With management's authority, management has the authority to decide to switch the auditor.

Faradhila and Yahya (2016) state that the most sensitive issue in the auditor-switching relationship is a qualification based on audit opinion, especially where one of the objectives of management in an audit is to obtain an unqualified opinion from the auditor. Management will try to make a way so that the financial statement presented by the company has high credibility. If the auditor gives an opinion that is not in accordance with management's requirements, then there is a possibility that the company's management will do the auditor switching. The same opinion was explained by Aini and Yahya (2019), managers believe that a bad audit opinion can affect stock prices and financing capacity so a qualified opinion is likely to affect the company's decision to terminate the contract with the auditor.

Research conducted by Yanti (2017), Safrilina and Muawanah (2019) proves that audit opinion has a positive effect on auditor switching. A company performs auditor switching if the previous year's audit opinion is not in accordance with the company's management wishes. Based on this explanation, the hypothesis can be formulated as follows:

H1: Audit opinion has a positive effect on auditor switching.

In agency theory, it assumes that humans always avoid risk (risk-averse). Management will try to maintain its reputation in front of shareholders by replacing Public Accounting firms affiliated with the big four Public Accounting firms. It is because shareholders will have more self-reliance in the accounting data produced by reputable Public Accounting Firms.

According to Pratitis (2012), Companies tend to choose Public Accounting Firms with high credibility to improve the quality of their financial statement. Companies tend to choose big four Public Accounting Firms compared to non-big four Public Accounting Firms. Company management will try to find high-quality Public Accounting Firms because investors and users of financial statements will rely on the auditor's reputation to indicate the credibility of financial statements. Public Accounting Firms' expertise is one of the attributes of Public Accounting Firm services, their expertise will determine the auditor switching by the company so that the company will choose the Big Four Public Accounting Firms. This is

in line with research conducted by Wiyanti (2011) which proved that Public Accounting Firm size has a positive effect on auditor switching. Public Accounting Firm size affects the occurrence of auditor switching. Based on this explanation, the hypothesis can be formulated as follows:

H2: Public Accounting Firms size has a positive effect on auditor switching.

Based on agency theory, which states that humans are self-interested, company management experiencing financial difficulties tends to seek auditors who have high independence to maintain management's reputation and trust from principals and companies must maintain financial stability.

Client companies that are bankrupt and experiencing an unhealthy financial position may prefer auditors with high independence to reduce litigation risk and increase the confidence of shareholders and creditors. According to Adha and Noch (2017), if financial distress happens, the agent will do auditor switching. It is because the auditor switching adjusts the company's financial condition to save on audit fees. Uncertainty in the business that is run by companies with conditions of financial difficulties and the threat of bankruptcy that occurs in companies encourages companies to switch auditors (Yanti, 2017).

Research conducted by Faradila and Yahya (2016), Adha and Noch (2017), Manto and Lesmana Wanda (2018) proves that financial distress has a positive effect on auditor switching. The higher level of financial distress in the company encourages the company to switch its auditors compared to other companies with a lower level of financial distress. Based on this explanation, the hypothesis can be formulated as follows:

H3: Financial Distress has a positive effect on auditor switching.

The agency theory predicts the establishment of an audit committee as a way to resolve agency problems. The difference in interests between the principal and the agent can lead to fraud by the agent against the principal, which is known as a moral hazard. Moral hazards can be prevented by establishing an audit committee.

The audit committee is the most important corporate governance mechanism in auditing the company's financial statements. Hence, the audit committee formed is expected to be independent and become a reliable third party. According to Johari & Hadiprajitno (2015), audit committees are formed to control the company's internal controls, but they are not entirely within the client company's internal parties. Therefore, in the membership of this audit committee, there must be independent people who have no affiliation with the client company. The committee also has the power to switch and appoint the auditor. Therefore, auditor switching is also a factor that must be considered carefully by the audit committee. Thus, performance and quality are also assessed by the audit committee and are one of the committee's decisions to dismiss and replace auditors (Nelyumna et al., 2021).

Based on research conducted by Fenandi (2019), audit committees have a negative effect on auditor switching. The greater the effectiveness of the audit committee members, the lower the auditor switching. Based on this explanation, the hypothesis can be formulated as follows:

H4: Audit committees have a negative effect on auditor switching

The implementation of agency theory can be in the form of a work contract that regulates the proportion of rights and obligations of each party by maximizing utility. Thus, agents are expected to act in ways that are in accordance with the principal's interests. The

company will ask the auditor to complete the audit. If there is an audit delay, the company will do the auditor switching due to the fear of decreasing its image in front of investors.

According to Ruroh (2016), delays in completing audits cause companies to experience delays in issuing their financial statements so that parties who need financial statements at the company cannot use them on time. It becomes a concern for the company because it can harm investors. If the company is late in publishing financial statements due to audit delays, the company will do auditor switching in the following year. It is a prevention act so that financial reports do not experience publication delays and regain investors' trust (Sari et al., 2018).

It aligns with research conducted by Fenandi (2019) and Pawitri & Yadnyana (2015) who found that audit delay has a positive effect on auditor switching. This can be explained by the fact that the longer the auditor completes the audit report, the company has tendency to replace the old auditor with a new one. However, if the auditor can complete the audit report quickly, it can be said that it is feasible to continue to use his services. Based on this explanation, the hypothesis can be formulated as follows:

H5: Audit delay has a positive effect on auditor switching.

3. RESEARCH METHODS

The population and sample in this study were construction companies in the property, real estate, and building construction sub-sectors listed on the Indonesia Stock Exchange for the period 2016 – 2020. The construction companies consist of various industrial sub-sectors to reflect reactions capital market as a whole and related reasons for data homogeneity.

The sampling technique was the purposive sampling method. Purposive sampling is a technique in which samples are taken based on certain criteria from the research. The sample selection criteria in this study are as follows: First, publish complete financial reports and audit reports for 5 years, from 2016 to 2020 on the Indonesia Stock Exchange website and company website.

It aims to find the required information such as total assets, complete data on Public Accounting Firms, auditors, the board of directors, total debt, total assets and audit opinion given in period t-1. Second, record the company's financial statements in Rupiah currency. It aims to avoid exchange rate differences when using different currencies. Third, during the research period (2016 – 2020), the company (auditee) did not experience delisting on the IDX. Hence, these companies can be compared annually during the research period.

The analysis tool uses a multiple linear regression logistic model with the following equation:

$$Y = \alpha + \beta_1.X_1 + \beta_2.X_2 + \beta_3.X_3 + \beta_4.X_4 + \beta_5.X_5 + e$$

Information:

Y	: Auditor switching variable
α	: Constanta
β_1	: Partial regression coefficient
X1	: Audit Opinion Variable
X2	: Public Accounting Firm Size
X3	: Financial distress Variable
X4	: Committee Audit Variable
X5	: Audit delay Variable
e	: error item.

4. RESULTS

The number of companies in the real estate and property sector registered in the 2016-2020 period was 65 companies. Among the 84 companies, there were 3 companies that did

not publish complete financial statements and audit reports, 20 companies experienced delisting and the age of publication was less than 5 years. Based on these calculations, there were 42 companies that meet the research criteria. Therefore, the number of sample companies used for 5 consecutive years is 210 companies.

Table 3. Logistic Regression Test Results

	B	S.E.	Wald	df	Sig.	Exp(B)
X1	1.203	.347	11.985	1	.001	3.329
X2	.488	.380	1.651	1	.199	1.628
X3	1.276	.353	13.081	1	.000	3.581
X4	-.546	.371	2.165	1	.141	.579
X5	1.181	.334	12.502	1	.000	3.258
Constant	-2.237	.368	37.012	1	.000	.107

The test results in Table 3 show that the beta coefficient on the audit opinion variable is 1.203, which means that the higher the number of audit opinions issued, the higher the auditor switching made by the client company. Meanwhile, the significance level of 0.001 is smaller than 0.05. Meaning that the audit opinion issued affects auditor switching. Therefore, H1, which states that audit opinion has a positive and significant effect on auditor switching, is accepted.

The results of the second hypothesis testing show that the beta coefficient on the Public Accounting Firms size variable is 0.488. The more credible or the larger the Public Accounting Firms' size, the higher the auditor switching made by the client company. Meanwhile, the significant level of 0.199 is greater than 0.05. Therefore, Public Accounting Firms' size does not affect auditor switching. It can be concluded that H2, which states that there is a positive and significant effect of Public Accounting Firms' size on auditor switching, is rejected.

The results of the second hypothesis testing show that the beta coefficient on the financial distress variable is 1.276. The higher the financial distress in a company, the higher the auditor switching performed by client companies. Meanwhile, the significance level of 0.000 is smaller than 0.05. Therefore, the financial distress issued affects auditor switching. It can be concluded that H3, which states that there is a positive and significant effect of financial distress on auditor switching, is accepted.

The results of the second hypothesis testing show that the beta coefficient on the audit committee variable is -0.546. The better the role or quality of the audit committee, the lower the auditor switching made by the client company. Meanwhile, the significance level of 0.141 is greater than 0.05. Meaning that the audit committee does not affect auditor switching. Therefore, the H4, which states that the audit committee has a positive and significant effect on auditor switching, is rejected.

The results of the second hypothesis testing show that the beta coefficient on the audit delay variable is 1.181. The higher the audit delay in a company, the higher the auditor switching made by the client company. Meanwhile, the significance level of 0.000 is smaller than 0.05. Meaning that the length of audit delay affects auditor switching. Therefore, H5, which states that audit delay has a positive and significant effect on auditor switching, is accepted.

This study's results indicate a positive and significant effect of audit opinion on auditor switching. Aini & Yahya (2019) explain that audit opinions provide useful information for users of external financial statements because it is useful for investment decisions. Based on this explanation, the company or client wants the auditor to give an unqualified opinion on the report.

It is often found for an auditor to issue a modified audit opinion regarding going concern when he doubts the company's survival. Therefore, client companies tend to make auditor switching when the client is not in line with the opinion or performance of the auditor. In line with Dwiphayana's (2019), when the auditor issues an audit opinion that management or the company does not want, management tends to look for a new auditor who is more lenient to replace the previous auditor.

Based on this explanation, the researcher can conclude that the more opinions are issued by the auditor, the more auditor switching is performed by the client or company. This study's results align with research conducted by Fajrin (2021) which states that audit opinion has a positive and significant effect on auditor switching.

In line with Aini (2019) research, the companies' condition threatened by bankruptcy tends to increase the subjectivity evaluation and caution of the auditor. In this condition, the company tends to do voluntary auditor switching. Based on this explanation, the researcher concluded that when the financial distress is higher, the company's auditor switching will be higher. These results align with research conducted by Widajantie (2020) which states that financial distress has a positive and significant effect on auditor switching.

5. CONCLUSION, IMPLICATION AND LIMITATION

Based on the test results and logistic regression analysis test, it can be concluded that the variable audit opinion, financial distress, and audit delay have a positive and significant effect on auditor switching. Meanwhile, the Public Accounting Firms and audit committee size variables did not prove to have an effect on auditor switching. These results imply that when performing auditor switching, the company must pay attention to audit opinions, financial distress, and audit delays. This research only used a quantitative approach, so further research can use a qualitative approach to obtain broader information in explaining auditor switching carried out by the sample companies in this study.

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