FINANCIAL: Jurnal Akuntansi
Published by Program Studi Akuntansi STIE Sultan Agung
Volume 8-Nomor 1, Juni 2022, (Hlm 103-111)

ISSN-P: 2502-4574, ISSN-E: 2686-2581
Available online at: https://financial.ac.id/index.php/financial

DETERMINANT OF THE AUDITOR SWITCHING ON MANUFACTURING COMPANY IN INDONESIA STOCK EXCHANGE

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Abstrak

Research aims to test the effet of Audit Opinion (AO), Financial Distress (FD), and Corporate Growth (CG) on Auditors Switching (AS) at Manufacturing Companies. Research population is manufacturing company registered on the BEI in 2016-2020. From 192 listed companies, 43 companies were chosen as samples based on established criteria by using purposive sampling method. The data used in this research is secondary data get from the company in annual report. Method of data analysis used is logistic regression. The results showed that: 1) audit opinion variables affect the AS. 2) FD has no effect on the auditor switching. 3). GC has no effect on the AS. The conclusion research is AO able to determine company to do AS. While FD and CG have no influence to the company to do auditor switching.

Keywords: Auditor Switching, Audit Opinion, Financial Distress, Corporate Growth.

Article History: Received: 20 Jun 2022 Revised: 24 Jun 2022 Accepted: 28 Jun 2022

INTRODUCTION

The auditor switching (AS) is a auditor replacement and/or public accounting firm conducted by the company in the assignment of the audit financial statements. According to Lin (2014) AS are auditor changes that occur due to negative AO issued over changes in business operations of a company. Naserr stated (2006) AS is a behavior carried out by companies to switch auditors. This arises because of the mandatory audit rotation. Based on theoretical evidence, with the rotation of auditors resulting in the audit engagement period (audit shorter tenure) and the company will switch auditors

The AS arises because obligation of audit rotation. Based on theoretical evidence, the existence of audit rotation resulted in a shorter audit engagement period so that the company would perform a AS. In Indonesia, audit rotation has been regulated by the government since 2002 by Decree Minister of Finance No. 423/KMK.06/2002 which in 2003 was amended to become Regulation of the Minister Finance No. 359/KMK.06/2003 article 2. This regulation provides that "the provision of general audit services by the Public Accounting Firm (KAP) to the financial statements of an entity may be made at the maximum of five consecutive years and public audit services by a public accountant for a maximum of three consecutive years." Updated by Regulation of the Minister of Finance of the Republic of Indonesia Number 17/PMK.01/2008 article 3 paragraph 1.

Substitution of auditor in Indonesia ideally done mandatory, if it happened then will not cause question or problem because it is indeed mandatory. However, the problem is when the company conducts a voluntary AS, which will lead to questions from various parties, that is why the company does not change the auditors out of the provisions and contrary to the regulations that have been made by the government. In fact, the phenomenon of auditor turnover in Indonesia itself shows that many companies do voluntary AS. Companies that perform voluntary AS cause some negative consequences such as start-up costs to be high so as to increase audit fees (Aprillia, 2013) when auditors first audit a client, for auditors who do not understand the start-up cost high so it can raise the audit fee. Auditors who perform their duties in the early years proved to have a high error (Pratitis, 2012).

Based on the facts mentioned above, research on what factors affect the company to practice voluntary AS is still very interesting to be studied. Based on some previous research, there are various indications that cause the company to do voluntary AS. Among AO, FD, and CG. AO, is a statement or opinion given by the auditor and a statement or opinion given to the company to know about his or her reasonable financial statements (Putra, 2014). AO reflects how the quality of financial statements presented by the management company. From the results of research conducted by Gunadi and Mangoting (2013), Astrini and Muid (2013), Son (2014), Astuti and Ramantha (2014), Djamalilleil (2015), Luthfiyati (2016), and Faradila and Yahya (2016) AO affects the AS. In contrast to the results of research obtained by Chadegani et al (2011), Juliantari and Rasmini (2013), Pratini and Astika (2013), Wae and Murdiawati (2015) show AO has no effect on AS.

FD is a condition where the company cannot meet its financially obligations. Companies that go bankrupt and are in an unhealthy financial position tend to using

KAP that has high independence to increase the company confidence in front of shareholders and creditors to reduce the risk of litigation. And the company inability paying the audit fee provided by the KAP, causing the company choose to replace public accounting firm (KAP) with a fee cheaper audits. FD is measured by calculating company DER ratios. Eldrige et al (2012) found that FD can be used to predict AS conducted by client companies. Febriana (2012) states that companies that are bankrupt and are experiencing an unhealthy financial position tend to do AS who have high independence to increase corporate confidence. The results of research conducted by Febriana (2012), Gunady and Mangoting (2013), Pratini and Astika (2013), Dwiyanti and Sabeni (2014), Djamalilleil (2015), Wea and Murdiawati (2015) stated that FD significant effect on the turn KAP.

CG reflects how well the company maintains its financial condition. When the company is experiencing good growth, it is possible for the company to change the auditor because management wants more qualified auditors and able to meet the demands of rapid growth. So when replacing to a more qualified auditor will improve reputation in front of investors. The company will also replace the KAP if the company considers the old KAP unable to meet the demands (Gunady and Mangoting, 2013). From the results of research conducted Nazri et al (2012), Widowati (2012), Faradila and Yahya (2016) CG affects the AS.

LITERATURE REVIEW

Audit Opinion on Auditor Switching

AO is an opinion given by the auditor to the financial statements company presented by the management. The management of a company will surely expect an unqualified opinion on its financial statements. When the auditor provides an unexpected opinion by the management, it is likely that the management will replace the auditor in the hope that the replacement auditor will provide a better opinion than the previous auditor. Conversely, if the company obtains an unqualified opinion, the company may perform a very small AS.

H1: Audit opinion affects auditors switching

Financial Distress on Auditor Switching

FD is a situation where companies are experiencing financial difficulties that can eventually refer to bankruptcy. The condition of companies that have the potential to go bankrupt will bring new problems in the working relationship between auditors and management that ultimately can cause the company to change its auditor. To avoid bankruptcy is very important for companies in increasing their capital. Increased capital can be obtained by investing shares of investors or loans from creditors. Therefore, companies that are in a FD position will tend to replace their auditors with auditors who are considered to have a higher independence than the previous auditor. This is done to increase the trust of investors and creditors in entrusting their capital to the company.

H2: Financial distress affects auditors switching

Corporate Growth on Auditors Switching

CG is a measure of how well a company maintains its economic position both in its industry and its economic activities. As the business grows, the demand for independent and high-quality auditors reduces the agency costs required to increase its expansion (Nasser et al., 2006). When conducting a AS the company expects a

positive reaction. By replacing the prestigious auditor or KAP, it is expected that the company's reputation will also be lifted in the eyes of investors. This is in line with Widowati (2012) which states that in general companies that grow into large prefer to replace auditors with auditors who have a name. Company management requires a higher quality auditor and is able to meet the demands of rapid CG, if not met most likely the company to change its auditor.
H3: Corporate growth affects auditors switching

RESEARCH METHODS

Population and Sample

The population of this study is a manufacturing company registered on the Indonesia Stock Exchange and the company financial statements obtained through IDX in 2016-2020. The sample used was chosen by purposive sampling method, with criteria research as follows: 1) Manufacturing companies registered consecutively in the BEI period 2016-2020. 2) Manufacturing companies that provide complete financial reporting information covering all operational definitions of research are: KAP name, audit opinion, total debt, total equity, total sales or net income. 3) Manufacturing company conducting a change of Public Accounting Firm. 4) Manufacturing company using the Rupiah currency in its financial statements.

Technique of Data Analysis

Testing hypothesis done by using logistic regression analysis, with the following equation:

SWITCH = α + β1OPINI + β2DER + β3GROWTH + e

Information :

SWITCH	= Auditor Switching
α	= Constants
OPINION	= Audit Opinion
DER	= Financial Distress
GROWTH	= Corporate Growth
e	= Error
B1, β2, β3	= Regression coefficients that show changes in dependent variables based on independent variables.

RESEARCH RESULT AND DISCUSSION

Description of Research Sample

The sample in this research is a manufacturing company registered consecutively since 2011-2015 and has been through the selection process. The technique sampling use purposive sampling method. Based on the predetermined criteria, 43 companies are sampled from a total 192 manufacturing companies listed on the Indonesia Stock Exchange.

Multicolinearity Test

Based on the table 1, it can be seen that the VIF value of each independent variable is no more than 10 and the tolerance value> 0.1. Thus, it can be summarize that there is no multicolonierity among independent variables.

Table 1
Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	OPINI	,977	1,009
	DER	,977	1,011
	GROWTH	,977	1,007

Hypothesis Testing

Assessing Overall Model (Overall Model Fit)

Table 2
Test Results Overall Model Fit -2 Log Lokelihood Beginning

Iteration		-2 Log likelihood	Coefficients Constant
Step 0	1	207,113	-,822
	2	207,101	-,891
	3	207,101	-,892

Table 3
Final Test Results Overall Model Fit -2 Log Likelihood

Iteration		-2 Log likelihood	Coefficients			
			Constant	OPINI	DER	GROWTH
Step 1	1	183,584	-1,514	1,495	,049	-,008
	2	181,452	-1,991	1,883	,068	,000
	3	181,462	-1,954	1,887	,069	,001
	4	181,462	-1,954	1,887	,069	,001

From the table above can be seen that -2LL start is equal to 207,101. After entering the independent variable, the final -2LL value decreases to 181,462. This decrease in likelihood value (-2LL) indicates a better regression model or in other words the model is hypothesized fit with data, which means H0 is accepted and the addition of independent variables AO, FD, and CG into the research model will improve the model Fit this research.

Assessing the Eligibility of the Regression Model

Table 4
Test Results Hosmer and Lemeshow's Test

Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	4,821	8	,811

Based on table 4, testing Chi-square shows value 4.821 with significance (p) 0.811 which is above 0.05. Based on the testing it can be summarize that H0 can not be rejected and means the model is able to predict the value of observations or can be said the model is acceptable because it matches the observation data. This means that regression model is feasible for use in further analysis, since there is no difference in the model with the data (Ghozali, 2013).

Coefficient of Determination (Nagelkerke's R Square)

Table 5
Coefficient Determination Test Results

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	194,992[a]	,198	,782

Based on table 5, it can be seen that the results Nagelkerke R Square in this study amounted 0.782. These results show that the variables of AO, FD, and CG are able to explain the dependent variable 78.2% and there are 100% - 78.2% = 21.8% described by other variables outside of this model.

Logistic Regression Model Formed

Table 6
Logistic Regression Coefficient Test Results

	B	S.E.	Wald	df	Sig.	Exp (B)	95% C.I.for EXP(B) Lower	Upper
OPINI	1,841	,391	21,211	1	,000	5,732	2,766	12,442
DER	,072	,132	,362	1	,612	1,055	,834	1,354
GROWTH	,001	,743	,000	1	,977	1,003	,271	4,222
Constant	-1,955	,364	30,201	1	,000	,151		

a. Variable(s) entered on step 1: OPINI, DER, GROWTH.

Test result on the regression coefficient above in column B yields the following model:

SWITCH = α + β_1 OPINI + β_2 DER + β_3 GROWTH+ β_4 FEE + e

SWITCH = -1,955 + 1,841OPINI + 0,072DER – 0,001GROWTH + e

Interpretation of the logistic regression equation can be explained as follows:

Regression coefficient of the AO variable indicates that the greater the chance other than unqualified opinion, it will increase the probability of the AS with the assumption that other variables remain or equal to zero. And if the smaller the chance other than unqualified opinion then it will minimize the probability of the AS with the assumption that other variables remain or equal to zero.

Regression coefficient of the FD variable (DER) shows that each increase of 1 (one) unit, it will increase the probability of the AS with the assumption that other variables remain or equal to zero. And if FD drops 1 (one) unit, it will minimize the probability of AS assuming other variables remain or equal to zero.

The regression coefficient of FG variable shows that every increase of 1 (one) unit, it will increase probability of AS with assumption other variable remain or equal to zero. And if the growth of the firm drops 1 (one) unit, it will minimize the probability of AS assuming other variables remain or equal to zero.

Parsial Test (*Wald Test*)

Table 7
Significant Test Result of Partial (Uji-*Wald*)

	B	S.E.	Wald	df	Sig.	Exp(B)
OPINI	1,629	,391	21,777	1	,000	5,977
DER	,067	,114	,363	1	,587	1,098
GROWTH	,001	,723	,000	1	,978	1,004
Constant	-1,966	,365	30,335	1	,000	,157

Based on the result logistic regression test show in table above, it can be concluded as follows:

H1: Audit opinion influences auditor switching. From table 7 we can see the significant value of audit opinion variable is 0,000. This means that the value is below the absence of 0.05, ie (0,000 <0.05). Thus it can be concluded that there is influence of AO to AS. Then H1 is accepted.

H2: Financial distress affects auditor switching. From table 7 we can see the significant value of FD variable is 0,562. This means that the above value of alpa 0,05, that is (0,562> 0,05). Thus it can be concluded that there is no effect of FD on AS. Then H2 is rejected.

H3: Corporate growth has an effect on auditors switching. From table 7 can be seen significant value of variable GC is 0,999. This means that the value is above the absolute value of 0.05, ie (0.999> 0.05). Thus it can be concluded that there is no effect of CG on AS. Then H3 is rejected.

DISCUSSION OF RESEARCH RESULTS

Audit Opinion on Auditor Switching

The results research obtained empirical evidence that H1 is accepted. The results of this test show the AO variables affect the AS. This means that when public accountants provide opinions that are not expected by the management, it is likely that the management will do the AS with the hope that the replacement public accountant will provide a better opinion than before. Because the opinion given by public accountants affects the decision making done by the investors, investors feel more confident to invest in companies that have unqualified opinion on its financial statements. This is in line with the opinion Gunady and Mangoting (2013) which states the company will continue to seek auditors who will provide opinions in accordance with its expectations and during that the company will continue to dismiss unauthorized auditors.

Financial Distress on Auditor Switching

The results research obtained empirical evidence H2 is rejected. The results of this second hypothesis show that there is no effect of FD on AS. Meaning the deterioration of the company financial condition is not a factor causing the company to change the KAP. This is because the change of KAP will incur high start-up cost if the company replaces it. Because a public accountant is unfamiliar with the client's business and has no information about the client's reputation in the past so to start his work will require a high startup cost, while the company condition is unstable. In addition, the sample companies mostly use the services KAP Non Big Four, although still replace the auditor but the KAP used is still in the category of Non Big Four, if the use of Big Four's KAP services will further complicate the company's financial condition due to increased audit services.

Corporate Growth on Auditors Switching

The results research obtained empirical evidence H3 is rejected. The result of this third hypothesis shows that there is no effect of CG on the AS. This means that growing companies still need funds to advance their business and expand (Sitompul, 2014). So the company will use its funds for the management of the company to further develop by trying to hold the replacement of auditors who are considered more prestigious by retaining the auditors and the old KAP. In addition, the company is worried that if the change of auditors will improve the audit services. In addition, the old auditor is considered to have understood the condition of the company.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

The results of this study show that Audit opinion affects the auditor switching, Financial distress has no effect on auditors switching and The growth of the company has no effect on the auditor switching.

Suggestion

Some suggestions for future research is For future researchers may consider to use the object of research on other sectors registered on Indonesia Stock Exchange. Future esearch hope to analyze other variables that may affect the auditor switching such as change of management, KAP reputation, and firm size. The researcher further explained in detail the issue of switching auditors in Indonesia in the next research year.

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