

# **The Influence of Company Growth, Management Change, Audit Report Lag, and Financial Distress on Auditor Switching (Empirical Study in the Infrastructure, Utilities, and Transportation Sector 2016-2020)**

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## **Abstract**

In maintaining auditor independence, the regulation on auditor switching is set if after five consecutive years of auditing a company it must perform auditor switching. Auditor switching can be an indication of problems in a company or signify the presence of auditors that have low performance. This study aims to determine the effect of company growth, management change, audit report lag, and financial distress simultaneously and partially on auditor switching in the infrastructure, utilities, and transportation sectors listed on the Indonesia Stock Exchange in 2016-2020. The population in this study is the infrastructure, utilities, and transportation sectors listed on the Indonesian Stock Exchange 2016-2020 period. The sample in this study was 155 sample data consisting of 31 companies for 5 years. The method used is logistic regression and descriptive statistics with SPSS 26 software. The results of this study indicate that company growth, management change, audit report lag, and financial distress simultaneously affect auditor switching. Partially, management change has a positive effect on auditor switching, while company growth, audit report lag, and financial distress have no effect on auditor switching. This research is expected to be an insight for investors who do not want to invest in companies do auditor switching voluntarily then look for companies that do not often do management change.

## **Keywords**

Auditor Switching, Company Growth, Management Change, Audit Report Lag, Financial Distress

## **1. Introduction**

Financial statements are important reports for companies in order to get investors interested in the company and decide to invest. In maintaining the financial statements, they will be audited before being used. In maintaining the independence of an auditor, auditor switching is applied. The government makes regulations for auditor switching, namely the Regulation of the Ministry of Finance of the Republic of Indonesia Number 17 of 2008 concerning Public Accountant Services Article 3 which states that auditing services are limited to 6 consecutive financial years for public accounting firms and 3 consecutive financial years for public accountants (Lianto, 2017). Auditor switching is divided into two, namely voluntary and mandatory. Voluntary auditor switching is a voluntary change of auditors or management who dismisses auditors, while mandatory is mandatory auditor switching (Lianto, 2017).

Voluntary auditor switching was carried out by the company PT Garuda Indonesia in 2018. Public accountants Kasner Sirumapea and Public Accounting Firms Tanubrata, Sutanto, Fahmi, Bambang and Partners gave unqualified opinions on financial statements that experienced irregularities. PT Garuda Indonesia recognized trade receivables with PT Mahata Aero Teknologi amounting to USD 239 million to revenue, causing a one-year license suspension and fines to public accountants, and PT Garuda Indonesia conducting voluntary auditor switching (Hartomo, 2019). From this case, it can be concluded that the presence of auditor switching in a company can be an indication of a problem with the company or auditors who have poor performance.

According to Faradila and Yahya (2016) as well as Rahmawati et al., (2017), the company growth has a positive effect on auditor switching, because the more companies increase, the greater the company doing auditor switching. However, according to Pratama and Shanti (2021) as well as Tjahjono and Khairunissa (2021), because if the previous auditor was able to meet the company's needs, management will not perform auditor switching.

According to Wulandari and Suputra (2018) as well as Anggraeni and Hestyaningsih (2020), the management change has a positive effect on auditor switching, because new management and new auditor can be more beneficial to the company. Meanwhile, according to Susanto (2018) as well as Suprpto and Nugroho (2020) the management change has no effect on auditor switching because if the previous auditor already appropriate with the management then will do not auditor switching.

According to Soraya and Musfiari (2017) as well as Suprpto and Nugroho (2020), audit report lag has a positive effect on auditor switching, because the presence of audit report lag will state that the auditor has poor quality and the company will replace the auditor. Meanwhile, according to Fahmi et al., (2017) as well as Susanto (2018), audit report lag has no effect on auditor switching because the speed or duration of the auditor in completing the independent audit report does not become the basis for the company to perform auditor switching.

According to Kusuma and Farida (2019) as well as Fenny et al., (2020), financial distress has a positive effect on auditor switching, because companies experiencing bankruptcy will auditor switching to reduce operational cost. However, according to Anggraeni and Hestyaningsih (2020) as well as Naili and Primasari (2020), financial distress has no effect on auditor switching because the companies experiencing bankruptcy do not auditor switching to avoid negative perceptions from investors. Based on the result of previous studies there are inconsistencies in research result, it is interested to re-examine the influence of company growth, management change, audit report lag, and financial distress on auditor switching.

### **1.1 Objectives**

This study aims to determine the effect of company growth, management change, audit report lag, and financial distress simultaneously and partially on auditor switching in the infrastructure, utilities, and transportation sectors listed on the Indonesia Stock Exchange in 2016-2020.

## **2. Literature Review**

Agency theory is an implementation in modern organizations that prioritizes the principal giving company management to professionals to control their business. With the increase in the size of the company, the more frequent conflicts occur between the principal and the management (agent). Management has personal interests that conflict with the interests of the principal, causing agency problems. Management will conduct auditor switching in order to fulfill the principal's wishes and achieve personal desires (Tandiontong, 2016:6).

Auditor switching is the replacement of an auditor or public accounting firm carried out by the company to maintain the independence, factual nature and public trust. Auditor switching is divided into two characteristics, namely mandatory or voluntary. Mandatory is a change of auditors in accordance with Government Regulation of the Republic of Indonesia Number 20 of 2015 concerning the Practice of Public Accountants, while voluntary auditor switching is a change of auditors caused by the auditor resigning voluntarily or management dismissing the auditor (Lianto, 2017). According to Anggraeni and Hestyaningsih (2020), the company conducts auditor switching voluntarily to obtain an auditor's opinion on unqualified financial statements.

Company growth is a company's measurement in maintaining economic activity (Zikra and Syofyan, 2019). The company's growth can be calculated using the level of sales in the company. According to Kasmir (2016:107), that sales growth can illustrate the company's expertise from time to time, and with the increase in sales growth, the company can maintain its business and reduce the risk of financial difficulties. Companies that consistently increase in growth tend to do auditor switching because the company's operational activities are increasingly complicated or complex, so it requires auditors who have better expertise to increase shareholder confidence (Zikra and Syofyan, 2019).

Management change is a decision of the General Meeting of Shareholders (GMS) which causes a change of directors or because the directors leave the company (Rahmatika and Yudowati, 2018). According to Lianto (2017), that with

the management of change it will produce new policies in the company such as increasing quality or company quality standards. With the management change, the company can do auditor switching and look for auditors who are more qualified, able to work together and in line with their accounting reporting policies. With the new management and new, more qualified auditors, it can be a good value for investors so that if the old auditors are not in accordance with the new management policies, they will do auditor switching (Azizah and Budiwinarto, 2019).

Audit report lag is the length of time for completion of the audit and is calculated from the closing date of the financial year until the audit signs the financial statements. With the delay in the publication of financial statements, it has an unfavorable impact on the company's image in the eyes of investors and causes the auditors to be judged for poor performance (Fahmi et al., 2017). According to the Financial Services Authority Regulation Number 29 of 2016 concerning the Annual Report of Issuers or Public Companies, it is stated that companies that delay until April 30 will be subject to administrative sanctions in the form of written warnings, fines, restrictions on business activities, freezing of business activities, written revocation, fines, restrictions on business activities, freezing, revocation of business activities and cancellation of registration (Permatasari and Saputra, 2021).

Financial distress is the depreciation of profits which is the stage of the occurrence of financial problems (Kristanti, 2019:12). With the uncertainty in the business of a company that is threatened with bankruptcy, it creates conditions for auditor switching by looking for a new auditor who has higher independence to increase the confidence of shareholders, creditors, and reduce the risk of litigation (Faradila and Yahya, 2016).

The following Figure 1 is the framework in this research as follows:

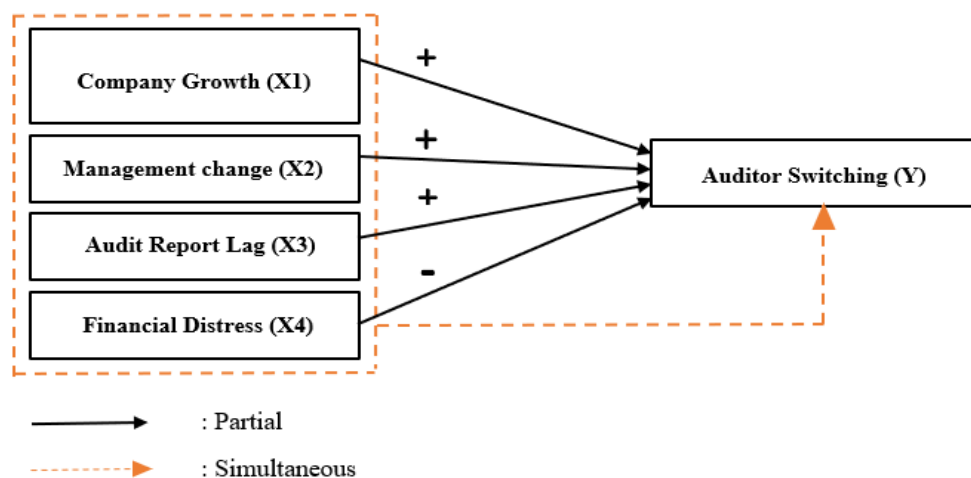


Figure1. Framework

Based on Figure 1, the hypothesis in this study is as follows:

- H<sub>1</sub>: Company growth, management change, audit report lag, and financial distress significantly affect simultaneous to auditor switching
- H<sub>2</sub>: Company growth has a positive effect on auditor switching
- H<sub>3</sub>: Management change has a positive effect on auditor switching
- H<sub>4</sub>: Audit report lag has a positive effect on auditor switching
- H<sub>5</sub>: Financial distress has a negative effect on auditor switching

### 3. Methods

#### 3.1 Sample and Data Collection

The data used in this study is secondary data sourced from audited financial statements in the infrastructure, utilities, and transportation sectors listed on the Indonesia Stock Exchange in 2016-2020 as well as literature studies, namely combining information from documents that support this research. This research method is logistic regression analysis method and descriptive statistics. The population in this study were infrastructure, utility, and transportation companies listed on the Indonesia Stock Exchange in 2016-2020. The sampling technique used in this study was

purposive sampling with the following criteria: 1) the infrastructure, utilities, and transportation sectors listed in the Indonesian Stock Exchange. Indonesia Stock Exchange 2016-2020, 2) infrastructure, utilities, and transportation that consistently publish financial reports and independent auditor reports on the Indonesia Stock Exchange for 2016-2020. The number of samples in this study were 31 companies and for 5 years so that the sample data for this study were 155 sample data.

## 4. Data Collection

### 4.1 Descriptive statistics

Table 1. Descriptive Statistical analysis on ratio scale variables

	N	Minimum	Maximum	mean	Std. Deviation
Company Growth	155	-.92820	23.99106	.24715	.199549
Audit Report Lag	155	12	204	84.25	31.156
Financial Distress	155	.00049	3.11016	.57101	.37138
Valid N (listwise)	155				

Based on Table 1, the variables audit report lag, financial distress have a mean value greater than the standard deviation value, so it means that these variables are grouped data while the company growth variable has data that varies because the mean value is smaller than standard deviation value.

Table 2. Descriptive statistical analysis on dummy scale variables

	Do	Don't do
Auditor Switching	67	88
Management Change	82	73

Based on Table 2, there are 67 companies that do auditor switching and 88 companies that do not do auditor switching in 2016-2020. For the variable management change, there are 82 companies that do management change and 73 companies that don't do management change in 2016-2020.

## 4.2 Logistics Regression Analysis

### 4.2.1 Testing Regression Feasibility (Goodness of Fit Test)

Table 3. Goodness of Fit Test Hosmer and Lemeshow's

Step	Chi-square	df	Sig.
1	10,792	8	.214

As shown in Table 3, the Chi-square value is 10,792 with a probability of 0.214 and the value is greater than ( $\alpha = 0.05$ ), then the null hypothesis or  $H_0$  is accepted, and the regression model is feasible to be used for further analysis.

### 4.2.2 Assessing the Overall Model (Overall Model Fit)

Table 4. Overall Model Fit

<i>Overall model fit (-2 LogL)</i>	
-2LogL Block Number 0	212,022
-2 LogL Block Number 1	202.612

According to Table 4, the value of -2Log Likelihood Block Number 0 is of 212,022 and -2Log Likelihood Block Number 1 has a value of 202,612 so it can be concluded that there is a decrease in the value of -2Log Likelihood. If the value of -2 Log Likelihood Block Number 0 is greater than -2 Log Likelihood Block Number 1, it shows that the regression model fits the data or accepts  $H_0$ .

#### 4.2.3 Coefficient of Determination

Table 5. Model Summary

Step	-2 Logs likelihood	Cox & Snell R Square	Nagelkerke R Square
1	202.461a	.060	.080

Based on Table 5, the value of Cox and Snell R Square is 0.060 and the value of Nagelkerke R Square is 0.080, so that it states that the combination of company growth, management change, audit report lag, and financial distress can explain the variation of auditor switching by 8% and the rest is explained by factors others not tested in this study.

#### 4.2.4 Simultaneous Test

Table 6. Omnibus Test of Model Coefficient

		Chi-square	df	Sig.
Step 1	Step	9.561	4	.049
	Block	9.561	4	.049
	Model	9.561	4	.049

Table 6 shows that the Chi-square value is 9.561 and the degree of freedom is 4, it has a significance level of 0.049 which is greater than which is 0.05, so that  $H_a$  is accepted, namely the variables of company growth, management change, audit report lag, and financial distress in general simultaneous effect on auditor switching in infrastructure, utility, and transportation companies listed on the Indonesia Stock Exchange in 2016-2020.

#### 4.2.5 Partial Test

Table 7. Variables in the Equation

		B	Sig.
Step 1a	Company Growth	-.135	.449
	Management Change	.893	.009
	Audit Report Lag	-.005	.366
	Financial Distress	.546	.228
	Constant	-.637	.270

Based on Table 7 above, the logistic regression model used is as follows:

$$LN \frac{AS}{1-AS} = -0.637 - 0.135 + 0.893 - 0.005 + 0.546 + PP_{it}MC_{it}AR_{it}FD_{it}$$

Hence it can be described as follows:

- 1) The constant value of -0.637 and a significant level of  $0.270 > 0.05$  ( $\alpha$ ) means that if the variables of company growth, management change, audit report lag, and financial distress are zero (0) or constant, the auditor switching variable cannot be interpreted.
- 2) The company's growth has a regression coefficient of -0.135 and a significant level of  $0.449 > 0.05$  ( $\alpha$ ), then the company's growth has no effect on auditor switching.
- 3) Management change has a regression coefficient of 0.893 and a significant level of  $0.009 < 0.05$  ( $\alpha$ ), so management change has a positive effect on auditor switching.
- 4) Audit report lag has a regression coefficient of -0.005 and a significant level of  $0.336 > 0.05$  ( $\alpha$ ), so audit report lag has no effect on auditor switching.
- 5) Financial distress has a regression coefficient of -0.637 and a significant level of  $0.270 > 0.05$  ( $\alpha$ ), so financial distress has no effect on auditor switching.

## **5. Results and Discussion**

Hypothesis 1 states that company growth, management change, audit report lag, and financial distress simultaneously affect auditor switching. As shown in Table 5, the significance level value is 0.049 which is smaller than 0.05 (5%) so it can be interpreted that company growth, management change, audit report lag, and financial distress simultaneously affect auditor switching in the infrastructure, utilities, and transportation sectors listed on the Indonesia Stock Exchange in 2016-2020.

Hypothesis 2 states that company growth has a positive effect on auditor switching, because the more companies increase, the greater the need for auditors who have higher professionalism. Table 6 shows that the significance level value is 0.449 which is greater than 0.05 (5%). These results indicate that hypothesis 2 is rejected, namely company growth has no effect on auditor switching. This is because if the previous auditor was able to meet the company's needs, management will not perform auditor switching and it will not become a basis for the company to conduct auditor switching if the company has decreased or increased total assets. These results support the research of Tjahjono and Khairunissa (2021) as well as Mardasari and Triyanto (2020).

Hypothesis 3 states that management change has a positive effect on auditor switching. Table 6 shows that the significance level value is 0.009 which is smaller than 0.05 (5%). These results indicate that hypothesis 3 is accepted, namely management change has a positive effect on auditor switching. This is because with the new management there will be a downturn in developing a better company by doing auditor switching, so that by replacing auditors with those of better integrity, they can maintain the trust of users of financial statements and there is no suspicion of cooperation between companies and auditors. These results support the research of Anggraeni and Hestyaningsih (2020) as well as Wulandari and Suputra (2018).

Hypothesis 4 states that audit report lag has a positive effect on auditor switching, because the presence of audit report lag will state that the auditor has poor quality. Table 6 shows that the significance level value is 0.366 which is greater than 0.05 (5%). The results of this study indicate that hypothesis 4 is rejected, namely audit report lag has no effect on auditor switching. This is because the speed or duration of the auditor in completing the independent audit report does not become the basis for the company to perform auditor switching and if the auditor switching is carried out, it does not guarantee that the new auditor can complete the audit faster than the old auditor. These results support the research of Naili and Primasari (2020) as well as Susanto (2018).

Hypothesis 5 states that financial distress has a negative effect on auditor switching, because the presence of auditor switching can make the company's finances worse. Table 6 shows that the significance level value is 0.228 which is greater than 0.05 (5%). The results of this study indicate that hypothesis 5 is rejected, namely financial distress has no effect on auditor switching. This is because financial distress cannot be considered by companies to conduct auditor switching and companies experiencing financial distress do not have a strong desire to increase shareholder confidence. These results support the research of Anggraeni and Hestyaningsih (2020) as well as Naili and Primasari, (2020).

## **6. Conclusion**

In maintaining the independence of an auditor, auditor switching is applied. Auditor switching voluntarily can be an indication of problems in a company or signify the presence of auditors that have low performance. But there are still many companies in Indonesia do auditor switching voluntary, so this study conducted a test to determine the factors that cause auditor switching. This study aims to determine the effect of company growth, management change, audit report lag, and financial distress on auditor switching in the infrastructure, utilities, and transportation sectors listed on the Indonesia Stock Exchange in 2016-2020. The method used is logistic regression and descriptive statistics. The results of this study indicate that company growth, management change, audit report lag, and financial distress simultaneously affect auditor switching. Partially, management change has a positive effect on auditor switching, while company growth, audit report lag, and financial distress have no effect on auditor switching. For the further research, it is expected to be able to add independent variables such as capital structure or others and to use a wider research object so that the research result more relevant. This research is expected to be an insight for investor if don't want to invest in companies do auditor switching voluntarily then look for companies don't often do management change. For the company, it is expected to be able to add insight if the company does management change too often, the higher the company will do auditor switching voluntarily.

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