

Factors That Influence Voluntary Switching Auditors in Manufacturing Companies Listed in Indonesia Stock Exchange

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Abstract

The purpose of this research is to analyze the effect of change of management, financial distress, Public Accounting Firm Size, percentage of ROA change, Client size, going concern audit opinion and audit tenure on voluntary auditor switching. This research uses the logistic regression method, which uses secondary data from manufacturing companies with observation years from 2012 to 2016. The result of the research indicates that client size and audit tenure influence voluntary auditor switching. While the change of management, financial distress, Public Accounting Firm Size, percentage of ROA change, and going concern audit opinion do not affect voluntary auditor switching. (RTP).

Keywords

Auditor, Financial Distress, Manufacture, Switching, Voluntary.

1. Introduction

Financial statements are one general description of the condition of a company. Financial statements also function as a media company to communicate various information about the presentation of financial statements used by management for accountability and economic measurement of the resources owned by interested parties to obtain information about the extent of their performance achievements to those in need. To improve the reliability of financial statements, financial statements must be audited by an auditor. Examinations carried out by the auditor must be objective and independent. Independence means that the auditor cannot be influenced by certain parties (Public Accountant Professional Standards / PAPS). Jensen & Meckling (1976) in Putranto and Raharja (2013) state that agency problems are caused by conflicts of interest and information asymmetry between principals and agents. This conflict can occur because the agent does not always act in accordance with the wishes of the principal and raises the cost agency. In agency theory, the auditor acts as an intermediary between agents and principals of different interests. However, suppose there is a relationship between the Public Accountant Firm (PAF) and company management (client) as a long-established assignor. In that case, it can make the auditor's independence decrease, indirectly influencing the quality of the audit produced.

In Indonesia, the provision of audit services is carried out by the Public Accountant Office, which is regulated in Government Regulation No.20 of 2015 concerning Public Accountants in article 11 paragraph (1) containing the provision of audit services for historical financial information as referred to in Article 10 paragraph (1) letters A for an entity by a Public Accountant is limited to a maximum of 5 (five) consecutive financial years. The replacement of PAF (auditor switching) can occur due to government regulation or based on the company's wishes outside the regulations (voluntary). Switching auditors that occur voluntarily can occur due to various factors that originate from

the client (management change, company size, etc.) and the auditor (audit fee, audit opinion, PAF size, etc.). In addition, financial distress can also be the cause of auditor switching because companies that are in financial difficulties will find it difficult to pay for audit services provided by PAF. Basically, the company certainly wants the auditor to provide natural opinions on the financial statements because generally, the opinions from outside are less desirable by the management and will be a consideration for users of financial statements. But not always that desire is fulfilled because the auditor must remain independent in carrying out his duties. Management will often dismiss the auditor for the company's unexpected opinions on their financial statements and hope to get a softer auditor when transferring PAF.

Several studies have been conducted before to examine the factors that influence auditor switching in a company. The research conducted by Aprillia (2013) shows that management change, public ownership, financial distress and PAF size simultaneously influence the auditor switching. Only PAF size variables partially influence auditor switching, but management change, public ownership, and financial distress variables do not affect auditor switching. While in Yanti (2016) concluded that audit opinion, financial distress, sales growth, PAF and ROE measures influence the turnover of PAF (auditor switching), while the percentage change in ROA does not affect the auditor switching.

The problems to be examined in this study are:

1. Does management change affect the auditor switching of manufacturing companies listed on the Indonesia Stock Exchange for 2012-2016?
2. Does financial distress affect the auditor switching in the manufacturing sector companies listed on the Stock Exchange for 2012-2016?
3. Does the size of the accounting firm affect the auditor switching of manufacturing companies listed on the Indonesia Stock Exchange for the period 2012-2016?
4. Does the percentage change in ROA affect the auditor switching in the manufacturing sector companies listed on the Stock Exchange for 2012-2016?
5. What is the size of the client to the auditor switching at a manufacturing company listed on the IDX for the period 2012-2016?
6. Is the going-concern audit opinion towards the auditor switching on the manufacturing sector companies listed on the IDX for 2012-2016?
7. Is the audit tenure of the auditor switching in the manufacturing sector companies listed on the IDX for 2012-2016?
8. Does management change, financial distress, PAF size, the percentage change in ROA, client size, going-concern audit opinion, and audit tenure simultaneously affect the auditor switching in the manufacturing sector companies listed on the Stock Exchange for the period 2012-2016?

2. Research Method

In this study, the sample used is a manufacturing sector company listed on the Indonesia Stock Exchange (IDX) for 2012-2016. The selection of manufacturing sector companies in Indonesia is due to the many companies registered in Indonesia. Manufacturing is a diversified sector with various sub-sectors. The type of research is quantitative by using secondary data obtained from the idx.co.id page. The method used in the selection of samples is a sampling purpose with the criteria of (1) Manufacturing companies listed on the Stock Exchange for the period 2012-2016, (2) Manufacturing companies that publish financial statements throughout 2012-2016, (3) Companies whose financial statements have been audited. Variables in this study are divided into two, namely the dependent variable and the independent variable. The independent variable consists of management turnover, financial distress, the percentage change in ROA, PAF size, going concern audit opinion and audit tenure. The dependent variable consists of voluntary switching auditors.

Switching auditors are proxied if the company that performs voluntary Public Accountant Firm changes is given a value of 1. Whereas if it is not given a value of 0. The management change is proxied if the company replaces the president director, then gives a value of 1 and if not given a value of 0. Variable financial distress proxied by the DER (Debt to Equity Ratio). The size of the PAF is proxied if the company is audited by the Big 4. PAF then is given a value of 1. Whereas if a non-Big 4 PAF audits the company, then a value of 0. The percentage change in ROA is defined by changes in ROA year t with year $t-1$. The size of the company in this study is seen based on the LN of the company's total assets. Going concern opinion is proxied if the company accepts going concern opinion, then is given a value of 1. Meanwhile, if it is not given a value of 0. The audit tenure variable is calculated by summing the total

length of the audit engagement before the auditor moves. The first year of engagement begins with number 1 and is added to one for the following years.

In this study, data analysis techniques are carried out using logistic regression analysis. Logistic regression analysis is a regression model that has been modified because the dependent variable uses a nominal scale. Logistic regression is used to test the extent to which the probability of the occurrence of the dependent variable can be predicted by the independent variable (Ghozali, 2013). The equation of the logistic regression analysis used in this study is:

$$\text{SWITCH}_t = o + b_1\text{DIRUT} + b_2\text{DEBT} + b_3\text{KAP} + b_4\text{ROA} + b_5\text{KLIEN} + b_6\text{OGC} + b_7\text{TEN} + \varepsilon$$

Description:

SWITCH	: Auditor Switching
bo	: Constants
b1-b7	: Regression Coefficient
DIRUT	: Change Management
DEBT	: Financial Distress
ROA	: Percentage Change in ROA
PAF	: PAF size
CLIENTS	: Company Size
OGC	: Going Concern Audit Opinion
TEN	: Tenure Audit
E	: Error

The feasibility of the regression model was assessed by using Hosmer and Lemeshow's Goodness of Fit Test. If the value is equal to or less than 0.05, the null hypothesis is rejected. If the test statistic value is greater than 0.05, the null hypothesis cannot be rejected, which means the model can predict the value of its observations. Parameter estimation and interpretation of hypothesis testing are made by comparing probability values (sig). If there is a significant number smaller than 0.05, the independent variables significantly influence the occurrence of the dependent variable. Vice versa, if the significant number is greater than 0.05, the independent variable does not significantly influence the occurrence of the dependent variable (Ghozali, 2013). Simultaneous testing is seen by using the F statistic test. Partial testing by looking at the level of variable significance in the equation, the regression coefficient results (Ghozali, 2013).

3. Results and Discussion

This study produced 32 samples of manufacturing companies with a 5-year observation period, so the total observations are 160 observation samples. In the results of frequency distribution, the auditor switching variable in the sample of companies that do not make PAF changes are 101 (63.1%) companies and 59 (36.9%) companies that make PAF changes. Companies that make 22 management changes/president directors are 22 (13.8%), and 138 (86.2%) do not change from the sample companies during the study period. Companies that get going concern opinion are 22 (13.8%), and companies that get not going concern opinion are 138 (86.3%). Of 160 sample companies, 150 were audited by non-big four PAFs (93.8%), while 10 (6.3%) were audited by big four PAF.

Table 1 Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
Financial Distress	160	-225,05	11,25	-,2237	18,01103
Client Size	160	21,43	29,57	27,3216	1,36769
Percentage of Change in ROA	160	-16,91	,95	-,0119	1,36290
Audit Tenure	160	1,00	5,00	1,7750	,97096
Valid N (listwise)	160				

Source: Results of SPSS 25, 2018 Data Processing

Based on Table 1, the minimum values, maximum values, mean values and standard deviations can be seen. The value of N indicates the number of samples in 2012-2016. In the table, the results of descriptive statistics interpret as follows:

The total average company financial distress that performs auditor switching is -0.2237, and its standard deviation is 18.011. Financial distress is measured using the DER ratio (debt to equity ratio), calculated by comparing total debt with total equity. The greater the DER ratio, the greater the company's burden to creditors and vice versa. As measured by the natural log of total assets, client size has an average value of 27.32 with a standard deviation of 1.367. The maximum value is 29.57, and the minimum value is 21.43.

Percentage change in ROA is one of the company's financial indicators to see the company's business prospects. The minimum value for the percentage change in ROA is -16.91, and the maximum value is 0.95, with an average value of -0.0119 and a standard deviation of 1.362.

Audit tenure describes the length of the KAP engagement period with the client. The descriptive statistics show a maximum value of 5 and a minimum value of 1. In other words, the length of the engagement period of a Public Accounting Firm is five years, and the shortest is one year. With an average of 1.77 and a standard deviation of 0.97.

3.1 Assess the Fit Model and the Overall Model

Table 2. Overall Model Result

Iteration History a,b,c,d									
Coefficients									
Iteration	-2 Log likelihood	Constant	Financial Distress	PAF Size	Company Size	Percentage of Change in ROA	Management Change	Going Concern Opinion	Audit Tenure
Step 1	141,146	-5,372	,004	-,040	,258	-,090	,308	-,394	-1,239
2	121,229	-5,908	,007	-,050	,322	-,134	,377	-,510	-2,192
3	114,083	-5,342	,010	-,081	,340	-,157	,391	-,593	-3,091
4	112,587	-4,887	,017	-,103	,346	-,157	,403	-,622	-3,673
5	112,385	-4,635	,042	-,108	,343	-,145	,430	-,596	-3,886
6	112,368	-4,574	,057	-,108	,342	-,138	,446	-,574	-3,919
7	112,368	-4,575	,057	-,108	,342	-,138	,446	-,574	-3,920
8	112,368	-4,575	,057	-,108	,342	-,138	,446	-,574	-3,920

a. Method: Enter

b. Constant is included in the model.

c. Initial -2 Log Likelihood: 210,652

d. Estimation terminated at iteration number 8 because parameter estimates changed by less than ,001.

Source: Results of SPSS 25, 2018 Data Processing

The value of -2 Log-Likelihood block number = 0 is 210.652, and after entering the seven independent variables, the value of -2 Log-Likelihood block number = 1 is 141.146. So, there is a decrease in the Likelihood Log -2 value of $210.652 - 141.146 = 69.506$. The decrease shows that the addition of independent variables included in the model can improve the fit model of this study and show a better overall logistic regression model. (Table 2)

3.2 Assessing the Feasibility of the Regression Model

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

Hosmer and Lemeshow Test			
Step	Chi-square	Df	Sig.
1	1,984	8	,981

Source: Results of SPSS 25, 2018 Data Processing

From the results of this test, the significance value is greater than $0.981 > 0.05$. Because the significance level is greater than α , which is 0.05 or 5%, this indicates a fit model with observation data can predict the value of its observations. (Table 3)

3.3 Nagelkerke R Square's Determination Coefficient Test

Table 4. Determination Coefficient Test Results (Nagelkerke R Square)

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	112,368a	,459	,627

a. Estimation terminated at iteration number 8 because parameter estimates changed by less than ,001.

Source: Results of SPSS 25, 2018 Data Processing

The Nagelkerke R Square value of 0.627 or 62.7% means that the independent variable can explain the auditor switching dependent variable by 62.7%. In comparison, 37.3% is explained by other variables outside the research model. (Table 4)

3.4. Simultaneous Testing (Test Statistics F)

Table 5. Statistics F Test Result

ANOVA ^a						
Model	Sum of Squares	Df	Mean Square	F	Sig.	
1 Regression	14,461	7	2,066	13,783	,000b	
Residual	22,783	152	,150			
Total	37,244	159				

a. Dependent Variable: Auditor Switching

b. Predictors: (Constant), Audit Tenure, Financial Distress, PAF Size, Percentage of Change in ROA, Audit Opinion, Change of Management, Company Size

Source: Results of SPSS 25, 2018 Data Processing

The F statistic value is 13,783, with a significance value of 0,000, which has a significance value smaller than the level of α , which is 0.05, indicating that the independent variables jointly influence voluntary switching auditors (Table 5)

3.5. Classification Matrix

Table 6. Classification Matrix

Classification Tables						
			Predicted		Percentage Correct	
			Auditor Switching			
Observed			There is No Change of PAF	There is a Change of PAF		
Step 1	Auditor Switching	There is No Change of PAF	79	22		78,2
		There is a Change of PAF	6	53		89,8
Overall Percentage						82,5

a. The cut value is 500

Source: Results of SPSS 25, 2018 Data Processing

The results in Table 6 show the predictive power of the regression model to predict the probability of voluntary auditor switching occurring at 89.8%. In comparison, the predictive power for companies that do not conduct voluntary switching auditors is 78.2%.

3.6. Testing the Significance of Regression Coefficient

Table 7. Logistic Regression Test Results

Variables in the Equation		B	Sig.	Exp(B)
Step 1a	Financial Distress	,057	,642	1,059
	PAF Size	-,108	,919	,897
	Company Size	,342	,048	1,407
	Percentage of Change in ROA	-,138	,724	,871
	Management Change	,446	,513	1,562
	Going Concern Opinion	-,574	,393	,563
	Audit Tenure	-3,920	,000	,020
	Constant	-4,575	,324	,010

Source: Results of SPSS 25, 2018 Data Processing

Based on the results of testing in Table 7, the regression equation from this study is:

$$\text{SWITCH}_t = -4,575 + 0,446\text{DIRUT} + 0,057\text{DEBT} - 0,108\text{PAF} - 0,138\text{ROA} + 0,342\text{CLIENT} - 0,574\text{OGC} - 3,920\text{TEN} + \varepsilon$$

Based on the regression equation there are several things can be implemented, including:

1. From the regression model equation, the constant value is -4.575. These results mean that if the independent management change, financial distress, PAF size, the percentage change in ROA, client size, going concern audit opinion and audit tenure have zero values, then the voluntary switching auditor voluntary variable has a value of -4,575.
2. The first regression coefficient is that the management change variable has a value of 0.446. If the management change has one unit increase, then voluntary switching auditors will increase by 0.446 units.
3. The second regression coefficient is the financial distress variable has a value of 0.057, meaning if financial distress increases one unit, then voluntary switching auditors will increase by 0.057 units.
4. The third regression coefficient is that the PAF size variable has a value of -0.108. If the PAF size increases by one unit, the voluntary switching auditor opinion will decrease by -0.108 units.
5. The fourth regression coefficient is the percentage change variable ROA has a value of -0.138. If the percentage change in ROA increases by one unit, then voluntary switching auditors will decrease by 0.138 units.
6. The fifth regression coefficient is that the variable client size has a value of 0.342. If the client size increases by one unit, the voluntary switching auditors will increase by 0.342 units.
7. The sixth regression coefficient is the going concern opinion variable with a value of -0.574. If the going concern opinion increases by one-unit, voluntary switching auditors will decrease by 0.574 units.
8. The seventh regression coefficient is that the audit tenure variable has a value of -3,920. If the audit tenure increases by one unit, then voluntary switching of auditors will decrease by 3,920 units. As demonstrated in this document, the numbering for sections upper case Arabic numerals, then upper case Arabic numerals,

separated by periods. Initial paragraphs after the section title are not indented. Only the initial introductory paragraph has a drop cap.

4. Conclusion

1. Management change does not affect voluntary auditor switching. These results are supported by Astrini & Muid (2013) and Kurniaty (2014), which state that management change does not have a significant effect on the replacement of PAF. So, it can be concluded that the presence or absence of management change does not affect the occurrence of voluntary auditor switching because, ultimately, the management and PAF can renegotiate.
2. Financial distress does not affect voluntary auditor switching. The results are supported by Aprillia (2013) and Salim & Rahayu (2014), which state that financial distress does not significantly affect auditor switching. So, it can be concluded that financial distress is not a factor that influences the occurrence of voluntary switching auditors because companies experiencing financial difficulties do not make changes to the accounting firm because it will require greater audit costs to understand the business model from the start.
3. PAF size does not affect voluntary auditor switching. This is supported by the research of Salim & Rahayu (2014) and Astrini & Muid (2013), which state that the size of PAF does not affect the change of PAF. Then it can be concluded the size of the PAF is not a factor that influences the occurrence of voluntary auditor switching because as long as the PAF provides good and reliable audit quality, the company tends to maintain the old PAF.
4. The percentage change in ROA does not affect voluntary auditor switching. This is supported by research conducted by Wea & Murdiwati (2015), and Yanti (2016) found evidence that the percentage change in ROA does not affect the auditor switching or the change of PAF. Then it can be concluded that the percentage change in ROA is not a factor that affects the occurrence of voluntary auditor switching because the company does not always switch to a new Public Accountant Firm in any condition. In addition, the long relationship between the company and the old client is another reason.
5. Client size influences voluntary auditor switching. This is in line with the research of Kurniaty (2014) and Wea & Murdiwati (2015) state that the company's size influences the change of PAF. Then it can be concluded that client size is one of the factors that influence the occurrence of voluntary auditor switching because companies tend to make changes to the new PAF to show the suitability between company size and PAF size.
6. Going concern audit opinion does not affect voluntary auditor switching. The research conducted by Arsih & Anisykurlillah (2015) states that going concern opinion does not influence the change of PAF. It can be concluded that the going concern audit opinion is not a factor that influences the occurrence of voluntary auditor switching because the company receives a going concern opinion is an opinion on the company whose business continuity is doubtful even though there is a management plan to resolve the problem in the company. With that opinion, the company will try to improve performance.
7. Audit tenure affects voluntary auditor switching. It can be concluded that audit tenure is one factor that influences the occurrence of voluntary switching auditors because the longer the audit engagement period, the greater the tendency of client companies to make changes to PAF. Because of the regulations that limit it.
8. Based on the results of simultaneous management change, financial distress, PAF size, the percentage change in ROA, client size, going concern audit opinion, and audit tenure have an effect on auditor switching. Simultaneous test results show the number $0.000 > 0.05$, meaning the overall variables in this study are jointly able to influence auditor switching voluntarily.

With the limitations in this study, here are some suggestions for the development of further research and researchers:

1. For the next researcher, replace or not be limited to the often-used independent variables.
2. For further researchers, use the object of research that is more diverse and not limited to manufacturing companies.
3. Further research uses other measurements in the calculation of the variables used in this study.
4. Subsequent research uses a longer observation period to get better results.

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