Analysis of Influencing Factors Auditor Switching

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Abstract: **Auditor independence is the main key of the auditor profession, including to assess the reasonableness of financial statements. To maintain auditor independence, the government issues rules governing auditor rotation. However, there are various factors that can influence the practice of voluntaru auditor turnover, including: public accountant firms size, company growth rate, financial distress, audit tenure, and change of board of commissioners. This study aims to empirically prove the affects of Public Accountant Firm size, company growth rate, financial distress, audit tenure, and change of board of commissioners. The project of this research is companies in property and real estate sector listed on the BEI period of 2016-2018. The number of sampels obtained was 46 companies, with the sampling technique used was purposive sampling. The analysis technique used is logistic regression analysis. The result showed that audit tenure had a positive effect on auditor switching, while other factors namely public accountant firm size, company growth rate, financial distress, audit tenure, and change of board of commissioners did not have a positive effect on auditor switching.**

Keywords: **Public Accountant Firm size, Company Growth Rate, Financial Distress, Audit Tenure, and Change of Board of Commissioners, Auditor Switching.**

I. INTRODUCTION

Companies must continue to optimize their quality by maintaining and increasing public confidence so that companies can continue to compete with each other. Financial statements are important instruments because they provide information about the financial position, company performance, and resources owned by the company in certain periods as a means of decision making for users of financial statement information such as; managers, investors, creditors, suppliers and the public. The auditor's opinion is needed in order to find out whether a company's financial statements have been fairly presented in accordance with Financial Accounting Standards (SAK) in force in Indonesia and can be trusted by the public and assess the company's business continuity through Public Accounting Firms (Setiadamayanthi & Wirakusuma, 2017).

Auditor independence is the main key of the audit profession, including to assess the reasonableness of financial statements (Abdul Nasser, Abdul Wahid, Mustapha Nazri, & Hudaib, 2006). Absolute independence must exist in the auditor when he is carrying out auditing duties which require him to attest to the fairness of his client's financial statements (Mulyadi, 2011: 74). It is natural for users of financial statements, regulators, and other parties to always question whether auditors can be independent in carrying out their duties. Doubts about independence are heightened because public accounting firms have been given the freedom to provide non-audit services to clients they audit.

Damayanti & Sudarma (2007) argues that an auditor's independence will be lost if he has a personal relationship that is too long with the client, because this can affect the mental attitude and audit opinion that will be given. In an effort to maintain public trust in the audit function and to protect the objectivity of auditors through a series of provisions, the auditor profession is prohibited from having personal relationships with their clients that could lead to potential conflicts of interest (Saud, 2017). One suggestion is to have a mandatory rotation because it can increase the ability of auditors to protect the public through increasing vigilance for any possible improperness, improving the quality of service and preventing closer relations with clients (Abdul Nasser et al., 2006). Auditor Switching is a change of auditor and Public

Accounting Firm conducted by the client company (Muliawan & Sujana, 2017). In general, auditor switching has two characteristics, voluntary and mandatory.

To maintain auditor independence, the government issues rules governing auditor rotation. After going through several updates, to tighten supervision of the Public Accountant who conducted an audit of financial service providers, OJK issued POJK No. 13 of 2017 concerning the Use of Public Accountant Services and Public Accountant Offices in Financial Services Activities. In the regulation, it is written that financial service institutions must limit the use of audit services from public accountant for a maximum of 3 (three) consecutive financial years. Whereas the limitation on the use of services from public accounting firms depends on the evaluation results of the Audit Committee. In addition, financial service institutions must use public accountants and public accounting firms registered with OJK (Financial Services Authority, 2017).

However, some oppose the idea of mandatory auditor rotation that is advocated by the American Institute of Certified Public Accountants (AICPA) because they believe that costs outweigh benefits. Davis, Soo, & Trompeter (2009) argue that each change of new auditors will incur greater costs. This is because new auditors do not have a deep understanding of their new client's business. Another weakness is that the knowledge gained during improving the quality of audit work will be in vain with the appointment of a new auditor (Abdul Nasser et al., 2006). Litigation of auditors generally occurs in the first three years of auditing and shows a declining trend after the assignment period increases (Dewi Kartika & Nahumury, 2014). Litigation risk is expected to be a strong incentive for auditors to provide high quality audits (Minutti-Meza, 2014).

The reason why researchers use property and real estate sector companies as research populations is because the property and real estate sector has quite bright potential in the future that can be seen from several phenomena including the continued increase in population in Indonesia each year, the number of infrastructure projects currently being run en masse over the past few years so that it will have an impact on the addition of property and real estate projects around it, and the Indonesia Stock Exchange (IDX) noted that the most shining sectors during early 2019 were property, real estate, and building construction due to shares The property grew to 7.37 percent year to date (ytd), the highest of the nine sectors on the IDX (Kontan.co.id, 2019). Based on the background of the problem that has been described, then several main issues can be formulated as follows: 1)What is the effect of public accountant firm size on auditor switching? ; 2) What is the effect of growth of client companies on auditor switching? ; 3) What is the effect of financial distress on auditor switching? ; 4) What is the effect of audit tenure on auditor switching? ; 5) What is the effect of change of the board of commissioners on auditor switching?

II. CONCEPTUAL MODEL AND HYPOTHESES

The Effect of Public Accountant Firms Size on Auditor Switching

According to Sinarwati (2010), based on agency theory which assumes that one of human nature is self-interest, the presence of a third party as a mediator of agency relations is needed, in this case an independent auditor. Management and companies will look for reputable public accountant firms to increase the confidence of investors and creditors, which can be seen from the results of audit reports issued by these high-reputed public accounting firms (Firyana & Septiani, 2014). Big public accountant firms or Big Four affiliated public accountant firms are perceived to conduct audits with higher quality compared to small public accountant firms or Non-Big Four, because Big Four has more clients and more resources so they are not dependent on one or several clients, in addition, because of its reputation which has been considered good by the community, public accountant firms has maintained more independence (Jafari, Chadegani, & Biglari, 2011). Based on this explanation, the following hypotheses can be proposed:

H_1: Public Accountant Firms size affects auditor switching.

The Effect of Clients' Growth Rates on Auditor Switching

Companies with high growth rates are considered larger companies as well. Based on signal theory states that a good quality company will intentionally give a signal to the market so that the market (investors) can compare which companies are qualified. The greater the growth rate of the company, the tendency of companies to move public accountant firm will be more likely because the higher the growth of the company, the company tends to replace larger and quality of public accountant firm in order to increase public confidence in the company (Fallis, 2018). This opinion is supported by the opinion of Faradila & Yahya (2016) which states that, rapid company growth must be accompanied by

management changes and must be balanced by higher quality auditors. Based on this explanation, the following hypotheses can be proposed:

H_2: Clients' growth rates affects auditor switching.

The Effect of Financial Distress on Auditor Switching

There is a strong urge to move auditors to companies that are threatened with bankruptcy (Maharani et al., 2018). Significant financial difficulties affect companies that are threatened with bankruptcy to switch accounting firms, this is because companies are no longer able to pay their obligations imposed by accounting firms (Chadegani, Mohamed, & Jari, 2011). In addition Damayanti & Sudarma (2007) states that companies that go bankrupt move more frequently than auditors companies that do not go bankrupt. The financial position of the audit may have important implications for the decision to defend the firm. Companies that are threatened with bankruptcy tend to change public accountant firms engagements to those with a reputation in order to increase the trust of shareholders and creditors, and reduce the risk of litigation (Firyana & Septiani, 2014). Based on this explanation, the following hypotheses can be proposed:

H_3: Financial distress affects auditor switching.

The Effect of Audit Tenure on Auditor Switching

Long-standing relationships between clients and auditors tend to create perceptions that auditors find it difficult to be independent and create agency costs in the form of dependency between the two parties (Muliawan & Sujana, 2017). The longer the company's engagement with the auditor or KAP, the greater the likelihood of a high emotional feeling that will affect the auditor's waning independence. Based on these arguments, it can be concluded that the greater or longer the audit engagement period (audit tenure), the greater the company to conduct auditor switching. Based on this explanation, the following hypotheses can be proposed:

H_4: Audit tenure affects auditor switching.

The Effect of Change of Board of Commissioners on Auditor Switching

Based on agency theory, management as an agent appointed and dismissed by the board of commissioners has the right to be in charge of responsible for the running of the company which is expected to maximize profits (Maharani et al., 2018). In terms of supervising companies and companies, the board of commissioners has the authority to appoint public accountant firm through the audit board. Because the board of commissioners who have the authority to appoint public accountant firms, so the change in the board of commissioners will provide an assessment of the appointment of public accountant firms issued and issued by the appointed public accountant firm that will be different from the previous public accountant firms. Based on this explanation, the following hypotheses can be proposed:

H_5: Change of Board of Commissioners affects auditor switching.

The conceptual framework in this research is presented in Figure 1 below:

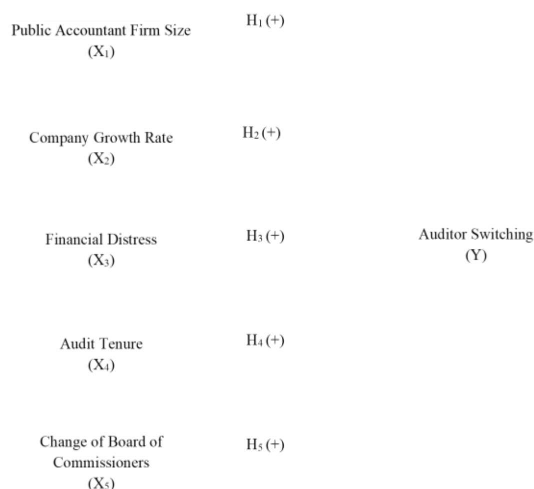

Fig. 1 The Conceptual Framework

III. RESEARCH METHODOLOGY

This research uses an associative quantitative approach. This research was conducted at the Indonesia Stock Exchange by accessing the official website of the IDX. The object of research in this study is auditor switching using public accountant firms size, growth rates of client companies, financial distress, audit tenure, and change of board of commissioners in property and real estate sector companies listed on the Indonesia Stock Exchange in the period 2016-2018. Population used in research this is a property and real estate sector company listed on the Indonesia Stock Exchange (IDX) during the 2016-2018 period so that the research population is 48 companies. Purposive sampling method is a method of collecting samples based on research objectives with the criteria used for sampling in this study, among others: Property and real estate companies listed on the Stock Exchange during the 2016-2018 period, and published financial statements that have been audited by Independent auditors for the period of 2016-2018. Based on these criteria, the respondents in this study were 46 companies.

The auditor switching variable uses dummy variables. If the client company changes its auditor, it will be given a value of 1. Conversely, if the client company does not change its auditor, it will be given a value of 0. The public accountant firms size variable uses a dummy variable. If the client company is audited by a big public accountant firms (big four affiliated), it will be given a value of 1. Conversely, if the kilen company is audited by a small public accountant firms (not affiliated big four), then it will be given a value of 0. The variable growth of client companies in this study was calculated using the ratio of growth of client companies, namely net sales now reduced by net sales last year, then divided by total assets. The growth ratio of the client company can be formulated as follows: $\frac{\text{Net Sales}_t - \text{Net Sales}_{t-1}}{\text{Net Sales}_{t-1}}$

The financial distress variable is proxied by using Debt to Equity Ratio (DER), the higher the proportion of DER, then shows the capital structure of debt which is more used to mark existing equity (Setiadamayanthi & Wirakusuma, 2017). According to Sinarwati (2010) states that, the safe DER level is 100%, which means that if the DER level of the company is above 100% or a negative DER value, it indicates that the debt is greater than the equity held, which indicates the company's financial performance is getting worse so that the company has the potential experiencing financial distress. This financial distress variable uses a dummy variable, if the company has a DER ratio above 100%, it will be given a value of 1 and vice versa. If the company has a DER ratio below 100%, it will be given a value of 0. The formula of Debt to Equity Ratio as follows: DER = $\frac{\text{Total liabilites}}{\text{Shareholders}'\text{Equity}}$

The audit tenure variable is calculated by adding up the total length of the audit engagement period before the auditor moves. The tenure audit uses an interval scale by counting the number of years of the engagement of the sample companies with auditors from the same KAP. The first year of the engagement starts with the number 1 (one) and added 1 (one) for the following year. The change of board of commissioners variable uses the dummy variable. If the client company replaces the members of the board of commissioners will be given a value of 1. Whereas if the client company does not replace the board of commissioners, then a value of 0 is given.

Data collection method used in this research is nonparticipant observation method. In this research, data is collected by recording, observing, studying, and analyzing data in the form of annual financial reports obtained from accessing the Indonesia Stock Exchange through www.idx.co.id. the data analysis technique used is logistic regression analysis.

IV. RESULT AND DICUSSION

Descriptive statistics are tests used to see the minimum value, maximum value, average value, and standard deviation of each variable, namely public accountant firms size (X_1), company growth rate (X_2), financial distress (X_3), audit tenure (X_4), and change of board of commissioners (X_5), and auditor switching (Y). Descriptive statistical results in this research can be seen in table I.

TABLE I. DESCRIPTIVE STATISTIC RESULT

	N	Minimum	Maximum	Mean	Std. Deviation
X_1	1388	0	1	0,24	0,428
X_2	1388	-0,9123	3,0778	0,0298	0,3932
X_3	1388	0	1	0,29	0,445
X_4	1388	1	3	1,84	0,804
X_5	1388	0	1	0,36	0,480
Y	1388	0	1	0,08	0,272

Source: Data Processed, 2020

Based on table above, it can be seen that public accountant firms size (X_1) variable has a value minimum of 0; maximum value of 1; average value (average) of 0.24 and standard deviation of 0.428. This meaningful result shows that property and real estate sector companies listed on the Indonesia Stock Exchange (BEI) in 2016-2019 rely more on audit services from public accounting firms affiliated with Non-Big Four (small) public accountant firm. The results of standard deviations cause deviations of 0.428 to the average value.

The company growth rate (X_2) variable has a minimum value of - 0.9123; maximum value of 3.0778; the mean value is 0.0298 and the standard deviation is 0.3932. These mean results indicate that property and real estate companies listed on the Indonesia Stock Exchange (BEI) in 2016-2018 experienced an average increase in company growth of 0.0298 (2.9%). The standard deviation results show that there is a deviation of 0.3932 to the average value.

The financial distress (X_3) variable has a minimum value of 0; maximum value of 1; the mean value is 0.29 and the standard deviation is 0.445. This mean result shows that the average property and real estate sector companies listed on the Indonesia Stock Exchange (BEI) in 2016-2018 have a relatively small possibility of experiencing financial distress, which is 29%. The standard deviation results indicate that there is a deviation of 0.445 to the average value.

The variable of Audit tenure (X_4) has a minimum value of 1; maximum value of 3; the mean value is 1.84 and the standard deviation is 0.804. These mean results indicate that the majority of property and real estate sector companies listed on the Indonesia Stock Exchange (IDX) in 2016-2018 entered into an engagement period with the same auditor for 1.84 years (2 years). The standard deviation results indicate that there is a deviation of 0.804 to the average value.

The variable of change of the board of commissioners (X_5) has a minimum value of 0; maximum value of 1; the mean value is 0.36 and the standard deviation is 0.480. This mean result shows that the majority of property and real estate sector companies listed on the Indonesia Stock Exchange (BEI) in 2016-2018 did not change the board of commissioners. The standard deviation results indicate that there is a deviation of 0.480 to the average value.

The auditor switching variable (Y) has a minimum value of 0; maximum value of 1; the mean value is 0.08 and the standard deviation is 0.272. This mean result shows that some property and real estate companies listed on the Indonesia Stock Exchange (BEI) in 2016-2018 did not conduct auditor switching. The standard deviation results indicate that there is a deviation of 0.272 to the average value.

Logistic regression test is used to determine the effect of two or more independent variables on the dependent variable. The results of multiple linear regression tests can be seen in table II.

TABLE II. DESCRIPTIVE STATISTIC RESULT

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)	95 persen C.I.for EXP(B)	
								Lower	Upper
Step 1[a]	X1(1)	1,252	1,110	1,271	1	0,259	3,497	0,397	30,819
	X2	0,117	0,869	0,018	1	0,893	1,125	0,205	6,179
	X3(1)	-0,180	0,775	0,054	1	0,816	0,835	0,183	3,812
	X4	-2,315	0,997	5,396	1	0,020	0,099	0,014	0,697
	X5(1)	-0,792	0,694	1,304	1	0,253	0,453	0,116	1,764
	Const	0,261	1,623	0,026	1	0,872	1,299		

a. Variable(s) entered on step 1: X1, X2, X3, X4, X5.

Source: Data Processed, 2020

Based on the table, the logistic regression model obtained in this study is as follows:

$$\text{LN}\,\frac{\text{AS (Y)}}{1-\text{AS (Y)}} = 0{,}261 + 1{,}252X_1 + 0{,}117X_2 - 0{,}180X_3 - 2{,}315X_4 - 0{,}792X_5 + \varepsilon$$

This model has the following interpretations: 1) Constant value (α) of 0.261 and a positive value has a meaning related to the use of public accountant firms (Big Four), the company's growth rate, financial distress, audit tenure, and the change of the board of commissioners (equal to zero) there will be switching auditors (positive value 0.261). 2) The value of the regression coefficient (β_1) public accountant firm size (X_1) is 1.252 and a positive value means that if the KAP size increases by one unit, the auditor switching will tend to increase with the assumption that other factors are constant. 3) The value of the regression coefficient (β_2) the company's growth rate (X_2) is 0.117 and a positive value means that if the

company's growth rate increases by one unit, then auditor switching will tend to increase with the assumption that other factors are constant. 4) The value of the regression coefficient (β_3) financial distress (X_3) of 0.180 and negative value means that if financial distress increases by one unit, the auditor switching will tend to decrease with the assumption that other factors are constant. 5) 5. The value of the regression coefficient (β_4) audit tenure (X_4) of 2.315 and negative value means that if the audit tenure increases by one unit, the auditor switching will tend to decrease with the assumption that other factors are constant. 6) The value of the regression coefficient (β_5) turnover of the board of commissioners (X_5) is 0.792 and is negative, meaning that if the board of commissioners rises by one unit, the auditor switching will tend to decrease with the assumption that other factors are constant.

The Effect of Public Accountant Firms Size on Auditor Switching

The test results using logistic regression showed a positive coefficient of 1.252 with a significance level of 0.259 which was greater than α = 5 percent (0.259 > 0.05) then it was not in accordance with the hypothesis formulated, so H_1 was rejected. This can be interpreted that the public accountant firm size variable has no effect on auditor switching. Companies that have been audited by big four affiliated public accountant firm will tend to retain their auditors because the company believes that the big reputable big four public accountant firm can increase investor confidence in the results of its financial statements (Ruroh & Rahmawati, 2016). According to Surya & Kurnia (2014), it is argued that, companies changing public accountant firms are not only seen from the size of the public accountant firm, but rather from the quality level of the public accountant firm. The company focuses more on the quality of public accountant firm even though the public accountant is classified as a small public accountant firm (non-big four). The results of this research are supported by research conducted by Ruroh & Rahmawati (2016) and (Surya & Kurnia, 2014) which state that public accountant firms size has a negative effect on auditor switching.

The Effect of Clients' Growth Rates on Auditor Switching

The test results using logistic regression showed a positive coefficient of 0.117 with a significance level of 0.893 which was greater than α = 5 percent (0.893 > 0.05) then it was not in accordance with the hypothesis formulated, so H_2 was rejected. This can be interpreted that the company's growth rate variable has no effect on auditor switching. Companies with high growth rates, the company is considered to be even greater. According to agency theory, the higher or more positive the growth rate of the company, the company tends not to change auditors. This is because the owner of the company (principal) is satisfied with the performance of management. The results of this study are supported by previous studies namely Pradipta & Septiani (2014) and Firyana & Septiani (2014) which states that the company's growth rate has a negative effect on auditor switching.

The Effect of Financial Distress on Auditor Switching

The test results using logistic regression showed a negative coefficient value of 0.180 with a significance level of 0.816 which is greater than α = 5 percent (0.816 > 0.05) then it is not in accordance with the formulated hypothesis, so H_3 is rejected. This can be interpreted that the financial distress variable has no effect on auditor switching. Changing the auditor or public accountant firm in a company that is experiencing financial difficulties will actually complicate the company's financial condition. When using a new auditor, the auditor needs more time than the previous auditor to study the client's scope. This has an impact on the length of the auditor's working hours which results in the auditor's high fee itself. And the new auditor will incur additional costs, namely litigation costs, which generally occur in the first three years of auditing. The results of this study are supported by previous research by Lesmana & Kurnia (2016) and Safriliana & Muawanah (2017) which states that financial distress has a negative effect on auditor switching.

The Effect of Audit Tenure on Auditor Switching

The test results using logistic regression showed a negative coefficient of 2.315 with a significance level of 0.020 which was smaller than α = 5 percent (0.020 < 0.05), so according to the hypothesis formulated, so H_4 was accepted. This can be interpreted that audit tenure variables affects auditor switching. The long period of auditor engagement with the client will result in the threat of independence of an auditor so that the shareholders demand tighter controls. A long engagement period can also lead to additional costs, one of which is agency costs due to the close relationship and high emotional feeling between the auditor and the client. The company is of the opinion that all public accountant firms remain professional and maintain their independence even though the public accountant firm is not affiliated with the Big Four public accountant firm (Ansar, 2017). The results of this study are supported by previous research by Ansar (2017), which states that audit tenure has a positive and significant effect on auditor switching.

The Effect of Change of Board of Commissioners on Auditor Switching

The test results using logistic regression showed a negative coefficient of 0.792 with a significance level of 0.253 which was greater than $\alpha = 5$ percent ($0.253 > 0.05$), so it was not in accordance with the hypothesis formulated, so H_5 was rejected. This can be interpreted that the variable change of the board of commissioners has no effect on auditor switching. The test results show that the change of the board of commissioners is not always followed by a change in the public accountant firm or auditor switching. The results of this study are supported by previous research by Lesmana & Kurnia (2016) which states that the change of the board of commissioners has a negative effect on auditor switching.

V. CONCLUSION

Based on the previous explanation, the conclusion that can be taken are 1) Public accountant firm size has no effect on auditor switching conducted on property and real estate companies listed on the Indonesia Stock Exchange for the period of 2016-2018, companies that are affiliated with Big Four affiliated KAP tend not to do auditor switching. 2) The growth rate of the company has no effect on auditor switching conducted on property and real estate companies listed on the Indonesia Stock Exchange for the period of 2016-2018, companies that are experiencing growth increase tend not to do auditor switching because the owner of the company is satisfied with its management performance. 3) Financial distress has no effect on auditor switching conducted on property and real estate companies listed on the IDX for the period of 2016-2018, companies that are experiencing financial difficulties tend not to do auditor switching because it can lead to greater costs which result in worsening the company's financial condition. 4) Audit tenure has effect on auditor switching which is carried out on property and real estate companies listed on the Indonesia Stock Exchange for the period of 2016-2018, a long engagement period will threaten the independence of an auditor. 5) Substitution of the board of commissioners has no effect on auditor switching conducted on property and real estate companies listed on the Indonesia Stock Exchange for the period of 2016-2018. Not always changes in commissioners are followed by changes in public accountant firm or auditor.

Based on the discussion and conclusions that have been described previously, it can be seen that the shortcomings of this study have the results of the coefficient of determination test (R^2) of 0.267 meaning that the dependent variable namely auditor switching is influenced by 26.7% by the independent variable namely public accountant firm size, firm growth rate, financial distress, audit tenure, and change of the board of commissioners. The remaining 73.3% is influenced by other factors outside the research model. Therefore, suggestions for further research are expected to expand the research object, use longer time vulnerable, and add other related independent variables.

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