

# The Determinant Factors of Auditor Switch

(Empirical studies to Companies listed on Indonesian Stock Exchange)

Sri Yunawati\*<sup>1</sup>, Zulkarnain<sup>2</sup>

<sup>1,2</sup>*Fakultas Ekonomi, Universitas Pasir Pengaraian, Riau, Indonesia*

*\*e-mail: syuna@gmail.com*

**Abstract**—In Indonesian, regulation about change auditor subsit on regulation of finance minister of Republic Indonesia Number 17/PMK.01/2008 article 3rd, requires the audit public services for financial reports of an entity by public accountant office branch maximum for 6 (six) book years in a row and a auditor maximum 3 (three) book years in a row. This study did in manufacturing companies listed in Indonesian Stock Exchange (IDX's) on 2018. The aim of this research is to find major determinants of auditor switch among companies listed on Indonesian Stock Exchange. The research used statistic wald test at level significancy is 5%, the presents that change of management, firm size, , Public Accountant Office Branch Size, and fees audit thatt there is no affect significant impact on the auditor switching in manufacturing companies who listed at Indonesian Stock Exchange (IDX's)

**Keywords**— Auditors Switching, Change of Management, Firm Size, Public Accountant Office Branch Size, Fees Audit

## I. INTRODUCTION

Reliable financial reports provide required information for managers, investors, creditors and government[1]. The financial reports comprising balance sheet, income statement, cash flow statement and notes to the financial statements[2]. Financial statement users rely on this information only after the external auditor, who is independent, confirms the reliability of this information. For investors, they need relevant information and also actual representation to enable them to make comparisons for the efficiency of capital allocation. Financial reporting has general purpose to afford financial information of the reporting firm that is useful to present and helpful for investors, lenders, and other creditors while make decision as capital provider in their proportion[3]. The value of financial reporting are increase if financial reporting was audited by the public accountant office branch[4].

Financial reporting information is provided in reasonable, trustworthy, and easy to understand. The procedure was needed to auditing financial reporting by public accountant office branch who auditor independent. Independency is the auditor not easily influenced by anyone[5]. The relationship between accounting public firm as auditors with a company (client) as the assignor of long standing can threaten a lack of independence of auditors and indirectly influenced the quality of audit.

The audit engagement restrictions are efforts to prevent auditors not often interact with clients that will affect its independence. To avoid it is imposed regulation about the company must switch auditor. Auditor switching is

change auditors (public accountant office branch) by company (client) in audit assignment of financial reporting.

In Indonesian, regulation about change auditor submit on regulation of finance minister of Republic Indonesia Number 17/PMK.01/2008 article 3rd, requires the audit public services for financial reports of an entity by public accountant office branch maximum for 6 (six) book years in a row and a auditor maximum 3 (three) book years in a row.

The study on the issue of change public accountant office branch case Enron to public in December 2001, the public accountant office branch was one of the Big Five was Arthur Andersen was failed to revive independency of auditing client. Based on the scandal, was born *The Sarbanes-Oxley Act* (SOX) in 2002 as solution of the big company scandal in American. In Indonesian, the case about error recording sales of financial reporting in PT Kimia Farma Tbk in 2001 by Hans Tuanakotta & Mustofa's public accountant office branch affiliated with Big Four expected was involved inflation action.

Opinion going concern is one type of opinion unqualified with the explanatory can be given by auditors on financial statements a company. The audit opinion going concern is expected by companies because affects a setback stock prices, difficulty in raise capital loans, distrust investors, creditors, customers and employees on the management [6].

Contributions fees paid clients to total income auditors will not materil if auditors only provide services to clients one or several times. But, if granting the service done in the long run, especially when the size of the company large clients, so it is likely auditors would lose their potential significantly if they could not sustain the clients. So that it can also be tenure that the long between public accountant office branch and client that possibly damage independence of auditors. The phenomenon of the public accountant office branch have been found the credibility of the implications financial reports and the cost of monitoring activity of management [7].

Auditor switching can happen voluntary or mandatory. Auditor switching happen in voluntary is, the factors are Client size, changing management, financial distress, audit fees, auditor opinion, and audit quality. The mandatory as happened in indonesia, this is because there are regulations require [8].

The research of this paper will be analyzed the determinant factors of auditor switch among companies listed on Indonesian Stock Exchange. The factors on this research are change of management, firm size, public accountant office branch size, and audit fees.

## II. METHOD

The research use documentation in data collection techniques are financial statement of manufacturing companies listed in the Indonesian stock exchange on the 2018. The sampling techniques is purposive sampling. The samples are 24 manufacturing companies.

Variable research were divided in two groups: dependent variable (Y) and independent variable (X). Dependent variable was an auditor switching (Y), independent variable were four variables: change in management ( $X_1$ ), firm size ( $X_2$ ), auditor size ( $X_3$ ) and audit fees ( $X_4$ ).

Auditor switching (Y) were measured by dummy. The code of 1 provided if the company changed auditor, code of 0 provided if did not change auditor [9].

Change in management ( $X_1$ ) was companies change president director given score 1 and companies didn't change president director given score 0 [10]. Firm size ( $X_2$ ), calculated on natural logarithm of the company total assets [1]. Auditor size ( $X_3$ ) be divided in two groups: public accountant office branch affiliated with public accountant office branch Big four and public accountant office branch weren't affiliated with public accountant office branch Big four. The score of 1 provided if public accountant office branch affiliated with public accountant office branch Big four, and score of 0 provided if public accountant office branch weren't affiliated with public accountant office branch Big four.

Audit fees ( $X_4$ ), measured to use logarithms natural of professional fees from manufacturing enterprises listed on the Indonesian Stock Exchange on 2018 [11], [12], [13].

Analysis techniques used logistic regression analysis, because the research variables was creature dichotomy (auditor switching and un auditor switching). the regression models in research is as follows:

$$ASW_t = b_0 + b_1CHM + b_2FIS + b_3PAS + b_4FEE + e$$

Keterangan:

|                         |  |
|-------------------------|--|
| ASW                     | : Auditor Switching                    |
| $b_0$                   | : Constanta                            |
| $b_1$ $b_2$ $b_3$ $b_4$ | : Coefficient of Independent Variables |
| CHM                     | : Change in Management                 |
| FIS                     | : Firm Size                            |
| PAS                     | : Public Accountant Office Branch Size |
| FEE                     | : Audit Fees                           |
| e                       | : Error                                |

Hypothesis test used to prove the influence change in management, firm size, public accountant office branch size, and audit fees for auditors switching. This hypotheses will be conducted wald test, if wald test of independent variable are values significance  $\leq 0.05$ , it means the variable significant influential on variables dependent

### III. RESULTS

#### A. Deskriptive Analysis

The samples of this research consist of 24 manufacture companies have criteria consists of 8 firms with auditor switch and 16 firms without auditor

switch. The samples are chosen from manufacture companies to represent the population of listed firms in Indonesian Stock Exchange (IDX). Table 1 presents the descriptive statistics of two variables in the study. Table 2 presents the descriptive statistics of dummy variable on frequency distribution in this research.

Tabel 1  
Deskriptive Statistic Result

| Variable           | N  | Minimum | Maximum | Mean  | Std. Deviation |
|--------------------|----|---------|---------|-------|----------------|
| Firm Size          | 24 | 25.49   | 31.73   | 28.98 | 1.71           |
| Audit Fees         | 24 | 18.20   | 23.63   | 20.71 | 1.36           |
| Valid N (listwise) |    |         |         |       |                |

The results of descriptive statistics in table 1 shows that the number of observations (n) this study total of 24. Descriptive statistics on the variables of firm size that is the logarithm of total assets company clients. Variable of firm size have minimum score 25.49 show that the total of the lowest in company assets research sample were Rp 117,534,765,105. The maximum score on the variables of firm size were 31.73 shows that the company highest total assets in samples of this research were Rp 60,278,704,615,596. Variable firm size have average (mean) of 28.98 and deviation standart of 1.71.

Descriptive statistics on the variables of audit fees that is the logarithm of professional fees paid a company to auditors. Variable of audit fees have minimum score of 18.20 shows that fee professional the lowest in research sample areas were Rp 80,197,267. The maximum value on the variables of firm size 23.63 shows that professional highest fee on sample this research were Rp 18,296,946,044. Variable audit fees have average (mean) as much as 20.71 and standard deviation of 1.36.

Table 2  
Descriptive Statistic Result of Dummy Variable – Frequency Distrobution

|     |              | Frequency | Percent |
|-----|--------------|-----------|---------|
| ASW | Not Switch   | 16        | 66.7    |
|     | Switch       | 8         | 33.3    |
|     | Total        | 24        | 100.0   |
| CHM | Not Change   | 19        | 79.2    |
|     | Change       | 5         | 20.8    |
|     | Total        | 24        | 100.0   |
| PAS | Non Big Four | 17        | 70.8    |
|     | Big Four     | 7         | 29.2    |
|     | Total        | 24        | 100.0   |

The results of descriptive statistics in table 2 presents variable in form of data is nominal (dummy) which are auditor switching, change of management, and Public Accountant Office Branch Size of measured using a frequency distribution to know the spread of the samples were 24 companies. From the number of companies that are observed 16 (66.7 %) samples of company that without auditor switching and the rest 8 (33.3 %) samples of the company with auditor switching.

The result of distribution analysis on change of management variable reveals 19 (79.2%) samples of company did not change management and there are 5 (20.8.2%) sample of companies change management. The result of distribution analysis on Public Accountant Office Branch Size reveals are 17 (70.8%) sample of companies were audited by Public Accountant Office Branch of not big four and there are 7 (29.2%) sample of companies audited by Public Accountant Office Branch of big four.

### B. Logistic Regretion

Table 3  
Model Regresi Logistik

|                         | B      | S.E.   | Wald  | df | Sig.  | Exp(B)   |
|-------------------------|--------|--------|-------|----|-------|----------|
| Step 1 <sup>a</sup> CHM | 2.846  | 1.577  | 3.255 | 1  | 0.071 | 17.220   |
| FIS                     | -0.389 | 0.536  | 0.527 | 1  | 0.468 | 0.678    |
| PAS                     | -0.435 | 1.667  | 0.068 | 1  | 0.794 | 0.647    |
| FEE                     | -1.241 | 0.737  | 2.833 | 1  | 0.092 | 0.289    |
| Constant                | 34.927 | 17.145 | 4.150 | 1  | 0.042 | 1.474E15 |

a. Variable(s) entered on step 1: CHM, FIS, PAS, FEE.

Based on table 4, logistics regression model obtained was that as follows:

$$ASW = 34.927 + 2.846CHM - 0.389FIS - 0.435PAS - 1.241FEE + e$$

If constant value fixed or independent variable are change of management, firm size, Public Accountant Office Branch Size, and fees audit were assumed fixed or score 0 or constant, would likely the firm did auditor switching will drop 34.927.

## IV. DISCUSSION

The testing of hypotheses to test influence change of management, firm size, Public Accountant Office Branch Size, and fees audit about auditor switching with wald test. If wald test of independent variable result values of significance  $\leq 0.05$ , it means significant effect on variables dependent. These are table 4 presents wald test result from logistics regression test.

Table 4  
Wald Test Analysis Result

| Variable             |    | B      | Wald  | df | Sig.  | Expl.           |
|----------------------|----|--------|-------|----|-------|-----------------|
| Change of Management | of | 2.846  | 3.255 | 1  | 0.071 | Not Significant |
| Firm Size            |    | -0.389 | 0.527 | 1  | 0.468 | Not Significant |
| PAOB Size            |    | -0.435 | 0.068 | 1  | 0.794 | Not Significant |
| Fees Audit           |    | -1.241 | 2.833 | 1  | 0.092 | Not Significant |
| Constant             |    | 34.927 | 4.150 | 1  | 0.042 |                 |

Significant at 5% level

The result of statistically waldtest presentschange of management, firm size, Public Accountant Office Branch Size, and fees audit there are not significant impact about audit switching on manufacturing firm in 2018.

The result of this research support research formerly practiced by[1], [14], [15], [4], [16], [17], and [18], however Contrary with the results of the study were [19], [9], [20], [21], [8], [18], and [22].

This research failed to prove that change of management, firm size, Public Accountant Office Branch Size, and fees audit to affect auditors switching.

## V. CONCLUSION

This study have 24 samples of manufacturing company listed in Indonesian Stock Exchange (IDX's). Based on model logistic regression were indicated that change of management have positive relationship withauditor switching,while firm size, Public Accountant Office Branch Size,and fees auditrespectively have negative relationship with auditor switching.

The significant level of5 % werechange of management, firm size, Public Accountant Office Branch Size, and fees auditthatt there is no affect significant impact on the auditors switching in manufacturing companies who listed at Indonesian Stock Exchange (IDX's)

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