Analysis Of Factors Affecting Auditor Switching In Manufacturing Companies Listed On The Indonesia Stock Exchange

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A R T I C L E   I N F O

ABSTRACT

Auditor switching is the turn of KAP and auditor carried out by the company for a reason or there are certain factors of the company or of the auditor itself. This study aims to determine the effect of audit fees, financial distress auditor size, client size, and management change to the auditor switching on manufacturing companies listed in the Indonesia Stock Exchange 2011-2014 period. This study used secondary data obtained from financial statements published on the internet through the official website of Indonesia Stock Exchange www.idx.co.id.The research sample is manufacturing companies listed in the Indonesia Stock Exchange 2012-2014. Sampling using purposive sampling and obtained a sample of 96 observations of 32 companies sampled in this study. Hypothesis testing is done by using logistic regression. From the test results indicate that audit fees, financial distress, auditor sie, clients size, and management changes do not influence auditor switching.

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1. INTRODUCTION

Due to the obligation to rotate auditors, the company's behavior arises to perform auditor switching. Auditor switchingis a change in the Public Accounting Firm carried out by a company that can occur due to government regulations or the wishes of the company itself.. Companies in conducting auditor switching are influenced by several factors, including the size of the KAP, the size of the client company, financial distress, audit fees, and management changes.

Flint (1988) argues that independence will be lost if the auditor is involved in a personal relationship with the client, because this can affect their mental attitude and their opinion. One of the threats that can eliminate auditor independence is a long audit engagement period (audit tenure). Because a long audit engagement period can cause auditors to develop a "comfortable relationship" as well as strong loyalty or emotional relationships with their clients, which can reach a stage where auditor independence is threatened. The long audit engagement period also results in a "more than familiar" relationship so that the auditor tends to ignore the quality and competence of the auditor when carrying out his work as an auditor. As a result,

The critique of independence cannot be separated from the fact that the number of Public Accounting Firms compared to the number of companies being audited cannot be separated. The number of accounting firms is always smaller than the number of companies requesting audit

services. The accounting firm itself has differences in quality between one accounting firm and another, so companies will tend to choose an accounting firm that has good auditor quality. In addition, there is also a tendency that companies will only choose accounting firms that agree with the choice of certain accounting methods. In conclusion, the relationship between the client and the auditor will naturally occur and is very likely to be established in the long term.

Therefore, in order to maintain public confidence in the audit function and to protect the objectivity of the auditors, through a series of provisions, the auditor profession is prohibited from having personal relationships with their clients that could create a potential conflict of interest. One recommendation is to have mandatory auditor rotation (AICPA, 1978a; AICPA 1978b) because it can increase the ability of auditors to protect the public through increasing awareness for any possible improprieties, improving service quality and preventing closer relationships with clients (Mautz, 1974; Winters, 1974). , 1976; Hoyle, 1978; Brody and Moscove, 1998 in Nasser et al., 2006).

However, there are those who oppose the idea of mandatory auditor rotation advocated by the AICPA because they believe that the costs outweigh the benefits. Frequent rotation and switching will result in increased audit fees as the benefits to be gained from lower fees subsequently after the initial years of each audit will not be fully realized. Another drawback is that the knowledge gained during improving the quality of audit work will be wasted with the appointment of a new auditor of the American Institute of Certified Public Accountants (AICPA, 1992:4).

When auditors are first asked to audit a client, the first thing they should do is understand the client's business environment and the client's audit risks. For auditors who are completely blind to these two problems, the start-up costs will be high so that they can increase audit fees. Second, the first assignment proved to have a high probability of error. Litigation against auditors generally occurs in the first three years of auditing assignments and shows a downward trend after the assignment period increases. The risk of litigation against large KAPs is higher than that of small KAPs because one of them is "thick pockets" in the large KAPs. Therefore, PWC (2002) in Nasser, et al. (2006) completely opposed the mandatory auditor swap that was being pursued by US legislators through SOX at the time. They, and other proponents, argue that a long relationship between the auditor and the client will make the auditor an expert and very knowledgeable about the client's business. Thus, the auditor is more aware of extreme management behavior and understands the accounting choices that exist in the business. That is, they do not agree that Arthur Andersen's behavior will be the behavior of other auditors.

2. RESEARCH METHOD

In this study, the properties used in this study were ex post facto. Ex post facto research is research conducted to examine events that have occurred which then trace back to find out the factors that can cause these events. This study uses a quantitative approach which emphasizes theory testing through measuring research variables with numbers and analyzing data using statistical procedures. This study aims to examine the effect of audit fees, financial distress, KAP size, company size, and management turnover on auditor switching by using data on the financial statements of manufacturing companies on the IDX with the period listed on the IDX for the period 2012-2014.

2.1 Method of collecting data

The method of data collection is to use the method of documentation. The documentation method is carried out by collecting documentary data sources such as the company's financial statements as the research sample.

2.2 Data analysis technique

The tool used in analyzing this research is logistic regression analysis (logistic regression). This analysis method is used to find out how the dependent variable (auditor switching) can be predicted by the independent variables (audit fees, financial distress, company size, KAP size, management turnover). or not doing auditor switching).

Descriptive statistics are also used to provide an overview of the variables in this study. In addition, the feasibility test of the regression model was carried out to assess the regression model in this study.

3. RESULTS AND DISCUSSIONS

3.1 Descriptive statistics

Descriptive statistics relate to the collection and ranking of data describing the characteristics of the sample used in this study. Descriptive statistics provide an overview or description of the research variables seen from the average value (mean), standard deviation, maximum value and minimum value (Ghozali, 2006). The data obtained in this study were 96 observational data derived from the multiplication between the research period (2012-2014) with the number of sample companies 32 companies. The following is a table of test results with descriptive analysis:

Table 1. Descriptive Statistics of Research Variables
Descriptive Statistics

	N	Minimum	Maximum	mean	Std.Deviation
FEE	96	16.12	25.13	21.1475	1.78231
FINIDS	96	0	1	.44	.499
HOOD	96	0	1	.27	.447
SIZE	96	23.08	31.17	27.6582	1.25154
CEO	96	0	1	.25	.435
SWITCH	96	0	1	.52	.502
Valid N (listwise)	96			21.1475	

Source: SPSS Output

Based on table 1 the results obtained are:

a. The FEE variable has a minimum (smallest) value of 16.12, a maximum (largest) value of 25.13, a mean (mean value) of 21.1475 and the Standard Deviation (standard deviation) of this variable is 1.78231.

b. The SIZE variable has a minimum (smallest) value of 23.08, a maximum (largest) value of 31.17, a mean (mean value) of 27.6582 and the Standard Deviation (standard deviation) of this variable is 1.25154.

c. The number of companies is 32 companies, with 96 units of analysis, namely 32 companies multiplied by 3 years of research observations. There are four variables that are nominal scales, namely FINIDS, KAP, CEO, SWITCH, so this number is a category without intrinsic value, therefore the mean and standard deviation cannot be calculated.

Table 2. Research Variable Frequency Statistics
Statistics

		FININDS	HOOD	CEO	SWITCHH
N	Valid	96	96	96	96
	Missing	0	0	0	0

Source: SPSS Output

Based on table 2, it can be described that the number of valid data (legitimate to be processed) is 96 units of analysis, without any missing data, meaning that all data has been processed.

Table 3. Auditor Switching Variable Frequency Statistics
SWITCH

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	NO AUDTOR CHANGE	46	47.9	47.9	47.9
	AUDITOR CHANGE HAPPEN	50	52.1	52.1	100.0
	Total	96	100.0	100.0	

Source: SPSS Output

Based on table 3, it is described that the dependent variable is auditor switching which is a nominal variable that uses a dummy variable where companies that change auditors are coded "1", while those that do not change auditors are coded "0", and have valid data because all of them have been processed. The number of data that did auditor change was 50 companies (51.02%), while the number of data that did not audit was 46 companies (47.91%).

Table 4. Financial Distress Variable Frequency Statistics
FININDS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	DO NOT EXPERIENCE FINANCIAL DISTRESS	54	56.3	56.3	56.3
	EXPERIENCE FINANCIAL DISTRESS	42	43.8	43.8	100.0
	Total	96	100.0	100.0	

Source: Processed SPSS

Based on table 4, it is known that the financial distress variable is measured using a dummy variable. For data on companies experiencing financial distress, code 1 is given, while data for companies that do not experience financial distress are given a value of 0. The number of data experiencing financial distress is 42 companies (43.8%), while the number of data that are not experiencing financial distress is as much as 54 companies (56.3%).

Table 5. Variable Frequency Statistics KAP Size
HOOD

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	NON BIG FOUR	70	72.9	72.9	72.9
	BIG FOUR	26	27.1	27.1	100.0
	Total	96	100.0	100.0	

Source: SPSS output

Based on table 5 it is known that the KAP size variable is measured using a dummy variable. For company data belonging to the BIG FOUR group, code 1 is given, while company data belonging to the NON BIG FOUR group is assigned a value of 0. The number of data belonging to the BIG FOUR group is 26 companies (27.1%), while the total data belonging to the NON group is BIG FOUR there are as many as 70 companies (72.9%)

Table 6. CEO Management Change Frequency Statistics

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	THERE ARE NO MANAGEMENT CHANGES	72	75.0	75.0	75.0
	MANAGEMENT CHANGE HAPPEN	24	25.0	25.0	100.0
	Total	96	100.0	100.0	

Based on table 6, it is known that the management turnover variable is measured using a dummy variable. For company data that experienced a change in management, code 1 was given, while company data that did not experience a change in management was assigned a value of. The number of data that experienced a change of management was 24 companies (25%), while the number of data that did not experience a change of management was 72 companies (75.0%).

3.2 Hypothesis Testing Results

a.   Testing the Overall Model (Overall Model Fit)

According to Ghozali (2011: 340), the first step is to assess the overall fit of the model to the data. Several statistical tests are given to assess this. The hypotheses used to assess model fit are:

1) H0 = The hypothesized model fits the data
2) HA = The hypothesized model does not fit the data

For this test, we can evaluate it by comparing the value between -2 log likelihood at the beginning with a value of -2 Log Likelihood at the beginning (Block Number=0) where the model only includes a constant with -2 Log Likelihood at the end (Block Number=1) where the model already includes constants and independent variables. This study produces a value of -2 Log Likelihood beginning and end as follows.

Table 7. Overall Fit Model Test Results -2 Log Likelihood Initial Iteration Historya,b,c

Iteration		-2 Logs likelihood	Coefficients Constant
Step 0	1	132,918	,083
	2	132,918	,083

Source: SPSS Output

Table 8. Overall Fit Model Test Results -2 Log Likelihood Initial Iteration Historya,b,c

Iteration		-2 Logs likelihood	Coefficients Constant
Step 0	1	132,918	,083
	2	132,918	,083

Source: SPSS Output

b.   Coefficient of Determination (Negelkerke'sR Square)

The purpose of using the coefficient of determination is to find out how much the variability of the independent variables is able to clarify the variability of the dependent variable. The coefficient of determination in logistic regression can be seen in the value of Nagelkerke R Square. The Nagelkerke R Square value can be interpreted as the R Square value in multiple regression (Ghozali, 2006: 233). This value is obtained by dividing the value of Cox & Snell R Square by its maximum value.

Table 9. Coefficient of Determination
Model Summary

Step	-2 Logs likelihood	Cox & Snell R Square	Nagelkerke R Square
1	131,676a	0.013	0.017

Source: SPSS Output

The magnitude of the coefficient of determination in the logistic regression model is shown by the value of Nagelkerke R Square in table 9, above. The value of Nagelkerke R Square is 0.017, which means that the variability of the dependent variable that can be explained by the independent variable is 1.7%, while the remaining 98.3% is explained by other variables outside the research model.

c.   Testing the Feasibility of the Regression Model

The feasibility of the regression model was assessed using Hosmer and Lemeshow's Goodness of Fit Test. The model is said to be able to predict the value of the observation because it matches the observation data if the value of Hosmer and Lemeshow Goodness of fit test > 0,0

Table 10. Testing the Feasibility of the Regression Model
Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	4,193	8	,839

From the appearance of the Hosmer and Lamenshow table above, Table 10 shows that the statistical value of Hosmer and Lamenshow Goodness of Fit is 4.193 and the significance value (p) is 0.839. Based on these results, the significance value is greater than 0.05, it can be concluded that the model is able to predict the observation value, because a good model will have a significance value greater than 0.05. This means that the regression model used in this study is feasible to use. for further analysis, because there is no significant difference between the predicted classification and the observed classification.

d. Multicollinearity Test

The multicollinearity test aims to test whether the regression model found a correlation between the independent variables (Ghozali, 2006). A good regression model should not have a correlation between the independent variables. In this multicollinearity test, the value shown should be below 0.5, because if the value shown is above 0.5, it indicates that there is multicollinearity.

Table 11. Multicollarity Test
Coefficientsa

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	,926	1,233		,751	,455		
FEE	-,013	.042	-,047	-,309	,758	,482	2.073
FINIDS	,095	,109	,095	,874	,384	,936	1.069
HOOD	,073	,129	,065	,562	,576	,828	1,208
SIZE	-,007	0.059	-,017	-,118	,907	,510	1,961
CEO	,009	,124	,008	,076	,940	,946	1.057

a. Dependent Variable: SWITCH Source: SPSS Output

Table 12. Multicollinearity Test Coefficient Correlationsa

	Model		CEO	SIZE	FININDS	HOOD	FEE
		CEO	1,000	-,052	-,145	,062	,062
		SIZE	-,052	1,000	,033	-,077	-,077
1	**Correlation s**	FINIDS	-,145	,033	1,000	,168	,168
		HOOD	,062	-,077	,168	1,000	1,000
		FEE	,118	-,659	-,010	-,210	-,210

a. Dependent Variable: SWITCH Source: SPSS Output

e. Formed Logistic Regression Model

Table 13. Logistic Regression Model Formed Variables in the Equation

		B	SE	Wald	Df	Sig.	Exp(B)	95% CIfor EXP(B)	
								Lower	Upper
Step 1a	FEE	-,053	,168	,101	1	,751	,948	,682	1.318
	FINIDS	,385	,429	,805	1	,370	1,470	,634	3,407
	HOOD	,294	,509	,334	1	.563	1.342	,495	3,640
	SIZE	-,028	,232	0.014	1	,904	,972	,617	1,533
	CEO	0.040	,489	,007	1	,936	1.040	,399	2,712
	Constant	1,727	4,860	,126	1	,722	5,625		

a. Variable(s) entered on step 1: FEE, FINIDS, KAP, SIZE, CEO. Source: SPSS Output

4.   CONCLUSION

This study examines audit fees, financial distress, KAP size, company size, management changes to auditor switching in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2012-2014. The analysis in this study was carried out using logistic regression analysis with the Statistical Package for Social Sciences (SPSS) Ver.20 program. The company sample data in this study were 96 observations. Based on the results of research and discussion (Chapter IV, a conclusion can be drawn as follows:

Audit fees does not affect the possibility of implementing auditor switching for three years of observation (2012-2013). This result is supported by research conducted by Chadegani, et al. (2011), which also states that audit fees have an insignificant relationship with auditor switching.

Financial distress does not affect the possibility of implementing auditor switching during the three years of observation (2012-2013). The results of this study are supported by research conducted by Wijaya (2010), Pratitis (2012), Sihombing Mutiara (2012) which states that financial distress does not have a significant effect on auditor switching. The results of the study indicate that financial difficulties are not a factor causing companies to perform auditor switching.

The size of the KAP has no effect on the possibility of implementing auditor switching during the three years of observation (2012-2013). The results of this study are supported by research conducted by Sihombing Mutiara (2012) which states that the size of the KAP has no significant effect on auditor switching.

Firm size has no effect on the possibility of implementing auditor switching during the three years of observation (2012-2013). The results of this study are supported by the results of previous research conducted by Chadegani, et al. (2011) and Sihombing Mutiara (2012).

Changes in management have no effect on the possibility of implementing auditor switching during the three years of observation (2012-2013). The results of this study are supported by the results of research conducted by Wijaya (2010), Chadegani, et al. (2011), Sihombing Mutiara (2012).

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