Research Journal of Finance and Accounting www.iiste.org
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.11, No.8, 2020

External and Internal Factor of Auditor Switching

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Abstract
Auditor Switching is done voluntarily,and raises questions about the factors that become the reference for that. Internal factors are management changes, financial distress, going concern opinion, company size, audit delay, institutional ownership, and public ownership. The external factor is the auditor's reputation. Based on the results of purposive sampling obtained 163 companies that meet the sample criteria, with the observation year 2009-2013, in order to obtain 815 research samples. The test results show that the change of management, financial distress, going concern opinion and audit delay has a positive effect on the auditor switching, company size and auditor's reputation negatively affect on the auditor switching While the variables of institutional ownership and public ownership do not affect the auditor switching.
Keywords:auditor switching, internal factors, eksternal factors, and logistic.
DOI: 10.7176/RJFA/11-8-06
Publication date: April 30th 2020

1. Introduction

A public accountant who plays a role as a third party is required to be able to assess the reasonableness of a financial statement to show its independence. When the auditee has an instinctual relationship that leads to personal independence owned by the auditor it also affects the results of the audit report issued by Nasser, et al. (2006). The longer the auditor's engagement period with the auditee, the higher the suspicion that the auditor has a personal attachment to his client, this can create clienthood and bring down the auditor's mentality when giving an audit opinion (Wijayani and Januarti, 2011).

Regulations regarding the limitation of the period of engagement between the auditor and the audit are not a guarantee that the company will definitely make a change in the KAP. There is a possibility that the company will still replace the KAP even if it has not reached the set time limit or even does not replace the KAP altogether even though the time period has passed. If the desire to replace the KAP is a direct desire from the company, it includes a voluntary KAP change, whereas if the change of the KAP by the company is because of the urgency of the rules imposed by the government, it includes a mandatory KAP change. But in the rules regarding the engagement of auditors and auditees there are no rules that explicitly regulate the provision that companies may not replace APs before 6 years in a row.

The appointment of the new KAP is done by mandatory and voluntary. Auditor switching with volountary nature or outside the provisions often lead to questions for practitioners about the causes of this. Voluntary auditor switching can be caused by internal & external factors of the company. Everything that is caused by the company itself is classified into internal factors while external factors are factors that affect the auditor switching that come from outside the company (clients). Inconsistencies in the results are still found by researchers conducting research on these two factors. This study examines the internal and external factors that influence Auditor switching in companies listed on the IDX. Internal factors tested were management change, financial distresss, going concern opinion, company size, audit delay, institutional ownership, and public ownership. The external factor tested is the auditor's reputation.

Agency theory and expectancy theory are two theories used by researchers as the basis of this research. In the agency theory, it is explained that there is a difference between the owner and manager of the company, which ends with a potential conflict of interest for related parties, namely principals and agents. In this case the auditor is very necessary and acts as an intermediary or third party outside the company which is expected to provide an assessment of the reasonableness of the financial statements. Auditor independence can be maintained, one of which is by changing auditors. The second theory is the theory of hope that suggests the desire to maximize input so that the output of the desired organization can meet certain individual needs. Certain individuals in this study are management with the hope that the KAP can be invited to work together and the KAP can provide opinions according to management's needs. In this case, management also has its own preferences regarding the KAP that will be invited to collaborate. Management sometimes tends to look for public accounting firms that are expected to be able to conduct audits in accordance with the policies and reporting of accounting where they work.

This study uses a company listed on the Indonesia Stock Exchange as a research population. The method of determining samples with certain criteria was chosen as a method of determining samples, and the criteria determined in this study were divided into three, namely: (1) Companies registered in a row during the observation period of 2009-2013; (2) The company has changed the KAP at least one of the observation years; and (3) The company did not change the KAP in a mandatory manner, ie not audited consecutively by the same KAP for 6 years. Based on the results of purposive sampling obtained 163 companies that meet the criteria for five years of observation, obtained 815 research samples. The data analysis technique used in this study is the logistic regression analysis.

2. Literatur Review and Hypothesis

Changes in management of a company generally have to do with auditor switching, because with the change of management usually the company's policy also undergoes several changes. According to Damayanti and Sudarma (2007) changes that occur when there is a change of management are matters relating to accounting and finance, which in particular will affect the selection of KAP. The company will prioritize KAP that is in line with the new company policy (Nagy, 2005), so that the change of management will likely cause a auditor switching because it adjusts to the management and new company policies. Such output that wants a change of public accounting firm is illustrated by the theory of hope that the new management expects to cooperate with public accounting firms that are in line with the new company's advantages so that they are able to provide a fair opinion on the financial statements in accordance with the expectations of the management concerned. Then the hypothesis in this study is:

H_1: Change of management has a positive effect on auditor switching.

Poor financial condition or financial distress is one of the factors causing companies to want to replace KAP. This is taken into account by companies to make voluntary changes due to the company's reduced ability to finance external audits as in previous years. Companies that experience financial distress usually experience a decrease in their ability to pay audit fees. When a company experiences financial distress, it is suspected that there is uncertainty in the business being run because financial distress are an early sign of bankruptcy. Then the second hypothesis in this study is:

H_2: Financial Distress have a positive effect on auditor switching

Going concern opinion is one form of opinion that implies the survival of a company. Going concern opinion is not an opinion expected by the company, because when the company gets this opinion it might cause a negative reaction to the stock. The tendency of giving a going concern opinion that leads to this negative reaction is the reason companies want to change the KAP, there is hope from management if the KAP is changed then the opinion will be suspended or not even issued. Then the third hypothesis in this study is:

H_3: Going concern opinion has a positive effect on auditor switching.

The size of the auditee significantly influences the company's desire to replace its KAP. The greater the size of a company, the business that is run has a broader size that has an impact on financial reporting that is increasingly complex because it is formed from several business lines. With the complexity of the reporter, the company tends to budget a greater incentive to maintain the KAP that has been invited to work together, because with the size of a large company, the change of auditors will raise questions from various parties, so the tendency to change auditors will be smaller. Then the fourth hypothesis in this study is:

H_4: Firm size has a negative effect on auditor switching.

Audit delay is the length of time it takes the auditor to complete the audit report too long and this makes the company experience a delay in submitting financial statements to the public. Thus the audit delay will make the company's management to consider the replacement of the KAP it uses at that time (Stocken, 2000). If the company experiences a delay in submitting financial statements to the public, then a negative image will arise in the eyes of the public, capital market players will assess the company is in trouble, as a result the company's stock market will decline. So the longer the time needed by the auditor to complete the audit report, the higher the desire of the company's management to replace the KAP that is invited to work together. Then the fifth hypothesis in this study is:

H_5: Audit delay has a positive effect on auditor switching.

Institutional ownership has a role to oversee the behavior of managers to be more careful when making decisions. Institutional ownership of the company expects managers to work better and be careful when making decisions. Ownership of shares by the institution also influences the company's decision regarding the KAP to be used, seen from the theory of company expectations with high institutional ownership expecting the best quality of the KAP to be used by the company. Then institutional ownership wants auditors who are considered better, giving rise to a change in the Public Accounting Firm. Then the sixth hypothesis in this study is:

H_6: Institutional ownership has a positive effect on auditor switching.

Public ownership of a company shows how much the public or community is interested in a company's performance. The only tool used by the public to assess the viability of companies is financial reporting. Public ownership of shares makes an important thought about the effect of high-quality financial statements. These high-quality financial statements are influenced by the selection of auditors from qualified KAPs. Public ownership of shares will encourage companies to change auditors to qualified KAP. Then the seventh hypothesis in this study

is:
H_7: Public ownership has a positive effect on auditor switching.

Investors tend to trust the audited reports issued by highly reputed KAPs. This has encouraged company management to look for a firm with a high reputation, an indicator of credibility with a good reputation is a KAP affiliated with Big Four. Companies certainly consider KAP in good standing so as to be able to improve the quality of financial statements made by management and the company's image for users of financial statements, especially shareholders. Based on this explanation, then a company that has used the services of large KAP will have a small possibility to change the Public Accounting Firms, the eighth hypothesis in this study is:
H_8: The auditor's reputation has a negative effect on auditor switching.

3. Research Methods

The population used in this study are companies listed on the Indonesia Stock Exchange for the period 2009-2013 as many as 315 companies. Determination of the sample used is the method of determining the sample with certain criteria. The reason for using this technique is so that the sample used can explain the relationship between the variables studied with more representation. These provisions by researchers are divided into three things; 1) companies listed on the Indonesian Securities Burse (IDX) during the period 2009-2013; 2) the company has never changed the KAP at least one of the observation years; 3) companies that carry out KAP changes in a mandatory manner.

One of the dependent variables used in this study is dummy — that is, do auditor switching (1) and don't doauditor switching (0). Based on this hypothesis testing using the logistic regression test. Logistic regression is a test of the probability that the dependent variable can be explained by the dependent variable. In the logistic regression analysis technique no longer requires the normality test and the classic assumption test on the independent variable (Ghozali, 2011: 333).

4. Result Discussion

There are eight hypotheses tested in the study. Hypothesis testing is done in research using logistic regression analysis. The initial stages of logistical testing are to assess the overall model fit, the second stage to know the coefficient of determination from the research sample data used, the third stage to know the feasibility value of the regression model, and the fourth to know the value of the classification matrix to show the predictive power of the regression model to indicate the likelihood of companies making KAP changes. After going through the four stages, a regression model can be formed by looking at the estimated value of the parameters in the variables in the Equation. The test results are seen in Table 1.

Tabel 1. Model 1(Logistic Regression Analysis)

Variabel	B	S.E	Wald	Df	Sig.	Hasil
Constant	0,889	1,376	0,417	1	0,518	-
PM	0,120	0,191	7,394	1	0,015	H_1 accepted
KK	0,026	0,015	5,246	1	0,032	H_2 accepted
GC	0,087	0,208	6,177	1	0,027	H_3 accepted
UP	-0,110	0,038	8,250	1	0,004	H_4 accepted
AD	0,003	0,003	5,240	1	0,033	H_5 accepted
KI	0,002	0,013	0,027	1	0,870	H_6 denied
KP	0,002	0,013	0,027	1	0,869	H_7 denied
RA	-0,399	0,249	5,564	1	0,028	H_8 accepted

Source: Primary data, 2020

Based on Table 1. above it is explained that the constant coefficient for simultaneous relationships of 0.889 indicates that if the value of management change variables, financial distress, going concern opinion, company size, audit delay, institutional ownership, public ownership, and auditor's reputation are zero, then the value of auditor swicthing rose by 8.89%.

Based on Table 1. explained the value of the regression coefficient is 0.120 with the level of sig. of 0.015 which is lower than α (5%), which means that management change has a significant positive effect on auditor switching. This result means that if there is a change of management within the company, it will increase the likelihood that there will be changes in the KAP used by the company. This is in line with the theory of expectation that is used as a basis for research, in the theory of hope states that a person tends to take decisions to act depending on emotional strength in the form of expectations, expectations about the results of these actions will produce better output. The output is based on expectations regarding policy changes because management changes and KAP changes will bring improvements to the new financial statements in accordance with the new policies by the new company management.

The results in this study indicate the regression coefficient of 0.026 with sig. 0.032 is smaller than α = 5%, this means that financial difficulties have a positive and significant effect on auditor switching. Based on the theory of motivation expectations are influenced by individual understanding of the relationship between performance and effort, and on his desire for results (outcomes). Companies with high levels of financial difficulties expect there to be a reduction in costs beyond the basic costs, such as audit fees that must be incurred. A condition in which a company experiences financial difficulties sometimes makes the company's ability to meet the cost of the aduit that has been charged previously to be one of the things that is taken into account in making the decision to change the KAP. The results of this study are in line with research conducted by Sinarwati (2010), Wijayani and Januarti (2011), and Suryandari (2012) which states that companies with financial pressures due to financial difficulties choose to change KAPs compared to healthy companies.

Based on SPAP (2001) states that going concern opinion shows the company's ability to maintain its survival. This research ensures that the provision of going concern opinion will increase the company's desire to substitute KAP. Proof of this is evident from the regression coefficient of 0.087 with sig. of 0.027 which is smaller than $\alpha = 0.05$. Provision of going concern audit opinion has a negative impact on a company, in the eyes of shareholders, or other interested parties, arises doubts about the performance of the company's management. So that this will result in companies going to change the KAP when the KAP concerned issues a going concern opinion. The results of this study are consistent with research belonging to Suryandari (2012) who explained that going concern opinion has a positive effect on auditor switching.

The results of research on the effect of firm size on the Auditor switching based on Table 1. shows a positive effect. This can be seen from the regression coefficient of -0.110 with a significance of $0.004 < \alpha = 5\%$. The larger the size of a company, the company's business activities will be more complex, so that it requires a KAP that has experience with the type of business of the company, usually a KAP that has a long-standing engagement relationship with the auditee with the company, and decreases the company's desire to change the KAP. The results of the study are in line with the research of Sinason et al. (2001), Naser et al. (2006), Suparlan and Andayani (2010), in their study found that company size significantly influenced auditor switching.

The results of this study prove that the regression coefficient is 0.003 with a significance level of 0.033 smaller than $\alpha = 5\%$. This means that the longer the audit delay by the relevant KAP, the greater the company's desire to change the KAP. Audit delay is the time required by an auditor to complete the audit report in accordance with the work contract starting from the year of closing the book until an opinion is issued which is indicated by the signing of the audit opinion sheet by the KAP. If the auditor takes a long time to complete his audit report or exceeds the specified deadline, the auditee may experience delays in submitting his financial statements to the public. This is what underlies the company to change the KAP. Companies that feel the audit delay tend to have a high desire to change the KAP in the next period so that their financial statements do not experience delays in publication again and improve the company's image in the eyes of investors.

In this study it was found that institutional ownership had no influence on the Auditor switching, this result was evidenced by a regression coefficient value of 0.002 and a significance of $0.870 > \alpha = 5\%$. Institutional ownership has a role to oversee managers acting cautiously in decision making and institutional ownership is used to create organizational management in transparency and accountability. The results of this study indicate that institutional ownership conducts tight supervision, but does not make changes to the KAP because the old KAP is considered to be of good quality. The results of this study are consistent with research conducted by Suparlan and Andayani (2010) which states that institutional ownership has no influence on auditor switching conducted by companies.

The results of research on public ownership variables indicate that this variable has no effect on the Auditor switching, this is indicated by a regression coefficient of 0.002 with a significance value of 0.869 which is higher than α (5%). Audit reports are used by the general public, and users rely on audit reports on financial statements as the main source of information (Mulyadi, 2009: 79). In theory, if the shares owned by the public are high, the company will be encouraged to continue to replace the KAP so that the audited financial statements of the KAP will be more quality. However, in this study shows that of the 815 companies studied, only 23 companies had a percentage of public ownership that exceeded 50%, so that a small percentage in a company would not have the ability to make KAP changes.

The auditor's reputation has a negative effect on the company's desire to change the KAP. This is shown in Table 1. which shows a regression coefficient of -0.399 and $0.028 < \alpha = 5\%$. If the company already has a KAP affiliation that is affiliated with the Big Four, the company has no desire to replace the KAP. On the other hand companies that have an agreement with a KAP that is not affiliated with the Big Four have a strong desire to replace the KAP which will issue an audit report for the company. Companies with KAPs affiliated with Big Four will not replace their KAPs because Big Four affiliated KAPs have a better reputation than those that do not. KAPs with a good reputation have better audit report quality so companies that use Big Four affiliated KAP services will have better image too.

5. Conclusion and Recomendation

Based on the research analysis and discussion that has been described in full in the previous section, the conclusions of this study are as follows:

1) Empirical evidence shows that 1) The change of management variable has a positive effect on auditor switching; (2) Variable financial difficulties has a positive effect on auditor switching; (3) going concern opinion variable has a positive effect on auditor switching; (4) Firm size variable has a negative effect on auditor switching; (5) The audit delay variable has a positive effect on auditor switching; (6) The variable of institutional ownership has no effect on auditor switching; \(7) Public ownership variables do not affect auditor switching; (8) The auditor's reputation variable has a negative effect on auditor switching.
2) The first suggestion for the next researcher to pay attention to the ownership variable in explaining the dependent variable is to be overcome by replacing indicators that can measure both ownership that might affect the change of KAP in the next research. Next research may add a moderating variable such as audit tenure to evaluate the strength of independent variables impact on the dependent variable.

References