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Analysis of Factors Affecting Auditor Switching in Manufacturing Companies Listed on The Indonesia Stock Exchange Period 2018-2022

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Abstract

This research is a quantitative study aimed at understanding the consequences of auditor switching related to audit opinions, change management, the size of public accounting firms, company size, and financial distress in companies. The study uses annual financial report data from manufacturing companies listed on the Indonesia Stock Exchange (BEI) from 2018 to 2022. Sample selection criteria were determined using purposive sampling method, resulting in 410 sample data from 82 manufacturing companies. The Nagelkerke R Square value obtained is 6.8%. The research findings indicate that the size of public accounting firms has a significant positive influence on auditor switching, while audit opinions, change management, company size, and financial distress do not have an impact on auditor switching.

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INTRODUCTION

Companies listed on the Indonesia Stock Exchange (IDX) are required to report or submit financial statements to the public. This is because these companies have gone public. Going public is a way for a company to sell shares to the public, which are traded through the stock market or stock exchange. Public companies can submit financial statements that have been audited by independent auditors. Independent, in this context, means being honest, not easily influenced, and impartial. This is why Public Accountants (PA) must maintain independence in their duties to prevent voluntary auditor switching by the company. According to Mulyadi (2011:90), auditor switching is an action taken by a company or client to replace auditors with the aim of maintaining the auditor's independence to remain objective in auditing the client's financial statements. When voluntary auditor switching occurs within a company, questions arise about what factors drive the voluntary auditor switching. There are several factors that drive auditor switching, six of which are audit opinion, management changes, the size of the Public Accounting Firm (PAF), company size, and financial distress.

METHOD

Populasi

According to Sugiyono (2017:215), a population is a generalization area consisting of objects or subjects that have certain qualities and characteristics determined by the researcher to be studied and from which conclusions are drawn. In this study, the

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population consists of manufacturing sector companies listed on the Indonesia Stock Exchange (IDX), totaling 171 companies.

Sampel

A sample is a subset of the population. The sampling technique used in this study is the purposive sampling method. According to Sugiyono (2019), purposive sampling is a technique for determining samples based on certain considerations. The sample in this study, which meets the specified criteria, consists of 82 companies.

Jenis Penelitian

The research conducted is quantitative research using secondary data in the form of annual financial reports and audited financial reports of manufacturing companies from 2018-2022, which are published by the Indonesia Stock Exchange (IDX) through the website www.idx.co.id.

Metode Analisis Data

Descriptive Statistical Analysis

Sugiyono (2017:147) states that descriptive statistical analysis is used to analyze data by describing or depicting the data that has been collected.

Multicollinearity Test

The multicollinearity test is used to determine whether independent variables are correlated with each other. An effective regression model should have orthogonal variables, meaning the correlation between variables should be zero (Ghozali, 2018:105).

Logistic Regression Analysis

According to Ghozali (2018:325), logistic regression analysis is used to determine the probability that independent variables can predict a dependent variable. The logistic regression equation is as follows:

$$Ln\frac{AS}{1-AS} = \alpha + \beta_1 D_1 + \beta_2 D_2 + \beta_3 D_3 + \beta_4 D_4 + \beta_5 D_5 + \varepsilon$$

Where ln represents the dummy variable for auditor switching, α is the constant, β is the regression coefficient, D1 is audit opinion, D2 is management change, D3 is the size of the Public Accounting Firm, X4 is company size, X5 is financial distress, and ε is the error.

Overall Model Fit

To determine whether all independent variables collectively impact the dependent variable, one examines the overall model fit (Ghozali, 2018:332).

Goodness of Fit Test

To determine whether all independent variables collectively impact the dependent variable, one examines the overall model fit (Ghozali, 2018:332).

Coefficient of Determination Test (Nagelkerke R Square)

Nagelkerke R Square provides insight into the logistic regression coefficient because its value can be interpreted similarly to R Square in multiple regression. Nagelkerke R Square is created by modifying the Cox and Snell coefficient, ensuring that its value varies between 0 (zero) and 1 (one) (Ghozali, 2018:333).

Hypothesis Testing

1. According to Ghozali (2018:99), the t-test is a test that indicates how much influence an individual independent variable has in explaining the variation in the dependent variable.

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2. The F-test essentially indicates whether all independent variables included in the model have equal influence on the dependent variable (Ghozali, 2018:98).

RESULTS AND DISCUSSION

The data comprises 82 companies that meet the criteria of regularly publishing financial reports from 2018 to 2022 and presenting financial statements in Indonesian Rupiah.

Descriptive Statistical Analysis

Detailed information regarding the data description of each variable can be found in the following table:

Tabel 1. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
Auditor Switching	410	0	1	.13	.341
Opini Audit	410	0	1	.06	.230
Pergantian Manajemen	410	0	1	.14	.346
Ukuran Kantor Akuntan Publik	410	0	1	.35	.479
Ukuran Perusahaan	410	20.62	33.66	28.2593	2.08693
Financial Distress	410	.01	402.18	4.3239	27.11782
Valid N (listwise)	410				

1. Auditor switching has a mean value of 0.13 and a standard deviation of 0.341, indicating poor results due to the high standard deviation reflecting significant deviation in the data of this variable.
2. Audit opinion (X1) has a mean value of 0.06 and a standard deviation of 0.230, suggesting suboptimal results due to the high standard deviation, indicating high variability in the data of this variable.
3. Management change (X2) shows a mean value and standard deviation of 0.14 and 0.346, indicating poor results as the standard deviation is greater than the mean.
4. Based on the size of the Public Accounting Firm (X3), the mean value is 0.35 with a standard deviation of 0.479. The standard deviation of 0.479 indicates significant data deviation, resulting in suboptimal performance for this variable.
5. Company size (X4) has a mean value of 28.2593, with a standard deviation of 2.08693, indicating good results because the standard deviation, which reflects deviation from the variable's mean, is relatively low.
6. Financial distress (X5) has a mean value of 4.3239, with a standard deviation of 27.11782. It can be concluded that the results obtained are poor due to the high standard deviation.

Uji Multikolinieritas

Tabel 2. Results of Multicollinearity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.268	.483		.555	.580		
	opini audit	-.139	.325	-.049	-.427	.671	.916	1.092
	pergantian manajemen	-.014	.098	-.017	-.147	.883	.915	1.093
	ukuran kap	-.184	.072	-.285	-2.547	.013	.950	1.053

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	ukuran perusahaan	-.004	.017	-.030	-.262	.794	.937	1.067
	financial distress	.020	.018	.124	1.117	.268	.963	1.038

In Table 2, all independent variables have Tolerance values ≥ 0.10 and VIF values ≤ 10. Therefore, it can be concluded that there is no multicollinearity among the independent variables in this study.

Logistic Regression Analysis

Tabel 3. Logistic Regression Analysis

		B	S.E.	Wald
Step 1[a]	Opini Audit	-.594	.787	.570
	Pergantian Manajemen	.289	.407	.505
	Ukuran Kantor Akuntan Publik	-1.239	.403	9.470
	Ukuran Perusahaan	-.065	.075	.759
	Financial Distress	.002	.004	.326
	Constant	.258	2.091	.015

The tests conducted in logistic regression are as follows:

$$Ln\frac{AS}{1-AS} = \alpha + \beta_1 D_1 + \beta_2 D_2 + \beta_3 D_3 + \beta_4 D_4 + \beta_5 D_5 + \varepsilon$$

1. The constant term has a positive value of 0.258, indicating that if all other variables are assumed to be zero, there is an increase of 0.258 units in auditor switching. It can be concluded that as the values of audit opinion, management change, KAP change, company size, and financial distress decrease, the value of auditor switching increases.
2. The coefficient for the Audit Opinion variable is -0.594. This means that every one-unit increase in Audit Opinion results in a decrease of 0.594 units in auditor switching, assuming the coefficients of other variables remain constant.
3. The coefficient for the Management Change variable is 0.289. This indicates that every one-unit increase in management change results in an increase of 0.289 units in auditor switching, assuming the coefficients of other variables remain constant.
4. The coefficient for the KAP Size variable is -1.239. This shows that every one-unit increase in KAP Size results in a decrease of 1.239 units in auditor switching, assuming the coefficients of other variables remain constant.
5. The coefficient for the Company Size variable is -0.065. This means that every one-unit increase in Company Size results in a decrease of 0.065 units in auditor switching, assuming the coefficients of other variables remain constant.
6. The coefficient for the Financial Distress variable is 0.002. This indicates that every one-unit increase in Financial Distress results in an increase of 0.002 units in auditor switching, assuming the coefficients of other variables remain constant.

Coefficient of Determination (R Square)

Tabel 4. Results of Coefficient of Determination

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	307.747[a]	.037	.068

From table 4, it was found that the log likelihood value of the model is -307.747, with a Nagelkerke R Square of 0.068 (6.8%) and a Cox & Snell R Square of 0.037 (3.7%). This indicates that the variance in the dependent variable, auditor switching, is explained by independent factors such as audit opinion, management turnover, KAP size, company size, and financial distress, to the extent of 6.8%.

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Results of Regression Model Fit

Tabel 5. Results of Regression Model Fit

Step	Chi-square	df	Sig.
1	9.343	8	.314

The Chi-Square value is 9.343 with 8 degrees of freedom (DF) and a significance value of 0.314. The null hypothesis is accepted because the significance value is greater than 0.05. This leads to the conclusion that the logistic regression model in the study meets the requirements for an adequate amount of data.

Overall Model Assessment

Tabel 6. Initial Fit Test Results (Block Number = 0)

Iteration		-2 Log likelihood	Coefficients
			Constant
Step 0	1	331.690	-1.463
	2	323.354	-1.816
	3	323.239	-1.864
	4	323.239	-1.865

Tabel 7. Final Fit Test Results (Block Number = 1)

Iteration		-2 Log likelihood	Coefficients					
			Constant	Opini Audit	Pergantian Manajemen	Ukuran Kantor Akuntan Publik	Ukuran Perusahaan	Financial Distress
Step 1	1	322.680	-.552	-.224	.137	-.456	-.027	.001
	2	308.823	-.072	-.457	.249	-.924	-.053	.002
	3	307.765	.225	-.579	.287	-1.193	-.064	.002
	4	307.747	.258	-.594	.289	-1.238	-.065	.002
	5	307.747	.258	-.594	.289	-1.239	-.065	.002

Tables 6 and 7 show the comparison of -2 log likelihood (LL) values. A decrease in values from the first block to the second block indicates that the second regression model is superior.

Results of the t-test

The t-test. This test is conducted using a significance level of 5% or less than 0.05, indicating that the independent variables have a significant impact on the dependent variable.

Tabel 8. Results of the t-test

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1[a]	Opini Audit	-.594	.787	.570	1	.450	.552	.118	2.582
	Pergantian Manajemen	.289	.407	.505	1	.477	1.336	.601	2.967
	Ukuran Kantor Akuntan Publik	-1.239	.403	9.470	1	.002	.290	.132	.638
	Ukuran Perusahaan	-.065	.075	.759	1	.384	.937	.808	1.085
	Financial Distress	.002	.004	.326	1	.568	1.002	.994	1.011
	Constant	.258	2.091	.015	1	.902	1.295		

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Result of the F test

Tabel 9. Result of the F test

		Chi-square	Df	Sig.
Step 1	Step	15.492	5	.008
	Block	15.492	5	.008
	Model	15.492	5	.008

From the table, the Chi-square value obtained is 15.492 with a significance value of 0.008. The significance value is less than 0.05, indicating that audit opinion, management turnover, KAP size, company size, and financial distress collectively have a significant simultaneous effect on auditor switching.

CONCLUSION

Based on the findings of the research, the following conclusions can be drawn:

1. Audit opinion does not influence auditor switching because companies tend to retain their Public Accounting Firm as long as the auditor maintains independence, which is expected to escalate the quality of the company's financial statements.
2. Management turnover does not affect auditor switching because most companies continue to use the same auditor even after changes in management.
3. Public Accounting Firm size influences auditor switching in manufacturing companies, as Big Four KAPs have stronger independence and can withstand management pressure better. Additionally, Big Four Public Accounting Firm are perceived to have higher quality.
4. Company size does not affect auditor switching because large companies can handle the high activity level and control requirements with their current auditors/Public Accounting Firm.
5. Financial distress does not influence auditor switching because companies facing financial distress tend to avoid additional audit costs by retaining their current auditor.
6. Audit opinion, management turnover, Public Accounting Firm size, company size, and financial distress collectively influence auditor switching. When these factors occur simultaneously, there is a high likelihood that companies will switch auditors.

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