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An Analysis Auditor Switching Determinants of Property and Real Estate Companies Listed on the Indonesia Stock Exchange

Melisara Br Pinem[1], Puja Rizqy Ramadhan[2], Rahima Br Purba[3]
[1,2,3]Program Study Accounting, Faculty of Social Sciences, University Pembangunan Panca Budi Medan, Indonesia

Abstract:

This paper aims to examine and analyze the effect of the size of the Public Accounting Firm (KAP), audit opinion, and leverage, on auditor switching. This research was conducted using associative research using secondary data. The population in this study were all property and real estate companies listed on the Indonesia Stock Exchange in 2016-2020, totaling 54 companies. With purposive sampling, the sample that met the criteria in this study was 42 companies with a total of 210 observations. Processing of data using logistic regression test based on testing dummy variables. The results of this study prove that partially KAP size has a significant effect on auditor switching, while audit opinion and leverage have no significant effect on auditor switching.

Keywords:

Auditor switching; KAP size; leverage

I. Introduction

The development of Public Accountants is so rapid, especially in conducting audits of the company's financial statements. Several public accountants have used various methods to provide convenience to clients so that clients continue to use their audit services.

The convenience that is too excessive can also reduce the independence of the Public Accountant, by following the wishes of the client. Under pressure to restore public confidence, congress passed the Public Company Accounting Reform Act and the Sarbanes-Oxley Investor Protection Act in July 2002. Similar to the effects of the Securities Act in 1933 and 1934, the Sarbanes-Oxley Act began with a process of extensive reform in corporate governance practices. corporate governance will be the task and practice of public companies, financial analysts, external auditors, and stock exchanges (Messier et al., 2006, p. 41).

Due to the importance of auditor independence in KAP to clients and the occurrence of KAP Arthur Anderson and PAO Hans Tuanakotta & Mustofa (HTM) issued Minister 423/KMK.06/2002 and updated KMK No. 359/KMK.06/2003. This regulation discusses the provision of general audit services on the financial statements of an entity that can be carried out by a Public Accounting Firm or auditor, for KAP for a maximum of 5 (five) consecutive years and by a Public Accountant for a maximum of 3 (three) consecutive financial years.

After that the decision was revised by Regulation of the Minister of Finance Number 17/PMK.01/2008 concerning Public Accountant Services concerning the Limitation of the Period of Audit Services provided by KAP for a maximum of 6 consecutive financial years and auditors for a maximum of 3 consecutive years.

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In the environmental mandatory, it is still possible for the company to rotate the Public Accounting Firm (KAP) voluntarily. Empirical evidence shows that companies that rotate KAPs voluntarily are caused by previous KAPs acting by the wishes of the auditors, and not in line with the interests of company management.

So voluntary KAP rotation at the company's initiative is possible because the company wants to find a KAP that fulfills its interests (Sumarwoto, 2006). Some of the factors that companies that carry out auditor switching are the size of the KAP, audit opinion, and leverage/financial difficulties.

II. Review of Literature

2.1 Financial Report

According to IAI (2012) complete financial statements usually include a statement of position financial statements, income statements, statements of changes in equity, cash flow statements, and notes on financial statements. Therefore, the company is expected to be able to explain changes in the company's financial position and performance during the year in the report finance.

Financial reports are defined by Samsul (2006, p. 128) as a means of Investors need to know the company's development periodically, In addition, financial statements are a form of accountability the company made by management to the owner of the company. By the PSAK number 1 (IAI, 2012) the purpose of financial statements is to provide information about financial position, performance, and cash flow of the company that is beneficial to most among users of reports to make economic decisions and demonstrates the responsibility (stewardship) of management for the use of resources the power entrusted to them.

Financial statements have several qualitative characteristics. According to IAI (2012), there are 5 main qualitative characteristics, namely:

a. Understandable, an important quality of information contained in financial statements is the ease with which it can be immediately understood by the user. For this purpose, users are assumed to have adequate knowledge of economic activities and business, accounting, and willingness to study information with diligence reasonable. Nevertheless, complex information that should have been entered in the financial statements cannot be issued only on the basis that the information is too difficult for certain users to understand.
b. Relevant, to be useful information must be relevant to meet the needs.
c. Users in the decision-making process. Information has a relevant quality if it can influence the economic decisions of users by helping them evaluate past, present, or future events, affirm, or corrected, the results of their evaluation in the past.
d. Reliability, to be useful information must also be reliable (reliable), information has reliable quality if it is free from misleading notions, material errors, and reliable by the wearer as part of a sincere or honest presentation (faithful representation) from what should be presented or what is fairly hope to be served.
e. Comparability, users must be able to compare financial statements companies between periods to identify trends in positions and financial performance. Users must also be able to compare financial statements between companies to evaluate the financial position, performance, and changes relative financial position.

Measurement and presentation of the financial effects of transactions and other events The same thing must be done consistently for the company, between periods the same company and for different companies.

2.2 Voluntary Auditor Switching

Auditor switching is a KAP transfer carried out by the company client. The factors that cause this practice to occur can come from the client or the auditor itself. According to Mardiyah (2002), two factors that affect the company changing KAP are client-related factors, namely: financial difficulties, failed management, change of ownership, Initial Public Offering (IPO), and other factors auditor (auditor-related factors), namely: auditor reputation, audit opinion, and audit delay. Today the development of the public accounting profession is strongly influenced by company development in general. More and more public companies are operating, more public accounting services will be needed. Divianto (2008) stated that due to these conditions, KAPs will compete with each other to try to get clients by providing the best possible audit services. Mautz and Sharaf (1961) in Myers (2003) stated that the relationship between auditors and clients that are too long can have a detrimental effect on auditor independence because the auditor's objectivity to the client is decreasing as time goes by. To maintain the independence of this auditor, auditor switching is performed. Auditor switching can be mandatory or voluntary. Mandatory auditor switching is the replacement of auditors who are carried out by the company because there are regulations that require the company to change the auditor within a certain period. On the other hand, voluntary auditors switching is an action taken by a company to replace its auditor when there are no regulations requiring it to change auditors.

Based on research conducted by Wijayani (2011) Auditor switching can be caused by factors from the client or factors from the auditor. When a client changes its auditor no rule requires it (voluntary), what happened was wrong one of two things: the auditor resigns or the auditor is fired by the client. Because of reasons for auditor resignation or auditor dismissal, the focus of the problem is on the client-side which causes voluntary auditor switching. Febrianto (2009) in Lestari (2012) if the reason for the switching is because of disagreements over certain accounting practices, it is expected that the client will move to an auditor who agrees with the client.

2.3. Audit Opinion

The audit opinion is a statement of opinion from the auditor regarding the fairness the company's financial statements that have been audited by the auditor. According to Mulyadi (2002), there are five types of audit opinions, namely:

a. Unqualified Opinion

An unqualified opinion is given by the auditor if there are no restrictions on the scope of the audit and there are no exceptions significant impact on the fairness and application of generally accepted accounting principles in the preparation of financial statements, consistency in the application of accounting principles generally accepted standards, as well as adequate disclosure of financial statements.

b. Unqualified Opinion Report with Explanatory Language

An unqualified opinion with explanatory language is given if there is any matters that require explanatory language, but the financial statements remain fairly present the financial position and results of operations of the client company.

c. Qualified Opinion

The auditor can give an unqualified opinion if the following conditions are met:

1) The scope of the audit is limited by the client.
2) The auditor is unable to perform important audit procedures or cannot obtain important information because of conditions that are outside the power of the client and the auditor.
3) Financial statements are not prepared by accepted accounting principles general.
4) Generally accepted accounting principles used in preparing reports finance is not applied consistently.

d. Unfair Opinion (Adverse Opinion)

The auditor gives an adverse opinion if the client's financial statements are not prepared based on generally accepted accounting principles so that they do not present fair financial position, results of operations, changes in equity and cash flows of the company client. The auditor gives an adverse opinion if he is not limited in the scope of the audit, so that he can gather sufficient competent evidence to support his opinion.

e. Disclaimer of Opinion

Chow and Rice (1982) stated that audit opinion is considered capable of influencing company stock prices and managers' compensation so that managers always expect a clean opinion or an unqualified opinion from the auditor company financial statements. An audit opinion is a statement of an assertion issued by auditors. Based on Wijaya's research (2011), managers believe that audit opinions Unfavorable conditions will affect share prices and financing capacity so that a qualified opinion is likely to influence the company's decision to terminate the contract with the auditor. If the company gets an audit opinion outside the opinion unqualified opinion from the auditor, the company is likely to perform auditor switching who may be able to provide an appropriate opinion expected.

The company avoids the appearance of qualified opinions in the financial statements. If the company gets a qualified opinion, it will decrease the credibility of the company's financial statements. This is in line with the results of the Wijaya Research (2011) which shows that the audit opinion has a significant effect on the Auditor Switching. So it can be concluded that the client who received an unqualified audit opinion expected that their financial statements will tend to perform auditor switching.

II. Research Method

Associative research is research that aims to determine the relationship between two or more variables. To obtain the required data and information, this study used secondary data. Secondary data was obtained from the financial statements of Property and Real Estate Companies for the period 2010 to 2014. The sampling technique used was purposive sampling. Companies that are sampled in the study must meet the following criteria:

1) The company was listed on the Indonesia Stock Exchange (IDX) in 2016-2020.
2) The company has an independent auditor's report as material to determine the size of the KAP in 2010-2014.
3) The company had a full board of directors in 2010-2014. The research data used in this study used data pooling

The population in this study was 54 companies, the sample obtained was 42 companies for 5 years, so a total sample of 210 companies was obtained. The data analysis method in this study uses a logistic regression analysis model:

$$Ln\ \frac{p(SWITCH)}{1-p(SWITCH)} \quad =+ \text{b1KS} + \text{b2OA} + \text{b3DE} + \text{e}$$

= Constant
b1…b3= Coefficient
KS= KAP Size
OA= Audit Opinion
DE= Leverage
e= error

IV. Results and Discussion

4.1 Multicollinearity Test

A good regression model is a regression that does not have a strong correlation between independent variables. This test uses a correlation matrix between variables to see the magnitude of the correlation between independent variables. If the independent variables are correlated with each other, then the variable is not orthogonal. Orthogonal variables are independent variables equal to zero (Ghozali, 2006). The highest correlation value is 0.375 (Variable < 0.9). This shows that there is no correlation coefficient between independent variables whose value is greater than 0.90, it can be concluded that there is no indication of multicollinearity between independent variables.

4.2 Hosmer and Lemeshow Test

The feasibility of the regression model was assessed using Hosmer and Lemeshow's Goodness of Fit Test. If the statistical value of Hosmer and Lemeshow's Goodness of Fit Test is greater than 0.05 then the null hypothesis cannot be rejected and means that the model can predict the value of the observations or it can be said that the model is accepted because it is by the observational data. The results of the research data obtained a chi-square value of 11.214 with a significance value of 0.190. From these results, it can be seen that the significance value of 0.190 is greater than alpha (0.05), which means that the decision taken is to accept H0, which means that there is no difference in the observed classification. This means that the logistic regression model can be used for further analysis.

4.3 Fit Model Test

This test is used to assess the hypothesized model is appropriate or not with the data. The test is done by comparing the value between -2 log majesty at the beginning (block number = 0) with a value of -2 lunar logs at the end (block number = 1).

A decrease in the value between the initial -2LL (initial function-2LL) and the -2LL value in the next step (late -2LL) indicates that the hypothesized model fits the data (Ghozali, 2006). The comparison table of this study is the value of -LL in the first block with -2LL in the second block. From the observation of the value of - 2LL, it can be seen that the value of the first block (Block Number = 0) is 155.424 and the value of -2LL in the second block (Block Number = 1) is 137.468. This decrease in probability (-2LL) indicates a better regression model or in other words, the hypothesized model fits the data.

4.4 Logistics Regression Analysis

The results of the logistic regression analysis can be seen with the following regression equation:

$$Ln\ \frac{p(SWITCH)}{1-p(SWITCH)} = -5.498 - 1.384\ KS + 0.592\ OA - 0.251\ DE$$

4.5 Simultaneous Test

Simultaneous test results can be seen in the following table:

Table 1. Simultaneous Test

Omnibus Tests of Model Coefficients				
		Chi-square	df	Sig.
Step 1	Step	11.793	3	.161
	Block	11.793	3	.161
	Model	11.793	3	.161

Based on the table above, it can be seen the results of the chi-square count of 11,793. For a significance level of 10% or 0.1 and a degree of freedom 7, the chi-squared value is 12,017. The chi-square count is smaller than the chi-square table. The significance value of 0.161 or 16.1% is greater than the significance level of 0.1 or 10%, this indicates that the size of the KAP, audit opinion, and leverage have no significant effect auditor switching effect.

4.6 Partial Test

Partial test results can be seen in the following table:

Table 2. Test Partial

Variables in Equation							
		B	SE	Wald	df	Sig.	Exp(B)
Step 1	KS	-1,348	.782	3,130	1	.077	.251
	OA	.592	.874	.458	1	.498	1,807
	DE	-251	.289	.754	1	.385	.778
	Constant	-5.498	3.202	2,948	1	.086	.004
a. Variable(s) entered on step 1 : KS, OA, DE.							

Based on the table above, it can be seen that only the KAP size variable has a significant effect on auditor switching, while audit opinion and leverage have no effect on auditor switching.

4.7 An Effect of KAP Size on Auditor Switching

In this paper described a significance value of KAP size was 0.077 where this value was smaller than 0.1, which means that the hypothesis Ha is accepted and H0 is rejected. With a significance level of 7.7%, it can be stated that the size of the KAP has a significant effect on Auditor Switching. This study supports the research of Nasser, et al. (2006) which states that larger (big-4) KAPs are usually considered to be more able to maintain a sufficient level of independence than smaller KAPs, because they usually provide service coverage to a large number of clients.

4.8 An Effect of Audit Opinion on Auditor Switching

From the results of partial variable testing, namely the audit opinion variable on the substitution of KAP. So that in this study, the significant value of audit opinion was 0.498 where the value was greater than 0.1, which means that the hypothesis H 0 is accepted and Ha is rejected. With an error rate of 49.8%, it can be stated that the audit opinion has no significant effect on auditor switching. On average, companies received Unqualified Opinions (WTP), several companies received opinions other than WTP. This causes no significant effect between audit opinion and changes in KAP. In addition, the reason for not making changes to KAP may be due to the Regulation of the Minister of Finance Number 17/PMK.

4.9 An Effect of Leverage on Auditor Switching

From the results of partial variable testing, namely for the DER ratio variable to auditor switching. So that in this study, a significant value of audit opinion was obtained at 0.385 where the value was greater than 0.1, which means that the hypothesis H0 is accepted and Ha is rejected. With an error rate of 38.5%, it can be stated that leverage has no significant effect on auditor switching. As for what causes there to be no influence between leverage and KAP turnover, according to the researcher, the amount of equity in a company can still cover all of the company's debts.

V. Conclusion

Simultaneously, the size of KAP, audit opinion, and leverage have no significant effect on auditor switching. Partially, the size of KAP has a significant effect on auditor switching, while audit opinion and leverage do not affect auditor switching. This is due to the Regulation of the Minister of Finance No. 17/ PMK.01/2008 concerning "Public Accountant Services" article 3 concerning Public Accountant Services concerning the Limitation of the Period of Audit Services by KAP for a maximum of 6 (six) consecutive times. the financial year and the auditor is a maximum of 3 consecutive years, this is mandatory so that the company does not make changes to the KAP.

For further researchers, it is recommended to research other factors that have a greater influence on auditor switching so that the factors that most influence auditor switching are known. Research needs to be carried out on other types of companies and a longer time series. Using the latest Minister of Finance Regulation (PMK) 4. It is necessary to add purposive sampling criteria, namely companies that make changes to KAP in the time series under study.

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