E-ISSN : 2721-303X
P-ISSN : 2721-3021
DINASTI INTERNATIONAL JOURNAL OF ECONOMICS, FINANCE AND ACCOUNTING (DIJEFA)
https://dinastipub.org/DIJEFA dinasti.info@gmail.com +62 811 7404 455
DOI: https://doi.org/10.38035/dijefa.v5i2
Received: 06 May 2024, **Revised:** 29 May 2024, **Publish:** 10 June 2024

The Influence of Audit Opinion, Cap Size, Financial Distress, and Company Size on Auditor Switching (Empirical Study of Manufacturing Companies in Various Industrial Sectors Listed on The Indonesian Stock Exchange for the 2019-2022 Period)

Rina[1*], Sigit Mareta[2]
[1]Universitas Dian Nusantara, Jakarta Barat, Indonesia, email: 12119082@mahasiswa.undira.ac.id
[2]Universitas Dian Nusantara, Jakarta Barat, Indonesia, email: sigit.mareta@undira.ac.id

[*]Corresponding Author: sigit.mareta@undira.ac.id

Abstract: This study aims to examine the influence of Auditor Opinion, KAP Size, Financial Difficulty and Profitability on Auditor Change in Various Industrial Sector Manufacturing Companies listed on the Indonesian Stock Exchange. The independent variables in this research are Auditor Opinion, Financial Difficulty and KAP Size. The dependent variable is Auditor Change. The population of this research includes all various industrial companies listed on the Indonesia Stock Exchange for the 2019-2022 period. The sampling technique used was purposive sampling. The data analysis method used is logistic regression with SPSS version 27. The total sample for this research is 176 companies. The data collection technique uses the documentation method via the official IDX website: www.idx.co.id. The results of this research have implications for accounting knowledge, especially in the field of auditing, by providing empirical evidence regarding the influence of audit opinion, KAP size, financial difficulties and company size on auditor turnover

Keyword: Various Industries, Financial Distress, Audit Opinion, Auditor Switching, Company Size, KAP Size

INTRODUCTION

All companies that have been listed on the Indonesia Stock Exchange (IDX) or that have gone public are required to submit financial statements that have been prepared in accordance with Financial Accounting Standards (SAK). (Esa Pratama and Kurnia Shanti, 2022). The information presented by the company must be in accordance with generally accepted accounting standards, which are trustworthy and not misleading its users, considering the large number of interested parties to the financial statements so that the needs of interested parties will be met (Yusriwarti, 2019). This is where the public accountant or auditor is appointed as an independent party in charge of examining and providing opinions on the fairness of the financial statements.

Change of Auditor, is a partner audit company with obligations that must be carried out as regulated by Decree of the Minister of Finance Number 359/KMK.06/2003 article 2 to carry out a Change of Auditor. Auditor changes are divided into 2, namely those that are mandatory (mandatory) and those that are voluntary (voluntary). Changing auditors is mandatory because there are government regulations that require changing auditors, whereas voluntary changes are usually caused by the client or KAP itself due to company factors.

Debt to Equity Ratio (DER). The greater the risk of the company, the greater the return generated. The bigger the company the bigger the assets and the turnover of the company, which means the sales are greater and the profits generated are also increased.(Lestari. et al., 2023)

Changing auditors allows for actions to be taken to eliminate traces that have been identified by the previous auditor in order to cover up fraud that occurred within the company. Fraud can also occur due to a rationalization attitude by management and a tolerant attitude provided by the auditor through an unqualified opinion with explanatory sentences. Based on this justification, this research speculates the following hypothesis.(Purwanti, 2022)

Objectives

This article intends

1. To find out whether the Auditor's Opinion has a significant effect on Auditor Replacement.
2. To find out whether KAP size has a significant effect on auditor turnover.
3. To find out whether financial difficulties have a significant effect on auditor turnover.
4. To find out whether company size has a significant effect on auditor turnover.

Agency Theory

Agency theory states that agency relationship is a relationship between one person or more as shareholders (principle) and then appoints another party as management (agent) so that they can make decisions as shareholders (Luthfiyati, 2016) in (Klarasati et al., 2021). Auditor Switching that occurs in a company is caused by principal-agent problem of separation of ownership and control of the company. The cause of agent problems is the conflict of interest and information asymmetry between shareholders (principle) and management (agent) (Jensen and Meckling, 1976) in (Klarasati et al., 2021). The above agency problems can be reduced by the existence of independent services (independent audits) by principals to assess the fairness of company's financial statements. Auditors will be asked to be independent in assessing the fairness of company's financial statements (Mahindrayogiand Saputra, 2016) in (Klarasati et al., 2021). The concept of Agency Theory is a relationship or contract between the principal and agent, where the principal is the party who employs the agent to perform tasks for the interests of the principal, while the agent is the party who carries out the interests of the principal.Thus,agency problems can arise when one parts (the ‘principals’) contracts with another part (the ‘agents’) to make decisions on behalf of the principals.(Fathihani, 2020)

Auditing means evaluating an organization, process, or product by a competent, objective, and independent party called an auditor (Noval, 2019) and (Sumajow, 2022).There are five components in auditing: a systematic process, acquisition and evaluation of audit evidence, an assertion about the economic actions and events, level of compliance between the assertion and predetermined criteria, and communication of the result to the interested parties (Hery, 2019) in (Sumajow, 2022). Auditing has to be established according to the auditing standard determined and authorized by the Indonesian Institute of Certified Public Accountants (IICPA), consisting of three categories: general, fieldwork, and reporting standards (Ma’ruf, 2020) in (Sumajow, 2022).

According to the Public Accountant Professional Standards as of March 31 2011 (PSA 29 SA Section 508) in Fahmi and Hadi (2011) in (Marcheta, 2017), there are five types of accountants' opinions, including: 1). Unqualified opinion(Unqualified Opinion). 2). Reasonable opinion without exception with explanatory language(Unqualified Opinion report with Explanatory Language). 3). Reasonable opinion with exceptions(qualified opinion). 4). Inappropriate opinion(Adverse Opinion). 5). Statements do not provide an opinion(Disclaimer of Opinion). Public accounting firm (KAP) is a place for providing professional accounting services to companies or the public, one of which is the auditing of corporate financial statements. KAP assesses and provides opinions on the financial statements of a company (Permatasariand Ruswandi, 2019) in (Klarasati et al., 2021)

Companies that are threatened with bankruptcy, the financial position may have an important impact on the decision to defend the firm. The condition of client companies that are threatened with bankruptcy tends to improve the auditor's subjectivity and caution evaluation. Under these conditions a company will tend to change auditors.(Darmayanti et al., 2021)

A mismatch in size between a large client company being audited by a small KAP can lead to the end of the audit engagement, namely a change of auditor. Company size is a company scale that can be grouped into company size based on total assets, total sales and share value (Novari and Lestari, 2016) in (Muharramahand Judge, 2021). Permana and Pamuji (2011) say that KAP size is considered to play a role in determining the quality of financial reports reported by their clients. Large KAPs, such as Bigfour, are often considered to provide better audit quality than smaller KAPs, such as Non-Bigfour. Large KAPs have the responsibility to conduct audits more accurately because they have more specific relationships with clients that will be lost if they provide inaccurate reports (Panjaitan, 2014) in (Kamil, 2020)

METHODS

This research was conducted using secondary data. Secondary data is data that is obtained indirectly through liaison media, whether published or unpublished, and is chosen by researchers because the data obtained is easier, faster and more cost-effective and time efficient. The data used in this research was obtained from the financial reports of all manufacturing companies in various industrial sectors listed on the Indonesia Stock Exchange (BEI) for the 2019-2022 period which can be accessed via the website www.idx.co.id.

The sample criteria selected in conducting this research were: Manufacturing Companies in the Various Industrial Sectors listed on the Stock Exchange (BEI) for 4 consecutive years for the 2019-2022 period:

1. Various Industrial Sector Manufacturing Companies listed on the Indonesia Stock Exchange in 2019-2022.
2. Companies that do not audit financial reports in the 2019-2022 period
3. Companies that submit audited financial reports not by December 31.

The data analysis method used is Logistic Regression uses the Software Program Service program Solution (SPSS) version 27. Logistic Regression Analysis is used for knowing the influence of the independent variable on the dependent.

The logistic regression method is used because the dependent variable is measured using a dummy (Fikri, 2019). Meanwhile, the data used is secondary data. According to Siregar (2013: 16) secondary data is data published or used by an organization that is not the processor. Secondary data was obtained by the author from the official Bursa website Indonesian Securities www.idx.co.id.

The data analysis method used in this research is logistic regression. According to (I Ghozali, 2013), logistic regression is used to determine the extent to which the probability of the dependent variable's occurrence can be predicted by the independent variables. The logistic regression model equation used in this study is as follows:

$$\mathbf{Ln\ Switch / 1\text{-}Switch = a+B_1X_1+B_2X_2+B_3X_3+ B_4X_4+e}$$

Information:
Ln Switch / 1-Switch : Change of Auditor
a : Constant
B1, B2 : Regression Coefficients
X1 : Audit Opinion
X2 : KAP size
X3 : Financial Difficulty
X4 : Company Size
e : Error

RESULTS AND DISCUSSION

Descriptive statistics

Descriptive statistics, according to (I Ghozali, 2013), is a technique that describes a set of data under study. By employing descriptive statistics, data can be examined based on measures such as mean, standard deviation, variance, maximum, minimum, sum, range, kurtosis, and skewness (distribution asymmetry). In this study, the results of descriptive statistical analysis based on observations of several variables used in the research will be presented. Based on the results of descriptive statistical tests, 176 observation data were obtained which came from multiplying the 4 year research period from the 2019-2022 data with a total of 44 sample companies. Below are the results of descriptive statistical tests using the IBM SPSS Statistics 27 application:

Tabel 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
AUDIT OPINION	176	0.00	1.00	0.9773	0.14946
CAP SIZE	176	0.00	1.00	0.2784	0.44949
FINANCIAL DISTRESS	176	-30.15	114.29	1.5671	9.89641
COMPANY SIZE	176	26.04	34.29	28.4073	1.65809
AUDITOR SWITCHING	176	0.00	1.00	0.3636	0.48242
Valid N (listwise)	176				

Source: Data processed using IBM SPSS Statistics 27

Hosmer and lemeshow test

The feasibility of the regression model was assessed using Hosmer and Lemeshow's Goodness of Fit Test. Hosmer and Lemeshow's. The Goodness of Fit Test tests the null hypothesis that the empirical data is suitable or in accordance with the model (there is no difference between the model and the data so the model can be said to be fit).

It can be seen that the significance value is 0.507. The significance value obtained meets the requirements with a value above 0.05 (α) 5%, which means that hypothesis 0 (H0) cannot be rejected or in other words the model is accepted. This means that the model is able to predict the observed values or the model is acceptable because it matches the observation data so that this model can be used for further analysis.

Tabel 2. Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	7.278	8	0.507

Source: Data processed using IBM SPSS Statistics 27

Overall model fit

Based on this hypothesis, H0 must be accepted and Ha must be rejected so that the model fits the data. The statistics used are based on the likelihood function. The likelihood L of a model is the probability that the hypothesized model describes the input data.

Irrigation History at block 0 or when the independent variable is not included in the model: N=176 Get a value of -2 log likelihood: 230.730. Degree of Freedom (DF) = N-1 = (176-1 = 175). Chi-Square Table at DF 175 and Probability 0.05 = 206.867. Value -2 log likelihood (230.730) > Chi-Square Table (206.867). Concluded that the model before including the independent variables still did not meet the test requirements.

Tabel 3. Overall Model Fit Test

Iteration		**-2 Log likelihood**	**Coefficients Constant**
Step 0	1	230.738	-0.545
	2	230.730	-0.560
	3	230.730	-0.560

Source: Data processed using IBM SPSS Statistics 27

Nagelkerke r square

The coefficient of determination test using Nagelkerke R Square is a test carried out to determine how much the independent variable is able to explain and influence the dependent variable. The Nagelkerke R Square value varies between 1 and 0. If the value is closer to 1, the model is considered to have greater goodness of fit, while if it is closer to 0, the model is considered to have less goodness of fit (Ghozali, 2016).

The Nagelkerke R Square value shows a value of 0.230. This means that the variability of the dependent variable that can be explained by the independent variables in this study is 23%. It can be said that the variations in the independent variables in this research, namely Audit Opinion, KAP Size, Financial Difficulty, and Company Size, are able to explain the variations in the dependent variable in this research, namely Auditor Turnover of 23%.

Tabel 4. Model Summary

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	198.362[a]	0.168	0.230

Source: Data processed using IBM SPSS Statistics 2

Variabel in the equation

Hypothesis testing in this research is to test the influence of the variables Audit Opinion, KAP Size, Financial Difficulty, Company Size on the dependent variable Auditor

Change using logistic regression analysis, Based on logistic regression testing as explained in the previous section, the interpretation of the results is presented in four parts. The first part discusses the influence of Audit Opinion (x1) on Auditor Turnover (Y) (Ha1). The second part discusses the influence of KAP size (x2) on Auditor Turnover (Y) (Ha2). The third section discusses the influence of Financial Difficulties (x3) on Auditor Turnover (Y) (Ha3). The fourth section discusses the influence of Company Size (x4) on Auditor Turnover (Y) (Ha4). the results of which are shown in the table:

Tabel 5. Variabel in the Equation

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	OPINI AUDIT	-2.587	1.327	3.804	1	0.050	0.075
	UKURAN KAP	-1.609	0.557	8.345	1	0.004	0.200
	KESULITAN KEUANGAN	0.026	0.024	1.157	1	0.282	1.026
	UKURAN PERUSAHAAN	-0.291	0.136	4.577	1	0.032	0.747
	Constant	10.471	4.295	5.945	1	0.015	35266.966

Source: Data processed using IBM SPSS Statistics 27

CONCLUSION

Based on logistic regression testing as explained in the previous section, the interpretation of the results is presented in four parts:

1. **Influence of Audit Opinion on Auditor Change**
   These results can prove that audit opinion has an influence on changing auditors, so Ha1 is successfully supported.Based on the regression model equation formed above, it can be explained that the first hypothesis states that Audit Opinion has an influence on changing auditors.
2. **The Effect of KAP Size on Auditor Change**
   These results can prove that KAP size has an influence on auditor turnover, so Ha2 is successfully supported.Based on the regression model equation formed above, it can be explained that the second hypothesis states that KAP size has an influence on auditor turnover.
3. **The Effect of Financial Difficulties on Auditor Change**
   These results can prove that financial difficulties have no effect. So it can be concluded that Financial Difficulties have an insignificant positive effect on changing auditors, so Ha3 is not successfully supported. Based on the regression model equation formed above, it can be explained that the third hypothesis states that financial difficulties have no influence on auditor turnover.
4. **The Effect of Company Size on Auditor Change**
   These results can prove that company size has an influence on changing auditors, so Ha4 is successfully supported.Based on the regression model equation formed above, it can be explained that the fourth hypothesis states that company size influences auditor turnover.

ACKNOWLEDGMENTS

We should like to thank the Lembaga Riset dan Pengabdian Masyarakat Universitas Dian Nusantara

REFERENCES

Lestari, Mareta, S., . Y., Suryadi, E., & Irawadi Barus, I. (2023). The Influence of Earnings Per Share, Debt to Equity Ratio and Company Size on Stock Return. KnE Social

Sciences, 2023, 137–148. https://doi.org/10.18502/kss.v8i12.13658
Fathihani, F. (2020). The Influences of Capital Structure, Company Growth, Profitability, and Company Sizes on Profit Management. https://doi.org/10.4108/eai.26-9-2020.2302688
I Ghozali. (2013). Aplikasi Analisis Multivariat Dengan Program SPSS (Edisi 7). Badan Penerbit Universitas Diponegoro.
Kamil, I. (2020). The Effect of Audit Fee, Audit Tenure, and Audit Company Size of Audit Quality in Goods Consumer Companies Liested in Indonesia Stock Exchange (BEI) in 2016-2019. International Journal of Management Studies and Social Science Research, 2(4), 170–182. www.ijmsssr.org
Purwanti, A. (2022). Target Keuangan, Kondisi Industri, Perubahan Auditor, Dan Perubahan Direksi Terhadap Salah Saji Material Pada Laporan Keuangan. Owner, 6(1), 1116–1126. https://doi.org/10.33395/owner.v6i1.739
Darmayanti, N., Africa, L.A.,and Mildawati, T. (2021). The Effect of Audit Opinion, Financial Distress, Audit Delay, Change of Management on Auditor Switching. International Journal of Economics and Finance Studies, 13(1), 173–193. Https://doi.org/10.34109/ijefs.202112230
Esa Pratama, D.,and Kurnia Shanti, Y. (2022). The Influence of Audit Opinion, Financial Distress, Client Company Growth and Cap Size on Auditor Switching.Barelang Accounting Journal, 6(1), 13–24. Https://doi.org/10.33884/jab.v6i1.4556
Fikri, A. M. Al. (2019). The influence of management changes, public accounting firm size, profitability, and audit opinion onauditor switching (Study of BUMN Companies Listed on the BEI 2016 - 2019).FEB Student Scientific Journal, 9(1), 1–15. Https://jimfeb.ub.ac.id/index.php/jimfeb/index
Indonesian Accounting Association in Financial Accounting Standards (SAK) (2017:1). (n.d.).Preparation and Presentation of Financial Reports in accordance with PSAK 1, PSAK 2, PSAK 3, PSAK 25 and ISAK 17, iaiglobal. Http://iaiglobal.or.id/v03/PPL/detail_ppl-650.html
Mareta, S. (2017). Analysis of Factors that Influence the Timeliness of Publication of Financial Reports for the 2009-2010 Period (Empirical Study on the Indonesian Stock Exchange).Accounting journal, 19(1), 93. Https://doi.org/10.24912/ja.v19i1.116
Muaqilah, N., Mus, A. R., and Nurwanah, A. (2021). The Influence of Financial Distress, Audit Opinion, Management Change and Cap Size on Auditor Switching (Study of State-Owned Companies Listed on the Indonesian Stock Exchange).Invoice: Journal of Accounting Science, 3(1), 145–158. Https://doi.org/10.26618/inv.v3i1.4978
Mubarrok, A. Z.,and Islam, A. R. (2020). The Effect of Management Change, Audit Opinion, Company Size, Financial Distress and Auditor Reputation on Auditor Switching. ACCRUALS (Accounting Research Journal of Sutaatmadja), 4(02), 185–198. Https://doi.org/10.35310/accruals.v4i02.601
Muharramah, R.,and Hakim, M. Z. (2021). Company Size, Profitability on Company Value.Proceedings of the National Seminar on Economics and Business, 2017, 569–576.
Sadikin, D. K., Drs, M. M., and Al, H. N. (2016).Stie Mulia Pratama Scientific Journal – Bekasi Analysis of Inspection of Raw Materials and Labor on Cost of Goods Production at PT. Dynaplast Winarsih (2012102083). 2012102083.
SM, A., Lubis, A.,and Sabrina, H. (2020). The Influence of Loyalty and Integrity on Leadership Policies at PT. Quantum Training Center Medan.Scientific Journal of Management and Business, 1(1), 21–30.
Yusriwarti. (2019). The influence of audit opinion, financial distress and company size on auditor switching in manufacturing companies listed on BEI.Agai, 8(5), 55.