

AUDITOR SWITCHING: MANAGEMENT TURNOVER, QUALIFIED OPINION, AUDIT DELAY, FINANCIAL DISTRESS

Yulius Kurnia Susanto¹

Abstract

The purpose of the research is to get empirical evidence about the effect of management turnover, qualified opinion, audit delay and financial distress on auditor switching. This research used 122 listed non financial companies in Indonesia Stock Exchange, selected using purposive sampling method in period 2011 to 2015. The data were analyzed using logistic regression analysis. The result of the research is the management turnover, audit delay, and financial distress have no effect on auditor switching. While, qualified opinion have a significant influence on auditor switching. To meet the expectations of management and principal, the company wants to get unqualified opinion. Unqualified opinion indicates that the financial statements have been presented fairly without qualified. This shows that management has worked in accordance with the expected of the principal. If the company obtains a qualified opinion then the company gets attention from principal especially investor in determining investment feasibility.

Keywords: Auditor switching, management turnover, audit opinion, audit delay, financial distress.

Introduction

With more and more registered public accountant, the company has the option of using the same registered public accountant or auditor switching. The auditor switching can be mandatory and voluntary. The replacement of the mandatory is due to the required regulation (Paramitadewi, 2014). The requirement of auditor switching was the result after Enron's case in 2000. This led to Sarbaney Oxley Act (SOX) in 2002 which aims to maintain the independence of public accountants and restore investor confidence. With Sarbaney Oxley Act (SOX), it has an impact on other countries. One of the countries that started to implement the mandatory audit switching is Indonesia. The regulation of audit rotation is regulated in Regulation of the Minister of Finance of the Republic of Indonesia No. 17 / PMK.01 / 2008 article 3. In Article 3 paragraph 1 stated Provision of general audit services to the financial statements of an entity as referred to in Article 2 paragraph (1) letter a shall be conducted by Registered Public Accountant (KAP) six consecutive yearbooks and by a public accountant for at least 3 consecutive yearbooks. On April 6, 2015, the government has amended this regulation by issuing Government Regulation No.20 of 2015 on Public Accountant Practices. In article 11, paragraph (1), which explains that the provision of audit services to the financial statements of an entity by a public accountant is limited to the maximum for 5 consecutive years. This regulation explains that there is no limitation on the provision of services to the Registered Public Accounting.

Auditor switching of voluntary that occurs outside the existing regulations and based on the company's wishes (Dwiyanti & Sabeni, 2014). There are two factors that affect the company to auditor switching of voluntary (Khasanah & Nahumury, 2013). These factors are client-related factors, namely: financial difficulties, failed management, ownership change, Initial Public Offering (IPO) and auditor-related factors, ie audit fees and audit quality. There are two possibilities for the auditor switching of voluntary whether to resign from the acceptance of duties or the client to terminate the employment relationship and to replace the registered public accountant for the services provided.

If the company is replacing the public accounting firm outside the existing regulations then it is questionable what factors affect the auditor switching. Therefore, the authors are motivated to conduct research on the auditor switching. This research is a replication of previous research conducted by Azhar (2015). This study adds audit delay taken from Robbitasari and Wiratmaja (2013). The purpose of this research is to get empirical evidence of the influence of management change, audit opinion, audit delay and financial distress to the auditor switching.

Agency Theory

The theory that underlies the auditor switching is agency theory. The agency theory discusses a conflict of interest between the agent and the principal. The agency relationship is a contract in which one or more people (principals) involve another person (agent) to perform some services on their behalf and then delegate some of the decision-making authority to the agent (Jensen & Meckling, 1976). Problems in agency relations occur when not all conditions are recognized by both parties (information asymmetry). This conflict can trigger management turnover (Haryanto, 2014)

¹ Yulius Kurnia Susanto, SE., M.Si., Trisakti School of Management, Jakarta, Indonesia

✉ corresponding author: yulius@tsm.ac.id

The problem arising from the conflict of interest is the presence of information asymmetry. Information asymmetry is the imbalance of information distribution between the agent and principal causing unbalanced information (Arifah, 2012). Information asymmetry can occur because the management is more informed or superior in the company than others (owners or shareholders). The existence of information asymmetry between the management (the agent) and the owner (principal) can give the manager an opportunity to act opportunistically that is to gain personal benefit (Lisa, 2012). The independent auditor is considered to be an intermediary between the two parties of different interests and can reduce the agency costs arising from self-interest by the manager (Aprillia, 2013). The principal requires an auditor who can assure and also verify information made by management (Dwiyanti & Sabeni, 2014). In addition to being a mediator, independent auditors are also tasked with providing guarantees on the fairness of financial statements without taking sides (Robbitasari & Wiratmaja, 2013).

Management Turnover and Auditor Switching

The existence of new management is usually followed by new policies as well. This causes management to have the power to choose a new and more qualified public accounting firm. The company will seek public accounting firms that are in line with company policy, and its accounting reporting (Nagy, 2005). The other reason for the management turnover that resulted in the auditor switching because of the factor of trust. Management will dismiss the public accounting firm voluntarily if it cannot provide the expected opinion of the company and will seek a public accounting firm in harmony with the company. The tendency of companies to move public accounting firms will be smaller if the public accounting firm can align with the accounting policies and reporting (Astrini and Muid, 2013).

The management turnover has a positive effect on the change of public accounting firm stating that with the management turnover within a company it will result in changes in accounting method, financial, and the selection of registered public accountant (Azhar, 2015). This also led to new management having the authority to choose a more qualified auditor in accordance with company policy. Management turnover in a company can influence the decision to auditor switching due to the authority possessed by the management and the decision making functions taken by the management (Dwiyanti & Sabeni, 2014); Pratini & Astika, 2013).

There are differences in Khasanah & Nahumury (2013), Juliantri & Rasmini (2013), Astrini & Muid (2013) that management turnover has no effect on the auditor switching. It is based that the management turnover is not always followed by changes in company policy, so that the old registered public accountant is not replaced. Auditor switching sometimes also require approval of shareholder general meetings, so that new management wishes are sometimes not met. The hypothesis proposed is:

H₁ Management turnover increases, the probability of auditor switching increases

Qualified Opinion and Auditor Switching

Dissatisfaction with the auditor's opinion may lead to tension between management and public accounting firms so that the company decides to switch public accounting firms. The management will be very happy if the public accounting firm can provide unqualified opinions because with the perfect opinion can attract investors. If the public accounting firm cannot fulfill the manager's wish to give this unqualified opinion, then the manager will be auditor switching. The manager will look for a public accounting firm that has a corresponding view (Dwiyanti and Sabeni 2014).

Azhar (2015), Pratini & Astika (2013), Khasanah & Nahumury (2013) found that audit opinion did not affect the auditor switching on the basis that audit opinion will remain the same even though the auditor switching is due to new registered public accountant will find out information from the old registered public accountant. If the company replaces the big four registered public accountant into a non-big four registered public accountant because it does not provide unqualified opinion, then it will provide a negative perspective from investors (Juliantri & Rasmini, 2013; Astrini & Muid, 2013). Qualified opinion has a positive effect on the auditor switching because the company wants unqualified opinion, if the auditor cannot give the desired opinion then the company tends to change its public accounting firm (Krishnan et al., 1996; Dwiyanti & Sabeni, 2012; Buchari & Marita, 2014). The hypothesis proposed is:

H₂ Qualified opinion increases, the probability of auditor switching increases

Audit Delay and Auditor Switching

Delay in the delivery of financial statements may affect the quality of audited financial statements due to the length of time being delayed. This delay may also lead to perception for users of financial statements that the information provided by the auditor is not updated and the quality of financial reports produced poorly. The quality of the public accountant firm was in doubt. Expressed if a completion of audit duties have a long time span will result in delays in the delivery of financial statements to the capital market so as to affect the auditor switching (Pawitri and Yadnyana, 2015).

The longer delivery of financial statements to the stock market will indicate that the condition of the company is in a bad state. The audit delay will be longer if the company gets an opinion other than unqualified. This will create

a negative perspective from investors. This also affects the performance of registered public accountant that is considered not working optimally so that it can cause auditor switching. Audit delay has a significant effect on the auditor switching (Robbitasari & Wiratmaja, 2013; Pawitri & Yadyana, 2015). This is of course because the company does not want to delay the publication of financial statements caused by audit delay occurs again in the next year, resulting in the company making auditor switching. The hypothesis proposed is:
H₃ Audit delay increases, the probability of auditor switching increases

Financial Distress and Auditor Switching

Financial distress will get the company to do things that can improve or cover its condition. One of them by looking for auditors who want to work together to manipulate financial statements to look better and in that way the company can get funds from creditors or investors. If the previous auditor or public accounting firm cannot fulfill the wishes of the company, the company will seek a new public accounting firm that can accommodate its wishes. Therefore, companies experiencing financial distress tend auditor switching (Paramitadewi, 2014).

The financial condition of a company can be the effect of the auditor switching. If the financial condition is good then the company tends not to auditor switching. Otherwise if the condition of the company is deteriorating then the company will tend to auditor switching caused by several factors. The financial distress positively affect the auditor switching because companies experiencing financial distress cannot bear the audit fee proposed registered public accountant so that must auditor switching (Azhar, 2015; Pratini & Astika, 2013). The financial distress effect on the auditor switching due to attract investors, the company must be audited by auditors of high quality (Dwiyanti & Sabeni, 2014). The financial distress does not affect the auditor switching because the new auditor must recognize the client's business environment and business risks client (Astrini & Muid, 2013; Haryanto, 2014; Astuti & Ramantha, 2014). If the auditor cannot understand it then it will increase the start-up cost so as to increase the company's burden. The hypothesis proposed is:

H₄ Financial distress increases, the probability of auditor switching increases

Methods

The sample selection in this research is done by using purposive sampling method. The non-financial companies listed on the Indonesia Stock Exchange period 2011-2015, the sample used by researchers as many as 122 companies. The sample selection criteria can be seen in table 1 below:

Table 1. Sample Selection

Sample Criteria	Firm
Non-financial companies listed on the Indonesia Stock Exchange during 2011 to 2015	360
Non-financial companies that do not issue their financial statements as of	(18)
Non-financial companies that do not use the Rupiah	(68)
Non-financial companies that never make a auditor switching	(152)
Total Firm	122
Total data	610

The auditor switching (SWITCH) is a change made by the client either mandatory or voluntary (Aprillia, 2013). The research used auditor switching voluntary that is voluntary transfer of auditor conducted outside regulation and only based on desire of company (Dwiyanti & Sabeni, 2014). Auditor switching is proxied with dummy variable (Azhar, 2015). If the company changes the registered public accountant voluntarily is assigned a value of 1, other 0. Management turnover (PM) occurs when there is a change of board of directors resulting from the decision of shareholder general meeting or on their own (Dwiyanti & Sabeni, 2014). The management turnover is proxied with dummy variable (Azhar, 2015). If there is a management turnover given value 1, other 0 (Dwiyanti & Sabeni, 2014).

Audit opinion (OPINI) as a statement of opinion given by the auditor to assess the company's audited financial statements whether the financial statements fair or not (Buchari & Marita, 2014). The qualified opinion is measured by dummy variable (Azhar, 2015). If the company receives an opinion other than unqualified opinion it is given a value of "1", if the company receives an unqualified opinion then it is given a value of "0" (Astrini & Muid, 2013). Audit delay (AUDLY) is the time gap required by the auditor to generate an audit report on the company's financial statements as calculated from the difference between the date of the annual financial statements up to the date of audit report issued by the public accounting firm (Puspitasari & Latrini, 2014). The audit delay is proxied by looking at the number of days on the closing date of the company's books December 31 up to the date of signing the audit report (Robbitasari & Wiratmaja, 2013).

Financial distress (DAR) is a state of a company experiencing difficulties or financial reports that are not in good condition so it is feared will go bankrupt (Dwiyanti & Sabeni, 2014). Financial distress is proxied with total debt

to asset ratio (Azhar, 2015). The higher the total debt to asset ratio, the higher the likelihood of the company experiencing financial distress because the total debt is greater than the total assets (Zulaikha, 2014). This logistic regression is used to test whether the probability of occurrence of the dependent variable can be explained by the independent variable. The equation of logistic regression model in this research is:

$$\text{Ln} \frac{\text{SWITCH}}{1 - \text{SWITCH}} = \beta_0 + \beta_1 \text{PM} + \beta_2 \text{OPINI} + \beta_3 \text{AUDLY} + \beta_4 \text{DAR} + \varepsilon$$

Results and Discussions

Test results of descriptive statistics and hypothesis testing can be seen in the following table 2 and 3:

Table 2. Descriptive statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
SWITCH	0	1	0.32	0.467
PM	0	1	0.46	0.499
OPINI	0	1	0.71	0.454
AUDLY	13	350	83.31	25.300
DAR	0.000320	11.844238	0.62350504	0.987890691

Table 3. Hypothesis testing

Variable	Expected Sign	B	Sig.
Constant		-1.523727	0.000009
MT	+	0.027358	0.878764
QO	+	1.026551	0.000005
AD	+	-0.001204	0.729790
FD	+	0.140768	0.112066
n 610			
Chi-Square 10.992 Sig. 0.202			
Nagelkerke R ² 6.5%			
% correctly predicted 68.2			

Management turnover (MT) has a significance value of 0.878764 and a coefficient of 0.027358, then H₁ is not accepted. This shows that management turnover has no effect on auditor switching. The management turnover is not always followed by the auditor switching because to choose a new registered public accountant sometimes requires approval in shareholder general meeting, so that the new management desire cannot be fulfilled.

Qualified opinion (QO) has a significance value of 0.000005 and a coefficient of 1.026551, then H₂ is accepted. This shows that qualified opinion has a positive effect on auditor switching. Audit opinion received can be one of the considerations of the company to make auditor switching, because the company wants a unqualified opinion. If the registered public accountant provides an opinion other than unqualified, then it is not in line with the company's expectations so the company will auditor switching.

Audit delay (AD) has a significance value of 0.729790 and a coefficient of -0.001204, then H₃ is not accepted. This shows that audit delay has no effect on auditor switching. This indicates that the company still has consideration not to auditor switching. This means that even if the company experienced delays in the delivery of financial statements, the company still has consideration to maintain the old registered public accountant to maintain the company's reputation.

Financial distress has a significance value of 0.112066 and a coefficient of -0.140768, then H₄ is not accepted. This shows that financial distress has no effect on auditor switching. Companies that are currently in financial distress will think again to use a new registered public accountant. If the company uses a new registered public accountant, then the company must bear the startup costs that can increase audit fees.

Conclusions

Based on the test results can be made the following conclusions management turnover, audit delay and financial distress have no significant effect on auditor switching. This is consistent with Khasanah and Nahumury (2013), Astrini and Muid (2013), Paramitadewi (2014), Kristini and Nahumury (2014) who showed that the effect of management turnover, and financial distress on auditor switching is not significant. Qualified opinion can make management to auditor switching. This is consistent with Buchari and Marita (2014). To meet the expectations of management and principal, the company obtained unqualified opinion. Unqualified opinion indicates that the financial statements have been presented fairly without qualified. This shows that management has worked in accordance with the expected of the principal. If the company obtains a qualified opinion then the company gets attention from principal especially investor in determining investment feasibility. This study has several limitations that the research period used is limited to a period of 5 years. Nagelkerke R² values are small because less than 20%, indicating that the variation of independent variables in this study can only slightly explain the dependent variable. This means that there are many other independent variables that can influence auditor switching such as earnings management and audit committee.

References

- Aprillia, Ekka. (2013). Analisis Faktor-Faktor yang Mempengaruhi Auditor Switching. *Accounting Analysis Journal*, 2(2), 199-207.
- Arifah, Dista Amalia. (2012). Praktek Teori Agensi pada Entitas Publik dan Non Publik. *Prestasi*, 9(1), 85-95.
- Astrini, Novia Retno & Dul Muid. (2013). Analisis Faktor-Faktor yang Mempengaruhi Perusahaan Melakukan Auditor Switching Secara Voluntary. *Diponegoro Journal of Accounting*, 2(3), 1-11.
- Astuti, Ni Luh Putu Paramita Novi & I Wayan Ramantha. (2014). Pengaruh Audit Fee, Opini Going Concern, Financial Distress dan Ukuran Perusahaan pada Pergantian Auditor. *E-Jurnal Akuntansi Universitas Udayana*, 7(3), 663-676, <http://ojs.unud.ac.id/index.php/Akuntansi/article/viewFile/7602/6867> Access on: 21.02.2016.
- Azhar L, Al. (2015). Influence of Financial Distress, Management Turnover and Audit Opinion to Auditor Switching (Empirical Study on Manufacturing Company Listed on The BEI During 2011-2013 Period). *Research Journal of Finance and Accounting*, 6(24), 120-126.
- Buchari, Chana & Marita. (2014). Pengaruh Ukuran Kap, Opini Audit, Pertumbuhan Perusahaan Klien, Pergantian Manajemen dan Ukuran Perusahaan Klien terhadap Pergantian Auditor (Study Pada Perusahaan Manufaktur Di Bursa Efek Indonesia). *Jurusan Akuntansi Fakultas Ekonomi UPN "Veteran" Yogyakarta*, 2(2), 52-65.
- Dwiyanti, R.Meike Erika & Arifin Sabeni. (2014). Faktor-Faktor yang Mempengaruhi Auditor Switching Secara Voluntary. *Diponegoro Journal of Accounting*, 3(3), 1-7.
- Haryanto, Raden Bima Priambardi. (2014). Determinan Auditor Switching pada Perusahaan Non Keuangan. *Diponegoro Journal of Accounting*, 3(3), 1-11.
- Jensen, Michael C & William H. Meckling. (1976). Theory Of The Firm: Managerial Behavior, Agency Costs And Ownership Structure. *Journal of Financial Economics*, 3(4), 305-360.
- Juliantri, Ni Wayan Ari & Ni Ketut Rasmini. (2013). Auditor Switching dan Faktor-Faktor yang Mempengaruhinya. *E-Jurnal Akuntansi Universitas Udayana*, 3(3), 231-246, <http://ojs.unud.ac.id/index.php/Akuntansi/article/viewFile/5728/4761> Access on: 20.02.2016.
- Khasanah, Istainul & Joicenda Nahumury. (2013). The Factor Affecting Auditor Switching In Manufacturing Companies Listed In Indonesia Stock Exchange (BEI). *The Indonesian Accounting Review*, 3(2), 203- 212.
- Krishnan, Jagan, Jayanthi Krishnan & Ray G. Stephens. (1996). The Simultaneous Relation Between Auditor Switching and Audit Opinion: An Empirical Analysis. *Journal Accounting and Business Research*, 26(3), <http://dx.doi.org/10.1080/00014788.1996.9729513> Access on: 07.02.2016)
- Kristini, Dewi Sri & Joicenda Nahumury. (2014). The Effect Of Public Accounting Firm Size, Financial Distress, And Management Change On The Auditor Switching In Manufacturing Companies Listed In Indonesia Stock Exchange. *The Indonesian Accounting Review*, 4(2), 185- 194.
- Lisa, Oyong. (2012). Asimetri Informasi Dan Manajemen Laba: Suatu Tinjauan Dalam Hubungan Keagenan. *Jurnal WIGA*, 2(1), 42-49.
- Menteri Keuangan. (2008). *Peraturan Menteri Keuangan Republik Indonesia Nomor17/PMK.01/2008 tentang "Jasa Akuntan Publik"*, Jakarta. <http://www.kemenkeu.go.id/node/20628> Access on: 20.02.2016.
- Paramitadewi, Hyasshinta Dyah S.L. (2014). Faktor-Faktor yang Mempengaruhi Auditor Switching. *Telaah Manajemen*, 9(1), 52-70.
- Pawitri, Ni Made Puspa & Ketut Yadnyana. (2015). Pengaruh Audit Delay, Opini Audit, Reputasi Auditor dan Pergantian Manajemen pada Voluntary Auditor Switching. *E-Jurnal Akuntansi Universitas Udayana*, 10(1), 214-228, <http://ojs.unud.ac.id/index.php/Akuntansi/article/viewFile/9956/8128> Access on: 17.02.2016.
- Pratini, I G A Asti & I.B Putra Astika. (2013). Fenomena Pergantian Auditor di Bursa Efek Indonesia. *E-Jurnal Akuntansi Universitas Udayana*, 5(2), 470-482, <http://ojs.unud.ac.id/index.php/Akuntansi/article/download/7069/5335> Access on: 20.02.2016.
- Puspitasari, Ketut Dian & Made Yeni Latrini. (2014). Pengaruh Ukuran Perusahaan, Anak Perusahaan, Leverage dan Ukuran KAP terhadap Audit Delay. *E-Jurnal Akuntansi Universitas Udayana*, 8(2), 283-299, <http://ojs.unud.ac.id/index.php/Akuntansi/article/download/8145/7254> Access on: 22.02.2016.
- Robbitasari, Ainurrizky Putrid & I Dewa Nyoman Wiratmaja. (2013). Pengaruh Opini Audit Going Concern, Kepemilikan Institusional dan Audit Delay pada Voluntary Auditor Switching. *E-Jurnal Akuntansi Universitas Udayana*, 5(3), 652-665, <http://ojs.unud.ac.id/index.php/Akuntansi/article/view/8400/6264> Access on: 21.05.2016.
- Zulaikha, Nurin Ari Fitriani. (2014). Analisis Faktor-Faktor yang Mempengaruhi Voluntary Auditor Switching di Perusahaan Manufaktur Di Indonesia (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar Di Bursa Efek Indonesia (BEI) Tahun 2008-2012). *Diponegoro Journal of Accounting*, 3(2), 1-13.

Yulius Kurnia Susanto