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Research Paper

Auditor Switching Determinants on Manufacturing Companies (Empirical Study on Manufacturing Companies of Food And Beverage Sub-Sector Listed in The Indonesia Stock Exchange in 2019-2021)

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Abstract
This study aims to determine the factors that influence auditor switching in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period.
The population in this study was all manufacturing companies in the food and beverage sub-sector which were listed on the Indonesia Stock Exchange in the period of 2019-2021. The sample in this study was 27 companies and the purposive sampling method was obtained with observations were obtained with the purposive sampling method. Data analysis technique and hypothesis testing used the logistic regression analysis and SPSS.
The findings showed the variable size of clients' company, financial distress, audit opinion, and the size of Public Accounting Firms gave influences to sample company to perform the auditor switching.
Keywords - *Auditor Switching, Client Company Size, Financial Distress, Audit Opinion, Public Accounting Firm Size.*

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I. INTRODUCTION

Financial statements are information that describe the condition of a company in the past and describe the performance of a company because they are much more importantly required in decision makings. Financial statements need to be audited to provide information on the company. It is necessary as well to test the conformity between accounting practices in financial reports and generally-accepted accounting principles. This sort of test is to meet the information needs required by various parties for the sake of financial statement information.

According to Agoes, et al (2009) in Burhanudin (2016; 22), independence has two parts, namely independence in reality and in appearance. The former is a manner that represents the honesty in considering the existing facts and the neutrality in making decisions and giving opinions, and the latter shows that public accountants are responsible for their independence to maintain the public trust related to the integrity, objectivity, and independence.

Public accountants are the independent professional experts who are responsible to examine and to assess the fairness of the company's financial statements. Recently, there are many Public Accounting Firms (KAP) that enable users to select them as the company's partnership. This condition triggers the tight competition among the firms; winning the users' attention, the firms need to be qualified, to have high independence in order to generate qualified audit opinions. However, some users are still doubtful about auditors' independence. The existence of the non-audit service provided by auditors is the cause of the doubt and fixing it is the essential step by taking the responsibility of the qualified audit opinions.

The go-public-listed companies are obliged to publicly announce their annual independently-audited financial statements. It leads to the people trust, meaning people may strongly believe the company performance. Without it, the financial statements may contain unclear information. As stated in AA 220,

auditors play a crucial role in detecting and preventing the financial statements from fraud. Also, it states about the auditor's independence; as the external auditors, they cannot be influenced by any party since it is for the sake of public interests – its different from being the internal auditors. Jessica (2017) in Chandegani et al (2011) elaborates that auditors often encounter a significant conflict as they want to upheld the ethics and norms of the profession; on the other side, they need to put attention to the company's needs. A close and long relationship between accountants and companies indirectly affect the audited financial statements and it surely decreases the auditor's independence. Avoiding the unfortunate condition, companies need to apply the auditor switching scheme.

The scheme was first implemented when one of the big-five American public accounting firms, Arthur Anderson failed to maintain the reputation of independence to its client, Enron, in 2001. Arthur Anderson is the top-world public accountant firm and was involved in making financial statement frauds together with Enron for years. The fraud finding was an alarm for public accounting firms worldwide and it led the making of the Sarbanes-Oxley Act (SOX) in 2002 to implement the auditor switching, a way to improve the supervision system.

Regarding to the auditor switching, the Finance Minister of Republic of Indonesia officially issued a regulation on auditor switching No. 423/KMK.06/2002 and No. 359/KMK.06/2003, and they were renewed with the Finance Minister of Republic of Indonesia No. 17.PMK.01/2008 on "Public Accountant Service". It states on Article 3 paragraph (1) that:

"The provision of public audit service on the financial statements of an entity is carried out by a Public Accountant Firm (KAP) for a maximum 6 (six) consecutive financial years and by a public accountant for a maximum consecutive financial years".

It is an interesting issue to put in discussion because the auditor switching is affected with either internal or external factor. Either way, the research on the issue is attractive since it shows various findings. A study by Prabowo (2017) found that the audit opinion and financial distress gave an effect to the auditor switching, but the management switching did not. Other researchers, Manto and Manda (2018) proved in their study that the financial distress, the management switching and the KAP size affected that auditor switching. The findings of Yusriwarti (2019) showed that the audit opinion, the company size affected the auditor switching, but it had a negative influence from the financial distress. Meanwhile, Zikra and Sofyan (2019) stated that the financial distress and the company size negatively influenced the auditor switching.

Based on the findings above, this study discusses it with only four independent variables – the company size, financial distress, audit opinion and the size of public accountant firm, whilst the dependent variable is the auditor switching. The scope of the study is to find results only based on the specified variables. It used the secondary data derived from the manufacture companies on food and beverage sub-sector and they were listed in the Indonesia Stock Exchange (BEI) in 2019-2021.

II. LITERATURE REVIEW

The theory of agency is the base of theoretical evidence on auditor switching. It means that the shareholders are treated as principles and the management is as the agency. They require a management (an officially agreement-based agency) to run their activities (Jensen and Meckling, 1976). They provide facilities and funds for their activities and the management serves as the manager of the company. In turn, the trusted managers are responsible for the shareholder welfare by elevating the company profit or value. Conflict interests and asymmetric information between principle and management become problematic in that the managers who have moral responsibility to optimize the principles' interests have more information about the company than that of the shareholders (principles). On the other side, managers have their own interests; consequently, they fail to do best practices for the sake of the shareholders (Jensen and Meckling, 1976).

According to Arent et al (2013) in Oktafia (2020), auditor switching is the company management's decision to switch its auditors in order to get a better quality. It is a way to maintain the auditor's independence and objectivity which is conducted by a company (Aini and Yahya, 2019). Mulyadi (2002) in Oktafia (2020) confirmed the switching carried out by the company is to respond the former unqualified auditors. Therefore, auditors must put high attention to their independence. Regarding to this, regulators could facilitate accountants, companies, and external parties (Yusriwarti, 2019). It is considered the right thing when the government prevents the independence issues from frauds by issuing both a compulsory auditor switching and an audit working (Aini and Yahya, 2019).

The Influence of Company Size to The Auditor Switching

The size of a company, a big-size or small-size company, depends on its business line (Aini and Yahya, 2019). The more income the company gets, the more difficult its management is. The agency theory confirms that the company size is strongly connected to its growth because the company owner will experience a difficult time supervising its manager, behaving as a principle or as an agent. The study initiated by Aini and Yahya

(2019) showed that the company size has a positive influence towards the auditor switching. The company will surely apply the auditor switching when it has more assets. That statement generates the following hypothesis:
H1: The client company size influences the auditor switching

The Influence of Financial Distress to The Auditor Switching

Financial distress is the financial term used to show a company inability to fulfill its financial obligation (company debts). Each company may experience the financial distress and the decision makers play the crucial role weather or not the financial troublesome continues to hard times. The company debts related to the financial management is actually to improve the company financial performance, but the continuous financial difficulty could lead to bankruptcy. The would-be bankrupt client company will tend to intensify the subjectivity of evaluation and the auditor's prudence.

The financial distress, in Sari et al (2018), gave no influence to the auditor switching, but it has a positive effect to the auditor switching in Aini and Yahya (2019), Zikra and Syofyan (2019). The unfortunate condition makes a company implement the auditor switching since it is unable to pay out the audit cost. It leads to the following hypothesis:
H2: Financial distress influences the auditor switching

The Influence of Audit Opinion to The Auditor Switching

Audit opinion is the auditor's opinion on the fairness of financial statements made by a company which is based on the Indonesia Finance Accounting Standard (IAPI, 2013, Accounting Standard "SA' 700). It is also the primary information on the client company condition used by a company to the information users

The audit opinion is from auditors – through some steps – until they draw a conclusion that their financial statements are purely right – no frauds or mistakes. Auditors are able to formulate an opinion weather or not the financial statements are provided – in all material respect – based on its framework.

Sari et al (2018) found in their study that the audit opinion has no effect to the auditor switching, whilst Ani and Yahya (2019) stated that the auditor switching was negatively influenced by the audit opinion. It has the following hypothesis:
H3: Audit opinion influences the auditor switching

The Influence of Public Accountant Firm size to Auditor Switching

The public accountant firm (KAP) is classified with its size, and this study divides it into two types, all of which are big-size and medium-size KAP (Ismaya, 2017) in Bulkis (2018). The bigger the size, the more independence it is; a bigger KAP has a good reputation and it is considered as the qualified firm. The big-size KAP has affiliation with the big-four, branches, reputable client companies, and it has more than 25 professional accountants. Its size becomes one of the factors for auditor switching since it represents a better reputation and quality. Companies, particularly the go-public companies, will opt a qualified KAP. It is clearly showed in Manto and Manda (2018), stating that the size of KAP has a negative influence to the auditor switching. It surely is back up the study of Luthfiyanti (2016) which confirmed that the size of KAP negatively influenced the auditor switching. The big-size KAP is managed to accurately, and efficiently conduct the audit process. It is the reason why there is no auditor switching. the hypothesis is as follows:
H4: The size of the public accountant firm influences the auditor switching

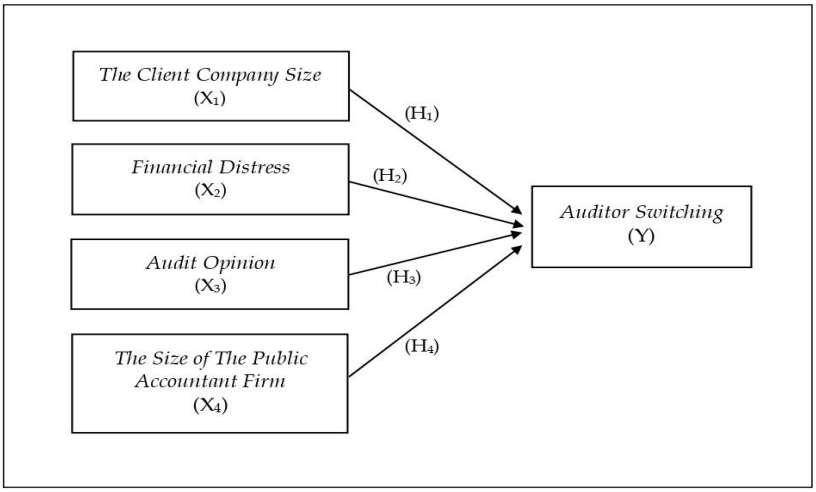

Figure 1 : Conceptual Framework

III. METHODOLOGY

Research Design

It is the cause-effect relationship research design to discover influences of the client company size, financial distress, audit opinion and of the KAP size towards the auditor switching. The study used the quantitative method which focused on the hypothesis test to analyze variables, to make use of measurable data and of the statistical analysis tools (Sugiyono, 2018). The 2019-2021 data of the manufacturing company on the food and beverage sub-sector was derived from the Indonesia Stock Exchange (BEI) through its official site www.idx.co.id and other official sites of the sample companies.

Research Variables

Dependent Variable

Auditor switching is the dependent variable and it is the dummy variable. If the client company switches KAP in term of either mandatory or voluntary and the switch is more than one during the study period, the point will be 1. If there is no switch, the point will be 0 (Nasser et al., 2006).

Independent variable

Independent variables are the client company size, financial distress, audit opinion, and the public accountant firm size.

The Client Company Size

The independent variable for the first hypothesis is the client company size. It is measured with the total assets. The more the total assets, the bigger the size is and vice versa. The variable is measured with natural logarithm of the company's total assets as in Nasser et al (2006).

Financial Distress

Financial distress is the independent variable for the second hypothesis. It is a condition in which a company fail to fulfil its financial obligations and is on the verge of bankruptcy. The soundness level of a company is proved with its financial statements, and this variable is measured with Z-Score (Mulyadi, 2002).

$Z = 0{,}717(X1) + 0{,}847(X2) + 3{,}107(X3) + 0{,}420(X4) + 0{,}998(X5)$ ….. (1)

Audit Opinion

The independent variable for the third hypothesis is the opinion audit. It is an auditor's conclusion on the audit process or on the fairness of financial statements. It is measured with the dummy variable. If a company receives an unqualified opinion, the point will be 1, and if a company receives other opinions, the point will be 0.

Public Accountant Firm Size

The fourth variable is for the size of the public accountant firm as the independent variable. Two types of the public accountant firms, being affiliated with the big four and being not affiliated with the big four. It is measured with the dummy variable. If the big-four affiliated public accountant firm audits a company, it will have point 1, and if the non big-four-affiliated audits a company, it will have point 0.

Research Population And Sample

The population in the study is the manufacturing company of food and beverage sub-sector listed in the Indonesia Stock Exchange (BEI) for 2019-2021. The reason of it is the availability of data, characteristic distinctions, and the sensitivity to events. The BEI-listed companies have publicly announced their financial statements so that the data are easily accessed. The activities of manufacturing companies directly affect the surrounding people. The method of a non probability sampling was used to gain samples and the data collection used the purposive sampling.

The manufacturing companies of food and beverage sub-sector listed in BEI for 2019-2021 are the sample of the study. There are three sample criteria, 1) the manufacturing companies of food and beverage are listed in BEI in 2019-2021, 2) the manufacturing companies of food and beverage which have publicly announced their audited financial statements in 2019-2021, 3) the manufacturing companies of food and beverage which have done the auditor switching in 2019-2021.

Analysis Method

The study uses the descriptive statistic, logistic regression analysis, and the hypothesis testing.

Descriptive Statistics

It is used to describe the data characteristics which generates clear information. It also uses an application called the statistical package for social science (SPSS.

Logistic Regression Test

The hypothesis testing uses the logistic regression test. According to Ghozali (2018), this sort of test is compatible with categorical dependent variables (metrics and non-metrics) as in the study. It needs no assumption of data normality on its independent variables. The form of model is as follows:

$\boldsymbol{Y} = \boldsymbol{a} + \mathbf{b1X1} + \mathbf{b2X2} + \mathbf{b3X3} + \mathbf{b4X4} + \boldsymbol{\varepsilon}$ ….. (2)

Note:

Y = Auditor Switching

a = Constant
b = Regression Coefficient
X1 = Client Company Size
X2 = Financial Distress
X3 = Audit Opinion
X4 = KAP Size
ε = Error

Hypothesis Testing (Wald Test)
Sig-wald testing is to know weather or not the independent variable influences the dependent variable in the logistic regression model. The criteria of H0 is rejected when the significant value of wald is < 0,05 and each regression coefficient is in line with the predicted one. The test uses the level of α = 0,05, H0 is rejected, meaning the independent variable affects the dependent variable. If the probability value (sig-wald) is > α = 0,05, H0 is accepted, showing that the independent variable has no influence to the dependent variable (Ghozali, 2018) in Oktafia (2020).

IV. RESULT AND DISCUSSION

Result and Discussion
Descriptive Statistics
Table 4.1 shows the descriptive statistics process which describes the data in the study. The independent variables are the company size, financial distress, audit opinion, KAP size and auditor switching.

Table 4.1. Descriptive Statistics

	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
X1	81	26,401	29,891	28,47118	,105087	,945782
X2	81	,197	19,512	7,00925	,533192	4,798730
X3	81	0	1	.69	.052	.465
X4	81	0	1	.47	.056	.502
Y	81	0	1	.59	.055	.494
Valid N (listwise)	81					

Source: data processed by researchers, 2022.

The analysis of the descriptive statistics is: N shows the number of data processed in the study; there are 18 data altogether which consist of the company size, financial distress, audit opinion, KAP size and auditor switching. (1) the result for the company size shows the average value is 28,47118; minimum value is 26,401 and maximum one is 29,8891. Since the deviation standard is ,945782, smaller than the average value, the level of data variation for the company size is low. (2) the average value for financial distress is 7,00925; minimum value is ,197 and maximum one is 19,512. The deviation standard is 4,798730, smaller than its average value, meaning its level of data variation is low. (3) the average value for opinion audit is .69 with minimum value is 0 and maximum one is 1. The deviation standard is .465, smaller than its average value, showing that the audit opinion has a low level of data variation. (4) The average value for AKP size hits .47 with its minimum value is 0 and maximum one is 1. Its deviation standard is .502, smaller than its average value, and it interprets that the level of data variation of KAP size is low. (5) the average value for auditor switching is .59 with its minimum and maximum values are 0 and 1. Its deviation standard is .494; it is smaller than its average value and it defines the auditor switching's level of data variation is low.

Logistic Regression Test
The following table is the result of logistic regression test, finding out the coefficient of each variable:

Table 4.2. Logistic Regression Test

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	X1	1.668	.718	5.395	1	.020	5.300
	X2	.241	.100	5.866	1	.015	1.273
	X3	2.678	.991	7.298	1	.007	14.550
	X4	2.346	.904	6.741	1	.009	10.448
	Constant	-51.314	20.724	6.131	1	.013	.000

a. Variable(s) entered on step 1: X1, X2, X3, X4.

The equivalent of the above result is:

Y = - 51.314 + 1.668X1 + 0.241X2 + 2.678X3 + 2.346X4 ….. (3)

(1) The regression coefficient of the company size (X1) is 1.668, meaning that if the variable of the company size increases by one unit, the auditor switching will experience an increase to 1.668 as well, assuming that other independent variables must be constant or zero (0).
(2) The regression coefficient of financial distress (X2) reaches 0.241, showing that if the variable of financial distress goes up by one unit, the auditor switching will also increase to 0.241, assuming other variables are constant or zero (0).
(3) The regression coefficient of audit opinion (X3) is 2.678, stating that if the variable of audit opinion escalates by one unit, the auditor switching will gain 2.678 as well, assuming other variables stay constant or zero (0).
(4) The regression of KAP size is 2.346; if the size of KAP variable gets higher by one unit, the auditor switching will also hikes to 2.346, assuming other variables are constant or zero (0).

Hypothesis Testing

The test is to discover weather each independent variable of the company size, financial distress, audit opinion, and KAP size gives partial influences to the auditor switching. if the value of sig is < 0,05, the independent variables will partially affect the dependent variable. If the value of sig is > 0,05, the independent variables will not partially influence the dependent variable. Following is the result of the wald test.

Table 4.3. Partial Test

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	X1	1.668	.718	5.395	1	.020	5.300
	X2	.241	.100	5.866	1	.015	1.273
	X3	2.678	.991	7.298	1	.007	14.550
	X4	2.346	.904	6.741	1	.009	10.448
	Constant	-51.314	20.724	6.131	1	.013	.000

a. Variable(s) entered on step 1: X1, X2, X3, X4.

The above table explains:
(1) coefficient of the company size variable is 1.668 with the significance level of 0,020, bigger than 0,05. It shows that the company size has an influence to the auditor switching.
(2) coefficient of financial distress variable is 0.24 with the significance level of 0,015, bigger than 0,05. It indicates that the financial distress affects the auditor switching.
(3) coefficient of audit opinion variable is 2.678 with the significance level of 0,007, bigger than 0,05. It explains that the audit opinion influences the auditor switching.
(4) coefficient of KAP size variable is 2,346 with significance level of 0,009, bigger than 0,05; it shows that the KAP size has an effect to the auditor switching.
Those results also explain that:
(1) the first hypothesis testing (H_1) shows the client company size influences the auditor switching, or H_1 is accepted.
(2) The second hypothesis testing (H_2) defines the financial distress influences the auditor switching, or H_2 is accepted.
(3) The third hypothesis testing (H_3) confirms that the audit opinion affects the auditor switching, or H_3 is accepted.
(4) The fourth hypothesis testing (H_4) states that the KAP size gives an influence to the auditor switching, or H_4 is accepted.
(5)

CLOSING

Conclusion

Regarding to the above analysis result and discussion, it concludes that (1) the company size influences the auditor switching, meaning any condition of the company size is able to influence the auditor switching. (2) financial distress affects the auditor switching, showing that any condition of the financial distress can affect the auditor switching. (3) audit opinion has an effect to the auditor switching, indicating that any condition of the audit opinion is managed to influence the auditor switching. (4) KAP size influences the auditor switching, stating any condition of the KAP size will always affect the auditor switching.

Suggestion

The study encounters some limitations which may lead to a further study for (a) other researchers who can expand the study by giving more research samples of BEI-listed company category, such as mining, banking, etc. (b) other researchers who will give more variables to influence the auditor switching, such as the

monetary condition, etc. (c) companies which must be cautious of decision making related to the auditor switching since it will impact the audit quality.

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