



# The Effect Of Audit Opinion, Reputation Of Public Accountant Firm, Audit Delay, Company Size, And Financial Distress On Auditor Switching

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## Abstract

*This study aims to prove whether there is an effect of audit opinion, reputation of public accountant firms, audit delays, company size, and financial distress on auditor switching in the infrastructure, utilities, and transportation as well as healthcare sectors listed on the Indonesian Stock Exchange (IDX) in 2016-2019. In this study, company size variable is measured using natural logarithms and financial distress is measured using the debt-to-equity ratio (DER). The data obtained are in the form of financial reports that can be downloaded through the company's official website and IDX's official website, [www.idx.co.id](http://www.idx.co.id). The sample selection process was carried out using purposive sampling and obtained a sample of 21 companies with a period of 4 years. The hypothesis in this research is tested by logistic regression analytical method and probit model. The results of this study indicate that audit delay has a positive effect on auditor switching, while audit opinion, reputation of a public accountant firm, company size, and financial distress has no effect on auditor switching.*

## 1. INTRODUCTION

In the *Indonesia Stock Exchange* (IDX), every corporation that has listed its shares on the stock exchange is required to report audited financial statements. As stated in the regulations stipulated by the Financial Services Authority (OJK) No. 29/POJK.04/2016, that every *go-public* corporation needs to report an annual report, one of which is required to contain an audited annual financial report.

An auditor or public accountant has a very important task, namely paying attention to the quality of the audit that is produced. Independence must be possessed by an auditor in maintaining the quality of an audit. Independence is a condition where a party is not bound by other parties in carrying out their duties (Indraswono, 2018). If there is a long period of audit assignment on a client, then this condition will make the auditor not independent in carrying out his duties. To prevent these events, it is necessary to have an obligation to rotate auditors in the company. Matters related to the necessity to rotate the auditors have been regulated in PP no. 20 of 2015 concerning "Public Accountant Practice" in article 11 paragraph 1. The regulation states

that a public accountant can provide audit services on financial information to an entity for a maximum of five consecutive financial years.

In addition, there are several factors that influence voluntary KAP turnover, including: audit opinion, public accounting firm reputation, *audit delay*, company size (client), and *financial distress*. According to Putra (2014), the company (client) sees the fairness of the financial statements through statements or views issued by the auditor or commonly referred to as an audit opinion. Audit opinion on financial statements will influence external parties in making decisions. Companies (clients) tend to want an opinion in the form of an unqualified opinion (WTP).

Reputation determines the credibility of a financial report. A reputable public accounting firm is represented by KAP from the *big-four group*. The *big-four* KAP is a KAP that has a better reputation and expertise compared to auditors other than *the big-four*. Using a reputable KAP is expected to increase the trust of users of financial statements.

According to Robbitasari & Wiratmaja (2013) the client and auditor have agreed on a time agreement for an auditor to report audit

results on financial statements. If there is a delay, it will affect the public's view of the company's image that the corporation is facing a problem that will affect the decisions of stakeholders.

The more complex the development of a corporation, the more difficult it is for *the principle* to oversee the actions taken by management. Thus, it is necessary to have an auditor with the best quality and independence in accordance with the size of the company.

*Financial distress* is the next factor that can cause auditor rotation. The condition in which the corporation experiences financial difficulties raises the desire to replace the KAP in the hope of being able to reduce the *audit fee* of the company.

Researchers in this case will use objects, namely corporations engaged in *the infrastructure, utilities and transportation sectors* listed on the Indonesia Stock Exchange in 2016-2019. The reason researchers use *infrastructure, utilities, and transportation* companies is because in 2016-2019 strategic issues that are targeted by the government include developing the availability of basic infrastructure, developing water, food and energy security, increasing urban mass transportation, strengthening national connectivity, and increasing effectiveness and efficiency in financing the provision of infrastructure. Then, to add variety to the data, researchers also use data originating from the *healthcare sector*.

From several studies regarding *auditor switching*, there are various differences in results. Differences in variables, periods, and objects studied result in differences in the results of the research that has been carried out. Based on the differences and the findings of the phenomena above, the researcher is motivated to carry out research on the effect of audit opinion, KAP reputation, *audit delay*, company size, and *financial distress* on *auditor switching*.

## 2. LITERATURE REVIEW

### 2.1 Agency Theory

Jensen and Meckling expressed agency theory in 1976. Agency theory is defined as a relationship or relationship between one party called the *principal* and another party called *the agent*. To monitor and ensure that *the agent's activities* are on the right track and act to maximize the interests of *the principal*, *the principal* provides auditor services, so that *the output* from management in the form of financial reports can be said to be *reliable*.

### 2.2 Switching Auditors

Auditor rotation or KAP carried out by a corporation is called *auditor switching*. Auditor rotation may occur on a mandatory basis (*mandatory*) or voluntary (*voluntary*). The change of auditors that occurs on a *mandatory basis* is due to the regulations that apply in this case, namely PP No. 20 of 2015 concerning "Public Accountant Practice". Auditor rotation can also be done voluntarily (*voluntarily*) by the company. Audit opinion, change of management, KAP size, and client company size are some of the factors that can cause voluntary auditor rotation (Juliantari & Rasmini, 2013).

### 2.3 Audit Opinion

According to Auditing Standard 700 (SA 700) issued by IAPI, an audit opinion is an auditor's *statement* on the fairness of the financial statements presented by the corporation in all material respects in accordance with applicable standards. In Auditing Standard 700 (SA 700) there is an unmodified opinion or commonly called an unqualified opinion. Apart from the unmodified opinion, there are also several types of modifications to the auditor's opinion, including *qualified opinion, adverse opinion, and disclaimer of opinion*.

### 2.4 KAP's reputation

The KAP's reputation shows an achievement of public trust achieved by the KAP so that it will form the big name of the KAP. The high reputation of the *big-four KAP* is due to the

fact that the *big-four KAP* has an extensive network, reliable auditors, and has superior experience compared to non- *big-four KAPs*. (Sidhi & Wirakusuma, 2015). Corporations that use audit services from reputable public accounting firms are expected to one day be able to generate attractiveness for *stakeholders* who want to invest.

### 2.5 Audit Delays

According to Shulthoni (2012) , the time needed by the auditor to carry out the audit process of the financial statements from the date of closing of the books is called *audit delay*. The length and shortness of *the audit delay* is determined by the complexity of the auditor's audit process. A timely audit process can provide benefits when *stakeholders* make decisions (Alkhatib & Marji, 2012 in Pratiwi & Muliarta, 2019) . Delays in issuing audited financial statements can affect the level of uncertainty in taking strategic steps for users of financial statements.

### 2.6 Company Size

A proportion that classifies the size of the corporation related to corporate finance is called company size. According to Lesmana & Kurnia (2016) , the relationship between company size and the company's business complexity is unidirectional. As the company grows, the complexity or complexity of the company's business also increases. This is believed to trigger companies to *switch auditors* to other larger public accounting firms.

### 2.7 Financial Distress

*Financial distress* is the state of a corporation that is experiencing financial problems. According to Lesmana & Kurnia (2016) , companies facing financial difficulties tend to rotate auditors because the ability of corporations to provide remuneration for audit services provided by KAP is no longer there. This was due to a decrease in corporate financial capacity. Therefore, corporations choose to change their auditors to suit the company's financial conditions. Sinarwati

(2010) states that if the DER ratio shows a number above 100%, it will indicate that financial performance is in a bad condition.

## 3. RESEARCH METHODS

This research utilizes data of a secondary type, namely in the form of corporate financial reports in the *infrastructure, utilities, and transportation* and *healthcare sectors* using the 2016-2019 period which has been audited and published. The secondary data comes from the *Indonesia Stock Exchange (IDX)* website, namely [www.idx.co.id](http://www.idx.co.id) and the company's website. Meanwhile, there is supporting data that comes from journals, articles, books, and others that are appropriate to the research topic. This research utilizes the population in the form of companies in the *infrastructure, utilities, and transportation* and *healthcare sectors* listed on the Indonesia Stock Exchange (IDX) in 2016-2019. For the sample in this research, it was obtained from sorting results using the *purposive sampling method* . The regression used in this study is logistic and probit regression because the dependent variable used is measured by *dummy variables* .

Corporations that carry out auditor rotation will be given a value of 1 while corporations that do not carry out auditor rotation will be given a value of 0. The measurement of the audit opinion variable refers to research undertaken by Faradila & Yahya (2016), namely using a *dummy variable* , where for corporations that obtain WTP opinions will be given a value of 1 and for corporations that obtain opinions other than WTP will be given a value of 0. The measurement of the KAP reputation variable refers to research conducted by Putra & Suryanawa (2016), namely to determine the KAP reputation is measured using a dummy variable, where the company will be given a value of 1 if audited by a KAP affiliated with a *big-four KAP* and given a score of 0 if the corporation is audited by a non- *big-four KAP* . The measurement of *the audit delay* variable refers to research conducted by Pawitri & Yadnyana (2015) where the *audit delay variable*



From the table above it can be concluded that the *-2 Log Likelihood* value in block 0 is 99.296 while the *-2 Log Likelihood* value in block 1 is 77.816. From the output presented, there is a difference in the second decrease *-2 Log Likelihood* of 21.480 (99.296 – 77.816), so that a conclusion can be drawn that adding independent variables to the regression model can improve the model fit so that the model fits the data.

**2) Goodness of Fit Test ( Hosmer and Lemeshow Test )**

Tabel 4.4

Hasil Uji Goodness of Fit Test (Hosmer and Lemeshow Test)

Chi-Square	df	Nilai Signifikansi
6,132	8	0,632

From the table shown above, it can be seen that the degree of freedom (df) is 8 with a significance value greater than alpha 0.05, which is 0.632. These results indicate that the model can predict the value of its observations.

**3) Nagelkerke R Square test**

Tabel 4.5

Hasil Uji Nagelkerke R Square

Nagelkerke R Square
0,334

From the results of the table above it can be seen that the *Nagelkerke R Square* value indicates the number 0.334 or 33.4%. These results explain that the variability of the dependent variable which can be explained by the variability of the independent variables is 33.4% while the other 66.6% can be explained by the independent variables not used in this research.

**4) Classification Test**

Tabel 4.6

Hasil Uji Klasifikasi

Observasi	Prediksi		
	Auditor Switching (AS)		Persentase Benar
	0	1	
Tidak melakukan auditor switching (0)	49	3	94,2
Melakukan auditor switching (1)	17	9	34,6
Persentase Keseluruhan			74,4

So, it can be concluded that there are 58 (49+9) out of 78 samples or in an overall percentage of 74.4% (58/78) which can be

predicted correctly by the logistic regression model.

**5) Model Probit Test**

The following is a series of results from testing the probit model.

Tabel 4.7

Hasil Uji Model Fit

Model	-2 Log Likelihood	Chi-Square	df	Nilai Signifikansi
Hanya Intercept	99,296			
Final	77,462	21,834	5	0,001

Based on the test results above, it can be interpreted that the model only with the *intercept* raises a *-2 log likelihood* value of 99.296, whereas if the independent variables are included in the model, the *-2 log likelihood* value drops to 77.462 and raises a significant value at 0.001, so that a conclusion can be drawn that the model with independent variables is better than the model with only the *intercept* and this means that the model is fit.

Tabel 4.8

Hasil Uji Goodness-of-Fit

PROBIT	Uji Pearson Goodness-of-Fit	Chi-Square	df	Nilai Signifikansi
		68,214	72	0,605

Based on the results of the probit model test above, it can be seen that the significance value for *Pearson Goodness-of-Fit* displays a number of 0.605. This proves the value of  $p > 0.05$ , so a conclusion can be drawn that the model can predict the observation data.

Tabel 4.9

Hasil Uji Pseudo R-Square

Uji	Nilai
Nagelkerke	0,339

From the above results it can be seen that the *pseudo r-square* value in the *Nagelkerke* test is 0.339 or 33.9%. This value implies that the variability of the dependent variable which can be explained by the variability of the independent variables is 33.9% while the other 66.1% can be explained by the independent variables not used in this research.

**d. Summary of Hypothesis Test Results**

Tabel 4.10

Ringkasan Hasil Penelitian

Hipotesis	LOGIT		PROBIT		Hasil
	B	Nilai Signifikansi	Nilai Estimasi	Nilai Signifikansi	
	Constant:	0,999			
	18,965		Auditor Switching: -4,561		
Opini audit berpengaruh positif terhadap auditor switching	-21,143	0,999	-5,935	-	Tidak Berpengaruh
Reputasi KAP berpengaruh positif terhadap auditor switching	0,756	0,261	0,448	0,261	Tidak Berpengaruh
Audit delay berpengaruh positif terhadap auditor switching	0,026	0,008	0,016	0,004	Berpengaruh Positif
Ukuran perusahaan berpengaruh positif terhadap auditor switching	-0,035	0,873	-0,021	0,870	Tidak Berpengaruh
Financial distress berpengaruh positif terhadap auditor switching	-0,492	0,403	-0,308	0,373	Tidak Berpengaruh

The logit and probit models formed are as follows.

Model Logit:

$$\ln \frac{p}{1-p} = 18,965 - 21,143 AO + 0,756 REP + 0,026 DEL - 0,035 COMSIZE - 0,492 FINRESS + e$$

Model Probit:

$$\log \frac{p}{1-p} = -4,561 - 5,935 AO + 0,448 REP + 0,016 DEL - 0,021 COMSIZE - 0,308 FINRESS + e$$

Keterangan:

- AO = Opini Audit
- REP = Reputasi KAP
- DEL = Audit Delay
- COMSIZE = Ukuran Perusahaan
- FINRESS = Financial Distress
- p = Probabilitas
- e = Residual Error

**1) Effect of Audit Opinion on Auditor Switching .**

Based on the logistic regression analysis that has been carried out, the audit opinion variable shows a negative coefficient value of -21.143 with a significance level greater than an alpha value of 0.05 which is equal to 0.999. The results of the logit analysis are in line with the results of the probit model where the audit opinion variable shows a negative coefficient value of -5.935 with a significance value of (-). The results of the two tests prove that the audit opinion is not able to influence auditor

switching . The results of this study are in line with research by Juliantari & Rasmini (2013) and are not in line with research by Putra (2014). Juliantari & Rasmini (2013) state that corporations that utilize the services of a new auditor will obtain an audit opinion that is the same or not much different from the opinion submitted by the previous auditor. This is because the new auditor will seek information to provide an audit opinion through the information contained in the previous auditor.

**2) Effect of KAP Reputation on Auditor Switching .**

From the results of the logit test that has been carried out, the KAP reputation variable has a positive coefficient value of 0.756 with a significance level greater than alpha 0.05, which is 0.261. The results shown in the logit test are in line with the probit model test which shows a significance value of 0.261 with a positive coefficient of 0.448. These results indicate that KAP's reputation cannot affect auditor switching . The results of this study are in line with Putra & Suryanawa's research (2016) and are not in line with Pawitri & Yadnyana's research (2015). According to Putra & Suryanawa (2016), basically every KAP has a good reputation, and every company uses a KAP that makes them feel comfortable, so the change of auditors is more due to mandatory or existing policies.

**3) Effect of Audit Delay on Auditor Switching .**

Based on the logit test that has been carried out, it is found that the audit delay variable has a positive coefficient value of 0.026 with a significance level of 0.008 which is smaller than an alpha of 0.05. These results are in line with the results of the probit model test which shows a positive coefficient value of 0.016 with a significance value of 0.004 smaller than an alpha of 0.05. Based on these results indicate that the audit delay variable has a significant effect on the auditor switching variable . The results of this study are in line with the research of Pawitri & Yadnyana (2015) and are not in line with the research of Pratiwi & Muliarta (2019). Yanti & Badera (2018)

stated that *timeliness* or timeliness is a fundamental thing that must be considered by companies in publishing financial reports. This is because the information contained in the financial statements is used as material for making decisions by investors. If there is a delay in publishing financial statements, the company will potentially lose its potential investors, so when *an audit delay occurs*, the company will rotate auditors in the following year.

#### 4) Effect of Firm Size on Auditor Switching

From the results of the logit test shown above, it can be seen that the firm size variable has a negative coefficient value of -0.035 with a significance level greater than alpha 0.05 which is equal to 0.873. The results of the probit model test show results that are in line with the logit where the firm size variable has a negative coefficient value of -0.021 with a significance value greater than 0.05, which is 0.870. These results indicate that *auditor switching* is not affected by company size. The results of this study are in line with the research by Lesmana & Kurnia (2016) and are not in line with the research by Pratiwi & Muliarta (2019). Martina (2010) in Wijaya & Rasmini (2015) suggests that corporations will choose KAPs that are in accordance with the size of the company. For corporations that have small total assets, they will continue to use *non-big-four KAPs*, while corporations with large total assets will continue to use KAP services from the *big-four group*.

#### 5) Effect of Financial Distress on Auditor Switching

As with the test results on the logit model that has been run, the *financial distress variable* has a negative coefficient of -0.492 and a significance level greater than alpha 0.05 which is equal to 0.403. These results are consistent with the probit model test that has been carried out, where the results of the probit model test show that the *financial distress variable* has a significance value greater than alpha, namely 0.373 and a negative coefficient value of -0.308. These results indicate that *financial distress*

cannot affect *auditor switching*. The results of this study are in line with the research by Lesmana & Kurnia (2016) and are not in line with the research by Sinarwati (2010). Faradila & Yahya (2016) argued that when a corporation carries out auditor rotation, high *start-up costs* will arise even though the corporation is experiencing an unstable condition. So that this causes corporations not to change their auditors when experiencing financial difficulties.

## 5. CLOSING

### 5.1 Conclusion

From the entire processing of data analysis in this research, a conclusion can be drawn that:

- a. Audit opinion has no positive effect on *auditor switching*. Corporations that get opinions other than unqualified opinion will continue to use the same auditor because a replacement auditor will not necessarily change the opinion generated in the following year.
- b. KAP reputation has no positive effect on *auditor switching*. Corporations that have entered into contracts with reputable KAPs tend to continue using their services and each company chooses KAPs that they feel comfortable with, even though they are not from the *big-four KAPs*.
- c. *Audit delay* has a positive effect on *auditor switching*. When *an audit delay occurs*, the company conducts *auditor switching* so that delays in submitting financial reports do not occur in the following year, so that the information needed for decision making can be used immediately.
- d. Firm size has no positive effect on *auditor switching*. The larger the corporation as measured by its total assets, the smaller the probability of changing the auditor.
- e. *Financial distress* has no positive effect on *auditor switching*. Corporations that are experiencing *financial distress* will retain their auditors because they do not want the financial difficulties in their companies to be known by many parties, including the new auditors if there is a change of auditors and

to minimize initial costs that occur when rotating auditors.

## 5.2 Research Limitations

In conducting this research, researchers found several limitations, namely researchers sometimes found it difficult to obtain the desired financial report data so that when selecting samples there were several companies that failed to meet the sample criteria due to the incompleteness of the data.

## 5.3 Suggestion

The following are some suggestions that the researcher wants to convey to the next researcher who will examine a similar matter, namely:

- a. For future researchers, they can add other populations outside this sector, so that they can find out the influence on other company sectors and can extend the observation period so that they can provide more comprehensive results.
- b. Subsequent researchers can utilize various other relevant statistical methods to process similar research data. In addition, future researchers can use other independent variables that are considered capable of influencing the occurrence of auditor changes.

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