



Likelihood of Auditor Switching: Evidence for Indonesia

Hadri Kusuma

Corresponding Author: Departement of Accounting, Islamic University of Indonesia, Yogyakarta, Indonesia. +62-274-881546

ORCID ID:0000-0002-0224-686X

Diana Farida

Departement of Accounting, Islamic University of Indonesia, Yogyakarta, Indonesia. +62-274-881546

Abstract

This research aims to analyze factors determining the likelihood of auditor switching. The populations in this study were manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2015-2017. The type of data collected in this research was secondary data. The data analysis used in this research were 133 selected companies after applying purposive sampling method. The methods of data analysis were descriptive statistics, correlation tests, and generalized linear model (GLM). The results of this research indicated that the variables of financial distress, profitability, Certified Public Accountant (CPA) reputation and management change are significantly determinants of the likelihood of auditor switching. The paper further discusses and interprets the finding of the study.

Key words: *Reputation, Financial Distress, Management Change, Audit Opinion, Profitability, Auditor Switching*

JEL classification: *M42, M12, G38*

Submitted: 14.01.2019 - Accepted: 11.02.2019

Introduction

Public accountant provides particular assurance services including external audit and review engagement. According to Auditing (2009), conducting audit of financial statements has two main objectives: to obtain the reasonable assurance regarding financial statements as a whole and communicate them to the users. An auditor should be able to express an opinion whether the financial statements are prepared and presented true and fair, in all material respects, in accordance with applicable financial reporting

framework. The accountant also acts as an independent third party and works professionally following professional codes of conducts. A professional accountant according to International Federation of Accountants (IFAC) (Accountants, 2006) concerns on the integrity, objectivity, professional competence and due care, confidentiality and professional behavior. Furthermore, the independent accountant shall not allow bias, conflict of interest or undue influence of others to override professional or business judgment.

Indonesian Financial Services Authority or acknowledged as Otoritas Jasa Keuangan Republik Indonesia issued a new regulation named POJK Number in 2017 (Keuangan, 2017). It regulates the financial service institutions that shall limit the audit services with public accountants for 3 years consecutively only. After this period, the institution is required to change its public auditor. Therefore, auditor switching can be obligatory and voluntary. Auditor switching is a mandatory if it is considered from auditor's point of view since the length of engagement between CPA Firm and the client is regulated by some applicable regulation. It is voluntarily considered from company or client point of view. It often occurs due to particular considerations derived between auditor and client other than certain regulations. This study focuses on the second type of switching.

Several studies have been conducted to determine factors that may affect auditor switching voluntarily. Those factors include accountant firm reputation (Pawitri and Yadnyana, 2015; and Sari and Widanaputra, 2016); management change (AlAzhar L, 2015; Saidin, Arifati, and Andini, 2016; and Salim and Rahayu, 2014); financial distress (DwiYanti and Sabeni, 2014); prior audit opinion (Faradila and Yahya, 2016;

and Gharibi and Geraeely, 2016); and profitability (Firyana and Septiani, 2014; Suyono and Yi, 2013). However, the results of these studies generally have been mixed. These inconsistent results open to further examinations. Based on the in-depth examinations of previous researches on the auditor switching, this study follows up and improves prior research by using rarely proxies of the variables studied. Therefore, the objectives of the research are to identify and analyze the determinants of auditor switching. The determinants examined are accountant firm reputation, financial distress, management change, previous audit opinion, and profitability of the firm.

The structure of this article is as follows. We formulate and present the concept of auditor switching, main theory and hypothesis development in the section 2. Section 3 provides sampling method, source of the data and mathematical model. Section 4 provides empirical results and discussions. Finally, we summarize and recommend for future research in the section 5.

Literature Review

Auditor Switching in Indonesia

Basically, an auditor should be independent in order to give true and fair opinion regarding the entity's subject being audited. Through the longer relationship between auditor and entity, there is a chance for both parties in the comfortable situation where the auditor will be emotionally attached to the entity (client) and threaten auditor's independence. Therefore, the way to maintain public trust and independence of an auditor, some regions set the regulation about the obligation of an entity to switch either the public accountant firm or the auditor within a specified period.

Auditor switching can be defined as a turnover of public accountant firm or auditor. Auditor switching occurs either mandatory or voluntary. Those can be distinguished by the point of view from the auditor switching issue (Putri and Nazar, 2015). A mandatory auditor switching is from auditor point of view. For example, when the length of engagement between an auditor or/and public accountant firms is under some regulations which actually has the aim to protect auditor's independence. On the other hand, auditor switching voluntarily occurs when an entity or client becomes the main point of view. It often occurs when there are causative factors derived between auditor and client other than its regulation. This study focuses on the last type.

In Indonesia, a public accountant counts as one of the professions that have played significant roles in the economy of Indonesia, since it has a role to enhance the quality and credibility of the financial statement. The profession of accountants has fundamental principles of ethics, which they must preserve from the

time when they are on duty. According to the code of ethics for professional accountants published by Indonesian Accountant Association (Indonesia, 2016), an objectivity is a general code of ethics for a professional accountant. Objectivity represents that a professional accountant should not allow bias, prejudice or undue influence of others to override their professional judgment. Therefore, it is essential for the government to explain and regulate the audit tenure or to preserve the independence of an auditor.

The regulations regarding the existence of professional accountants in Indonesia have a long story. At first, audit switching was regulated in the Decree of the Minister of Finance of the Republic of Indonesia Number 423 / KMK.06 / 2002 in article 6. The article stated the provision of services for general audits on financial statements of an entity by a CPA firm was limited to five years in sequence and by a public accountant was limited to three years in a row (Indonesia, 2002). In addition, the Minister of Finance of Indonesia issued Decree of Minister of Finance Number 17/PMK.01/2008 in article 3 determined the provision of service was limited to six years in sequence for CPA a firm and three years in a row for a public accountant (Indonesia, 2008). In 2015, the government issued Government Regulation Number 20 and regulated the auditor switching. Article 11 paragraph 1 of the regulation restricted to only a public accountant, which was limited to five years consecutively. The public accountant was able to re-conduct the services with the same company after completing a 2-years cooling off. The latest regulation of auditor switching is POJK Number 13 year 2017, issued by Indonesian financial services authority. According to the new regulation, the financial services for an institution by a public accountant shall limit to 3 years consecutively, while the restriction for a CPA firm depends on the evaluation of the audit committee. In addition, the financial service institutions must use public accountants and CPA firms listed in Indonesian Financial Services Authority (Keuangan, 2017).

Agency Theory

Agency theory is a concept enlightening the relationship between two parties as principals and agents (Jensen and Meckling, 1976). In this case, management of an entity acts as the agent who is accountable to maintain the company in order to optimize principal's interest. The theory also discusses an agency problem that may occur between the two parties. The problem may be because of the conflict of interest among them since they normally have different objectives depending on their points of views (Firyana and Septiani, 2014). In this situation, the principals should believe that the agent would not always act in the best interest of the principal.

Furthermore, the agent may have the internal information in detail than that owned by principal since the agent is the party who directly running the business, this condition is known as information asymmetry (Jensen and Meckling, 1976). Therefore, the agent should prepare and present financial statements of the entity as the form of responsibility to the principals (Firyana and Septiani, 2014). However, when the information received by interested parties does not show and represents the real condition of the entity, the agency problem may also incur.

The theory assumes that agent and principal act on their own business (self-interest). The principals may fascinate only in making financial earns, while the agent does not only concentrate on its performance in order to get high bonuses and incentives, but also engage in additional agency. Faradila and Yahya (2016) argued that the management as an agent is assumed to have its own interest and crave to maximize its own interest. By its own authority in a company, the management then has the right to choose the auditor. Thus, when two parties disagree over certain accounting practices, the agent will move to another auditor who may be in line with the agent.

Based on the above descriptions and discussions, agency theory is a theory that discusses the differences of interest between the agent and the principal. A professional auditor acts as an intermediate among agents and principles to straighten out the agency problem. In other words, in order to provide fair, accurate and reliable financial information, it requires the third party that is independent as a mediator to resolve differences of interests so that information is not harmful to the agent or principal. In return to the objective of the agent to get marvelous performance in principal's point of view and at the same time who understand the entity very well more than principal and other parties, the auditor role emerged.

Hypothesis Formulation

Certified Public Accountant Firm (CPA) Reputation

Nowadays, the important role of public accountant services is more desired since the number of public companies is continuously growing. It gives a chance for an entity to choose either change its public accountant firm from one to another (auditor switching) or not. It also causes the increasing of rivalry among public accountant firms. Consequently, a public accountant firm should give maximum and professional efforts to help to its clients. If a public accountant cannot fulfill management (client) objectives and needs, the management may switch its public accountant.

The reputation of CPA firm possibly affects the likelihood of the auditor switching. The reputation can be defined as how the CPA firm certainly noticed or perceived by the public concerning the quality of its performances for a long time. CPA firm's records of accomplishment can indicate the reputation (Pawitri and Yadnyana, 2015) and enhance the credibility of client's financial statement. The financial statement examined by a credibility auditor such as the big four and its affiliated CPA firms may also increase financial statement quality and eventually enhance the public trust including the investors (Astrini and Muid, 2013). The audit process conducted by these CPA firms are usually perceived as being high quality than those are not affiliated with the Big four due to their larger resources and better training (Schneider, 2017).

Following the agency theory by Jensen and Meckling (1976) explaining the correlation between the principal and the agent, there is a possibility of an agency problem arising among them. Therefore, the role of CPA Firm is as an independent party and intermediary between the principals and the agents in solving certain agency problems. Firiyana and Septiani (2014) argued that the principals as the users of financial statement trust more to the CPA Firm affiliated with the big four than its non-affiliated ones. The CPA firms affiliated with the big four tends to have excellent performance because their auditors are well trained and recognized internationally. Thus, in order to improve the quality of financial statements, the principal tends to employ CPA Firms affiliated with the big four as their independent auditor. The management also need to improve company's performance and to have trust from the eyes of its stakeholders particularly investors and creditors.

The relationship between auditor independence and an auditor's ability to conduct high-quality audit has been widely discussed among researchers (Hoitash, Markelevich, and Barragato, 2007). The research of (Wijayanti, 2010) show the company prefer the big-four accounting firm in order to increase the quality of financial statements and to enhance the credibility of the company. In addition, CPA firm reputation, according to by Pawitri and Yadnyana (2015), and Sari and Widanaputra (2016) significantly impact on auditor switching. However, according to Astrini and Muid (2013), and Gharibi and Geraeely (2016) the firm reputation fail to yield the same outcome.

Based on the previous studies and theories explained above, the following hypothesis is stated:

H1: CPA firm reputation negatively enhances the likelihood of auditor switching.

Financial Distress

Financial distress is a condition when the present company suffers difficulty and threatens with the bankruptcy or liquidation (Aroh, Odum, and Odum, 2017). Firm's financial statement performance can indicate the sign of a company experiencing financial distress such as when company liabilities are higher than its assets. This condition represents that a company cannot comfortably meet or has difficulties to pay its financial obligations to suppliers, debts, taxes, bank loan and other (Salim and Rahayu, 2014). The company's situation can even be worse due to incurring more additional costs, such as expensive financial cost, the opportunity cost of the project and less productive employees. A company experiencing a financial distress is typically noticeable by the dismissal of labor, unable in paying a dividend, and an insignificant amount of cash flows to repay long-term debts. This condition possibly supports the company to switch auditor to other auditors in accordance with management's objective. In short, the financial condition has important implications in the decision in changing CPA firm or public accountant.

Financial distress is also a critical circumstance of company's financial indicators to predict bankruptcy or liquidation. (Saidin et al., 2016) argued that the financial condition of a client company might be as important influence on the decision of displacing or preserve the CPA firm as the independent auditor in the company. Decreasing in the company's financial capability may cause the client company its ability to finance audit fees charged by current CPA firm, and enhance the existence of high tension between the management and auditors and eventually affect the relationship between both parties. Therefore, the management tends to choose the CPA firm that is suitable with management interest and client company' condition. Previous studies have also supported the positive relationship between financial distress (Saidin et al., 2016; and Khasharmeh, 2015). Based on the previous studies and theories, the following hypothesis is developed:

H2: Financial distress negatively enhances the likelihood of auditor switching.

Management Change

Following agency theory, a conflict of interest between principals and agents may incur since they may act on behalf of their own interests or called as self-interest (Jensen and Meckling, 1976). The existence of this agency problem may enhance the principals to alter the agent (management). The principals have the right in determining persons who are appropriate to lead the company or based on their own considerations. At the same time, the principals may require a new CPA firm believed to be more competent and qualified, and in line with new management interests and the company's policies (AlAzhar L, 2015). The existence of new management also encourages performing auditor switching by choosing a new CPA firm considered to be more qualified. Previous studies by Dwiyanti and Sabeni (2014), Firyana and Septiani (2014), and Saidin et al., (2016) have shown this positive relationship between management change and auditor switching.

A company commonly changes its own management to keep its existence within a competitive business environment (Effendi and Rahayu, 2015). The changing of management is expected to give huge impacts but still attain the company goals successfully as its stakeholder wishes. The decision to change the management of the company passes through a general meeting of shareholders or a resign of the board of directors. Changes of policies in accounting, finance and even in the choice of CPA firm may follow this management change (Utami, 2017). Hence, the more similarities in accounting policies and beliefs between CPA and its client related to financial reporting, the less tendency for the company to switch to other accounting firms. Prior studies by AlAzhar L (2015), Dwiyanti and Sabeni (2014), Saidin et al.(2016) have shown positive impacts, while (Luthfiyati, 2016) has indicated a negative impact on auditor switching. However, Astrini and Muid (2013), Firyana and Septiani (2014), Khasharmeh (2015), and Susanto (2018), management change have no impact on auditor switching.

Based on the previous studies, the following hypothesis is developed:

H3: Management change positively enhances the likelihood of auditor switching.

Previous Audit Opinion

The audit opinion is the statement stated by an auditor assessing the fairness of an entity's financial statement as the final result of the audit process. According to the International Standards of Auditing 705 (2010), there are 4 types of audit opinion: unmodified or unqualified, qualified, adverse and disclaimer opinion. These opinions are different in terms of the degree in accordance with the applicable financial reporting framework. These opinions also indicate the level quality from best to worst one consecutively. Therefore, the entire management of an entity has a desire to get an unqualified opinion from the auditors. It also dissatisfies if CPA firms concludes that financial statement is prepared, in all material respects, is not in accordance with the applicable financial reporting standard. Furthermore, non-unqualified opinions will decrease the credibility entity's financial statement and eventually tend to change its auditor. Prior studies, for example, by Gharibi and Geraeely (2016), and Khasharmeh (2015) support this contention.

The agency theory suggests that the existence of an independent auditor as an intermediary party for both parties is to convince that the agent is in line with company's interest as a whole. In addition, firm financial

statements are the forms of management responsibility to principals and audited by the independent auditor (Sari and Widanaputra, 2016). The outcome of the audit process is in the form of an audit opinion and important information for the users of the company. Therefore, an audit opinion may influence the user's point of view of company financial statement. The safest situation is when a company gets an unqualified opinion. Inversely, others than an unqualified opinion are less favored by the company users because they may reflect negative image of the company. This situation eventually enhances the firm to change its independent auditor. The research by Effendi and Rahayu (2015), and Sari and Widanaputra (2016) supports the effect of prior audit opinion on auditor switching. The following hypothesis is developed:

H4: Prior audit opinion negatively enhances the likelihood of auditor switching.

Profitability

Profit and profitability are two dissimilar concepts, where profit means an absolute value determined by the amount of income or revenue above the costs or expenses incurred by a company. Sukul (2016) stated that profitability can be divided into two words: profit and ability. While profit has been stated previously, ability denotes as a proficiency in operating the company. Therefore, profitability may be defined as the ability of a company to earn a profit in a certain period.

The profitability indicates the financial condition of a company. It is a financial indicator to predict and see the business prospects of a company (Firyana and Septiani, 2014). The higher the profitability of the company implies the more effective the management of company, and the better business prospects in the future. Profitability also shows the company's growth and suggest that the company does not experience stagnancy (Arsih and Anisykurillah, 2015). Furthermore, the development of the company is in line with the complexity of the business process. Consequently, a more profitability of the firms requires more complex audit processes. In accordance with agency theory, a high profitability may indicate the opportunity for the principal and the agent to perform auditor switching. A more complex audit process requires more qualified and competent CPA firm. Prior studies by Wijayanti (2010) and Suyono and Yi (2013) found that the higher profitability of the encourages the management to perform the auditor switching. The company has the desire to impress the principals. The following hypothesis is developed:

H5: Profitability positive enhances the likelihood of auditor switching.

Research and Methodology

The population of this study were all manufacturing companies listed on Indonesia Stock Exchange. The sampling period used in this research was from 2015 to 2017. The technique of sampling in this research was purposive sampling and based on a certain criteria that a company must have complete data to calculate the variable value. This resulted in 133 from 137 companies and 399 firm-year observations that meet criteria. In addition, the type of data used in this research was secondary data in the form of quantitative data and obtained from the annual financial statements of companies. The data indicators of each variable were extracted from financial statements obtained from official website www.idx.co.id. Table 1 presents and summarizes the variables and their indicators and references.

This study employed Generalized Linear Model (GLM) as indicated by equation 1 to achieve the research objectives. GLM is a linear model that explains the relationship of not normally distributed data (Wibawati, 2009). Besides, GLM is able to solve a categorical relationship (Nelder and Wedderburn, 1972).

Table 1: Variables, Definitions and References

Variables	Definitions and Measurement	References
Auditor Switching (ASWITCH)	Dummy Variable 1 for switching auditor 0 for non switching auditor	Aroh et al.,(2017)
Auditor firm reputation (CPA)	Dummy Variable 1 for big four 0 for non big Four	Sari and Widanaputra (2016)
Financial Distress (FD)	Debt to Equity Ratio= Total Debt/Total Equity	Sari and Widanaputra (2016)
Management Change (MCG)	Dummy Variable 1 for experienced management change 0 for non experience management change	Luthfiyati (2016)
Prior Audit Opinion (AO)	Dummy Variable 1 for unqualified opinion 0 for non unqualified opinion	Luthfiyati (2016)
Profitability (PRO)	Return on Assets (ROA)= Net Income/Total Assets	Arsih and Anisykurlillah (2015)

$$ASWITCH_t = \beta_1 CPA + \beta_2 FD + \beta_3 MCG + \beta_4 AO + \beta_5 PRO + e_1$$

Whereas:

ASWITCH _t	: auditor switching
A	: constants
β ₁ -β ₅	: regression coefficient
CPA	: CPA firm reputation
FD	: financial distress
MCG	: management change
AO	: audit opinion
PRO	: profitability
e ₁	: error

Result and Discussion

Statistical descriptive data is used to provide a description of sample data. Descriptive statistics include mean, median, minimum, maximum and standard deviation of each variable in the research. Table 2 presents the overview of data of each variable, while table 3 shows the correlation among variables.

The goal of this study is to test the determinants of auditor switching. Table 4 shows the coefficients of the proxies of determinants represented by equation 1. Except for previous opinions (AO), able five shows that strong and significant impacts of the determinants on the auditor switching. All signs of regression coefficients are significant at 1% level. This result suggests that CPA reputations (CPA), financial distress (FD), management change (MCG) and firm's performance (PRO) strongly influence auditor switch (ASWITCH). The following parts describes and discusses each determinant.

Table 2: Descriptive Data

	ASWITCH	CPA	FD	MCG	AO	PRO
Mean	0.5840	0.4085	1.3976	0.4586	0.9900	0.0385
Median	1.0000	0.0000	0.8651	0.0000	1.0000	0.0290
Maximum	1.0000	1.0000	162.1920	1.0000	1.0000	0.7160
Minimum	0.0000	0.0000	-166.7490	0.0000	0.0000	-0.5485
Std. Dev.	0.4935	0.4922	12.7987	0.4989	0.0997	0.0999
Skewness	-0.3407	0.3722	0.2775	0.1660	-9.8367	1.08274
Kurtosis	1.1161	1.1385	144.8118	1.0275	97.7601	13.9043

Table 3. Correlation Among Variables

	CPA	FD	MCG	AO	PRO
CPA	1				
FD	-0.0396	1			
MCG	0.2071	-0.0067	1		
AO	-0.0187	-0.0099	0.0926	1	
PRO	0.2194	-0.0257	0.04466	-0.0014	1

Table 4. The Result of Hypothesis Tests

Variables	Coefficient (z-Statistic)	Expected sign
CPA	-0.1405 (-4.6935)*	-
FD	0.0058 (33.2494)*	+
MCG	-0.4514 (18.6441)*	+
AO	0.2504 (1.5146)	-
PRO	1.0862 (4.6540)*	+
p<1%		

First, table 4 shows that CPA firm reputation had a significant and negative influence on the likelihood of auditor switching. This can be interpreted that a company audited by the Big Four does not tend to perform auditor switching. Schneider (2017) argued that CPA Firm affiliated with the Big Four is more competent because of the larger resources and training obtained by the employees. In addition, the reputation of CPA Firm is a common belief on the quality performance of CPA firm, which became a public trust for a long time and had record of accomplishment. Subsequently, Firyana and Septiani (2014) argued the principals of the firms' trust the CPA Firm affiliated with the big four rather than non Big Four in giving professional judgments on their financial statements.

The studies by Pawitri and Yadnyana (2015), and Sari and Widanaputra (2016) support this findings. They found that CPA Firm affiliated with the Big Four tends to generate the principal's trust. Yanti (2017) argued that CPA firm reputation is corresponding with the quality of the auditors. In addition, a company audited by CPA firm with a good reputation affects the way principals see the credibility of the company's financial statement. In other words, the quality of the company's financial statement improves as there is an increasing quality of CPA Firms. Eventually, who audited the company and its effect on the public trust. On the other hand, research by Astrini and Muid (2013), and Gharibi and Geraeely (2016) was contradicted with this research that stating CPA Firm Reputation had no effect on auditor switching.

Second, financial distress (FD) significantly determines the likelihood of auditor switching. FD had z-Statistic of 33.2494 with p-value of 0.0000 (<0.05). Therefore, a company suffering financial distress tended to perform auditor switching. According to Aroh et al. (2017), financial distress is a present condition of a company that suffers financial difficulties and enhance bankruptcy or liquidation. Financial difficulties can be in the forms experiencing some troubles in fulfilling firm obligations such as paying debts, taxes, bank loan, even related obligations to some parties (Salim and Rahayu, 2014). Similarly, a company in a condition of experiencing financial difficulties automatically has difficulties in completing their obligation to the auditor, paying auditor fees. This condition raises insecurities of the company and tends to switch its auditor.

The studies of AIAzhar L (2015), DwiYanti and Sabeni (2014), and Salim and Rahayu (2014) supported the finding of this research. They found that a company experiencing financial distress that tend to switch their auditor because the company does not have ability to complete their obligations. Saidin et al., (2016) argued the financial condition of a company has an impact on a decision to preserve the current auditor or switch to one who is accordance with management interest and company condition. On the other hand, Arsih and Anisykurlillah, (2015), Faradila and Yahya (2016), and Susanto, 2018) is contradicted with this research that stated Financial Distress has no effect on auditor switching. They argued that some companies consider the highest of startup fee if they switch the auditor and worsen the financial condition.

Third, management change (MD) enhances inversely the likelihood of auditor switching. Table 4 shows that management change had negative and significant impact on the auditor switching. Management change was the alteration of management composition in a company. Efendi (2013) argued company changes its management in order to keep their existence within the competitive business environment to improve its performance. The changes in the management normally are followed by the changes in company policies such as accounting, finance, human resources, strategic direction and CPA auditor. However, the new management has right to preserve the current auditor as long as it is a competent and professional auditor and indicates a self-interest of the management (AIAzhar L, 2015).

The result of this research showing a negative relationship between management change and the likelihood of auditor switching is contradicted to that of the previous studies. DwiYanti and Sabeni (2014), Firyana and Septiani (2014), and Saidin et al., (2016) found that MD significantly enhanced the likelihood of auditor switching. They argued that the agent or the management had right to choose a new auditor which was considered to be more competent and in accordance with management's interest. Inversely, the research by Luthfiyati (2016) and Khasharmeh (2015) suggests that management change had a negative impact on auditor switching. In this case, the new management might feel that the current auditor is independent and competent enough to handle business transactions of the firm. In addition, the change in management followed by changing firm's auditor may sign a bad decision to outsiders of the firm.

Fourth, the factor of previous audit opinion (AO) fails to enhance the likelihood of auditor switching. Audit opinion is the final result of audit process in the form of statement by an auditor that clarify the truth, fairness of an entity's financial statement which is in accordance with applicable financial reporting framework. According to the International Standards of Auditing 705 (2010), there is 4 types of audit opinions: unqualified, qualified, adverse, and disclaimer opinion. A company will be satisfied when it receives an unmodified opinion or unqualified opinion because it has presented a fair, true financial statement in accordance with applicable financial report frameworks. The company has the desire to get an unqualified opinion to improve investor and public trust. Through the importance of audit opinion in the

company, the investors are willing to change firm's auditor in order to match their objectives. This study fails to support these expectations this likelihood of auditor switching.

The results of this opinion are in line with the research by AlAzhar L (2015), Saidin et al., (2016), and Salim and Rahayu (2014). However, the results of this research fail to support the studies by Effendi and Rahayu (2015), and Pratama, and Suryanawa (2016). They found that previous audit opinion had negative and significant impact on auditor switching. The more company receives non-unqualified audit opinions, the more it feels unsatisfied enough and eventually encourages the management to perform auditor switching.

Lastly, profitability of the firm significantly improves the likelihood of auditor switching. This can be interpreted that a more profitable company tends to perform the likelihood of auditor switching. Profitability can be defined as the ability of a company to earn a profit in a certain period. The profit of the firm can become a source of the conflict the principals and the agents: they may use the income for different purposes. For example, the principal may prefer to pay dividends while the management of the company as the agent may prefer to reinvest in the profitable projects. This condition may encourage the management to switch their auditor in accordance with the management's objectives (Firyana and Septiani, 2014). The research by Wijayanti (2010) and Suyono and Yi (2013) supports this result. Similarly, the company that is experiencing growth tends to experience auditor switching. On the other hand, research by Arsih and Anisykurlillah (2015) found that profitability has no relationship with to auditor switching.

Conclusions

Previous studies have indicated that there are different perspectives among researchers on the factors affecting the likelihood of auditor switching. The purpose of this research was to identify the determinants the likelihood of auditor switching. Empirical data from manufacturing companies listed in Indonesia Stock Exchange (IDX) for the period of 2015 to 2017, this study finds that the CPA firm reputation, financial distress, management change and profitability of the firm encouraged the likelihood of switching voluntarily. This result may give additional insights related to the topic of auditor switching. This result may be extended for future studies that employ longer periods or time series data and consider other variables to improve and strengthen this result.

References

- Accountants, I. F. of. (2006). *Code of ethics for professional accountants*. Retrieved from <https://www.ifac.org/system/files/publications/files/ifac-code-of-ethics-for.pdf>
- Accountants, I. F. of. (2009). *Recently aspects regarding International Auditing Standard 200. Overall Objectives Of The Independent Auditor And The Conduct Of An Audit In Accordance With International Standards On Auditing*. Retrieved from <http://www.ifac.org/system/files/downloads/a008-2010-iaasb-handbook-isa-200.pdf>
- AlAzhar L. (2015). Influence of Financial Distress, Management Turnover and Audit Opinion to Auditor Switching (Empirical Study on Manufacturing Companies Listed on The BEI During 2011-2013 Period). *Research Journal of Finance and Accounting Wwww.liste.Org ISSN, 6(24)*, 120–126. Retrieved from www.iiste.org
- Aroh, J. C., Odum, A. N., and Odum, C. G. (2017). Determinants Of Auditor Switch : Evidence From Quoted Companies In Nigeria. *International Journal of Manament Research and Business Strategy, 6(4)*, 28–40.
- Arsih, L., and Anisykurlillah, I. (2015). Pengaruh Opini Going Concern, Ukuran Kap Dan Profitabilitas Terhadap Auditor Switching. *Accounting Analysis Journal, 4(3)*, 1–10. <http://doi.org/ISSN 2252-6765>
- Astrini, N. R., and Muid, D. (2013). Analisis Faktor-faktor yang Mempengaruhi Perusahaan Manufaktur di Indonesia Melakukan Auditor Switching. *Diponegoro Journal Of Accounting, 2(3)*, 1–12.
- Dwiyanti, R. M. E., and Sabeni, A. (2014). Faktor-faktor yang Mempengaruhi Auditor Switching secara

Voluntary pada perusahaan manufaktur. *Diponegoro Journal of Accounting*, 3(3), 2237–3806.

- Efendi, N. (2013). Implementasi Manajemen Perubahan Pada Industri Tekstil Majalaya. *Jurnal Perspektif Bisnis*, 1(2), 85–102. Retrieved from <http://ir.obihiro.ac.jp/dspace/handle/10322/3933>
- Effendi, M., and Rahayu, S. (2015). Analisis Pengaruh Opini Audit, Ukuran Kantor Akuntan Publik (Kap), Ukuran Perusahaan Klien, Dan Kepemilikan Manajerial Terhadap Auditorswitching (Studi Empiris Pada Perusahaan Manufaktur Subsektor Makanan dan Minuman, Farmasi, Rokok yang Terdaftar di Burs. *Jurnal Akuntansi Dan Keuangan*, 49(1), 81–100.
- Faradila, Y., and Yahya, M. R. (2016). Pengaruh Opini Audit, Financial Distress, Dan Pertumbuhan Perusahaan Klien Terhadap Auditor Switching (Studi pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2010-2014). *Jurnal Ilmiah Mahasiswa, Ekonomi Akuntansi (JIMEKA)*, 1(1), 81–100.
- Firyana, R. A., and Septiani, A. (2014). Analisis Faktor-Faktor Yang Memengaruhi Penggantian Kantor Akuntan Publik Secara Voluntary (Studi Empiris pada Perusahaan Keuangan yang terdaftar di BEI). *Diponegoro Journal Of Accounting*, 3, 1–15.
- Gharibi, A. K., and Geraeely, M. S. (2016). Investigating the effective factors on changing auditor: Evidences of Iranian firms. *Problems and Perspectives in Management*, 14(3), 401–406. [http://doi.org/10.21511/ppm.14\(3-si\).2016.14](http://doi.org/10.21511/ppm.14(3-si).2016.14)
- Hoitash, R., Markelevich, A., and Barragato, C. A. (2007). *Auditor fees and audit quality. Managerial Auditing Journal* (Vol. 22). <http://doi.org/10.1108/02686900710819634>
- Indonesia, I. A. (2016). *Exposure Draft Kode Etik Akuntan*. Jakarta. Retrieved from [http://iaiglobal.or.id/v03/files/file_berita/Kode Etik Akuntan Profesional.pdf](http://iaiglobal.or.id/v03/files/file_berita/Kode%20Etik%20Akuntan%20Profesional.pdf)
- Indonesia, M. K. R. Keputusan Menteri Keuangan Republik Indonesia Nomor: 423/KMK.06/2002 Tanggal 30 September 2002 Tentang Jasa Akuntan Publik (2002). Retrieved from <http://www.dayamandiri.co.id/images/upload/File/KMK-423-2002.pdf>
- Indonesia, M. K. R. Peraturan Menteri Keuangan Nomor: 17/PMK.01/2008, Jasa Akuntan Publik 1–40 (2008). Retrieved from https://www.bpjsketenagakerjaan.go.id/assets/uploads/tiny_mce/PERATURAN/22042016_140258_Peraturan_Menteri_Keuangan_Nomor_17_tahun_2008.pdf
- Jensen, C., and Meckling, H. (1976). Theory Of The Firm: Managerial Behavior, Agency Costs And Ownership Structure. *Journal of Financial Economics*, 3, 305–360.
- Kuangan, O. J. (2017). *Ringkasan Pojok No . 13 / POJK . 03 / 2017 tentang Penggunaan Jasa Akuntan Publik dan Kantor Akuntan Publik dalam Kegiatan Jasa Keuangan*. Retrieved from [https://www.ojk.go.id/id/kanal/perbankan/regulasi/peraturan-ojk/Documents/Pages/POJK-Penggunaan-Jasa-Akuntan-Publik-dan-Kantor-Akuntan-Publik-dalam-Kegiatan-Jasa-Kuangan/Sal Pojk Penggunaan Jasa Ap Dan Kap final.pdf](https://www.ojk.go.id/id/kanal/perbankan/regulasi/peraturan-ojk/Documents/Pages/POJK-Penggunaan-Jasa-Akuntan-Publik-dan-Kantor-Akuntan-Publik-dalam-Kegiatan-Jasa-Kuangan/Sal%20Pojk%20Penggunaan%20Jasa%20Ap%20Dan%20Kap%20final.pdf)
- Khasharmeh, H. A. (2015). Determinants Of Auditor Switching In Bahraini's Listed Companies - An Empirical Study., 3(11), 73–99.
- Luthfiyati, B. (2016). Pengaruh Ukuran Perusahaan klien, Opini Audit, Ukuran KAP, Pergantian manajemen Terhadap Auditor Switching. *Journal Of Accounting*, 2(2).
- Nelder, J. A., and Wedderburn, R. W. M. (1972). Generalized Linear Models. *Journal of the Royal Statistical Society*, 135(3), 370–384. <http://doi.org/10.1002/jia2.25041>
- Pawitri, N. M. P., and Yadnyana, K. (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://doi.org/10.1016/j.agrformat.2004.11.005>
- Pratama, I. G. B. B., 1, P., and Suryanawa, I. K. (2016). Pengaruh Opini Audit Dan Reputasi Kap Pada

Auditor Switching Dengan Financial Distress Sebagai Variabel Moderasi. *E-Jurnal Akuntansi Universitas Udayana*, 14(2), 1120–1149.

- Putri, D. E., and Nazar, M. R. (2015). The Influence Of Management Changes, Client Company Size, and Auditor Opinion To Auditor Switching (Empirical Studied on Banking Company Listed on IDX during 2010-2013), 2(1), 357–364.
- Saidin, Arifati, R., and Andini, R. (2016). Analysis of Effect of Audit Opinion, KAP Size, Financial Trouble, Turn Management, Company Size and Growth Company Audito Switching on Mining Companies Listed in Indonesia Stock Exchange period 2011-2014. *Journal of Accounting*, 2(2), 1–19.
- Salim, A., and Rahayu, S. (2014). Pengaruh Opini Audit, Ukuran KAP, Pergantian Manajemen, Dan Financial Distress terhadap Auditor Switching (Studi Kajian pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2008-2012). *E-Proceeding of Management*, 1(3), 388–400. <http://doi.org/ISSN : 2355-9357>
- Sari, I. W. I., and Widanaputra, A. A. G.. (2016). Reputasi Auditor Sebagai Pemoderasi Pengaruh Audit Fee Pada Auditor Switching. *E-Jurnal Akuntansi Universitas Udayana*, 16(1), 527–556.
- Schneider, A. (2017). Is commercial lending affected by knowledge of auditor switches from Big 4 firms to regional firms? *Accounting Research Journal*, 30(2), 153–170. <http://doi.org/10.1108/ARJ-12-2014-0110>
- Sukul, B. (2016). A Comparative Financial Analysis of TATA Steel Ltd . and SAIL. *IOSR Journal of Economics and Finance*, 7(6), 1–5. <http://doi.org/10.9790/5933-0706040105>
- Susanto, Y. K. (2018). Auditor switching: management turnover, qualified opinion, audit delay, financial distress. *International Journal of Business, Economics and Law*, 15(5), 125–132.
- Suyono, E., and Yi, F. (2013). Determinant Factors Affecting The Auditor Switching : In *Proceedings of 3rd Asia-Pacific Business Research Conference 25 - 26 February 2013, Kuala Lumpur, Malaysia* (pp. 1–13).
- Utami, F. O. (2017). *Auditor Switching : A Study Of Service And Investment*. Islamic Univerity of Indonesia.
- Wibawati, Y. (2009). *Maximum Likelihood Estimation Model Linear dan Log-Linear dalam Regresi Poisson*.
- Wijayanti, M. P. (2010). *Analisis Hubungan Auditor-Klien: Faktor-Faktor Yang Mempengaruhi Auditor Switching Di Indonesia*. *Diponegoro Journal of Accounting*. Retrieved from <http://ejournal-s1.undip.ac.id/index.php/accounting>
- Yanti, N. D. (2017). The Effect of Audit Opinion, Financial Distress, Client Size, Management Turn and KAP Size on Auditor Switching. *Journal of Economics, Business and Accountancy Ventura*, 20(2), 237–248. <http://doi.org/10.14414/jebav.v20i2.1125>