

The Influence of Audit Opinion, Financial Distress, Company Growth, and Going Concern Opinion on Auditor Switching

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Abstract

The purpose of this study is to analyze the effect of audit opinion, financial distress, company growth, and going concern opinion on auditor switching in companies listed on the IDX. In this study using secondary data in the annual reports of manufacturing companies sourced from www.idx.co.id. The population in this study were 42 companies in the consumer goods sector listed on the Stock Exchange 2017-2019 and the samples obtained were 24 companies. The sampling method used in this research is purposive sampling method. The research analysis method used logistic regression analysis. The results of the analysis in this study indicate that audit opinion, financial distress, company growth and going concern opinion do not have a significant effect on auditor switching.

Keywords: Auditor Switching, Audit Opinion, Financial Distress, Company Growth, Going Concern Opinion.

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A. INTRODUCTION

The financial report is a presentation that is mandatory for the company to do to describe the company's financial performance so that it can be processed into decision making. Management is responsible for presenting fair financial statements prepared based on the going concern assumption and in accordance with PSAK 1. PSAK 1 establishes the basis for presenting general purpose financial statements prepared based on Financial Accounting Standards (SAK), so that the financial statements prepared can be compared with reports previous financial period. The financial reports presented by management must be trusted for decision making, so management uses the services of a third party from a Public Accounting Firm (KAP), namely an independent external auditor to convince interested parties in the company and stakeholders.

Then the auditor will carry out an audit process related to the client company's financial statements so that evidence can be obtained and verified objectively. In using KAP services, it has been stipulated by Decree of the Minister of Finance No.17/PMK.01/2008 concerning Public Accountant Services Article 3 regarding Term Limits for Employers. The regulation stipulates that the working period of general audit services for companies on financial statements carried out by KAP is a maximum of six consecutive financial years, and three consecutive financial years by a Public Accountant. Thus the KAP and a Public Accountant cannot accept assignments and can receive reassignments after one financial year of not providing audit services to the same client. (Article 3 Paragraphs 2 and 3). Rules regarding the change of auditors

have been established by many countries. This is supported by the release of regulators by the United States government in The Sarbanes-Oxley Act (SOX) in 2002.

Auditor Switching is an act of changing a Public Accounting Firm or Auditor by a client company. Auditor switching can occur due to the influence of client factors or the auditor's own factors. However, in Indonesia, auditor switching is one of the regulations that companies must comply with to maintain auditor independence. In practice, auditors consist of mandatory or voluntary. Mandatory replacement occurs due to implementing regulations that have been set in Indonesia. While voluntary occurs because there are certain factors outside the applicable regulations between the client company and the KAP concerned.

Until now there are still many who question why companies make voluntary auditor changes. Whereas on the other hand, KAP and BAPEPAM consider that voluntary auditor changes will be disruptive because they require excessive monitoring and are believed to incur large costs compared to the results obtained (Liyani et al., 2014).

Based on the facts mentioned above, research on what factors influence companies to practice voluntary auditor switching is still very interesting to study. Based on several previous studies, there are indications that cause companies to carry out voluntary auditor switching. In this study, the authors tried several factors that allow for voluntary auditor switching, namely audit opinion, financial distress, company growth, and going concern opinion. This variable was chosen by the author because there are still contradictory results from previous researchers.

Audit opinion is the auditor's opinion regarding the fairness of the financial statements prepared by management and is the responsibility of management. (Reschiwati & Meo, 2019). A company wants an unqualified opinion for the results of an audit of its financial statements (Winata & Anisykurlilah, 2017). Every company expects an unqualified opinion from the results of an audit of its financial statements, this is so that client companies can be seen by investors to invest. For this reason, companies that receive a qualified opinion tend to replace the KAP or auditor for their company.

In carrying out its duties, management also has responsibility regarding the condition of the financial position. Financial Distress is a company's financial condition in a bad situation. Poor financial conditions can occur due to the company's inability to pay its obligations. (Prihandoko, Supriyati, 2020). Financial distress conditions can bring the possibility that a company changes auditors more frequently. According to research (Widyanti & Badera, 2016) shows that financial distress has a positive effect on auditor switching.

Along with an increase in the company's operating activities, the company is experiencing growth, and allows the company to need a better quality auditor. The company will replace the auditor if the old auditor does not match what the company wants.

The auditor is responsible for the opinion given to the client regarding the going concern of the company. Going concern opinion is an opinion given by the

auditor because there is indication of great doubt about the company's ability to continue running (Prihandoko & Supriyati, 2020).

B. LITERATURE REVIEW

1. Effect of Audit Opinion on auditor switching

Audit opinion is a statement or opinion given by the auditor and the statement or opinion is given so that the company knows about the fairness of its financial statements (Putra, 2014). In giving an opinion, the auditor goes through various stages of the audit so that a conclusion can be drawn on the opinion given on the company's financial statements. Every company expects an unqualified opinion from the results of an audit of its financial statements. This is because the company's management wants to maintain the good name of the company and maintain the trust of investors. Based on this analysis, the hypothesis can be arranged as follows:

H₁: Audit opinion has a significant positive effect on auditor switching

2. Effect of Financial Distress on auditor switching

In conditions of financial difficulties, companies will consider audit quality more in overcoming financial difficulties to maintain investor confidence in the company. Widyanti & Badera (2016) states that financial distress has a positive effect on auditor switching. Based on this statement, the magnitude of financial distress that occurs in the company will result in the company's tendency to conduct auditor switching. Based on this analysis, the hypothesis can be arranged as follows:

H₂: Financial Distress has a significant positive effect on auditor switching

3. Company Growth Has a Positive Effect on Auditor Switching

The company's growth is an illustration of how good the company's financial condition is. The company's growth can also be seen from the number of sales in a certain period. Higher sales growth in a certain period compared to the previous year with a modest increase in costs will result in an increase in profit. Companies that are growing rapidly tend to replace auditors with better quality with abilities that are in accordance with the company's growth conditions. Changing the auditor when the company is growing can also increase the company's confidence to attract investors, creditors, and public trust. On the other hand, (Zikra & Syofyan, 2019) states that company growth has no positive effect on auditor switching. Based on this analysis, the hypothesis can be arranged as follows:

H₃: Company growth has a significant positive effect on auditor switching

4. Going Concern Opinion Has a Positive Effect on Auditor Switching

Going concern opinion is the opinion given by the auditor to the company regarding the company's financial condition. The survival of a company is associated with management's ability to manage the company. Therefore, if the auditor gives a going concern opinion, the company tends to change the KAP or auditor to get the desired opinion. According to (Wijaya & Rasmini, 2015) states that going concern

opinion has a positive effect on the company's auditor turnover. Going concern opinion, doubtful opinion given by the auditor regarding the company's financial condition which is in a disturbed state. Based on this analysis, the hypothesis can be arranged as follows:

H₄: Going Concern Opinion has a significant positive effect on auditor switching.

C. METHOD

The type of research used is a quantitative method. According to Sugiyono (2016), the quantitative method is a research method based on the philosophy of positivism, to examine a population or a particular sample.

The data source in this study uses secondary data sources obtained from the financial reports of manufacturing companies that have been officially registered on the Indonesia Stock Exchange. The population in this study are manufacturing companies that have been listed on the Indonesia Stock Exchange during the 2017-2019 period and have the completeness of the data required in this study. While the sampling method using purposive sampling. This method is a sampling technique for data sources based on certain considerations (Sugiyono, 2016). The criteria for determining the sample used in this study are:

1. Manufacturing companies that have been registered and active from 2017 to 2019.
2. Manufacturing companies that publish consistent and complete financial reports on the IDX as well as complete financial reports during the study period, namely 2017-2019.
3. Present complete information regarding total assets, total debt, total equity, net sales, and audit opinion, going concern opinion
4. The financial statements are presented in rupiah currency
5. Manufacturing companies that have been registered and active from 2017 to 2019

Operational Variables

1. Auditor Switching

In this study, a dummy variable is used. If the company changes its office. If the company changes its Public Accountant Office (Auditor Switching) voluntarily, then it is given a value of 1. Meanwhile, if the company does not change its Public Accountant Office (Auditor Switching), then it is given a value of 0. Audit Opinion also uses a dummy variable, if the company receives an unqualified opinion then it is given a value of 0, but if the company receives an opinion with a qualification then it is given a value of 1.

2. Financial Distress

The condition of financial difficulties experienced by the company, financial distress is proxied by the DAR (Debt to Assets Ratio) ratio. The higher the proportion of DAR, the greater the financial risk for creditors and shareholders.

3. Company Growth

The increase that occurs in the company usually affects the company's income/assets, this variable uses a ratio.

4. Opinion Going Concern

Using dummy variables. If the company receives a going concern opinion then it is given a mark of 1, but if it does not receive a going concern opinion it is given a mark of 0.

D. RESULT AND DISCUSSION

1. Descriptive statistics

Descriptive statistics provide descriptive information about the independent and dependent variables in this study. The information contained in descriptive statistics is the average (mean), minimum value, maximum value, and standard deviation (standard deviation). The following are the results of descriptive statistical tests.

Table 1. Descriptive Statistical Tests
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Y_AS	72	0	1	.83	.375
X1_OA	72	0	1	.06	.231
X2_FD	72	.07	2.91	.8835	.71683
X3_PP	72	-.75	1.04	.0296	.22490
X4_GC	72	0	1	.13	.333
Valid N (listwise)	72				

Based on the data in the table it can be seen that the total number of samples used was 72 samples. The result of the first analysis is that auditor switching has an average of 0.83 and a standard deviation of 0.37. This shows that 83% of companies carried out auditor switching in the 2017-2019 period. The results of the subsequent analysis are audit opinions with an average value of 0.06 and a standard deviation of 0.23 shows that 6% of companies get audit opinions other than unqualified opinion. The results of the third analysis are financial distress with an average value of 0.88 and a standard deviation of 0.71. This shows that the average company experiencing financial distress is 88%. The fourth result of the analysis is the company's growth with an average value of 0.02 and a standard deviation of 0.22. This shows that the company's average growth is 2%. And the last result is going concern with an average value of 0.13 and a standard deviation of 0.33.

2. Multicollinearity Test

The multicollinearity test is used to determine whether there is a correlation between variables or not. With a tolerance value greater than 0.10 and a VIF value less than 10.00, multicollinearity does not occur. The following table presents the results of the multicollinearity test.

Table 2. Multicollinearity Test Result

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.932	.067	13.958	.000		
	X1_OA	-.642	.205	-.395	.003	.744	1.344
	X2_FD	-.105	.058	-.201	.074	.966	1.035
	X3_PP	.174	.204	.104	.397	.795	1.258
	X4_GC	.197	.145	.175	.179	.713	1.403

a. Dependent Variable: Y_AS

Based on the table, the audit opinion tolerance value is 0.744 which is greater than 0.10 and the VIF value is 1.344 which is less than 10.00. The results of the next analysis are financial distress with a tolerance value of 0.966 greater than 0.10 and a VIF value of 1.035 less than 10.00. The next variable is company growth with a tolerance value of 0.795 greater than 0.10 and a VIF value of 1.258 less than 10.00. The last variable is going concern with a tolerance value of 0.713 greater than 0.10 and a VIF value of 0.713 less than 10.00. Based on these results, it can be said that the variables X1, X2, X3 and X4 do not occur multicollinearity.

3. Regression Model Feasibility Test

The regression feasibility test was assessed using Hosmer and Lemeshow's Goodness of Fit test. Hosmer and Lemeshow's Goodness of Fit test tests the null hypothesis that the data fit the model. If the value of Hosmer and Lemeshow's Goodness of Fit test is greater than 0.05 then the null hypothesis is accepted and it can be said that the model is able to predict the observed value. The following table presents the Hosmer and Lemeshow's Goodness of Fit test.

Table 3. Regression Model Feasibility Test

Hosmer and Lemeshow Test			
Step	Chi-square	df	Sig.
1	7.364	8	.498

Based on the table above, it shows that the significant value of the Hosmer and Lemeshow Test is 0.498 which is greater than 0.05, so the null hypothesis is accepted and the model is able to predict the observed value or it can be said because it matches the observation data.

4. Overall Model Fit Test

This test is used to determine whether the entire model is fit or not with the data. This test is carried out by comparing the initial -2 log likelihood with the final -2 log likelihood. If there is a decrease in the Likelihood value, this indicates that the model is acceptable because it fits the data.

Table 4. Overall Model Fit Test

Iteration History ^{a,b,c,d}							
Iteration		-2 Log likelihood	Constant	Coefficients			
				X1_OA	X2_FD	X3_PP	X4_GC
Step 1	1	55.725	1.729	-2.568	-.421	.695	.790
	2	52.552	2.284	-3.579	-.676	1.440	1.780
	3	52.042	2.398	-4.576	-.738	1.914	2.890
	4	51.896	2.400	-5.599	-.740	2.040	3.943
	5	51.844	2.399	-6.608	-.740	2.053	4.954
	6	51.826	2.399	-7.611	-.740	2.054	5.957
	7	51.819	2.399	-8.612	-.740	2.054	6.958
	8	51.816	2.399	-9.612	-.740	2.054	7.958
	9	51.815	2.399	-10.612	-.740	2.054	8.959
	10	51.815	2.399	-11.612	-.740	2.054	9.959
	11	51.815	2.399	-12.612	-.740	2.054	10.959
	12	51.815	2.399	-13.612	-.740	2.054	11.959
	13	51.815	2.399	-14.612	-.740	2.054	12.959
	14	51.815	2.399	-15.612	-.740	2.054	13.959
	15	51.815	2.399	-16.612	-.740	2.054	14.959
	16	51.815	2.399	-17.612	-.740	2.054	15.959
	17	51.815	2.399	-18.612	-.740	2.054	16.959
	18	51.815	2.399	-19.612	-.740	2.054	17.959
	19	51.815	2.399	-20.612	-.740	2.054	18.959
	20	51.815	2.399	-21.612	-.740	2.054	19.959

This test is used to determine whether the entire model is fit or not with the data. This test is carried out by comparing the initial -2 log likelihood with the final -2 log likelihood. If there is a decrease in the Likelihood value, this indicates that the model is acceptable because it fits the data.

5. Nagelkerke R Square

This test is used to determine whether the entire model is fit or not with the data. This test is carried out by comparing the initial -2 log likelihood with the final -2 log likelihood. If there is a decrease in the Likelihood value, this indicates that the model is acceptable because it fits the data.

Table 5. Nagelkerke R Square

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	51.815 ^a	.166	.279
a. Estimation terminated at iteration number 20 because maximum iterations has been reached. Final solution cannot be found.			

Based on the test results in the table, the Nagelkerke R Square value is 0.279. The results show that the independent variable is able to clarify the variability of the dependent variable by 27% and the remaining 73% is explained by other variables from outside the study.

6. Classification Table

The classification table shows the predictive power of the model which can predict the possibility of auditor switching. In the classification table column in the table there is a zero (0) which indicates that there is no auditor switching, while the number one (1) indicates that there is an auditor switching.

Table 6. Classification Table

Classification Table ^a				
Observed			Predicted	
			Y_AS	Percentage Correct
			Tidak terjadi pergantian	
Step 1	Y_AS	0	3	25.0
		Tidak terjadi pergantian	0	100.0
	Overall Percentage			87.5

a. The cut value is .500

Based on the table, the accuracy of the logistic regression model in predicting the possibility of switching auditors is 87.5%. In this case, it is estimated that as many as 60 companies (87.5%) will perform auditor switching out of a total of 60 companies that do auditor switching.

7. Hypothesis Testing Results

The purpose of testing this hypothesis is to examine the effect of audit opinion, financial distress, client company growth, and going concern opinion on auditor switching. Based on calculations using the SPSS 25 version, the test results can be seen in table.

Table 7. Hypothesis Testing Results

Variables in the Equation									
		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1 ^a	X1_OA	-21.612	14836.967	.000	1	.999	.000	.000	.
	X2_FD	-.740	.442	2.808	1	.094	.477	.201	1.134
	X3_PP	2.054	2.559	.644	1	.422	7.799	.052	1175.369
	X4_GC	19.959	14836.967	.000	1	.999	465490357.4	.000	.
	Constant	2.399	.618	15.079	1	.000	11.012		

a. Variable(s) entered on step 1: X1_OA, X2_FD, X3_PP, X4_GC.

Based on the results of the logistical analysis in the table, the following equation is obtained: Auditor Switching = 2.399 + -21.612OA + -0.740FD + 2.054PP + 19.959GC + ε.

Based on the equation above, it can be interpreted as follows:

1. The equation in table shows a constant value of 2.399. This means that if the independent variable is considered constant 0 (zero), then the tendency for auditor changes to occur is 2.399.
2. The regression coefficient on the audit opinion variable (X₁) is -21.612, meaning that if there is an increase in audit opinion with other variables

unchanged/considered constant, the number of auditor switching will decrease - 21.612.

3. The regression coefficient for financial distress (X_2) is -0.740, meaning that an increase in financial distress will cause auditor switching to decrease by -0.740 assuming other variables are held constant.
4. The regression coefficient on the company growth variable (X_3) is 2.054, meaning that an increase in company growth will cause auditor switching to increase by 2.054 assuming other variables are held constant.
5. The regression coefficient on the going concern variable (X_4) is 19.959, meaning that an increase in going concern opinion will cause auditor switching to increase by 19.959 assuming other variables are considered constant.

E. CONCLUSION

Based on the results of previous research, it can be concluded as follows: 1) Audit Opinion has no significant negative effect on Auditor Switching in consumer goods manufacturing companies listed on the IDX for the 2017-2019 period. This is proven by the results of the Regression Coefficient of -21.612 and a significance value of 0.999 which is greater than 0.05; 2) Financial Distress does not have a significant negative effect on Auditor Switching in consumer goods manufacturing companies listed on the IDX for the 2017-2019 period. This is evidenced by the regression coefficient value of -0.740 and a significance value of 0.094 which is greater than 0.05; 3) Company growth has no positive effect on Auditor Switching in manufacturing companies in the consumer goods industry sector listed on the IDX for the 2017-2019 period. This is evidenced by the results of the Regression Coefficient of 2.054 and a significance value of 0.422 which is greater than 0.05; and 4) Going Concern Opinion has no positive effect on Auditor Switching in consumer goods manufacturing companies listed on the IDX for the 2017-2019 period. This is evidenced by the results of the Regression Coefficient of 19.959 and a significance value of 0.999 which is greater than 0.05.

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