



## **EFFECTS OF COMPANY SIZE, AUDITOR SWITCHING AND AUDITOR FEE ON AUDITOR SWITCHING**

**(Empirical Study of Basic Industry & Chemical Manufacturing Companies Listed on  
the Indonesia Stock Exchange in 2017-2021)**

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### **Abstract**

*Auditor independence is the key for an auditor to assess the fairness of the audited financial statements however, the association of a company with a public accounting firm for a long time can affect the auditor's independence so as to allow for a certain relationship between the public accounting firm and the company being audited, but if it is too frequent changing the independent auditor will increase the company's audit fees and indicate that the public accounting firm is not professional. There are 10 basic and chemical industry companies that have switched auditors more than once during the 2017-2021 period. The purpose of this research is to examine and analyze the effect of firm size, Change of Management and audit fees for Auditor Switching in basic and chemical industry companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021. The method used in this research is quantitative research, a purposive sampling technique was used to obtain a sample size of 37 companies or 185 data in five years. The data analysis technique used is logistic regression with SPSS version 25. Based on the findings of this study (1) company size has no effect on auditor switching, (2) management changes have no effect on auditor switching, (3) audit fees have no effect on auditor switching. purposive sampling technique was used to obtain a sample size of 37 companies or 185 data in five years. The data analysis technique used is logistic regression with SPSS version 25. Based on the findings of this study (1) company size has no effect on auditor switching, (2) management changes have no effect on auditor switching, (3) audit fees have no effect on auditor switching. purposive sampling technique was used to obtain a sample size of 37 companies or 185 data in five years. The data analysis technique used is logistic regression with SPSS version 25. Based on the findings of this study (1) company size has no effect on auditor switching, (2) management changes have no effect on auditor switching, (3) audit fees have no effect on auditor switching.*

*Keywords: company size, management change, and audit fees, auditor switching*

### **1. Introduction**

Going public financial statements that have been registered on the Indonesian Stock Exchange (IDX) are required to report their financial statements that have been audited by a public accountant as an independent third party. Financial reports are a form of management responsibility to stakeholders. Audited financial reports make it easier for investors to find out the financial performance of the company. Auditor independence is the main thing in assessing the fairness of financial statements, audit quality will be trusted if the auditor maintains independence, to maintain auditor independence, the Indonesian government has



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regulated the auditor rotation obligation by issuing government regulation Number 20 of 2015 Article 11 Paragraph 1 concerning the Practice of Public Accountants which states that the Public Accounting Firmis no longer limited in conducting an audit of a company.

The restriction only applies to Public Accountants, namely for 5 consecutive financial years. The increasing number of Public Accounting Firms operating today, companies are given the freedom to choose which Public Accounting Firm will audit their company. Government Regulation of the Republic of Indonesia Number 20 of 2015 concerning "Public Accountant Practice". Even though there are regulations regarding the deadline for changing auditors, in fact there are companies that do auditor switching outside of these regulations. If the company does not perform auditor switching for a long time, it will make the relationship between the company and the public accounting firm closer and threaten the independence of the public accounting firm. Companies that frequently perform auditor switching will increase the company's audit fees and indicate that the public accounting firm is unprofessional. There are companies that carry out auditor switching in 2017-2021 Indonesia as follows:

Table 1. Companies that carry out Auditor Switching and are listed on the Indonesia Stock Exchange (IDX) 2017-2021

No	Company name	Emitment Code	2017	2018	2019	2020	2021
1	PT. Indocement Tunggal Prakarsa Tbk	INTP	0	1	0	1	0
2	PT. Semen Baturaja Tbk	SMBR	0	0	1	1	0
3	PT. Wijaya Karya Beton Tbk	WTON	0	1	0	0	1
4	PT. Waskita Beton Precast Tbk	WSBP	1	1	0	0	1
5	PT. Berlina Tbk	BRNA	1	0	0	0	1
6	PT. Yanaprima Hatapersada Tbk	YPAS	0	1	0	0	1
7	PT. Intanwijaya Internasional Tbk	INCH	1	1	0	0	1
8	PT. Build Solutions Indonesia Tbk	SMCB	1	0	1	0	0



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9	PT. Emdeki Utama Tbk	MDKI	0	1	0	0	1
10	PT. Betonjaya Manunggal	BTONs	0	1	0	0	1

Data source : [www.idx.co.id](http://www.idx.co.id), reworked, 2022

The table above is a problem that in 2017-2021 there were several companies that changed their auditors 2-3 times in that year, but for companies that did not do auditor switching in 2017-2021 or even only did 1 auditor switching then it is not a problem because previously researchers also looked at the previous year. Based on the phenomenon, the data illustrates that companies in the basic and chemical industrial sectors experience auditor switching every year.

Auditor Switching can occur in a mandatory (compulsory) and voluntary (voluntary). Auditor Switching compulsorily occurs because of regulations that require companies to change KAPs, while voluntary occurs because companies voluntarily change KAPs or auditors who provide audit services on the company's will. Companies that experience voluntary KAP changes may be in abnormal conditions (Masruroh, 2016), so it is necessary to examine the factors that cause these companies to change auditors. These factors in this study include company size and audit opinion.

Company size is a scale that determines the size of a company which can be seen from the total assets owned by the company. a more independent and qualified auditor will be chosen by the company to control risk if the company experiences an increase in company size which makes it difficult for the company to oversee the company's management activities. The larger the size of a company, the more likely a company is to do voluntary auditor switching (Luthfiyati, 2016).

Change of Management Change of management is a change of company directors which can be caused by the directors leaving on their own volition or based on a decision at the General Meeting of Shareholders of the GMS (Effendi, 2019).

Audit is a fee or honorarium received by a public accountant for the implementation of audit services that have been performed. The amount of fees received by the auditor depends on the risks borne in the assignment, the complexity of the services provided, the level of expertise required in carrying out the audit, and the fee structure of the KAP concerned (Andriani & Nursiam, 2018).

Research on the effect of company size and audit opinion on auditor switching has been carried out by several researchers including Kusuma Indawati Halim, (2021) which shows that company size has an effect on auditor switching, in contrast to Vivi Aulia Nazwa and Efrizal Sofyan, (2020) who state company size has no effect on auditor switching. In the research of Manto and Manda (2018) Ahmad Zakie Mubarrok, Almer Reyhan Islamnamun (2020), and Nyoman Ratna Candradewi et al (2020) show that management changes have an effect on auditor switching, but it is different in Diana's research (2018), which states an audit opinion no effect on auditor switching.



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This study carries out several updates from the main research references, namely the research of Novi Damayanti et al (2021) entitled "The Effect of Audit Opinion, Financial Distress, Audit Delay, Change Of Management On Auditor Switching". The update made in this study is that the object of previous research used research objects at metal companies while this research used research objects at basic and chemical industry companies. The time range in previous research used a three-year timeframe from the 2011-2018 period. While this study uses a five-year timeframe from the 2017-2021 period, there is a change in proxies for Financial Distress, Audit Delay from previous research with this research, namely Company Size which refers to research (Ahmad Zakie Mubarrok1, Almer Reyhan Islam,

The basic theory used in this research is agency (Jensen and Mackling, 1976). Agency theory is related to the relationship between principal and agency, where what is meant by the principal is the owner of the company and what is meant by the agency is the person delegated to run the business. Agency theory shows the importance of separation between company management and owner-manager relations. This separation aims to create efficiency and effectiveness by hiring professionals to manage the company. However, this separation turns out to cause problems, where the agent has more control over company information than the principal. This is caused when there is an unequal goal between the principal and the agency. Between the principal and the agency have their own goals,

Based on the phenomenon and the research gap in this study, this research was previously conducted to test whether company size, management turnover, and audit fees have a positive effect on auditor switching. The purpose of this study was to determine the effect of company size, management change, and audit fees on auditor switching that is listed on the IDX in 2017-2021.

## **2. LITERATURE REVIEW**

### **Effect of Firm Size on Auditor Switching**

According to agency theory, the larger the size of the company, the more difficult it will be to monitor the actions taken by management, so it requires a public accounting firm with a high level of independence and in accordance with the size of the company. (Kusuma Indawati Halim, 2021), (Catherina Stevani Valentine Siagian, 2020), (Wea and Murdiawati, 2015) stated that company size affects auditor switching. however, this research is not in line with research conducted by (Fitri Dwi Jayanti, Bayu Kurniawa, Utami Puji Lestari, 2020), (Vivi Aulia Nazwa and Efrizal sofyan, 2020), and (Annisa Nauli Sinaga, Mega Feline, Osvaldo Romi Wijaya, 2021), namely company size has no effect on auditor switching. Management changes have an effect on auditor switching audits according to Manto and Manda (2018) Ahmad Zakie Mubarrok, Almer Reyhan Islamnamun (2020), and Nyoman Ratna Candradewi et al (2020), but this research is not in line with research conducted by Diana (2018), Aprilia and Effendi (2019), Chadegani et al. (2011) namely Management Change has no effect on auditor switching.

### **Effect of Management Change on Auditor Switching**

According to agency theory, the occurrence of management changes can also be caused because the agent in the company at that time could not fulfill the interests of the principal.

### **Effect of Audit Fee on Auditor Switching**

According to agency theory, the higher the audit fee offered by the auditor, the more often the



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company will conduct auditor switching. Audit fees effect on auditor switching according to (ViviAulia Najwa, EfrizalSyofyan, 2020), (Catherina Stevani Valentine Siagian, 2020), and (Kadek Harum Diandika and Dewa Nyoman Badera, 2017) however, this research is not in line with research conducted by (Kholipah and Suryandari, 2019), (NI Kdek Sri Udayani and I Dewa Nyoman Badera, 2017), (Dr. Husein Ali Khasharmeh, 2015), namely audit fees have no effect on auditor switching.

**1. DATA AND ANALYSIS RESEARCH TECHNIQUES**

This study uses a quantitative approach. The type of data used in this research is secondary data. The population in this study are basic industrial and chemical companies on the Indonesian Stock Exchange (IDX) in 2017-2021. Sampling was taken using a purposive sampling method, namely by determining certain criteria in the study. The sample criteria used are basic industrial and chemical companies that have been listed on the Indonesia Stock Exchange, complete with annual financial reports for the period December 31 2017 - December 31 2021, financial reports for 2017-2021 which have been audited by KAP Big Four and Non-Big Four as well as attaching the independent auditor's report. The number of samples in this study were 37 companies or 185 data for five years.

Table 2. Operational Variables.

<b>Variable</b>	<b>Indicator</b>	<b>Scale</b>
<b>Dependent Variables:</b> Switching Auditors (Y)	Measured using dummy values 0 and 1 where value 1 is for client companies that change auditors and 0 for companies that do not change auditors (Tituk and Anisa, 2020)	Nominal
<b>Independent Variables:</b> Company Size (X1)	Company Size = Ln Total Assets	Ratio
<b>Independent Variables:</b> Change of Management (X2)	1 = change of management 0 = no change of management	Nominal
<b>Independent Variables:</b> Audit Fees (X3)	The amount of compensation received by the auditor (Bahtiar Efendy, 2020)	Ratio

Source: processed by researchers in 2023



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**2. RESULTS AND DISCUSSION**

**Descriptive statistics**

There are 184 outlier data, this is due to the existence of extreme value data which produces abnormal data.

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Means	std. Deviation
SW	185	0	1	.22	.413
UP	185	973684000.00	11513044288721.00	1341880614193.0554	2125792931760.62100
PA	185	0	1	.15	.354
FA	184	1090125.00	11375173226.00	681109002.9402	1502532605.93637
Valid N (listwise)	184				

Source: Data processed by researchers, 2023.

Based on table 3, it can be seen that Y is SW with a minimum value of 0; maximum value 1; the mean is 0.22 and the standard deviation is 0.413. At X1, namely UP, the minimum value is 0,9736; maximum value 0.1151; mean value of 0.1341; and a standard deviation of 0. 2125. At X2 that is PA minimum value 0; maximum value 1; mean value of 0.15; and a standard deviation of 0. 354. At X3, namely FA, the minimum value is 0.1090; maximum value 0.1137; mean value of 0.6811; and a standard deviation of 0.1502.

**Test the Entire Model**

Table 4. Iteration History 0

Step 0	Iterations	-2 log likelihoods	Coefficients
			Constant
	1	193,409	-1,130
	2	192,681	-1,275
	3	192,680	-1,281
	4	192,680	-1,281

Source: processed by researchers in 2023

Table 5. Iteration History 1

Step 1	Iterations	-2 log likelihoods	Coefficients			
			Constant	UP	PA	FA
	1	192,291	-1,075	.000	.192	.000
	2	191,322	-1,190	.000	.262	.000
	3	191,315	-1,192	.000	.268	.000
	4	191,315	-1,191	.000	.268	.000

Source: processed by researchers in 2023



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Based on the results of SPSS 25 processing, in tables 4 and 5 there is a decrease between the initial and final -2 Log Likelihood. This means that the addition of independent variables to the regression model improves the fit model or in other words the fit model with the data.

**Results Regression Model Feasibility (Hosmer and Lemeshow)**

**Test Results for the Coefficient of Determination (Nagelkerke R.Square)**

Table 7. Model Summary

step	-2 log likelihoods	Cox & Snell R Square	Nagelkerke R Square
1	191.315a	.007	.011

Based on table 7, the model summary in this table is the value of Nagelkerke R. Square which shows a value of 0.011. This can be interpreted that the effect of the independent variable on the Y variable is 11.1%.

**Classification Matrix Test Results**

Table 8 Classification

Step 1	Observed	predicted		Presentage Correct
		SW		
		Not Replace	Replace	
SW	Not Replace	144	0	100.0
	Replace	40	0	0
	Overall Presentation			78.3

In table 8, according to predictions, the companies that did not change auditors were 144 while the predictions of companies that replaced auditors were 0. So the accuracy of this model is 204/204 or 100%. The accuracy of this overall prediction is 78.3%.

**Hypothesis Test Results**

Table 9 Variables in the Equation

		B	SE	Wald	df	Sig.	Exp(B)
Step 1a	UP	.000	.000	.439	1	.483	1,000
	PA	.268	.482	.308	1	.579	1,307
	FA	.000	.000	.243	1	.622	1,000
	Constant	-1,191	.233	26.163	1	.000	.304

Source: processed by researchers in 2023

Based on table 9, the regression model formed is as follows:

$$\text{SWITCH} = -1.191 + 0.000\text{UP} + 0.268\text{PA} + 0.000\text{FA} + e$$

Based on the logistic regression equation above, it is known that the constant value for the regression equation is -1.191. It can be concluded that auditor switching is not only



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influenced by company size, management turnover, and audit fees but there are also variables. Company size has a sig value of  $0.483 > 0.05$ , so company size has no effect on auditor switching because the sig value is greater than 0.05, so the hypothesis is rejected. Management turnover has a sig value of  $0.579 > 0.05$  because the sig value is greater than 0.05, so management turnover has no effect on auditor switching and the hypothesis is rejected. The audit fee gets a sig value of  $0.622 > 0.05$  because the sig value is greater than 0.05, the audit fee has no effect on auditor switching and the hypothesis is rejected.

**Effect of Firm Size on Auditor Switching**

The results of this study indicate that firm size has no effect on auditor switching. This means that the existence of company size in basic and chemical industry companies cannot affect auditor switching. This is because large companies tend not to make decisions for auditor switching. The results of this study are in line with research conducted by (Vivi Aulia Nazwa and Efrizal Sofyan, 2020) which states that company size has no effect on auditor switching.

**Effect of Management Change on Auditor Switching**

The results of this study indicate that firm size has no effect on auditor switching. This means that the existence of Management Change in basic and chemical industry companies cannot affect auditor switching. This is because the new management in selecting the KAP will reconsider not changing the KAP when looking at the reputation generated from the previous KAP. The results of this study are in line with research conducted by (Chadegani et al, 2011) which states that Management Change has no effect on auditor switching.

**Effect of Audit Fee on Auditor Switching**

The results of this study indicate that the Audit Fee has no effect on auditor switching. This means that the existence of audit fees in basic and chemical industry companies cannot affect auditor switching. This is because when the manager feels comfortable with the independent auditor, he will maintain the KAP regardless of the fee proposed from the KAP. The results of this study are in line with research conducted by (Dr. Husein Ali Khasharmeh, 2015) which states that the Audit Fee has no effect on auditor switching.

**1. CONCLUSION**

The purpose of this study was to determine the effect of company size, management change, and audit fees on auditor switching in basic and chemical industry companies listed on the Indonesia Stock Exchange in 2017-2021. Based on the results and discussion of company size, management change, and audit fees have no effect on auditor switching.

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