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An Influence Of Management Change For Auditor Switching With Financial Distress As Moderating Variable

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Abstract: The purpose of this study was to examine the effect of management change on auditor switching with financial difficulties as a moderating variable.This study uses a sample of basic industrial companies and chemicals listed on the Indonesia Stock Exchange during the 2011-2015 period. The number of basic and chemical industrial companies sampled in this study were 16 companies with 5 years of observation. Based on the purposive sampling method, the total sample of this study was 80 financial reports. Hypothesis testing in this study uses logistic regression analysis because the independent variable is a combination of metric and non-metric (nominal).The results of this study indicate that management change has no significant effect on auditor switching and financial difficulties moderate the effect of management change on auditor switching.

Keywords: Auditor Switching; Management Change; and Financial Distress.

INTRODUCTION

Financial reports are a form of accountability and delivery of financial information of a company or organization to parties in need, both external and internal (Yanuar, 2018; Sujarwo, 2019). This is where the importance of accounting and auditing reporting systems in the process of fulfilling the company's social contract with stakeholders.

In accordance with PSA No. 2 SA Section 110 (SPAP, 2001) states that the auditor is responsible for planning and carrying out an audit to obtain adequate assurance about whether the financial statements are free from material misstatement, whether caused by error or fraud. This independent auditor provides an opinion regarding the fairness of the presentation of financial statements, as well as its compliance with generally accepted accounting principles.

Then the regulation was refined with the issuance of Regulation of the Minister of Finance of the Republic of Indonesia Number 17 / PMK.01 / 2008 concerning "Public Accountant Services" and carried out in Law Number 5 Year 2011 concerning "Public Accountants" Article 4. The changes made were, first, the provision of general audit services on the financial statements of an entity may be carried out by a Public Accounting Firm for a maximum of 6 (six) consecutive financial years and by a Public Accountant for 3 (three) consecutive financial years (pasal 3 ayat 1). Second, public accountants and public accounting firms can accept general audit assignments for clients again after 1 (one) financial year does not provide general audit services for the same client's financial statements (pasal 3 ayat 2 dan 3).

If a company replaces its KAP that has been auditing for six years, it will not raise questions because it is mandatory, so what needs to be examined is if the KAP change is voluntary (see UU No. 5 Tahun 2011).

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Jensen and Meckling (into Sahara, 2018) state that both the company owner (principal) and management (agent) are welfare maximizers, so that there is a tendency for managers to seek their own benefits (moral hazard) at the expense of the interests of other parties. The agent has an obligation for the welfare of shareholders, but on the other hand the agent has an interest in maximizing their welfare. The unification of the interests of the parties these parties often cause a problem known as agency problem.

In agency theory, the independent auditor acts as an intermediary for both parties, namely the agent and principal with different interests. Audit is a way that is able to reduce agency costs arising from selfish behavior by agents (managers) (Wijaya and Januarti, 2011)

Audit and Audit Services

First, auditing is a systematic process of gathering evidence containing information and evaluating it so that an audit conclusion can be obtained. Second, auditing must be carried out by people who are competent in the field of audit in reaching appropriate audit conclusions and must maintain their independence as an auditor. Third, the attainment of audit conclusions is carried out by evaluating the conformity of the information with the predetermined criteria. Finally, the results of this audit will be reported to interested users. This audit will be reported to interested users. The audit is carried out by a competent, objective and impartial party called the auditor. Boynton (2008: 10) explains that auditors or Certified Public Accountants are those, both individually and as members of a public accounting firm that perform professional auditing services to kline. To get a certificate of public accounting requires experience and passing and certification examinations.

Auditor Switching

Regulations relating to public accounting services in Indonesia are regulated in the Minister of Finance Decree No. 43 / KMK.017 / 1997, later amended by Decree of the Minister of Finance No. 432 / KMK.06 / 2002, where one of the things regulated in this KMK is that the provision of general audit services on the financial statements of an entity is carried out by the longest KAP for 5 (five) consecutive financial years and by a public accountant at most. 3 (three) years. This regulation was later refined back into the Minister of Finance Regulation No. 17 / PMK.01 / 2008. Where the provision of general audit services on the financial statements of an entity is carried out by KAP for a maximum of 6 (six) consecutive financial years and by a Public Accountant for a maximum of 3 (three) consecutive financial years (Wijaya, 2013).

Change of Management

Damayanti and Sudarman (2008) state that management change is a change in company directors which can be caused by the decision of the general meeting of shareholders or the board of directors to stop on their own accord. The existence of new management may also be followed by changes in policies in accounting, finance, and the selection of KAP.

Financial distress

According to Setyorini and Ardiati (2006: 77), financial difficulties, which consist of liquidity difficulties to the potential bankruptcy of the company, are caused by many things, both from outside and from within the company. Although the causes for financial difficulties vary widely, most of the causes are due to a series of wrong management decisions that make the company's condition deteriorate. Companies with the potential to go bankrupt have a tendency to change their auditors because in a company with the potential to go bankrupt (Putri, 2019; Dyatmiko, 2019), there is a big influence on the breakdown of the work relationship between management and auditors, which can trigger the company to change auditors.

Sinarwati (2010) states that financial difficulties in this study are measured using a DER (debt-to-equity ratio), namely by dividing the value of total assets by total equity. The safe level of DER is 100%. A DER value that is above 100% is an indicator of the deteriorating financial condition of a company.

METHODS

The analytical tool used in this study is logistic regression analysis (losgistic regression) with the help of SPPS 23. The reason for using logistic regression analysis tools is because the dependent variable is dummy (changes KAP and does not change KAP). The normal distribution assumption cannot be fulfilled because the free variable is a mixture of continuous (metric) and categorical (non-metric) variables. In this case it can be analyzed with logistic regression (logistic regression) and because this study tests whether the probability of the occurrence of independent variables can be predicted by independent variables. Then the data analysis used is:

Descriptive statistics are used to provide a description of the data seen from the mean, standard deviation, and maximum-drink.This needs to be done to see the overall picture of the samples that have been collected and meet the requirements to be used as research samples.

The analysis used in this research is logistic regression analysis, which is by looking at the effect of management change on the turnover of accounting firms with financial difficulties as a moderating variable in manufacturing companies. The model used in this research is as follows:

$$\boxed{\text{Ln}\ \frac{P\ (SWITCH)}{1-P\ (SWITCH)} = \text{SWITCH} = \alpha + \beta_1\text{CEO} + \beta_2\text{DER} + \beta_3\text{CEO x DER} + e}$$

Information:

P SWITCNG — 1 = Do *auditor switching*
— 0 = Not doing *auditor switching*

α	= Constant
β_1 - β_2	= KoefisienRegresi
CEO	= PergantianManajemen
DER	= KesulitanKeuangan
e	= *Eror Term*

RESULT AND DISCUSSION

Table 1. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Switch	80	0	1	.28	.449
CEO	80	0	1	.17	.382
DER	80	.01	2.59	.8423	.73992
Valid N (listwise)	80				

Source: Research data, 2020

Table 1, shows the descriptive statistics for each research variable. Based on Table 4.3, the results of the analysis using descriptive statistics on the variable auditor switching (SWITCH) have a minimum value of 0, a maximum value of 1 with an average of 0.28 and a standard deviation of 0.449. The results of the analysis with descriptive statistics on management turnover (CEO) have a drink value of 0, a maximum value of 1 with an average of 0.17 and a standard deviation of 0.382. The results of the analysis with descriptive statistics on financial distress (DER) have a drinking value of 0.01, a maximum value of 2.59 with an average of 0.8423 and a standard deviation of 0.73992.

Table 2. Iteration History

Iteration		-2 Log likelihood	Coefficients		
			Constant	ceo	der
Step 1	1	87,023	-,882	,959	,125
	2	84,629	-,450	1,020	-,097
	3	83,435	,333	,982	-,474
	4	83,285	,675	,970	-,626
	5	83,283	,704	,969	-,637
	6	83,283	,704	,969	-,637

Source: Research data, 2020

Based on table 2, information is obtained that the test was carried out with a value between -2 Log Likelihood (-2LL) at the beginning (Block Number = 1). The initial -2LL value is 94.107. After the two independent variables were entered, the final -2LL value decreased to 83.283. This reduction in Likelihood (-2LL) indicates a better regression model or in other words the hypothesized model is fit with the data.

Table 3. Classification Table

	Observed		Predicted		
			switch		
			0	1	Percentage Correct
Step 1	switch	0	51	7	87,9
		1	18	4	18,2
	Overall Percentage				68,8

Source: Research data, 2020

The predictive power of the regression model for predicting the possibility of companies making a change in KAP is 18.2%. This shows that by using the regression model used, there are 4 companies (18.2%) that are predicted to perform auditor switching from a total of 22 companies that perform auditor switching. The predictive power of the company model that does not change KAP is 87.9%, which means that with the regression model used there are 51 companies (87.9%) that are predicted not to do auditor switching. It can be concluded that the predictive power of the regression model is 68.8%.

Table 4. Logistic regression test results

Logistic Regression Coefficient		B	S.E.	Wald	df	Sig.
Step 1[a]	ceo	1.199	.618	3.375	1	.053
	der	.772	.611	1.595	1	.207
	Constant	-1,870	.611	9.378	1	.002

Source: Research data, 2020

Based on table 4.7, it can be seen that the regression model above means that the company gets a change of management showing a positive coefficient of 1.199 with a significance level (p) of 0.053. Financial difficulties show a positive regression coefficient of 0.772 with a significance level (p) of 0.207, which means greater than 0.05.

Table 5. Coefficient of Determination

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	83,283[a]	,127	,183

Source: Research data, 2020

The value of the coefficient of determination in the logistic regression model is shown by the Nagelkerke R Square value. The Nagelkerke R Square value is 0.183 which means the dependent variability that can be explained by the independent variable is 18.3%, while the remaining 81.7% is explained by other variables outside of this research model (Ghozali, 2011). Table 4.8 below presents the results of the determination coefficient test.

Table 6. Testing the Feasibility of the Regression Model

Step	Chi-square	df	Sig.
1	7.379	8	.496

Source: Research data, 2020

The feasibility of the regression model was assessed using the Hosmer and Lemeshow's Goodness of Fit Test. The test shows the Chi-square value of 7.379 with a significance (p) of 0.496. Based on these results, because the significance value is greater than 0.05, it can be concluded that the model is able to predict the value of the observations

Table 7. Partial test results

Model		B	Std. Error	Beta	t	sig
1	(Constant)	.130	.096		1.345	.183
	ceo	-.169	.152	-.144	-1.113	.269
	der	.122	.104	.116	1.170	.246
	derXceo	.984	.225	.569	4.381	.000

Source: Research data, 2020

Management turnover variable (CEO) has t count -1,113 <1,991 t table. At a significance value of 0.269> 0.05, the change in management has no significant effect on auditor switching (H1 is rejected).

The financial distress variable (DER) has t count 1,170 <1,991 t table. At a significance value of 0.246> 0.05, financial difficulties do not have a significant effect on auditor switching (H2 is rejected).

The indication between management turnover (CEO) and financial difficulties (DER) has a t count of 4.381> 1.991 t table. At a significance value of 0.000 <0.05, the interaction between management change and financial difficulties has a significant effect on auditor switching (H3 is accepted).

Table 8. Simultaneous test results

		Chi-square	df	Sig.
Step 1	Step	10,824	3	,013
	Block	10,824	3	,013
	Model	10,824	3	,013

Source: Research data, 2020

The omnibus test is analogous to the F value in logistic regression testing. The results of the Omnibus Test obtained a Chi-Square coefficient of 10.824 with a significance level of 0.013 (<0.05). The test provides significant results so that it can be concluded that management change and financial difficulties together (simultaneously) have an effect on auditor switching.

CONCLUSIONS

Based on the test results and discussion described in the previous section, it can be concluded that:

1. The test results show that management changes do not have a significant effect on auditor switching, which means that management changes are not always followed by changes in company policies in using the services of a public accounting firm (KAP). This study does not support the results of previous studies conducted by Wijayanni and Januarti (2011), Zadeh and Roohi (2010) and Oktopani (2013).
2. The test results show that financial difficulties do not have a significant effect on auditor switching, indicating that financial difficulties are not a factor causing companies to do auditor switching, perhaps because most of the companies sampled use KAP Non Big Four services, thus changing KAP to use KAP services. The Big Four will in fact further complicate the company's financial condition due to the increase in audit services.
3. The test results show that financial difficulties moderate the relationship between management change and auditor switching, which is accepted, indicating that financial difficulties are a factor. The cause of companies to do auditor switching is followed by changes in company policies in using the services of a public accounting firm (KAP).

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