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THE EFFECT OF AUDIT OPINION, FINANCIAL DISTRESS, AUDIT DELAY, CHANGE OF MANAGEMENT ON AUDITOR SWITCHING

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—Abstract—

There are several factors responsible for shaping the decision of changing auditors besides mandatory regulation. In this paper, the author contributes to the existing body of literature by analyzing the impact of change in management, audit opinion, audit delays and financial distress on the decision of switching auditors. The analysis is carried out in the context of the metal firms listed on the Indonesian stock exchange. Data has been collected against a period of eight years from 2011 to 2018. The sample consists of 88 public manufacturing companies listed on the Indonesian Stock Exchange (IDX). Using logistic regression, the paper highlights the following key findings based on the analysis are as follows. First, audit opinion does not influence auditor switching. Second, financial distress has a negative and significant effect on auditor switching. Third, management change has a positive and significant effect on auditor switching. Finally,

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audit delays have significant effects on auditor switching. The policy implications and the direction for future research is also provided in the paper.

Keywords: Auditor switching, audit opinion, financial distress, audit delay, change management, logistic regression

JEL Classification: G38, M40, M42

1. INTRODUCTION

With the increasing number of registered accountants, firms today have the choice of selecting the same accounting firm or switching to a different one. The decision of going for a change in auditor can be either mandatory or voluntary. The mandatory requirement of switching auditors after a certain period is the consequence of the Enron scandal that came to surface in early 2000. The scandal led to the formation of Sarbaney Oxley Act (SOX), the main objective of which was to ensure the independence of public accountants¹ and to reinstate investors' confidence. With the formation of SOX, other countries also followed suit and in this way, the adoption of the Act had an immediate impact on government policies in other countries, driven also by the needs of emerging markets and economies. As the emerging markets are more prone to manipulation and have low quality institutions, the economies needed to ensure that they have proper policies in place to tackle such issues in the future. In essence, one of the countries that took the scandal seriously and started implementing appropriate acts to prevent such events was Indonesia. For this reason, the Enron scandal led to the Indonesian government making the switching of auditors mandatory. In essence, the requirement of switching auditors is a result of this particular regulatory requirement.

As in any other country, firms listed on the Indonesian Stock Exchange are required to submit an annual financial report, as duly audited by an authorised independent auditor or by an accounting firm. The auditors are supposed to be independent, neutral and have an interest (financial or non-financial) in the firm that he/she is auditing. However, there is a high probability that the audit is not independent and can be influenced by the firm, and therefore, the auditor may chose to overlook some of the issues that can be reported to the central bank. Certainly, it is difficult to rule out any biasedness given the fact that they are paid by the firms themselves for the services.

Many policymakers and industry players consider mandatory rotation requirement of auditors as the solution to the independence problem (Mostafa Mohamed et al., 2013). In fact, the regulation of mandatory rotation is the most apt solution in the eyes of investors as it is meant to assure investors that the reported financial numbers can be

¹ Public accountants are independent parties who are considered capable of bridging the principal's interests and the agent.

trusted and relied upon (Daugherty et al., 2012). This specific regulation also ensures increased competition in the industry as it provides the necessary chance and motivations for the non-big fours to upskill themselves to operate at par with the big fours (Raiborn et al., 2006).

Auditor switching is a change of auditor by a company. Auditor switching is mandatory or voluntary. Internal factors come from within the company itself, but external factors come from its auditors (Oktaviana et al., 2017).

The idea behind auditor switching can be understood through the agency theory. The 'agency problem' in the corporate sector is one of the most researched areas in the literature on corporate finance. The concept comes from the fact that in the corporate sector, shareholders appoint managers as their agents to act in the best interest of shareholders. The agency problem exists because human nature is inherently selfish and hence is the source of conflict. The issue arises because of the existence of information asymmetry implying that both the parties do not have the same level of information. However, this can be overcome by engaging a third party and in this case, these are auditors. The auditors conduct a strict scrutiny of managers and hence ensure that the objectives of the managers are aligned with that of the shareholders.

Auditor switching can either happen in mandatory or voluntary mode. Auditor switching is mandatory because of government regulations; however, sometimes a firm can change auditors on a voluntary basis without any particular reason. At times, the decision of switching the auditors can also be due to factors such as change in management, financial duress, firm size, audit opinion etc.

In fact, the extant literature analyzes the role and impact of change in management, financial duress, firm size and audit opinion as the deciding factors in switching auditors. However, the results are far from conclusive and there is hardly any consensus in existing literature with regards to the most important factors behind the auditor switching.

Based on the available literature, findings indicate that financial distress plays an important factor in the decision of auditor switching (Setyoastuti, 2018). However, these results are in contradiction with that results reported by Ismaya (2017) and Luthfiyati (2016) which, they point to a negative link between the two.

According to Salim et al. (2014), partially, audit opinion has no significant effect on auditor switching. While research by Darmayanti (2017) states that financial distress does not affect Auditor Switching. Ismaya (2017) argues that a change in management affects auditor switching. Research from Kasih et al. (2017) claims that audit delay partially has a positive but insignificant effect on auditor switching. The reason researchers use manufacturing companies listed on the Indonesian Stock Exchange is because manufacturing companies have more companies compared to other sectors.

Therefore, the samples studied are diverse and it is possible to explore and study the influence of all variables.

Based on the contradictory results reported in the literature, the debate is revisited for public listed firms in the manufacturing sector in Indonesia. The data is collected for a period of eight years that spans from 2011 to 2018. Specifically, in this study, using a sample of 88 Indonesian listed firms in the manufacturing industry, the decision of switching auditor is analyzed. As the dependent variable under study is a binary number, the use of a traditional regression method will be unreliable as it violates the assumptions of normality homoskedasticity and the linearity. Thus, the logistic regression approach is used for the estimations of the models. The study results present the following key findings: first, the findings of the study indicate that audit opinion does not affect the decision of changing the auditor. Second, financial difficulties and audit delays have a negative and significant impact on auditor turnover. Finally, management changes have a positive and significant effect on auditor turnover. These findings have several implications for policymakers and industry players and other stakeholders in the corporate sector. As is the case with any research, this research is not perfect and has several shortcomings and limitations and therefore, the paper also sheds light on the possible directions for future research, and in doing so, provide details on the possible avenues for future theoretical and empirical work on the subject. One of the most interesting premises of future direction of research that is highlighted in the study is the examination of Shariah compliant firm's decision of auditor switching as well as if these factors are different from their conventional counterparts. The Shariah compliant firms are expected to respond differently to different factors that are explored in the paper as there are fundamental differences between Shariah compliant firms and the non-Shariah compliant firms. One of the basic differences between them is business activities which is known as the qualitative criteria of Shariah compliant firms. Second, Shariah compliant firms have to pass through certain quantitative criteria. These quantitative criteria are liquidity, debt and the non-permissible income and these firms are not supposed to cross the thresholds that are prescribed for these parameters.

2. LITERATURE REVIEW

The agency theory proposed by Jensen et al. (1976) is the first such theory that acknowledges the conflict between principals (shareholders) and agents (managers). The relationship between the principals (shareholders) and their agents (managers) is in the form of a contract whereby agents are contracted to work in the best interest of their principals. They are paid in monetary compensation for their services. However, the contract is considered to be efficient only when both the parties in the contract do not engage in activities that can potentially lead to conflict.

The shareholders entrust the management to run the firm in the best interest of firm and report the activities periodically. The shareholder expects operations to run as efficiently and smoothly as possible. However, the agents have their own agenda and have the tendency to extract as many resources from the firm as possible. In order to overcome the agency issues in the corporate sector, it is necessary to involve a third party which is completely independent. In that way, the role of auditors becomes key as they provide their expert opinion on the reliability of financial reports prepared by the firms and their long term sustainability.

As mentioned above, the agency issues arise because of the principal and the agent mechanics in the corporate setting. The theory (agency theory) purports to explain the behavioral aspects of managers (agents) and the shareholders (principals) and is deemed to be one of the most important issue-areas in the corporate finance space, both, from the academic and industrial perspectives. The theory posits that the agents as well as the principals engage in activities that can maximize their gains. Its common knowledge and understanding that managers engage in activities that maximize their interest even if it adversely impacts on the firm value.

The activity of switching auditor can be directly linked to the agency theory. The responsibility and the authority of principals and the agents are governed by the binding contract. As per the agency model, the activities can not be released from both the parties as the agents and the principals have their own bargaining power with regards to their specific role, position and function.

Agency theory seeks to understand and resolve conflicts between managers and company owners (Novelita, 2016). Third parties and mediators can resolve differences in interests that may occur; the third party being independent auditors (Abdul-Baki, 2019). Management requires auditors' services to be accountable for the financial statements presented; therefore, shareholders need an auditor to ensure the integrity of the financial information submitted by a company (Sari, 2018).

The relationship between agency theory and auditor switching is the auditor's duty as an independent third party particularly engaged or hired to resolve conflicts between the agent and the principal, and to provide an opinion on the fairness of financial statements.

2.1 Auditor Switching

Auditor switching is a change of auditors carried out by the company. There are two types of auditor switching, namely voluntary and mandatory. If the change of auditors occurs voluntarily, the client should be concerned. If there is a voluntary change of auditors, the auditor will be the center of attention (Junaidi et al., 2016). Farida (2018) state that public accountants are recognized as professionals that have a major role in the Indonesian economy. These public accountants have an instrumental role in

improving the quality and credibility of financial reports and increasing corporate governance entities' goodness.

The switching of auditor is carried out to comply with the mandatory rotation policy and also to maintain the auditor's independence and autonomy. As per the regulation, an accounting firm can provide audit services for a maximum of 6 years whereas the accountant can only conduct the audit for maximum of three consecutive years. Therefore, every three years, the accountant needs to change whereas every six years, the accounting firm needs to change.

2.2 Audit Opinion

Audit opinion refers to an individual auditor's opinion or statements. The manager of the company believes that bad opinions will significantly affect the stock price and financing capacity. In the end, qualified opinions will most likely influence a company's decision to extend the contract to the auditor (Salim et al., 2014).

According to Dwi Wijayani et al. (2011), there are five main audit reports issued by auditors, namely:

1. Unqualified opinion report
2. Unqualified opinion report with explanatory language
3. Qualified opinion report
4. Adverse opinion report
5. The report does not express an opinion (disclaimer of opinion report)

The audit opinion is the auditor's statement on the fairness of the financial statements of the audited entity. This fairness concerns materiality, financial position, and cash flow. There are different types of Audit Opinions. These are given for management assertions from clients or companies that are audited grouped to be unqualified, reasonable exceptions, not giving opinions, and not fair. According to Patra et al. (2016), there are five types of opinions, namely: unqualified opinion, unqualified opinion with additional explanations, reasonable opinion with exceptions (qualified opinion), unnatural opinions (adverse opinions), and statement of a disclaimer. The opinions contained in the audit report are particularly important in the audit process or other attestation processes because the opinion is the main information that can be relayed to the user of information about what the auditor did and the conclusions he reached.

The opinions of auditors are a the statement of the fairness of the financial report of the audited entity. The judgement of fairness encompasses materialty, cashflow and

financial statements. The auditors' statement provides assurance to the clients and the investors as to whether the numbers provided can be relied upon and trusted or not.

There are five main types of opinions: unqualified opinion, unqualified opinion with additional explanations, reasonable opinion with exceptions (qualified opinion), unnatural opinions (adverse opinions), and statement of a disclaimer. The expressed opinions provided in the audit report are a key part of the audit process as the expressed opinion is the main information that is conveyed by the auditors to the stakeholders. Moreover, in view of these opinions, investors base their decision whether to deal with the audited entity or not.

2.3 Financial Distress

Financial distress is a financial weakness where the company is in an unhealthy financial condition and is worried about going bankrupt (Sari, 2018). Meanwhile, according to Kistini et al. (2014), financial distress is when a company experiences financial difficulties (Sari, 2018).

In other words, financial distress is essentially a situation where a company finds it difficult to meet its financial obligations (Ruroh et al., 2016). As per the literature, a high amount of debt can have a serious burden on the firms' profitability as most of these income would go into serving the existing debt and eventually can lead to distress (Khasanah et al., 2013; Suparlan, 2010). In the worst case scenario, continued financial distress can even lead to bankruptcy.

Firms experiencing financial distress tend to change the auditors as compared to the firms which are doing well. This tendency can be attributed to the fact that firms in distressed situations involve auditors who are supposed to be of a high level of integrity in order to prove independence of the financial statements and reports. This would send a positive signal to the investors and other stakeholders.

Many studies have used debt to equity ratio to assess the level of financial distress. A high debt to equity ratio implies higher chances of financial distress.

Financial distress entails conditions in which companies experience financial problems, which is measured using the DER (Debt to Equity Ratio) ratio (Darmayanti, 2017).

$$DER = \frac{\text{Total Liabilities}}{\text{Total Equity}} \times 100\%$$

2.4 Audit Delay

Timeliness is the key qualitative trait of a financial report that essentially requires the firm to make financial information available to the users as quickly as possible. Delayed reporting decreases the quality of information and its relevance to the investors. The recognition of the fact that audit length may be one of the key factors influencing the announcement of earnings has contributed to increased research interest on the topic of audit delay (Carslaw et al., 1991).

Audit delay is the number of days it takes for an auditor to produce an audited report. It starts from the closing date of the company's financial statements on December 31st until the audit report is signed.

The literature, both theoretical and the empirical, argues that the timing of financial reports can have serious implications on a company's value. In case of audit delays, the stakeholders would search for the information through alternative sources. The delay in reporting have found some investors to gain insider information and make use of these information to gain undue advantage at the expense of uninformed investors (Bamber et al., 1993).

2.5 Change of Management

Change of management is the change of CEO or president of a company as a result to the general meeting of shareholders (GMS) or someone quitting on their own accord. Change of management will make it more likely to bring about new policies in changing auditors who are considered to have a good relationship with the company (Oktaviana et al., 2017). Meanwhile, according to Alisa et al. (2019), management change is the change of the president, or CEO, of the company who has full power to take control of the company. According to Kistini et al. (2014), management change occurs because it changes the board of directors. If the board of directors is changed, either the director or the commissioner can change its policy, which is the auditor switching.

3. HYPOTHESIS DEVELOPMENT

The rotation of auditors are important for all stakeholders as it ensures independence and makes it less risky for the investors to make any decision. The aim of this research is to find the key driving factor behind the decision of switching an auditor. In this section, the hypothesis is developed between the dependent variable and the key independent variables. In other words, this section outlines the various hypotheses to be tested during the course of the current study.:

3.1 The Influence Between Audit Opinion and Switching Auditor

The audit opinion is the auditor's opinion or a statement of an assertion issued by an auditor. Managers believe that the opinions issued by auditors will greatly affect share prices and financing capacity. These qualified opinions will most likely influence a company's decision to terminate a contract with the auditor (Salim et al., 2014).

According to Salim et al. (2014), partially the audit opinion does not significantly affect auditor switching. However, Darmayanti (2017) believes that audit opinion affects auditor switching.

$H01 = B1 = 0$ has no effect on auditor switching.

$H1 \neq B1 \neq 0$ has an influence on auditor switching.

3.2 Effects of Financial Distress on Auditor Switching

Financial distress is a financial weakness that refers to a company's inability to meet its obligations. A company that experiences insolvency fears it will experience bankruptcy (Sari, 2018). According to Winata et al. (2017), financial distress does not significantly affect auditor switching.

$H02 = B2 = 0$ has no effect on auditor switching.

$H2 \neq B2 \neq 0$ has an influence on auditor switching.

3.3 The effect between Audit Delay and Auditor Switching

The results of Ruroh et al. (2016) show that financial audit reports that take too long to complete will delay the publication of financial reports. This is expected to have an impact on auditor switching.

The study corroborates findings from previous researches (Kasih et al., 2017), which show that audit delay has a positive but insignificant effect on auditor switching.

$H03 = B3 = 0$ has no effect on auditor switching.

$H3 \neq B3 \neq 0$ Affects auditor switching

3.4 The Influence Between Management Change and Auditor Switching

According to Raiborn et al. (2006), change in management follows changes in policies in the field of finance, especially in terms of selecting the accounting auditor. It bears to note that the management is looking for a qualified auditor who can comply with company regulations.

According to Susanto (2018), management change does not affect auditor switching. The study results reinforce previous research findings (Darmayanti, 2017) which state that auditor switching does not affect auditor switching.

$H04 = B4 = 0$ has no effect on Auditor Switching.

$H4 \neq B4 \neq 0$ has an effect on Auditor Switching.

4. RESEARCH METHODS

The research approach used is a quantitative one by employing the Explanatory Research method.

4.1 Definition of Operational Variables

Variables are attributes or objects with a relationship with one another or one object with another object (Sugiyono, 2017).

a. Auditor switching

Does a client company carry out the change of auditors? The variable uses a Dummy measurement. If a company is going to change auditors, it is given code 1. If the company does not alter auditors, then it is coded 0 (Ismaya, 2017).

b. Audit opinion

Is an opinion or statement given to the auditor's client company based on the financial statements' fair auditing? The variable is measured using a Dummy. If the company gets fairness without exception, it is coded 1. If the company receives an unbiased opinion without meeting the requirements, it will be given code 0 (Darmayanti, 2017).

c. Financial distress

It alludesto financial weakness coupled with an anticipated fear of the company going bankrupt. This variable is measured using the solvency ratio. The ratio is represented by the DER (debt to equity ratio). It is calculated by comparing total debt and total equity. The formula is as follows:

$$DER = \frac{\text{Total Liabilities}}{\text{Total Equity}} \times 100\%$$

d. Audit delay

Represents the number of days taken in auditing the financial statements required by the auditor, starting from the date of the book closing until when the report is signed by the auditor. It indicates the number of days between the end of the company's fiscal year and

the audit report date. The measurement is usually used to measure delay in the auditing process (Kasih et al., 2017).

e. Change of management

Is a change of CEO/prominent director due to the general meeting of shareholders (GMS)? This variable is also measured using a dummy. If the company changes management, it is coded 1. On the other hand, if the company does not change management, it is coded 0 (Kasih et al., 2017).

4.2 Population and Sampling Techniques

In this paper, secondary data pertaining to 88 manufacturing companies listed on the Indonesian Stock Exchange (IDX) is used. The sample spans a total of eight years and has been collected for the period from 2011-2018.

5. METHODOLOGY

The main objective of this research is to predict propensity to change auditors in response to several factors that are included in the analysis. The explained variable in the analysis is binary in nature and expected to have two outcomes: a) 1, firm performs an audit switch and b) 0, if a firm does not perform an audit switch.

The variable predicts the probability of a firm switching auditor. As the dependent variable can only take two values, it will be inappropriate to employ traditional regression method, be it panel regression, cross-section or Ordinary Least Squares (OLS) to estimate the binary variables (Liu, 2015). The traditional regression method basically violates the following underlying assumptions, that is, normality (the binary variables instead of following normal distribution pattern follow Bernoulli distribution), homoscedastic errors (the variance of errors of dependent binary variables vary across the predictors' value) and the linearity (the association between a binary (dependent) variable and exogenous is found to be non-linear).

As the goal behind using a dependent binary variable is to estimate probabilities, mathematically speaking, the expected or the predicted value of these variables will be 0 and 1. In case of traditional regression method, the predicted value will not lie between 0 and 1 as it should. In some cases, it might be negative, and in some, more than 1. Such results are not valid as they violate the basis of the probability theory. Thus, the correct modelling approach here will be to use the logistic regression model. The model, also called multivariate logistic model, is presented as.

$$\text{Logit}(\pi) = \alpha + \beta_i X_{it} \quad [1]$$

In Equation 1, π is probability of outcome variable taking the value of 1. α is the intercept whereas β_i is the coefficients of logit regression and X_{it} are the independent variables.

The binary dependent variable is not estimated directly, rather it is estimated using the logistic transformation of the probability of success.

6. RESULTS AND DISCUSSION

Table 1 shows that the Chi-square is 22.444 with a significant value of 0.004, which is less than 0.05. Therefore, hypothesis 0 is rejected because there is a significant difference between the model and its observation value. It means that the model's best fit is not suitable because it cannot predict the observation's value.

Table 1: Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	22,444	8	0.04

Table 2 shows the coefficient of determination in the Nagelkerke R Square column of 0.315. It proves that the audit opinion, auditor reputation, and audit fee variables affect 31.5% of auditor switching. Other variables outside the research model influence the remaining 68.5%.

Table 2: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	61,884a	.360	.527

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than 0.001.

Table 3: Classification Table

	Observed		Predicted		
			auditor switching		Percentage Correct
			.00	1.00	
Step 1	auditor switching	.00	58	7	89.2
		1.00	6	17	73.9
	Overall Percentage				85.2

a. The cut-off value is .500

Based on the Table 3, it shows that the effort to do auditor switching is 85.2%. With the regression model, there are 58%. The 89.2% of the companies did not change auditors. On the other hand, 17 companies (73.9%) are estimated to do auditor switching from 11 companies that do auditor switching.

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Table 4: Variables in the Equation

		B	SE	Wald	Df	Sig.	Exp (B)	95% CI for EXP (B)	
								Lower	Upper
Step 1a	X1	-.13	.73	.03	1	.85	.87	.20	3.68
	X2	-.78	.36	4.62	1	.03	.45	.22	.93
	X3	-.15	.05	7.75	1	.00	.85	.76	.95
	X4	3.86	.88	18.99	1	.00	47.56	8.37	270.13
	Constant	11.24	4.34	6.69	1	.01	76752.22		

a. variable (s) entered on step 1: X1, X2, X3, X4.

The equation is obtained as follows:

$$AS = 11.248 - 0.139OA - 0.781FD - 0.156AD + 3.862PM + e \quad [2]$$

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6.1 The Effect of Audit Opinion on Auditor Switching

In the Equation 2 the regression results of the Logistic regression approach. The numerical values are the estimated coefficients of constant term and the independent variables. The coefficient and its interpretation is discussed below in more detail.

The first hypothesis in the study concerns an auditor's opinion that is independent of auditor switching. The regression coefficient value obtained from the audit opinion variable is -0.139 with a significant value of 0.850. At $\alpha = 5\%$, the variable has no significant effect because the significant value is $0.850 > 0.05$.

The results of the study corroborate findings of Ismaya (2017), Oktaviana et al. (2017), Yinata et al. (2017) who state that audit opinion has no relationship to auditor switching. If the company gets an opinion other than unqualified, the company does not change auditors.

As mentioned above, the findings reveal that the audit opinion is insignificantly related with switching an auditor. This implies that the auditor opinion is not necessarily followed by auditor switching. This could be due to the fact that after every rotation, the firm should issue new guidelines and the procedures on how the reporting should be done. As far as the auditors are concerned, they take time to get use to the company's culture and their operations. Therefore, it is highly unlikely that a firm switches the auditor unless it gets an unqualified opinion from the auditor. However, the firm would like to prove themselves better in terms of their accounting and the operations reporting side by publishing reports which are largely free from any kind of material misstatement. Thus, it can be concluded that firms do not engage in auditor switching unless they get

an unqualified opinion. Therefore, there are additional factors other than auditor opinion which influence the decision of changing the auditors.

The findings are not in line with the [Srimindarti \(2006\)](#) who argue in favour of a positive link between audit opinion and the auditor switching i.e. audit opinion has an effect on auditor switching. However, it is in line with the work of [Augustyvena et al. \(2017\)](#) and [Pratini et al. \(2013\)](#) who demonstrate an insignificant link between audit opinion and auditor switching.

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6.2 The Effect of Financial Distress on Auditor Switching

The second hypothesis in the study is financial distress, which has a negative effect on auditor switching. The resulting value is -0.781 with a significant value of 0.032. At $\alpha = 5\%$ the coefficient is significant because the significance value is $0.032 < 0.05$.

The results of the current study are in line with the research of [Ruroh et al. \(2016\)](#), [Farida \(2018\)](#), and [Salim et al. \(2014\)](#). They state that financial distress has an influence on auditor switching. Companies experiencing financial difficulties will tend to do auditor switching to maintain credibility and trust in creditors and shareholders.

Firm experiencing financial distress tend to change the auditors as compared to firms which are doing well. This tendency can be attributed to the fact that firms in distressed situations involve auditors who are supposed to be of a high level of integrity to prove independence. This would help the company send a positive signal to investors and other stakeholders.

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6.3 The Effect of Audit Delay on Auditor Switching

The third hypothesis in the study is that audit delay affects auditor switching. The resulting value of the audit delay variable is -0.156 with a significant value of 0.005. At $\alpha = 5\%$, the value is significant because the significant value is $0.005 < 0.05$.

The results of the study are in line with the research of [Ruroh et al. \(2016\)](#), [Kasih et al. \(2017\)](#), which states that audit delay affects auditor switching. Delay in publishing financial reports may cause the company to change its public accounting offices because it will create suspicions about the financial reports. In general, companies wish to avoid audit delays in the future.

The findings indicate that the audit delays could potentially lead to change in auditors because it would give out the wrong signal to the market. To avoid giving any wrong signal to the market and to maintain investor confidence and the firm's own credibility, firms tend to go for a change in auditors.

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6.4 The Effect of Change of Management on Auditor Switching

The fourth hypothesis is that management change affects auditor switching. The resulting coefficient value is 3,862 with a significant value of 0,000. At $\alpha = 5\%$, the coefficient is significant because the significance value is $0.000 < 0.000$

The results of this study are in line with the literary work of Ismaya (2017), Ruroh et al. (2016) which states that management change influences auditor switching. It is because the change in management (CEO) by the company is sufficient to lead the company to perform auditor switching.

Generally speaking, the newly appointed management team is expected to implement new accounting policies and procedures and hence may wish to work with the auditors other than the previous auditors and hence, a positive association is found between change in management and auditor switching.

To test the validity and the robustness of our results, the paper performs a robustness test. As we select the Global Financial Crisis to have matched the results, we remove the years 2008 and 2009 from the collected sample. The results are robust and in line with the full results.

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Table 5: Variables in the Equation

	B	SE	Wald	Df	Sig.	Exp (B)	95% CI for EXP (B)		
							Lower	Upper	
Step 1a	X1	-.09	.82	.04	1	.41	.7	.10	3.76
	X2	-.48	.20	3.78	1	.02	.421	.19	.95
	X3	-.17	.03	6.07	1	.00	.86	.6	.80
	X4	1.08	.85	11.00	1	.00	42.39	8.37	191.06
	Constant	7.02	3.02	5.11	1	.00	72912.11		

a. variable (s) entered on step 1: X1, X2, X3, X4.

7. CONCLUSION

Besides the mandatory regulations that entail switching of auditor, several other factors can also influence the decision of a firm to replace its auditors. For instance, one of the Indonesian investment firms received the suspension order for the trading of its shares in the Indonesia Stock Exchange (IDX) because they were accused of a number of accounting issues in the annual report. This led to a change in the firm's auditors and the accountant. Therefore, in this case it was the quality of the published annual statement that was problematic. In this way, there can be many other reasons as to why a firm will switch auditor other than mandatory requirements.

To ensure independence, auditors are required to maintain professionalism throughout the audit process and do their best to ensure that the opinion expressed by them can be trusted. This is why it is not advisable to appoint auditors who share a close association with the firm as this can potentially undermine the independence of auditors and might lead to opinions that are biased and do not present a fair judgment or assessment of the annual reports. For this reason, it is imperative to regulate the whole process and make it mandatory to switch auditors. This is the reason, Indonesia implemented a regulation which requires them to change the accounting firm after every six years whereas individual auditors are supposed to be attached with a firm for a maximum period of three years.

As mentioned above, there are additional factors behind the decision of changing auditors besides mandatory regulation, therefore it is interesting to explore the determinants. This is certainly not the first study on the topic in Indonesia but there is no consensus on the subject in existing literature. For instance, [Pratini et al. \(2013\)](#) argue that the change in management leads to switching in auditor. However, in [their research article, Augustyvena et al. \(2017\)](#) maintain that the change in management does not have any significant influence over the decision of switching auditors.

Moreover, researchers have also tried to link the decision to change auditors to factors such as auditor opinion, audit delay and financial distress. Most of the research papers on this topic provide inconclusive evidence. For instance, firms are expected to change the auditors in case they receive a qualified opinion. Some of the empirical work demonstrates a positive link between auditor switching and auditor opinion. However, there is no evidence to indicate that the firm will get a better opinion after switching auditors ([Augustyvena et al., 2017](#)).

Similarly, financial distress is one of the other important variable that has received considerable attention in the literature. Past researchers have investigated the link between decision of switching auditors and the firms' financial health, that is, financial distress. Previous literature indicates that financial distress is more likely to lead the firm to change auditors as opposed to firms that are doing better in terms of their financial health. The reason as to why firms in financial distress tend to change the auditor as they want to send the signal to the investors that all is well and that they tend to prefer the auditors with high level of independence. The selection of highly independent auditors instills confidence in the investors and the markets. Therefore, the firms in financial distress will have auditors who have shorter stints as compared to firms with better financial figures.

Through this study, we enrich the literature by analyzing the impact of change in management, audit opinion, audit delays and the financial distress in the decision of switching auditors. The analysis is carried out in the context of metal firms listed on the

Indonesian stock exchange. The data period spans for eight years from 2011 to 2018. The sample consists of 88 public manufacturing companies listed on the Indonesian Stock Exchange (IDX). Given the fact that the binary dependent variable is used, the traditional multivariate regression is not used. Instead, the approach of logistic regression is used to estimate the model. The use of logistic regression is more appropriate in this case as the multivariate regression in this particular case would not make sense. In other words, multivariate regression in case of binary dependent variables violates the key underlying assumptions of normality, homoskedasticity and linearity such that the results obtained from these regression will be biased and unreliable.

The key findings of the analysis are as follows. First, audit opinion does not influence auditor switching. This is in line with findings in existing literature. As mentioned before, the findings imply that the auditor opinion is not followed by the auditor switching. This can be attributed to the fact that there is a cost attached to changing the auditor. Hence, a firm is very unlikely to change the auditor unless they get an unqualified opinion from the auditor.

Second, financial distress has a negative and significant effect on auditor switching. This is in line with what researchers have argued in the past. These findings are not surprising as battling financial crunch is expected to lead to the appointment of auditors who are considered to be of high integrity and independence. This is to ensure that the firm win back the confidence of the investors and other key stakeholders. In other words, this is expected to send a positive signal to the market which may ultimately help the firm in building credibility.

Third, management change has a positive and significant effect on auditor switching. One of the reasons as to why new management will appoint a new auditor is because the newly appointed management team is expected to implement new accounting policies and procedures, and therefore, may wish to work with auditors at the previous organisations; hence, there is a positive association between change in management and the auditor switch.

Finally, audit delays are found to have significant effects on auditor switching. These findings are in line with the work of Ruroh et al. (2016), Kasih et al. (2017), whereby audit delays are expected to influence auditor switching. This is not unexpected as delays in publishing financial reports can send wrong signals to the markets and key stakeholders who might start to speculate that something fishy is happening. To assure the market and other key stakeholders, a firm may be forced or persuaded to take the decision of changing its auditor.

The findings indicate that the audit delays could potentially lead to change in auditors because it would send out the wrong signal to the market. To avoid giving any wrong

signal to the market and in order to maintain investor confidence and the firm's own credibility, firms tend to go for change in auditors.

This research seeks to investigate into the issue understudy and in doing so, add to the extant literature. However, it bears to note that the current research has a number of limitations and future research is expected to look into several issues. First, this research is limited to the manufacturing sector only and therefore, future research should look into other crucial industries. Second, future research can also investigate other additional variables such as firm size, audit tenure, auditors' quality etc. Third, given the fact that Indonesia has progressed a lot in the Islamic finance space and has a significant Shariah compliant capital market, it is potentially meaningful to analyze the listed firms by differentiating between Shariah compliant and the non-Shariah compliant firms. The results would be interesting to analyze as Shariah compliant firms are not only different from non-compliant firms qualitatively but they are also different based on some of their financial ratios such as leverage and liquidity. As they are different qualitatively as well as quantitatively, the findings are expected to vary across both kinds of firm.

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