

The Differences in Factors Affecting Auditor Switching in Indonesia and Malaysia

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Abstract

The purpose of this study was to determine differences in the factors that influence auditor switching in Indonesia and Malaysia. Auditor switching is a way by the government to maintain auditor independence, which is regulated by the Republic of Indonesia's Minister of Finance Regulation Number 20 of 2015 concerning the Practice of Public Accountants, while in Malaysia is regulated by the Malaysian Accountant Institute. The variables used in this study are management change, audit opinion, financial distress and company size. The data is used in secondary data manufacturing companies in Indonesia and Malaysia that obtained from Osiris, with a purposive sampling technique method. So, that a sample of 81 manufacturing companies in Indonesia and 131 companies in Malaysia were obtained in 2017. The data analysis technique used was logistic regression analysis, because measurement of auditor switching was dummy variable. The results of this analysis, The variables that influence auditor switching in Malaysia are management change and audit opinion that influence auditor switching, while financial distress and company size have no effect on auditor switching. The variables that influence auditor switching in Indonesia are financial distress, while the management change variables, audit opinions, and company size have no effect on the auditor switching

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1. Introduction

The company has an obligation to report financial statements that are used by investors and creditors in making decisions. The company's financial statements must be examined by an independent party, to get an opinion about the reasonableness of the financial statements in order to gain trust from the public. Therefore, the role of public accountants is very important, so that competition between public accounting firms is greater because of their much-needed services.

Ginting & Fransisca (2014); Lumban Gaol & Sitohang (2020) and Nouri & Parker (2020) stated that changing Public Accounting Firm (PAF) is a transition carried out by a company to move from

one PAF to another PAF. A change of PAF is a change of auditor or PAF carried out by a company in providing audit assignments for financial reports. PAF change is a change of PAF whose implementation is carried out in accordance with the regulations set by the government, while a voluntary change of PAF is a change made by the company outside the regulations in force in each country.

Regulations regarding KAP changes differ from one country to another because they are regulated by each country's regulations. Replacement of KAP in Indonesia is regulated by Government Regulation of the Republic of Indonesia Number 20 of 2015 concerning public accounting practices which stipulates that audit services for financial information be provided for a maximum of 5 consecu-

tive years (Peraturan Pemerintah, 2015). Change of auditors in Malaysia is regulated by the Malaysian Institute of Accountants (MIA) over a 5 year period (Salleh & Jasmani, 2014; Safriliana et al., 2018; and Suttipun, 2021). PAF changes also occur in East Asian countries, as stated by (Bandyopadhyay et al., 2014; Kalanjati et al., 2019; Yefni, 2021; and Salehi et al., 2022) that in China, auditor changes are mandatory every 5 years (Safriliana et al., 2018).

Indonesia and Malaysia have experienced problems related to the integrity and independence of public accountants in conducting their audit assignments. In 2009, in Indonesia there was cash on the company Raden Motor with its independent auditor changing the financial statements to get a loan from the bank, this of course made the independence of auditors, especially in Indonesia, its integrity questioned.

In 2007 there was also fraud in Malaysia concerning auditor independence, namely the Transmile Group Berhad company. The revenue of the company's from 2004 to 2006 was reported to be too large. One of the factors causing this to happen is the recognition of its independent auditors that they have entered into a work engagement before the company made the initial public offering, for more than a decade (Abdullah et al., 2012); (Al-Absy et al., 2019);

. The problem of auditor independence occurring in Indonesia and in Malaysia has made the governments of Indonesia and Malaysia more assertive and formulated rules regarding the change of auditors so that the integrity of auditors is maintained.

The Government of Indonesia regulates the obligation to auditor switching to increase auditor independence, by issuing Decree of the Minister of Finance of the Republic of Indonesia Number 359/KMK.06/2002, which is changed to Decree of the Minister of Finance of the Republic of Indonesia Number 359/KMK.06/2003. In 2008 the regulation was perfected by Regulation of the Minister of Finance of the Republic of Indonesia Number 17/PMK.01/2008 concerning Public Accountant Services. The regulation was revised again with the issuance of Regulation of the Minister of Finance of the Republic of Indonesia Number 20 of 2015 concerning the Practice of Public Accountants, which states that: "Providing audit services on historical financial information as referred to in article 10 paragraph (1) letter a of an entity by a Public Accountant limited to a maximum of 5 (five) consecutive book years (article 11 paragraph 1)". In this

regulation it is explained that the public accounting firm is no longer limited to the time period in auditing a company. In 2017, the Financial Services Authority issued an additional regulation namely the Financial Services Authority Regulation Number 13/POJK.03/2017 which states that: "The Party Conducting Financial Services Activities must limit the use of audit services on annual historical financial information from the same Public Accountant at the most the length of the audit period is for 3 (three) financial years in a row (Article 16 paragraph 1). This regulation applies to companies providing financial services such as capital markets, banking and non-bank financial institutions. The decision of the Financial Services Authority is expected to tighten supervision of Public Accountants who conduct audits of financial service providers (Gogo, 2017).

In Malaysia, in form letter 27/2013, the Malaysian Institute of Accountants (MIA) section 290.151 in research Salleh and Jasmani (2014) implies that an individual may not be the main audit partner for more than 5 (five) years with regard to Public Interest Entity audit. Malaysia is not excluded from the destruction of audit independence which led to the collapse of companies such as the Transmile Group (Rachagan & Kuppusamy, 2013; Salleh & Jasmani, 2014). Although the governments of Indonesia and Malaysia have made rules regarding mandatory auditor changes, companies still frequently make voluntary auditor changes.

The results of previous researchers there are several factors that influence auditor switching. Audit opinion and financial distress significantly influence auditor switching, while company growth, management change, and company size do not affect auditor switching (Sinarto & Wenny, 2018; Puspaningsih & Analia, 2020; Habib et al., 2020; Khalid et al., 2020; and Viana et al., 2022). The results of research conducted by Handini (2017) stated that company size influences auditor switching, while audit fee, going concern audit opinion, financial distress, institutional ownership, and company complexity do not affect auditor switching, while the results of Ansar (2017) study state that only audits tenure which significantly influences auditor turnover. Lianto (2019) in his research results said that audit tenure and auditor reputation are factors that influence auditor switching. Oktaviana et al. (2017) in her research results suggested that the factors that positively influenced auditor switching were auditor firms size, audit opinion, and management change.

Simangunsong and Hakim (2018), factors that influence auditor switching are management changes, variables that have no effect are company size and financial distress. Sari (2018) in her research stated that audit opinions are not only unqualified, but also significantly influence auditor switching. Puspayanti and Saputra (2018) state, only financial distress has a significant effect on auditor switching, whereas in the results of Haryanto (2018) audit opinion and company complexity affect auditor switching. This is different from the results of research conducted by Munfatehah and Afifudin (2018) management changes, audit opinion, and financial distress have no significant effect.

Auditor switching is important to maintain auditor independence, so rules are made about auditor switching. Change of auditors that occurred in Indonesia amounted to 64%, and in Malaysia amounted to 44% (Safriliana et al., 2020). In connection with the rules on auditor switching, it is interesting to study if the change occurs outside the provisions or existing rules. Furthermore, from several previous research results, there are several factors that cause auditor turnover, and the factors used as variables in this study are management turnover, audit opinion, financial distress, and company size because these four factors have different results. Several researchers and whether there are differences in Indonesia and Malaysia are interesting things to study. The purpose of this study was to determine differences in the factors that influence auditor switching in Indonesia and Malaysia.

2. Hypothesis Development

Agency Theory

According to Jensen and Meckling (1976), this theory describes the contractual relationship between the agent (management) with the principal (shareholders) to perform a service member in authorize the agent to make the best decisions for the principal. Agency theory states that conflicts can be minimized by using an independent third party, namely an independent auditor. Independences to shareholders in order to gain assurance that the financial statements showing, the company can be trusted to be the basis for making decisions and the management's accountability for financial statements that they present to those who need trustworthy (Mulyadi, 2016). Safriliana, et.al (2020) state of differences in interests between agents as company management and principals as capital owners can occur in carrying out the agency rela-

tionship. The auditor's role can minimize conflicts of interest between agents and principals.

Regulations on Auditor Switching

Indonesia and Malaysia regulate the audit engagement period for a Public Accountant for a maximum of 5 consecutive financial years, Indonesia regulates in the Republic of Indonesia Presidential Regulation Number 20 of 2015 concerning Public Accountant Practices while Malaysia regulates it in Circular 27/2013, Malaysian Institute of Domestic Rules Accountants (MIA) 2013 section 290.15.

Factors affecting auditor switching in Indonesia and Malaysia

In the results of research on auditor switching in Indonesia, there are different factors that influence companies to conduct auditor switching, these factors have an influence and some have no effect on auditor switching. One of them according to Munfatehah and Afifudin (2018) the audit opinion variable partially does not affect auditor switching, but in the results of the study Salleh (2014) states that audit opinion has a significant effect on auditor switching. This shows that the factors that determine companies to conduct auditor switching in each country may not necessarily have the same results. Variabel audit opinion turns out to have a different result in Indonesia and Malaysia.

H₁: There are different factors that affect the auditor switching in Indonesia and Malaysia.

Relationship of Management Change with Auditor Switching

According to the research of Sinarto and Wenny (2017) management change does not significantly influence auditor switching, so that even if there is a change of management, it will not necessarily be accompanied by an auditor switching. However, research conducted by Oktaviana (2017) simultaneously changes management significantly influencing auditor switching, consistent of research conducted by Simangunsong and Hakim (2018) management change has a positive effect on auditor switching, which also shows that the results of the General Meeting of Shareholders are in accordance with the desire of the new management to approve the replacement of auditors.

H_{2.1}: Management change has a positive effect on auditor switching in Indonesia.

H_{2.2}: Management change has a positive effect on auditor switching in Malaysia.

Relationship between Audit Opinion and Auditor Switching

The Munfatehah and Afifudin research result (2018) shows that there is no significant influence of audit opinion on auditor switching. However, Oktaviana (2017) audit opinion has a positive influence on companies changing their auditors. This result is also supported by Salleh (2014) research in Malaysia that audit opinion influences auditor switching. This is again supported by research conducted by Sinar-to and Wenny (2017) which states that auditor opinion has a significant influence on auditor switching. Sari (2018) states that audit opinions other than Unqualified opinion affect to auditor switching, so Haryanto (2018) stated that there is a significant influence of audit opinions on auditor switching, which shows that when the company gets an opinion in others of unqualified opinion, the company will replace its auditors.

H_{3.1}: Audit opinion has a positive effect on auditor switching in Indonesia.

H_{3.2}: Audit opinion has a positive effect on auditor switching in Malaysia.

Relationship of Financial Distress with Auditor Switching.

According to Handini (2017) financial distress does not have a positive influence on the auditor switching, which means the company will not replace its auditors when experiencing financial difficulties. In contrast to Handini (2017), research by Faradila and Yahya (2016) suggests the results of their research that financial distress has a significant influence on auditor switching. Likewise with research conducted by Sinar-to and Wenny (2017) financial distress has a positive influence on the decision to replace the auditor. This is again supported by research conducted by Puspayanti and Saputra (2018). Financial distress has a positive effect on auditor switching.

H_{4.1}: Financial Distress has a positive effect on auditor switching in Indonesia.

H_{4.2}: Financial Distress has a positive effect on auditor switching in Malaysia.

Relationship between Company Size and Auditor Switching

In a study conducted by Handini (2017); Maryanti et al. (2020); Wirama & Economics (2020) that company size became a variable that had a significant effect on auditor switching, however according to a study conducted Sinar-to and Wenny

(2017) stated that company size had no significant effect on auditor switching, Simangunsong and Hakim (2018) in his research also has the same results namely the absence of a positive effect on company size on auditor switching. This is also supported by research conducted by Haryanto (2018) which states that company size variables do not affect positively, but negatively on the auditor switching, this shows that the smaller the size of the company, the more likely it is to auditor switching due to their insufficient finances to pay a big KAP.

H_{5.1}: Firm size has a negative effect on auditor switching in Indonesia.

H_{5.2}: Firm size has a negative effect on auditor switching in Malaysia.

3. Data and Methods

Auditor Switching

Auditor switching is a change of KAP and auditor who conducts audit assignments in a company (Gogo, 2017). According Sumarwoto (2006), the auditor switching has two properties, namely voluntary and mandatory. Measurement of auditor switching uses a dummy variable, yes it is measured with a value of 1 and 0. A value of 1 indicates that there is a change of auditors made by the company before 5 years, and a value of 0 if no auditor changes are made before 5 years (Sinarwati, 2010; Utami, 2015; Pawitri and Yadnyana 2015; Sinar-to and Wenny, 2017).

Management change

Management change is a change in management structure either because of a general meeting of shareholders or because the management itself wants to resign (Damayanti and Sudarma, 2007). The management change variable is measured by a dummy variable. If there is a change of Directors or Board of Commissioners in the company then a value of 1 is given, whereas if there is no change of Directors or Board of Commissioners in the company then a value of 0 is given (Astrini, 2013; Sinar-to and Wenny, 2017).

Audit Opinion

Audit opinion is a statement delivered by a public accounting firm or auditor after examining the company's financial statements, which illustrates how the fairness of the preparation of its financial statements in accordance with applicable accounting principles (Agoes, 2017). According to

Mulyadi (2016), there are 5 types of audit opinions: 1) Unqualified opinion; 2) Unqualified opinion with explanatory language, 3) Qualified Opinion, 4) Disclaimer opinion, and 5) Adverse opinion.

Audit opinion variables are measured using dummy variables. If the company in its financial statements receives an opinion other than fair without exception, it will be given a value of 1, while if the company's financial statement gets Unqualified opinion, it will be given a value of 0 (Damayanti and Sudarma, 2007)

Financial Distress

According to Almilia and Herdiningtyas (2005) financial distress is a condition of the company where it is no longer able to meet its obligations to debtor because the company suffers from inadequacy and lack of funds, and cannot reach the company's main goal of profit. Financial distress variable is measured by Debt to Equity Ratio (DER). If the DER ratio is above 100% then it is given a value of 1, whereas if the DER ratio is below 100% (one hundred percent), then it will be given a value of 0 (Gultom, 2016; Uzliawati et al., 2018; Alviana & Megawati, 2021; Paramita & Aliansari, 2022; and (Andreas et al., 2023):

$$DER = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Company Size

Company size is a measure of the small, medium, or size of a company as seen from the total assets or assets of the company (Lisa and Jogi, 2013). This variable is calculated using the natural logarithm of the company's total assets (Haryanto et al., 2018; Mumainnah et al., 2019; Kurniawan & Baroroh, 2021; Kristiana & Rita, 2021; Ahmed et al., 2023; and Islam et al., 2023):

$$SIZE = \ln(TA)$$

The scope of this study is the auditor's behavioral research specifically about the factors that influence the company to conduct auditor switching. The population in this study are manufacturing companies listing on the stock exchange which were listed on OSIRIS during the 2017-2020 period. In selecting the sample of this study using a purposive sampling method in accordance with the research objectives, there are 81 companies of this research. The data used in this study are secondary data, were obtained from OSIRIS (integrated public company database and analytical information solutions produced by Bureau van Dijk Electronic Publishing, SA).

The data provided is not in the form of financial statements, so researchers take only the data needed according to the research variable namely company name, country of origin of the company, total assets, total debt, total equity, name of board of directors, year of appointment of directors, year of resign of directors, and audit opinion.

Data analysis technique

Data analysis technique in this research, consist of Analysis of difference Mann Whitney Test. This analysis used to test of differences the effect of factors to auditor switching in Indonesia and Malaysia. Form a logistic regression model for the effect of management change, audit opinion, financial distress, and firm size on auditor switching in manufacturing industries in Indonesia and Malaysia. The logistic regression formula in the two countries, namely:

$$SWITCH_t = \alpha + b_1 CEO + b_2 OPINION + b_3 DER + b_4 SIZE + e$$

Where: SWITCH_t : auditor switching, α: Constants, β₁₋₄: Regression Coefficient, CEO: Management change, OPINION: Audit Opinion, DER: Financial distress, SIZE: Company size

4. Result

Analysis of difference Mann Whitney Test

The following results of the Mann Whitney Test analysis can be seen in table 1. Based on the results of the analysis, there are differences in the factors that influence auditor turnover in Indonesia and Malaysia.

Table 1. Test Results of Coefficient Logistic Regression in Malaysia and Indonesia

| | Country | N | Mean Rank | Sum of Ranks | Conclusion |
|------------------------|-------------------|-----|-----------|-------------------------|------------|
| Auditor Switching | Indonesia | 81 | 132.68 | 10747.00 | |
| | Malaysia | 131 | 90.31 | 11831.00 | |
| | Total | 212 | | | |
| Test Statistics | Auditor Switching | | | | |
| Mann-Whitney U | 3185.000 | | | | |
| Wilcoxon W | 11831.000 | | | | |
| Z | -7.716 | | | | |
| Asymp. Sig. (2-tailed) | 0.000 | | | H ₁ received | |

Analysis Regression Logistic

Assessing Overall Model (Overall Model Fit)

The following results of the overall test model can be seen in table 2. The initial -2LL value in the Indonesian data is 74,578. After entering the four independent variables, the final value of -2LL

becomes 69.928 (a decrease). Data in Malaysia has an initial value of -2LL of 178.839 which then changes in the value of -2LL to finally become 167.258 (a decrease). A decrease in the value of -2LL occurred in Indonesia and Malaysia data which illustrates that the regression model is better or can be stated that the model is hypothesized fit with the data.

Table 2. Iteration History

| Indonesia | -2 Log likelihood | Malaysia | -2 Log likelihood | |
|-----------|-------------------|----------|-------------------|---------|
| Step 1 | 1 | 72.182 | 1 | 167.480 |
| | 2 | 70.216 | 2 | 167.260 |
| | 3 | 70.009 | 3 | 167.258 |
| | 4 | 69.950 | 4 | 167.258 |
| | 5 | 69.928 | | |

Initial Log ID- 2 Likelihood: 74,578 MYS: 178,839

Test the Eligibility of Regression

The following results of the regression feasibility test can be seen in table 3. Table 3 above shows the data in both countries, namely Indonesia and Malaysia, which have significance above 0.05 with details in Indonesia of 0.771 and in Malaysia of 0.206 so that the model can be predicted to be able to predict its observation value or the model is acceptable because it matches the observational data.

Table 3. Regression Feasibility Test Results

| Step | Chi-square | Sig. | Step | Chi-square | Sig. |
|------|------------|-------|------|------------|-------|
| 1 | 3.988 | 0.771 | 1 | 8.466 | 0.206 |

Test the Coefficient of Determination (Nagelkerke R Square)

The following results of the coefficient of determination test can be seen in table 4. Data in Indonesia the value of Nagelkerke R Square is 0.093 which means that the variability of auditor switching variables can be explained by the variables of management change, audit opinion, financial distress, and company size is 9.3% while 90.7% is still likely to be explained another variable. In the data in Malaysia, the value of Nagelkerke R Square is 0.114, which means that the variability of auditor switching variables can be explained by the variables of management change, audit opinion, financial distress, and company size is 11.4% while 88.6% is still likely to be explained another variable.

Classification Matrix

The following results of the classification matrix analysis based on 81 observations of data in Indonesia, there were 67 auditors switching or around 82.7%.

The ability to predict the possibility of companies in Indonesia conducting auditor switching is 100%. While based on 131 data observations in Malaysia, there were 56 auditor switching or around 42.7%. The ability to predict the possibility of companies in Indonesia conducting auditor switching is 30.4%.

Table 4. Determination Coefficient Test Results

| Indonesia | | | |
|-----------|-------------------|----------------------|---------------------|
| Step | -2 Log likelihood | Cox & Snell R Square | Nagelkerke R Square |
| 1 | 69.928 a | 0.056 | 0.093 |
| Malaysia | | | |
| Step | -2 Log likelihood | Cox & Snell R Square | Nagelkerke R Square |
| 1 | 167.258 a | 0.085 | 0.114 |

Logistic Regression Analysis Indonesia

The following results of the logistic regression analysis in Indonesia can be seen in table 5.

Table 5. Test Results Coefficient Logistic Regression in Indonesia

| | coefficient | Sig. | Conclusions |
|-----------|-------------|-------|-------------------------------|
| IDN_CEO | 4.722 | 0.760 | H _{1,1} was rejected |
| IDN_OPINI | 5.113 | 0.818 | H _{2,1} is rejected |
| IDN_DER | 1.042 | 0.91 | H _{3,1} received |
| IDN_SIZE | -0.119 | 0.464 | H _{4,1} is rejected |
| Constant | 2.517 | 0.230 | |

The regression models formed in the analysis of table 5 are as follows:

$$\text{SWITCH} = 2.517 + 4.722\text{CEO} + 5.113\text{OPINI} + 1,042\text{DER} - 0.119\text{SIZE}$$

Logistic Regression Analysis Malaysia

The following results of the logistic regression analysis in Malaysia can be seen in table 6.

Table 6. Test Results Coeffisien Logistic Regression in Malaysia

| Variable | Coef | SE | Sig. | Conclusions |
|-----------|--------|-------|-------|------------------------------|
| MYS_CEO | 0.851 | 0.487 | 0.080 | H _{1,2} received |
| MYS_OPINI | 2.614 | 1.164 | 0.025 | H _{2,2} received |
| MYS_DER | -0.664 | 0.504 | 0.188 | H _{3,2} is rejected |
| MYS_SIZE | -0.060 | 0.134 | 0.653 | H _{4,2} is rejected |
| Constant | 0.270 | 1.530 | 0.860 | |

The regression models formed in the analysis of table 6 are as follows:

$$\text{SWITCH} = 0.270 + 0.851\text{CEO} + 2.614\text{OPINI} - 0,664\text{DER} - 0.060\text{SIZE}$$

5. Discussion

The Result of this research about different of auditor switching in Indonesia and Malaysia, that there have different factors that influence auditor switching in Indonesia and Malaysia are the variables of management change, audit opinion, and financial distress. Factors affecting auditor switching in Indonesia are financial distress, whereas factors that affect auditor switching in Malaysia are management changes and audit opinions. Prior research that find to differences of auditor switching in Indonesia and Malaysia, not yet. This study examines the effects of management change, audit opinion, financial distress, and company size on auditor switching in Indonesia and Malaysia. The dependent variable of the study used was auditor switching, while the independent variables used were management change, audit opinion, financial distress, and company size. This research support by Ansar (2017), Astrini and Muid (2013), Salleh & Jasmani (2014); Sulistiani (2021).

6. Conclusion and Suggestion

Conclusion

The result of this study, there are different factors that influence auditor switching in Indonesia and Malaysia are the variables of management change, audit opinion, and financial distress. Factors affecting auditor switching in Indonesia are financial distress, whereas factors that affect auditor switching in Malaysia are management changes and audit opinions. Management change does not affect auditor switching in Indonesia. Whereas management change influences auditor switching in Malaysia. Audit Opinion does not influence auditor switching in Indonesia. Whereas audit opinion influences auditor switching in Malaysia. Financial distress influences auditor switching in Indonesia. While financial distress does not affect auditor switching in Malaysia. Company size does not affect auditor switching in Indonesia and Malaysia. This means that even though companies in Indonesia and Malaysia are both small and large, there is no possibility that the company will conduct auditor switching.

Suggestion

This study uses the object of research only from manufacturing companies in OSIRIS, further research should use the object of research not only from manufacturing companies to be able to see the generalization of the theory validly because there

are other types of companies that are also listing on OSIRIS. This study uses management change variables, audit opinion, financial difficulties, and company size, these four variables can only explain the variability of the auditor switching variable in Indonesia by 9.3% and in Malaysia as much as 11.4%, so that future research might consider add variables other than the four variables that have been used to increase knowledge about auditor switching. This study uses a sample of 81 companies in Indonesia and 131 companies in Malaysia because of the number of companies that do not exist, the next research should have more companies to get more accurate results. This research only uses two countries namely Indonesia and Malaysia, further research might be able to use other countries than for comparison, or add a comparison country so that the comparison results are more comparative.

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