

The Effect of Management Change, Audit Fee, and Company Size on Auditor Switching (Empirical Study on Infrastructure, Utilities and Transportation Companies Listed on the Indonesia Stock Exchange for the 2020-2023 Period)

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Abstract: This study aims to analyze and test the effect of management change, Audit Fee, and company size on Auditor switching. The research method used is quantitative research. The type and source of data in this study are secondary data in the form of financial reports of companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. The sampling technique uses purposive sampling, resulting in 45 observation data samples. Data processing in this study was conducted using IBM SPSS (Statistical Product and Service Solution) version 24. The results of this study indicate that management change has a positive and significant effect on Auditor switching, Audit Fee has a positive effect on Auditor switching, and company size has no effect on Auditor switching.

Keywords: Management Change, Audit Fee, Company Size, Auditor Switching.

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Introduction

As a company listed on the Indonesia Stock Exchange, public entities are required to periodically publish their financial statements. This report is the main reference for various external parties in investment decision-making and financial analysis. Therefore, the presentation of financial statements must follow generally accepted accounting principles, so that the information submitted can be trusted and accurately reflects the company's financial condition (Ruroh, 2022).

The quality of accounting information can be improved by external audits where the role of the auditor is to prevent, detect, and correct material misstatements, efforts to present financial statements can provide reasonable, trustworthy and easy to understand information, so it is necessary to have a procedure for examining financial statements carried out by a Public Accounting Firm (KAP) through the services of an independent auditor (Arkaputra & Hidayah, 2022).

To ensure the independence of auditors, companies must change auditors periodically. Many believe that replacing auditors is a way to prevent auditors from becoming too close to the company they are auditing. Indonesia is one of the countries that mandates the replacement of auditors (Yusuf et al., 2022).

Switching auditors can be categorized into two, namely mandatory or voluntary changes of the company and mandatory changes based on applicable regulations. To maintain audit independence, Indonesia requires periodic auditor changes. Regulation Number 20 of 2015 concerning Public Accountant Practice not only regulates the qualifications and responsibilities of public accountants but also requires periodic replacement of auditors (Aini & Rizal Yahya, 2019).

The phenomenon related to PT Northcliff Indonesia, formerly known as PT Skybee Tbk, is an interesting example of a case in the phenomenon of auditor turnover in the infrastructure, utilities, and transportation sectors. In 2019, the company underwent a number of significant changes. First, the company officially changed its name to PT. Northcliff Citranusa Indonesia Tbk. This change has been approved and has been in effect since the same year, in addition to the name change, there has also been an overhaul in the composition of the company's board of directors. This change was discussed at the general meeting of shareholders, where one of the important agendas was to discuss the replacement of auditors for 2019. It is hoped that the Public Accounting Firm (KAP) and the new auditor can immediately adapt to the new company's management.

The problem arose when PT Northcliff Indonesia failed to fulfill its obligation to publish its annual financial statements on the Indonesia Stock Exchange (IDX) in 2019. As a result of this delay, the IDX decided to temporarily suspend trading of the company's shares. This decision was taken because accurate and timely financial statements are very important for investors in making investment decisions. The failure to publish financial statements is one of the main reasons why the company decided to change the auditor. Allegedly, there were problems or inconsistencies in the previous audit process that caused delays in the preparation of financial statements.

Management changes, which are generally taken at the GMS or on the initiative of the board of directors, have far-reaching implications for a company's accounting and financial reporting practices. Significant changes in accounting policies are often a consequence of these changes. In addition, the new management has the authority to propose the replacement of the public accounting firm to the audit committee. The selection of a new auditor is usually based on quality considerations and the auditor's ability to accommodate the accounting policies that have been set by management. The ultimate goal of this auditor change is to improve the quality and reliability of financial information submitted to investors.

Research (Aini & Rizal Yahya, 2019) found that management change did not significantly affect the company's switching auditor actions. These results are consistent with research (Oyong & Arfianti, 2021) that has no effect on auditor switching. However, the study (Ruroh, 2022) found that management change influences auditor switching. The same result was found by (Pratama & Ardiati, 2021) that the change of management influenced the switching auditor.

Audit Fee is a long-lasting audit relationship that can create an emotional bond between the auditor and the client. As a result, auditors may tend to favor clients and provide a softer audit opinion. This can of course reduce the credibility and independence of auditors. On the other hand, a significant increase in audit costs is often a trigger for auditor turnover. Although at the beginning of the relationship the audit costs are usually lower, they are not always sustainable in the long run.

Research conducted by (Pratama & Ardiati, 2021) found that Audit Fees do not significantly affect the conduct of auditor switching actions. These results are consistent with research (Dewi & Kristianto, 2024) that has no effect on auditor switching. However, the study (Lovika et al., 2019) found that Audit Fees influence auditor switching. The same result was found by (Sofiana & Murtanto, 2024) that Audit Fees influenced auditor switching

Company size is the size of a company can be measured based on the total assets owned. Companies with large assets generally have stronger financial capabilities to overcome various business challenges. As business complexity increases, large-scale companies need auditor services that have broader competence and experience.

Research conducted by (Stevani & Siagian, 2020) found that company size does not have a significant influence on the decision to change auditors. These results are in line with findings in previous studies. (Anisa Nur' Ertina, 2019) has no effect on auditor switching. However, research (Sofiana & Murtanto, 2024) found that company size has an effect on auditor switching. The same result was found by (Arkaputra & Hidayah, 2022) that Audit Fees influenced auditor switching.

Based on the explanation above, the author will carry out research entitled "The Effect of Management Change, Audit Fee, and Company Size on Switching Auditors in Infrastructure, Utilities and Transportation Companies Listed on the Indonesia Stock Exchange (IDX) for the 2020-2023 Period)".

Method

Literature Review

Agency Theory

According to Jensen & Meckling (1976), an agency relationship is defined as a relationship that arises due to a contract established between the principal, and the management as the manager of the company who acts as an agent according to the orders emanating from the owner of the company itself. This principle creates a contract that takes into account the interests of all parties to encourage the agent. A contract is considered efficient if it meets two conditions, namely that there is no hidden information that can be used for personal gain because the principal and agent have symmetrical information, which means that both parties have the same quantity and quality of information. And the agent has a high level of certainty over the rewards he obtains because the risks he bears related to the rewards he obtains is small (Zulfajrin et al., 2022).

Management Change

Management change is the cycle of changing directors in a client company. The Board of Directors is responsible for organizing the company as a whole. The task of the board of directors is to plan and be able to implement change strategies to be able to control changes for the better and can help people to more easily adapt to changes that can occur now and in the future (Muslimah & Pohan, 2022). Management changes can be divided into two types, namely routine and non-routine changes. Routine changes occur due to the expiration of the term of office of the board of directors. Meanwhile, irregular replacements are more often carried out based on consideration of the company's condition, where the existing management structure is considered ineffective in managing the company, so it is replaced with a new management structure that is expected to bring improvements in the company's management (Nurhasanah & Mutmainah, 2022).

Audit Fee

Audit Fee is the amount of fees incurred by the company for the payment of audit services. auditors by considering various things such as the complexity of the services provided, the level of expertise and others. The determination of Audit Fees is no less important in accepting assignments, auditors must certainly work to earn adequate income (Berliana et al., 2023). The audit fee received reflects how much responsibility and risk the public accountant receives. The larger the Audit Fee received, the greater the responsibility borne by the auditor and the risk of conducting an audit of a company, and vice versa. The amount of responsibility and risk is based on the verification carried out by the auditor by comparing all accounting records carried out by the company with the financial accounting standards that have been set (Hindirwan et al., 2024).

Company Size

Company size is the size of the size in a company that will be expressed in total assets, sales and market capitalization. Large assets will obtain more capital to be invested, so that there will also be more sales and money turnover invested later. The more and larger the market capitalization, the more likely the company will be known to the public. The size and size of the company are measured using total assets (Anggadi & Triyanto, 2022). Companies that are large will have difficulty in managing company operations in a complex manner. The size of a company is measured through parameters such as total assets, revenue, can reflect the company's capacity to manage risk and generate profits. The size factor of the company has a tendency to be able to replace its auditors in maintaining and maintaining independent auditors.

Research Methods

This study was conducted to find out how the influence of management change, Audit Fee, and Company size on Auditor switching, as well as to prove whether Auditor switching as a dependent variable is able to affect the relationship between these variables. The objects studied are infrastructure, utilities and transportation companies listed on the Indonesia Stock Exchange (IDX) during 2020-2023. The design of this study is a quantitative research. The data used in this study is secondary data, namely the Company's annual report for the period 2020-2023 obtained through the Company's www.idx.co.id and related websites. The data analysis technique used in this study is logistic regression analysis. To determine the influence between these variables, a software application is used as a data test tool.

Conceptual Framework

The conceptual framework in this study is made to broadly clarify the relationship between independent variables (X), namely management change, Audit Fee, company size to dependent variable (Y), namely auditor switching, as follows:

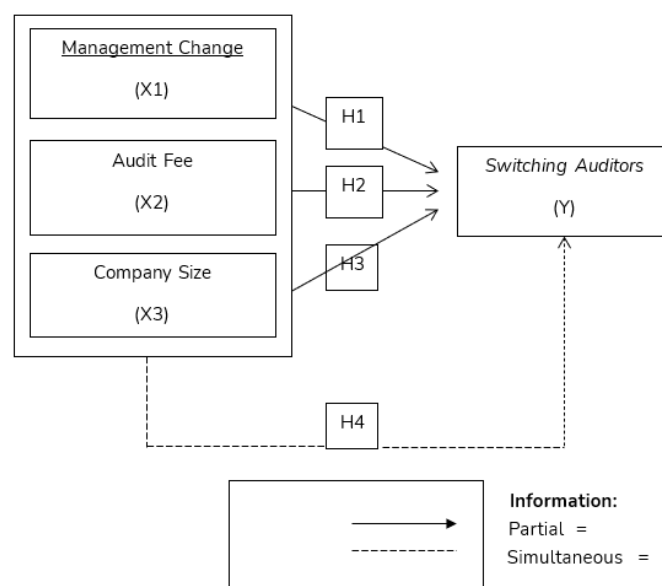


Figure 1. Conceptual Framework

Result and Discussion

1. The Effect of Management Change on Auditor Switching

The first hypothesis that states that management change has a positive and significant effect on auditor switching is acceptable, this is shown by a significance level of 0.044, which is less than 0.05, indicating that the management change in this case the president director in the company will encourage policy changes, including in the selection of auditors. The difference in purpose and interests between the principal and the agent creates an agency problem, where the management pursues its personal interests so that the interests of the shareholders who are the owners of the company are set aside. This resulted in the principal's distrust of the agent and then led to a change in management.

Management change refers to the change of the company's main directors caused by the resolution of the GMS (General Meeting of Shareholders) or voluntary resignation. This change may lead to the implementation of new regulations and policies within the company, In addition, the company's new managing director may look for a more competent auditor or have a separate auditor preference to audit the company's financial statements.

The results of this study support the results of the study (Ruroh, 2022) finding that management change affects auditor switching. The same result was found by (Pratama & Ardiati, 2021) that the change of management influenced the switching auditor. In contrast to other studies conducted by the Research (Aini & Rizal Yahya, 2019) found that management change did not significantly affect the actions of auditor switching by the company. These results are consistent with research (Oyong & Arfianti, 2021) that has no effect on auditor switching.

2. The Effect of Audit Fees on Auditor Switching

The second hypothesis that states that it has a positive effect on auditor switching is acceptable. Based on the test results, it is found that Audit Fees have a positive and significant effect on auditor switching in infrastructure, utility, and transportation companies listed on the IDX. This result is shown by a regression coefficient of 0.383 units with a significance level of

0.025, which is smaller than 0.05. The positive results show where high audit fees provoke companies to tend to change their auditors.

Damayanti and Sudarma (2007) explained where the selection of KAP or auditors by the company, represented by the shareholders, is related to the total fee they will give. Auditor switching often results in an increase in audit fees (Martina, 2010). Where when the auditor audits 1 client for the first time, the earliest thing that must be carried out by the auditor is to understand the risks of the company's audit and the business environment of a company. For auditors who do not know at all and do not understand these two problems, then the cost of start-ups will be higher so that there will be an increase in audit fees for the company to be audited, thus the results of this study can be concluded that the H2 hypothesis is acceptable.

Audit fee refers to the fee charged by the auditor to the company (auditee) for the audit process carried out. The amount of the audit fee is generally determined before the audit begins. The amount of the fee set does not affect the change of auditor, as long as the auditor meets the qualifications required by the company. The change of auditor usually occurs because the company feels that the quality of the existing auditor is not in accordance with the opinion desired by the company.

From the research conducted, this study supports the results of the research (Lovika et al., 2019) that the Audit Fee affects the Auditor switching. The same result was found by (Sofiana & Murtanto, 2024) that Audit Fees influenced auditor switching. In contrast to other studies conducted by (Pratama & Ardiati, 2021) finding that Audit Fees do not significantly affect the actions of auditor switching. These results are consistent with research (Dewi & Kristianto, 2024) that has no effect on auditor switching.

3. The Effect of Company Size on Auditor Switching

The third hypothesis that states that it has no effect on auditor switching is acceptable. Based on the test results, it is found that the size of the company has no effect on auditor switching. This result is shown by a regression coefficient of 0.217 units. with a significance level of 0.227, which is greater than 0.05. Thus, hypothesis (H3) is rejected. which means that generally large companies have been audited by a highly reputable KAP, because large companies are considered to have more complex company operations than small companies. The larger the size of the company, the less likely the company will not replace the auditor carelessly. Based on the agency's theory, the agent will compare the cost with the benefits that will be obtained. Because start-up costs will increase agency costs. So that large companies tend to retain their auditors for the reason of avoiding agency costs and maintaining audit quality.

Company size is the size of a company can be measured based on the total assets owned. Companies with large assets generally have stronger financial capabilities to overcome various business challenges. As business complexity increases, large-scale companies need auditor services that have broader competence and experience. The greater it will have an impact on the level of difficulty of the principal in supervising the agent's actions, because there is a suspicion that the agent will maximize his own profits to the principal, so it requires a Public Accounting Firm with a high level of independence and in accordance with the size of the company.

From the research conducted, this study supports the results of research (Sofiana & Murtanto, 2024) finding that company size affects auditor switching. The same result was found by those who found that Audit Fees had an effect on auditor switching. In contrast to other research conducted by (Anisa Nur' Ertina, 2019) it has no effect on Auditor switching. (Arkaputra & Hidayah, 2022).

4. The Effect of Management Change, Audit Fee, and Company Size on Auditor Switching

Based on the test results, it was found that management change, Audit Fee and company size had a joint effect on auditor switching, thus the results of this study can be concluded that the H4 hypothesis is acceptable.

The results of this finding are in line with research (Baihaqi et al., 2020), (Nurhasanah & Mutmainah, 2022), (Sofiana & Murtanto, 2024) and (Afidah et al., 2023) found that management change, Audit Fee, and company size affect auditor switching. In contrast to other studies conducted by (Pratama & Ardiati, 2021), (Fauziah et al., 2023), (Anisa, 2019), (Dewi & Kristianto, 2024) found that management change, Audit Fee, and company size had no effect on auditor switching.

Companies that undergo a change of management tend to prefer to replace auditors to support new policy changes or strategies. Therefore, companies that experience a change of management need to maintain a good relationship with the auditor so as not to create uncertainty or difficulties in the audit process. In addition, audit fees should be carefully considered, as excessively high or unreasonable fees can encourage companies to seek out auditors with lower or more costs within their budget. Company size usually indicates greater stability in the relationship with auditors, while smaller companies are more flexible in changing auditors according to their needs and situation (Oyong & Arfianti, 2021).

Agency theory explains that management turnover, audit costs, and company size mutually influence the decision to replace auditors. A change in management can exacerbate tensions between management and shareholders, which in turn encourages companies to replace auditors. Audit fees serve to reduce information uncertainty and ensure that management acts in accordance with the interests of shareholders. However, if the audit fee is too high or disproportionate, the company may look for another auditor. The size of the company affects the bargaining position of the company towards the auditor, where large companies are more likely to retain their auditors to maintain a stable relationship and ensure their credibility (Afidah et al., 2023).

Conclusion

Based on the formulation of the problem and the discussion of the results of the research that has been explained, it can be concluded as follows:

1. The variable of Management Switching has a positive influence on Auditor Switching.
2. The Audit Fee variable has a positive influence on Auditor switching.
3. Company Size Variable has no effect on Auditor switching
4. Together, the variables of Management Change, Audit Fee, and Company Size simultaneously affect the auditor switching.

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