Audit Quality and Auditor Switching in LQ45 Index Listed Firms of the Indonesia Stock Exchange

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ABSTRACT

Auditor switching is important to maintain audit quality. This study aims to find empirical evidence regarding the effect of auditor switching on the audit quality of companies listed on the LQ45 index of the Indonesia Stock Exchange. Switching Public Accounting Firm and switching audit partner is the dependent variable in this study. Audit quality as the dependent variable is measured by the value of discretionary accruals. The saturated sampling method was used with the entire population of companies listed on the LQ45 index of the Indonesia Stock Exchange with a total of 45 companies in 2019 - 2020. Multiple regression analysis techniques were used. The results of the study stated that Public Accounting Firm switching and audit partners switching does not affect audit quality.
Keywords : Public Accounting Firm Switching; Audit Partners Switching; Audit Quality.

ABSTRAK

Pergantian auditor eksternal yang menjalankan perikatan auditor perlu dilakukan untuk menjaga kualitas audit. Penelitian ini bertujuan untuk menemukan bukti empiris mengenai pengaruh pergantian auditor terhadap kualitas audit perusahaan tercatat di indeks LQ45 Bursa Efek Indonesia. Pergantian auditor eksternal yaitu dilakukan dengan pergantian Kantor Akuntan Publik dan pergantian partner audit yang menjadi variabel dependen. Kualitas audit yang merupakan variabel dependen diukur menggunakan nilai discretionary accruals. Dengan menggunakan metode sampling berupa sampel jenuh yaitu keseluruhan populasi perusahaan tercatat di indeks LQ45 Bursa Efek Indonesia berjumlah 45 perusahaan dan teknik analisis regresi berganda, justru menyatakan bahwa pergantian Kantor Akuntan Publik dan pergantian partner audit tidak berpengaruh terhadap kualitas audit.
Kata Kunci : Pergantian Kantor Akuntan Publik, Pergantian Partner Audit, Kualitas Audit

INTRODUCTION

Financial statements are an instrument of accountability of company directors to shareholders and it is useful for other users in providing company information. Financial statements must reflect the actual state of the company's assets, liabilities, capital and operating results. The company's Board of Directors and Board of Commissioners are fully responsible for the correctness of the contents of its financial statements keuangannya (Amnesty International, 2007). An audit of financial statements aims to increase the level of confidence for users about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error (IAPI, 2013).

Auditing standards require the auditor to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and to express an opinion about the fair presentation of the financial statements ((PCAOB)., 2020). Users of financial statements can rely on an audit opinion depending on the quality of the audit conducted (Christensen et al., 2016). Several studies openly state that the difficulty in defining audit quality can be understood with the Decission Support System (DDS) approach which is carried out through 3 stages, namely Intelligence Phases, Design Phases and Choice Phases (Husain, 2019).

Auditor switching can be done by switching the audit partner or the public accounting firm. Companies experience auditor switching more often after receiving qualified opinions but do not systematically switch to auditors with a history of giving opinions that are better than the qualified opinion category (Hudaib & Cooke, 2005). The provision of qualified opinions has a significant impact in terms of auditor switching. The unqualified opinion shows that the financial statements have been presented fairly without exception and the performance has been in accordance with the expectations of the shareholders (Susanto, 2018).

Switchs in audit partners who carry out the engagement are expected to maintain audit quality. However, the switch of audit partner actually affects the decline in audit quality. This is in accordance with research conducted by Hunt et al. (2020) and Chung et al. (2021) which states that the switch of auditor partner has an effect on the decline in audit quality. Companies with high Corporate Social Responsibility (CSR) performance tend to choose auditors with a good reputation (Du et al., 2020). Companies that act in the interests of shareholders should choose a reputable public accounting firm with good audit quality. With good audit quality, it will produce financial statements that are reliable and useful for shareholders in making investment decisions. Companies that switch public accounting firms have high discretionary accruals and indicate low audit quality (Eutsler et al., 2020). However, research conducted by Yanti & Wijaya (2019) stated that the switch of a public accounting firm had no effect on audit quality.

Previous research on the effect of audit quality on auditor switching found that audit quality was seen to be lower in companies that tend to perform auditor switching but are still within the scope of the same public accounting firm (Hunt et al., 2020). The decline in audit quality causes investors to tend not to rely on company profits in their decision making (Chung et al., 2021). However, relevant research conducted in Indonesia shows that auditor switching has no relationship with audit quality (Yanti & Wijaya, 2019).

This research was conducted on the basis of differences in the results of previous studies. These differences in research can occur due to differences in indicators in measuring the level of audit quality and the object of research. Hunt et al., (2020) used absolute discretionary accruals in their research, while Yanti & Wijaya (2019) used the ROE (Return On Equity) level category to measure audit quality variables. This research was conducted using absolute discretionary accruals as an indicator of audit quality by Hunt et al., (2020) but using the object of companies in Indonesia, namely companies listed on the LQ45 index of the Indonesia Stock Exchange.

This research is expected to be able to contribute to the knowledge of explaining the differences in the results of previous studies and to develop literature on audit quality and auditor switching. Companies listed on the LQ45 index of the Indonesia Stock Exchange are the top category of companies that are highly liquid and have publicized accounting firms and high transaction values so that they become a reference for investors in making decisions on the stock exchange. In addition, the auditor is also expected to always maintain and improve the quality of the audit in accordance with quality control and applicable audit standards.

LITERATURE REVIEW

Agency theory defines the concept of agency costs associated with delegation of authority and control. This agency relationship occurs between owners who delegate authority in terms of decision making to management (Jensen, M. C. & Meckling, 1976). Management often faces various problems in carrying out their duties and ensuring their actions are in accordance with the wishes of the owner which in essence costs money to resolve agency conflicts that may arise. (Mitnick, 2015). The role of the audit function relates to the context of the agency relationship. The audit function needs to be carried out in terms of monitoring management activities and to provide assurance on management's performance in accordance with the actual situation. The cost required to carry out this audit function is one of the agency costs (Colbert & Jahera, 2005).

Audit quality control needs to be implemented by auditors to maintain audit quality. Auditors are required to have the competence and ability to carry out audit engagements in accordance with professional standards, legal and regulatory requirements and allow the issuance of auditor reports (IAPI, 2012). The possibility of a switch of auditors can occur to maintain the quality of the audit of the financial statements. The switch of auditors is carried out by the public accounting firm by replacing the partner/auditor or by the company by switching the public accounting firm.

Audit quality needs to be considered because it can affect the company's decision making. One of the impacts when audit quality is poor, companies are more likely to switch from capital-based to

credit-based financing (Cheng et al., 2020). The role of the auditor is to prevent managers from acting in their own personal interests, namely the disclosure of information by managers that is not appropriate in the financial statements to the detriment of shareholders (Decker et al., 2021).

METHODS

This research is using quantitative descriptive analysis method. The population in this study are companies listed on the LQ45 index of the Indonesia Stock Exchange in 2019 - 2020, which are 45 companies. The sampling technique used is a saturated sample of 45 companies. Saturated sample is a sampling technique by taking the entire population.

Previous research explained that the possibility of switching audit partners is associated with a decrease in audit quality. Companies with low audit quality tend to switch audit partners (Hunt et al., 2020). This study uses absolute discretionary accruals as an indicator of audit quality. The higher value of absolute discretionary accruals indicates a low value of audit quality. The calculation of the absolute value of discretionary accruals uses the modified Jones model (Kothari et al., 2005) with the following steps:

1. Calculating the total accrual value (TACit)

$$\text{TACit = NIit – CFOit}$$

TACit : total accruals of company i in year t

NIit : net profit of company i in year t

CFOit : operating cash flow of company i in year t

2. Finding the value of the regression coefficient with the formula

$$\text{TACit / Ait – 1 = 1(1/ Ait – 1) + 2($\triangle$REVit/ Ait – 1) + 3(PPEit/ Ait – 1) +}$$

TACit : total accruals of company i in year t

Ait - 1: total assets of company i in the previous year

REVit : revenue of company i in period t minus

income in period t – 1

PPEit : fixed assets of company i in year t

3. Calculate the value of non-discretionary accruals by entering the regression coefficient value in the formula

$$NDA = 1(1/ Ait\text{-}1) + 2(\Delta REVit - RECit/ Ait\text{-}1) + 3(PPEit/ Ait\text{-}1)$$

NDA : value of non-discretionary accruals

REVit : revenue of company i in period t minus

income in period t – 1

RECit : receivables of company i in period t minus

receivables in period t – 1

PPEit : fixed assets of company i in year t

1, 2, 3 : regression coefficient

4. Calculate the value of discretionary accruals with the formula

$$DA = (TACit/ Ait\text{-}1) - NDA$$

DA : value of discretionary accruals

NDA : value of non-discretionary accruals

TACit : total accruals of company i in year t

Ait - 1: total assets of company i in the previous year

The audit partner switching variable in this study uses a nominal scale variable (dummy) with a nominal scale of 1 if the company switchs audit partners and a nominal scale of 0 if the company does not switch audit partners. The switch of public accounting firm in this study uses a nominal scale variable (dummy) with a nominal scale of 1 if the company switchs its public accounting firm and a nominal scale of 0 if the company does not switch its public accounting firm.

[Research method section contains research design, population and sample, measurement, data collection techniques, research models, and data analysis techniques. Explanation about the theory used shall not be included in this section. Authors are requested to avoid giving too lengthy or

too detailed explanation about the concepts and terms used as part of research method. All mathematical or statistical formulas must be written using equation feature.]

The relationship among those concepts has to be depicted in a figure of conceptual framework as example below.
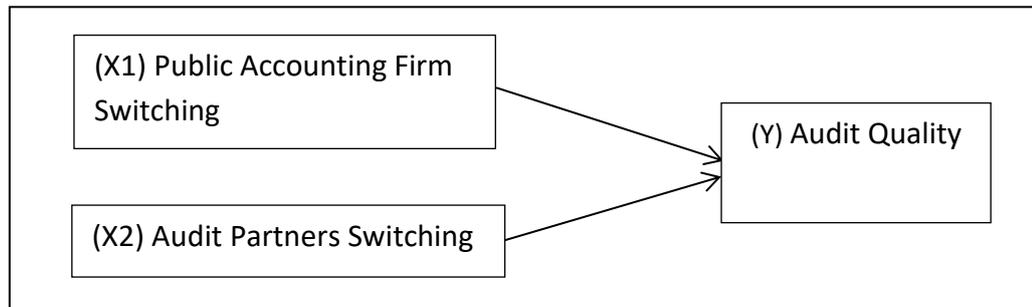

Figure 1. Conceptual Framework

RESULT AND DISCUSSION

Descriptive statistics are used to describe the basic features of the data and provide a summary of the sample and its measurements (Mishra P, Pandey CM, Singh U, Gupta A, Sahu C, 2019).

Table 1. Discretionary Accruals Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Discretionary Accruals	45	-.2132357140	.1191410080	-.03115184913 3	.0614001905468
Valid N (listwise)	45				

The audit quality variable was measured using the value of discretionary accruals. The higher the value of discretionary accruals, the lower the audit quality. The lowest value of discretionary accruals obtained is -0.213 and the highest value is 0.119. The average value -0.031 is smaller than the standard deviation of 0.061 indicating that the distribution of discretionary accruals data is not evenly distributed, which indicates a high difference between one data and another.

Table 2. Frequency Distribution of Public Accounting Firm Switchs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	42	93.3	93.3	93.3
	1	3	6.7	6.7	100.0
	Total	45	100.0	100.0	

There are 45 listed companies in the LQ45 index of the Indonesia Stock Exchange, table 2 shows that 42 companies did not switch public accounting firms in 2020 and 3 companies did switch public accounting firms. This means that more companies do not switch public accounting firms, namely 93.3% while 6.7% switch public accounting firms.

Tabel 3. Frequency Distribution of Audit Partners Switching

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	24	53.3	53.3	53.3
	1	21	46.7	46.7	100.0
	Total	45	100.0	100.0	

Table 3 shows that 24 companies listed on the LQ45 index of the Indonesia Stock Exchange did not experience a switch of audit partner and 21 companies experienced a switch of audit partner. This means that more companies do not switch audit partners, namely 53.3%, while 46.7% have switchd audit partners.

Table 4. *One-Sample Kolmogorov-Smirnov Test*

		Unstandardized Residual
N		45
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.06048070
Most Extreme Differences	Absolute	.084
	Positive	.066
	Negative	-.084
Test Statistic		.084
Asymp. Sig. (2-tailed)		.200[c,d]

Based on Table 4, the results of the One-Sample Kolmogorof_Smirnov test show that the Asymp value. Sig. (2-tailed) of 0.200 > 0.05 so it can be concluded that the residual value of the model 1 equation is normally distributed, thus the normality test has been fulfilled.

Table 5. Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Public Accounting Firm Switching	.918	1.089
	Audit Partners Switching	.918	1.089

Table 5. shows that there is no correlation between independent (independent) variables, this can be seen from the tolerance value of the Public Accounting Firm switching variable of 0.918 > 0.1 and the VIF value of 1.089 < 10. Likewise for the switch of audit partner variable, the tolerance value is 0.918. >0.1 and a VIF value of 1,089 <10. Therefore, it can be concluded that the multicollinearity test has been fulfilled and there are no symptoms of multicollinearity in the regression equation.

Table 6. Autocorellation Test

	Unstandardized Residual
Test Value[a]	-.00213
Cases < Test Value	22
Cases >= Test Value	23
Total Cases	45
Number of Runs	18
Z	-1.505
Asymp. Sig. (2-tailed)	.132

Based on the results of the run test in table 6, it shows that the Asymp value. Sig. (2-tailed) of 0.132 > 0.05 which means that the autocorrelation test is fulfilled and the regression model equation is free from autocorrelation symptoms.

Table 7. Heteroscedasticity Tests

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.054	.008		6.939	.000
	Pergantian KANTOR AKUNTAN PUBLIK	-.007	.024	-.044	-.278	.783
	Pergantian Partner Audit	-.015	.012	-.204	-1.296	.202

a. Dependent Variable: Abs_Res

Based on the results of the glejser test in table 7, it shows that the significance value of the switch in the Public Accounting Firm variable is 0.783 and the audit partner switching variable is 0.202, which is greater than 0.05. Therefore, the heteroscedasticity test has been fulfilled and there are no symptoms of heteroscedasticity in the regression model equation.

Table 8. Coefficient of Determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.172[a]	.030	-.016	.0619039675736

Table 8 shows the value of R Square (R2) of 0.030, which means that the switch in the Public Accounting Firm and the switch in audit partner only contributes 3% to the audit quality. This means that there are 97% of other factors outside the research variables that can influence the audit quality variable.

Table 9. F Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.005	2	.002	.643	.531[b]
	Residual	.161	42	.004		
	Total	.166	44			

Table 9 shows the F value of 0.643 with a significance value of 0.531 > 0.05. From this, it can be concluded that the switch of the Public Accounting Firm and the switch of audit partner simultaneously has no effect on the audit quality variable.

Table 10. t Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.041	.013		-3.208	.003
	Pergantian KANTOR AKUNTAN PUBLIK	-.012	.039	-.051	-.322	.749
	Pergantian Partner Audit	.022	.019	.180	1.134	.263

Partial testing on the variable switching of Public Accounting Firm in table 10 shows the regression coefficient value of -0.012. This value is in the negative direction, which means that if the company switchs the Public Accounting Firm, the value of discretionary accruals will decrease, which means the audit quality is getting better. However, the t value of -0.322 with a significance level of 0.749 > 0.05 explains that it is not significant. This means that the hypothesis that the replacement of the Public Accounting Firm has an effect on the decline in audit quality is rejected.

Partial testing on the audit partner switching variable in table 10 shows the regression coefficient value of 0.022. This value is in a positive direction, which means that if the company switchs its audit partner, the value of discretionary accruals will increase, which means that audit quality will actually decrease. However, the t value is 1.134 with a significance level of 0.263 > 0.05. This means that the hypothesis that the switch of audit partner affects the decline in audit quality is rejected.

CONCLUSSIONS

Public Accounting Firm switching simultaneously does not affect the audit quality of companies listed on the LQ45 index of the Indonesia Stock Exchange in 2019 - 2020. The replacement of PUBLIC ACCOUNTING OFFICES and switchs in audit partners are unable to explain the effect on audit quality and require other factors to explain about the increase and decrease in audit quality.

The replacement of the Public Accounting Firm partially has no effect on the audit quality of companies listed on the LQ45 index of the Indonesia Stock Exchange. This is in line with research

(Yanti & Wijaya, 2019) which states that the switch of a PUBLIC ACCOUNTING OFFICE does not affect audit quality.

The company's relationship with the auditor that lasts longer is feared to affect the independence of the audit partner carrying out engagement duties. The company will try to influence the auditor to issue a favorable opinion for the company so that auditor independence is reduced. Therefore, it is necessary to switch the audit partner. However, this study states that the switch of audit partner partially has no effect on the audit quality of companies listed on the LQ45 index of the Indonesia Stock Exchange in 2019 - 2020.

Although the measurement of audit quality variables in this study is different from research (Yanti & Wijaya, 2019), the results show the same thing, namely auditor switching has no effect on audit quality. The results show that the coefficient of determination of the switching of Public Accounting Firm and the switch of audit partner is only 3%. This means that there are 97% of other factors that can explain and affect audit quality. Therefore, it is recommended to add other variables related to audit quality for further research such as auditor independence, opinion shopping, client/auditor duty period, competence and audit fees.

This study uses a sample of companies listed on the LQ45 index of the Indonesia Stock Exchange 2019 - 2020 which are companies that are classified as very liquid. Therefore, it is recommended that it can be expanded with other indices or use business sector groupings in order to make the sample more representative.

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