

# THE INFLUENCE OF GOING CONCERN OPINIONS, MEASURES AND PROFITABILITY ON AUDITORS SWITCHING

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## ABSTRACT

*Auditor switching* is the process of changing the Public Accounting Firm (KAP) carried out by the company. Auditor switching in Indonesia can be done mandatory or voluntary. It is this voluntary auditor switching that raises suspicion from stakeholders to find out the cause. The purpose of this study was to analyze the effect of going concern opinion, KAP size and profitability on auditor switching. The results of this study indicate that the variables of going concern opinion, KAP size and profitability have no effect on auditor switching. The value of Nagelkerke R Square is 0.029, which means that the variability of the dependent variable that can be explained by the independent variable is 2.9%, while the remaining 1.9% is explained by other variables outside this research model. Suggestions for further research to have extensive information about the object of research, use other measures on the same variable, and add other variables for further research.

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## 1. INTRODUCTION

A financial statement is a structured presentation of the financial position and financial performance of an entity. The purpose of financial statements is to provide information about the financial position, financial performance, and cash flows of an entity that is useful for most users of the report in making economic decisions, according to PSAK number 1 (revised 2013). The financial statements presented must pay attention to two qualitative characteristics, namely relevant (relevance) and reliable (reliable). Financial statements that are relevant and reliable are in fact difficult to measure. Therefore, users of financial statement information require the services of an independent auditor as a third party. To improve the reliability of a company's financial statements, the examination conducted by the auditor must be objective and independent of the information presented in the financial statements. So that reliable financial information can be obtained as consideration in making decisions [1], [2].

Auditors are required to be objective and independent of the information presented by management. This is intended to improve the reliability and quality of the company's financial statements. The long audit engagement period causes the company to feel comfortable with the relationship that has existed so far between the auditor (KAP) and the company's management, which will reach a stage where the auditor will be emotionally attached and threaten his independence. [3], [4]. To maintain the reliability of a financial report and the independence of the auditor, the company is required to perform audit rotation as regulated in KMK Number 359/KMK/.06/2003 which has been revised by Regulation of the Minister of Finance Number 17/PMK.01/2008 concerning public accounting services regarding limitation of the period of providing audit services by KAP for a maximum of 6 consecutive years and auditors for 3 consecutive years. Due to the regulation regarding auditor rotation, the company's behavior arises to perform auditor switching. Auditor switching is a change of auditor or change of public accounting firm by a company. Auditor switching can be done mandatory or voluntary [5]. The mandatory change of auditors or KAP occurs because of government regulations that require auditor rotation. Meanwhile, voluntary auditor

turnover means that the company changes auditors voluntarily without the necessity of regulations made by the government[6].

The phenomenon of auditor switching has been found to have implications for the credibility of the value of financial statements and the costs of monitoring management activities. According to Frida (2013), the result of an auditor rotation that is too frequent is from the client side, namely auditors who carry out audit tasks at client companies in the first year will more or less interfere with the comfort of employees' work, by asking all questions about the company that should not be done if The auditor did not change this because the new auditor did not really understand the condition of the client company.[7]The American Institute of Certified Public Accountants (AICPA) states that the weakness of auditor rotation that is too frequent is that the quality of the audit produced will decrease because the knowledge gained during improving the quality of audit work will be wasted with the appointment of a new auditor. Another factor that can affect auditor switching is profitability[8]. According to Riyanto, explaining that profitability is the company's ability to earn a profit in a certain period, in previous research, profitability that affects auditor turnover is measured using the ROA ratio, Rizkilah and Didin explain that changes in ROA do not affect auditor switching, this is different from the research conducted by Pangky Wijaya. which states that profitability can affect auditor switching, if the company gets an increase in profitability, the company experiences growth in its company, thus companies that are experiencing growth will tend to do auditor switching.[9], [10]. In this study, the authors will conduct research on profitability with the measurement ratio using the sales profit margin generated by the company. According to Siegel and Shim in Fahmi, the larger the net profit margin, the more investors will like the company because it shows the company is getting good returns that exceed the cost of goods sold. The large level of company profit generated, the company is able to hire a higher quality KAP[11].

There are inconsistent results in previous studies, the results of some of these studies can still be retested even though the variables used are the same. This is the basis for researchers to re-examine variables such as: going concern opinion, KAP size and profitability that affect the company's decision to perform auditor switching and use different time periods and research objects from the previous one so that this study will provide different empirical findings. with previous research[12], [13]. This research is different from previous studies. Where in previous studies regarding auditor switching mostly used the object of research in manufacturing companies listed on the BEI. While this study selects objects in Real Estate and Property companies listed on the IDX. The reason the author chose Real Estate and Property companies is based on data obtained by researchers from 27 companies listed on the IDX in 2006-2012, it was recorded that voluntary auditor switching or voluntary switching of KAPs amounted to 17 companies. This means that more than 50% of Real Estate and Property companies listed on the IDX for seven years (2006-2012) have changed KAPs outside of government regulations.

## **2. METHOD**

### **2.1 Types of research**

This type of research is quantitative research. The data collection technique used is documentation, namely by collecting, recording, and reviewing secondary data in the form of audited financial reports, annual reports of Real Estate and Property companies in 2008-2013 obtained through the homepage of the Indonesia Stock Exchange (IDX), namely [www.idx.co.id](http://www.idx.co.id). The population and sample in this study are Real Estate and Property companies listed on the Indonesia Stock Exchange (IDX) during the period 2008-2013. The basis for determining sample selection is a sample that meets the completeness of the data. The sampling method used is purposive sampling. Purposive sampling method is a method of collecting samples based on research objectives.

### **2.2 MeData Collection method**

This study uses secondary data collected by literature study and documentary study methods. Literature study is carried out by collecting data and theories relevant to the problems to be studied by conducting a literature review and reviewing several literatures such as articles, journals, books, theses and other sources related to research. While the documentary study itself is collecting secondary data in the form of audited financial reports, annual reports of Real Estate and Property companies obtained through the Indonesia Stock Exchange (IDX) homepage site, namely [www.idx.co.id](http://www.idx.co.id).

### **2.3 MeData Analysis method**

The method of data analysis in this study is to use quantitative analysis techniques. Quantitative analysis is done by analyzing a problem that is realized quantitatively. In this study, quantitative analysis was carried out by quantifying research data so as to produce the information needed in the analysis

### **3. RELUST AND DISCUSSION**

#### **3.1 Peninfluence going concern opinion on auditor switching**

Auditor switching can occur when the company receives a going concern opinion. According to Astuti and Ramantha (2014) explained that if the company receives a going concern opinion, the company will get a negative response to its share price. The results of the study prove that going concern audit opinion has a significant effect on auditor switching. Management is dissatisfied with the performance of the auditors so that management will perform auditor switching. This is also in line with Carcello and Neal (2003) in Ainurrizky (2013) who argue that the dismissal of the auditor as a form of punishment for giving an opinion that is not in line with the company's expectations on its financial statements is carried out by management in the hope of getting an auditor who is more manageable. The client will switch the KAP because the opinion is not expected on the company's financial statements. The phenomenon of auditor switching by the company in the following year is expected to be able to provide the audit opinion that the company wants. Based on the description above, it can be concluded that going concern opinion has a positive effect on auditor switching by the company because going concern opinion can give a bad response to the company, so managers need to do auditor switching to overcome the company's problems after getting a going concern opinion.

#### **3.2 Effect of KAP Size on Auditor switching**

Agency theory assumes that humans are self-interested, so the presence of a third party as a mediator of agency relations is needed, in this case an independent auditor. Companies will prefer KAPs with better quality and have high credibility to improve the quality of the reliability of their financial statements and the reputation of their companies in the eyes of users of financial statements. Large KAPs usually have a high reputation in the business environment, so they will always try to maintain independence. Thus, it can be concluded that companies prefer large KAPs which are considered more qualified than small KAPs. KAP size has a negative effect on auditor switching, large KAPs (big 4) have better quality than small KAPs (non big 4).

#### **3.3 PenEffect of Profitability on Auditor switching**

The relationship between agency theory and profitability is the auditor as an independent and qualified third party to resolve conflicts between agents and principals. Agency theory assumes that all individuals act in their own interests (self-interest). Companies that experience an increase in profitability, the company experiences growth so that the company feels the need to replace a more qualified auditor when the company generates higher profits. Based on the description above, it can be seen that profitability measured by using ROA has a positive effect on auditor switching, in this study the author tries to measure the profitability variable with the ratio of profit margins (net profit margin). Because the larger the net profit margin, the more investors like the company because the company shows better results than the cost of goods sold. The greater the profitability ratio, the better the company in earning profits. Thus, companies that have higher profits will experience growth so that the company feels the need to replace more qualified auditors when the company gets high profits.

### **4. CONLUSION**

Based on the results of research and discussion on going concern opinions, KAP size and profitability of auditor switching on Real Estate and Property companies listed on the IDX during 2008-2013, conclusions can be drawn. concern, KAP size and profitability have no effect on auditor switching.

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