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The Effect Of Financial Distress And Profitability On Auditor Change In Consumption Goods Sector Companies Listed On The Indonesia Stock Exchange In 2018-2021

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Abstract:

This research is entitled influence, financial distress, and profitability of changing auditors in consumer goods sector companies listed on the Indonesia Stock Exchange in 2018-2021. The purpose of this study is to find out how financial distress and profitability of auditor changes. This study uses logistic regression by analyzing the factors that have occurred. This study uses secondary data with a population of 52 companies and a sample of 23 companies, namely companies in the consumer goods sector on the IDX. This research produces interesting findings, including financial distress which has a significant effect on auditor turnover. Meanwhile, the profitability variable has no effect on auditor turnover. The impact of the results of this study is the determination of the variables used by 37.5%, there are still 62.5% of other variables that can be used as further research such as corporate governance variables, operational complexity, ownership structure.

Keywords: Financial Distress; Earnings; Auditor Turnover

1. Introduction

Indonesia is one of the countries that implements mandatory auditor switching regulations, however, a phenomenon that often occurs in Indonesia is voluntary auditor turnover by companies. Initially, the obligation to rotate auditors was regulated in the Decree of the Minister of Finance of the Republic of Indonesia Number 423/KMK.06/2002, then updated by Minister of Finance Regulation (PMK) No.17/PMK.01/2008 concerning Public Accountant Services in article 3 paragraph (1) explained that a KAP may only audit a company for a maximum of 6 (six) consecutive financial years. Voluntary auditor switching in Indonesia is included in the relatively high category, although this will pose a risk to the company. Companies that frequently make changes will result in relatively higher audit fees and also in the first year it will slightly disturb the comfort of employees' work (Campa, 2019; Hay et al., 2021).

The Covid 19 pandemic has changed many things, including making the practice of the public accounting profession not run smoothly. IAPI board member Hendang

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Tanusdjaja reviews how auditors should respond to the impact of the Covid 19 pandemic on financial reports, audit procedures, and practical considerations supporting audit quality. The Covid 19 pandemic affected most of the business processes carried out by KAP, be it internal management, the KAP network, and the need to reconsider audit engagements to alternative audit approaches that must be taken during this pandemic.

The outbreak of the COVID-19 pandemic causes an economic crisis that may be much bigger than what has happened before and can also increase the prevalence of the risk of material misstatement of management's assertions in the financial statements. The economic crisis due to the Covid-19 pandemic has not only affected certain countries, professions or populations, but has also affected all countries throughout the world's prisons and the Covid-19 pandemic has also encouraged various parties to start using remote and online work systems. This change in work patterns has implications for the interactions that occur between accountants and a company (client) and their employees in the audit process. Companies that do not follow technological advances will find it difficult to deal with situations like this, as well as external auditors who are restricted in access and travel and limited availability of personnel due to health considerations that can interfere with the auditor's ability to obtain sufficient and appropriate audit evidence.

One of the cases that occurred as a result of a voluntary change of auditors occurred in a company in the consumer goods industry sector, PT Tri Banyan Tirta Tbk (ALTO), which conducted auditor switching for two consecutive years. This was because the company was caught in a case which caused the temporary suspension of securities trading from May 2014 to July 2014 for all capital markets in Indonesia. (www.kontan.co.id) . Due to these unfavorable conditions, PT Tri Banyan Tirta Tbk again conducted auditor switching in 2016, by appointing auditor William Suria Djaja to replace Gideon Adi Siallagan who only provided his services for one financial year (www.pasardana.id). the switching of auditors at PT Tri Banyan Tirta was due to factors from the auditees, not because of the regulations in force. On the basis of this phenomenon, it can be concluded that PT Tri Banyan Tirta Tbk (ALTO) made auditor switching voluntarily and did not change auditors properly according to applicable regulations or regulations. One of the roles of changing auditors is that financial distress is a condition where a company is experiencing unhealthy finances which will reflect an alarming situation for a company to go bankrupt (Ozcelik 2020). With an unhealthy financial condition, it will bring up a situation where the company replaces the public accounting firm to adjust the company's financial condition so that there is no swelling in audit fees. Client companies change auditors when experiencing financial distress because the company does not want the auditor to report this condition to the public (Petitjean, 2019; Darmayanti et al., 2021).

Another variable that affects audit turnover is profitability, namely profitability can affect auditor turnover because companies that get increased profitability, companies experience growth in their companies, thus companies that are experiencing growth will tend to change auditors. This is because companies need auditors who are qualified and able to meet the demands of fast company growth (Li et al., 2020; Aviantara 2021).

Auditor switching can be explained using agency theory. Agency relationships arise when the owner (principal) gives a mandate to the manager (agent) to manage the company they own. Managers in managing companies tend to prioritize personal interests rather than the interests of increasing company value. Managers act to achieve their own interests, even though some managers should side with the owners because they are the ones who give authority to manage the company (Handoyo & Maulana 2019).

According to (Abdillah et al., 2019) an audit is the collection of data and evaluation of evidence about information to determine and report the degree of conformity between that information and established criteria. The audit must be carried out by a competent and independent person. According to (Lord et al., 2019; Balios & Zaroulea, 2019) an audit is the collection and evaluation of evidence about information to determine and report the degree of correspondence between that information and predetermined criteria.

Financial distress is a condition in which a company's finances are in an unhealthy or critical state. Financial distress has a close relationship with company bankruptcy, because financial conditions that experience a decline are at risk of bankruptcy (Liang et al., 2020; Aldamen 2020). According to (Aldamen et al., 2020) the notion of financial distress is one of the characteristics of a company that is being hit by financial problems. The problem of financial distress, if not addressed immediately, will end in bankruptcy. The financial difficulties faced by the company have resulted in management having to think extra to take actions that can make the company healthy (Savitri et al., 2019).

Saputri & Asori (2019) mentioned profitability is as follows: Profitability or profitability of the company to obtain comprehensive profits, converting sales into profits and cash flow. According to (Alisa et al., 2019) the definition of Profitability is as follows: Profitability is used to measure the effectiveness of management as a whole which is indicated by the size of the profit level obtained in relation to sales and investment.

Auditor change is a transfer of auditors or Public Accounting Firm (KAP) carried out by the client company. Auditor replacement according to (Widmann et al., 2021) is "Management's decision to replace the auditor in order to obtain better quality services. Auditor switching is a behavior carried out by companies to change auditors (KAP).

Based on the description above, the purpose of this study is to analyze Influence of Financial Distress, and Rentability on Auditor Turnover in Consumer Goods Sector Companies Listed on the Indonesia Stock Exchange in 2018-2021.

2. Methodology

Population and Sample

Population The data taken is the company's annual report from 2018-2022 (4 years). The total population in this study is 52 consumer goods sector companies listed on the IDX in 2018-2022.

Sample

The sample selection in this study used nonprobability sampling with a purposive sampling technique, namely by taking a predetermined sample based on the aims and objectives of the research or selected based on criteria.
The sampling criteria determined by the author are as follows:

1. Consumer goods sector companies listed on the Indonesia Stock Exchange consecutively from 2018-2021.
2. Companies that publish annual reports from 2018-2021.
3. Companies that disclose audit fees from 2018-2021.

After selecting the sample, 23 companies were obtained that met the criteria as samples in this study.

Teknik Analisis Data

The data analysis used in this research is logistic regression analysis. The use of the logistic regression analysis method in this study is due to the fact that the dependent variable is dichotomous (division of two conflicting groups), namely changing auditors and not changing auditors. Through a process of Descriptive Statistics, Assessing the Overall Model (Overall Model Fit), Testing the Feasibility of the Regression Model , Multicollinearity Test, Coefficient of Determination (Nagelkerke R Square)

3. Empirical Findings/Result

Table 1. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Distress	92	-2.1273	3.8248	.895539	.8641144
Rentabilitas	92	-.2140	1.3776	.125037	.1878769
Valid N (listwise)	92				

Source : Data processed (2022)

The financial distress variable (X1) shows the lowest value of -2.1273 which occurred at FKS Food Sejahtera Tbk (AISA) in 2019, the highest value was 3.8248 which occurred at Pyridam Farma Tbk (PYFA) in 2021, with a value the average is 0.895539, and the standard deviation value is 0.8641144. The results of these data explain that a company that has a value of more than 0.895539 means that financial distress is categorized as high.

The profitability variable (X2) shows the lowest value of -0.2140 which occurred at Bentoel Internasional Investama Tbk (RMBA) in 2020, the highest value of 1.3776 which occurred at H.M. Sampoerna Tbk (HMSP) in 2021, with an average value of 0.125037, and a standard deviation value of 0.1878769. The results of these data explain that a company that has a value of more than 0.125037 means that profitability is categorized as high.

Assessing the Overall Model (*Overall Model Fit*)

Table 2. *Overall Model Fit*

-2*Log likelihood* awal (*block number* = 0)	126,843
-2*Log likelihood* akhir (*block number* = 1)	96,580

Source : Data processed (2022)

Based on the table above obtained from the results of the regression analysis shows that the initial -2Log likelihood value (block number = 0) before being included in the independent variable is 126.843. After the four independent variables were entered, the final -2Log likelihood value (block number = 1) decreased to 96.580. The difference between the initial -2Log likelihood and the final -2Log likelihood shows a decrease of 40.263. It can be concluded that the initial -2Log likelihood value (block number = 0) is greater than the final -2Log likelihood value (block number = 1), resulting in a decrease. This indicates that the hypothesized models are fit with the data, so that the addition of independent variables to the model indicates that the regression model is getting better.

Testing the Feasibility of the Regression Model

Table 3. *Goodness of Fit Test*

Hosmer and Lemeshow Test			
Step	Chi-square	df	Sig.
1	10.698	8	.219

Source : Data processed (2022)

Based on the results in Table 3 it can be seen that the significant value of the hosmer and lemeshow test is 0.219 which is greater than 0.05 with the hosmer and lemeshow statistic value of 10.698. A significant value greater than 0.05 explains that the model is able to predict the value of its observations or it can be said that the model is acceptable because it matches the observed data.

Multicollinearity Test

Tabel 4. Multicollinearity

	Audit Fee	Reputasi KAP
Financial Distress	.115	.233
Rentabilitas	.009	-.136

Source : Data processed (2022)

Based on the results above, it can be seen that all the correlations between the independent variables do not have a value of more than 0.8. This means that in this regression model there is no multicollinearity or in this model there is no correlation between the independent variables

Testing the Coefficient of Determination (*Nagelkerke R Square*)

Table 5. Coefficient of Determination

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	96.580[a]	.280	.375
a. Estimation terminated at iteration number 7 because parameter estimates changed by less than .001.			

Source : Data processed (2022)

The table above shows the Nagelkerke R Square value of 0.375, this number will be converted to a percent form, which means that the percentage of the ability of the independent variable used to explain its effect on the dependent variable. Then the contribution of the Financial Distress and Profitability variables in this study explains 37.5% of the variation in the auditor turnover variable. While the remaining 62.5% is influenced by other variables not measured in this regression model, other factors that might explain the effect of the auditor turnover variable based on previous studies are operational complexity, liquidity, ownership structure, etc.

Logistic Regression Analysis

Table 6. Logistic Regression

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	*Financial Distress*	1.620	.548	8.759	1	.003	5.056
	Rentabilitas	3.907	2.985	1.713	1	.191	49.738
	Constant	-15.458	6.100	6.422	1	.011	.000

a. Variable(s) entered on step 1: Audit Fee, Reputasi KAP, Financial Distress, Rentabilitas .

Source : Data processed (2022)

Based on the results in Table 6, the logistic regression equation in this study is as follows:

$$Y= -15.458 + 0.1620X1_it + 0.3907X2_it + e_it$$

The panel data regression equation can be explained as follows:

1. A constant of -15.458 means that if the independent variable remains constant, the dependent variable (auditor change) is -15.458.

2. The regression coefficient of the Financial Distress variable (X1) is 0.1620, meaning that if the other independent variables have a fixed value and the audit fee has increased, the auditor turnover will increase by 0.1620. The coefficient is positive, meaning that there is a positive relationship between Financial Distress and auditor turnover.

The regression coefficient of the Profitability variable (X2) is 0.3907, meaning that if the other independent variables have a fixed value and the KAP's reputation has increased, the auditor turnover will increase by 0.3907. The coefficient is positive, meaning that there is a positive relationship between profitability and auditor turnover.

4. Discussion

Effect of Financial Distress on Auditor Turnover
The third hypothesis put forward is that financial distress is related to auditor turnover in consumer goods sector companies listed on the Indonesia Stock Exchange (IDX) in 2018-2021, the results of the logistic regression analysis show that the probability value of financial distress is 0.003 less than 0.05, which means that financial distress has an effect on auditor turnover. Based on these results the third hypothesis (H3) which states financial distress has an effect on auditor turnover is accepted.

These results explain that greater financial distress will affect and increase the occurrence of auditor changes in consumer goods sector companies listed on the Indonesia Stock Exchange in 2018-2021. This is because too high costs incurred for auditing financial statements can trigger financial distress (Barua et al., 2019: Türegün, 2020). This can be caused by the high audit fees charged to the company, while the company's condition is unstable when experiencing financial distress.

The Effect of Earnings on Auditor Turnover
The fourth hypothesis put forward is that the profitability of auditor changes in consumer goods sector companies listed on the Indonesia Stock Exchange (IDX) in 2018-2021, the results of the logistic regression analysis show a profitability probability value of 0.191 greater than 0.05, which means that profitability has no effect to a change of auditors. Based on these results the fourth hypothesis (H4) which states that profitability has no effect on auditor turnover is rejected.

These results explain that the size of profitability will not affect the occurrence of auditor changes in consumer goods sector companies listed on the Indonesia Stock Exchange in 2018-2021. This is because companies that experience increased profits in a certain period are not one of the things for companies to consider in changing auditors (Oroud 2019).

4. Conclusion

Based on the research results as described in the previous chapter, the following conclusions can be drawn: Financial distress has a significant effect on auditor turnover. These results explain that greater financial distress will influence and increase the occurrence of auditor turnover in consumer goods sector companies listed on the Indonesia Stock Exchange in 2018-2021. Profitability has no significant effect on auditor turnover. These results explain that the size of profitability will not affect the occurrence of auditor changes in consumer goods sector companies listed on the Indonesia Stock Exchange in 2018-2021. Additional variables can be added that can be used as further research, such as corporate governance variables, operational complexity, ownership structure.

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