ISSN:1533-9211
SEYBOLD Journal REPORT
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The effect of audit fee, managerial ownership, percentage changes in ROA, and financial distress on voluntary auditor switching (Empirical study on financial sector companies listed on the Indonesia stock exchange)

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Abstract

This research aims to examine and analyze the effects of audit fee, managerial ownership, the percentage change in ROA, and financial distress on voluntary auditor switching. The population in this study is Financial Sector Companies listed on the Indonesia Stock Exchange. The sampling technique used in the study was purposive sampling method. Based on these methods a sample size of 114. The analytical method used was logistic regression analysis using SPSS software version 25. The results showed that audit fee, managerial ownership, and the percentage change in ROA have no effect on voluntary auditor switching. While financial distress has a positive effect on voluntary auditor switching.

ISSN:1533-9211
SEYBOLD Journal REPORT
www.seybold-report.com

ISSN: 1533 - 9211

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KEYWORDS:

Audit fee, Financial distress, Managerial ownership, The percentage change in ROA, Voluntary auditor switching

Received: 04 January 2024
Accepted: 16 January 2024
Published: 30 January 2024

TO CITE THIS ARTICLE:

Hermiyetti, Usmar, & Frengki Hardian. (2024). The effect of audit fee, managerial ownership, percentage changes in ROA, and financial distress on voluntary auditor switching: An empirical study on financial sector companies listed on the Indonesia Stock Exchange. *Seybold Report Journal*, *19*(1), 183-201. DOI: 10.5110/77. 1104

Introduction

Based on data on the Stock Exchange Indonesia (IDX), number of companies open or companies that do Initial Public Offering (IPO) every year is increasing [1]. Companies that go public have the obligation to submit appropriate annual financial report with Financial Accounting Standards in force. Report to company cash must be presented fairly, trustworthy, and easy to understand. In fulfilling these criteria, it is necessary to have financial statement audit process annually conducted by the Public Accounting Firm through an Independent Auditor. Attitude auditor independence means that auditors are not easily influenced, so that the auditor will report what he found during audit implementation process. Independent the auditor can be doubted if the auditor has a relationship too long cooperation with clients for being able to create comfort between company and auditors. Auditor switching or rotation audit can be one solution to maintain auditor independence in preventing the occurrence of audit engagements that are too long which will lead to closeness emotionally between companies and auditors [2-6].

Auditor switching is a phenomenon where auditors who currently on duty is no longer assigned in the year to come [7-9]. Switching Auditor or auditor rotation can be caused by mandatory rotation of public accountants regulated by the Government or change in voluntary. According to Sinarwati (2010), the company that undergo periodic auditor rotation volunteer can be possible is in a bad condition normal, so it is necessary to examine the factors which causes the company it rotates auditors [10-13].

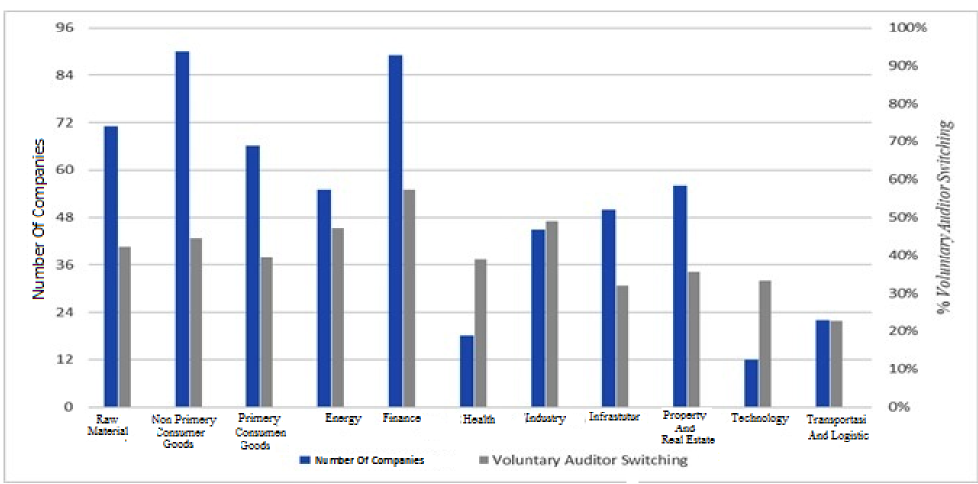
Regulations regarding limits auditor's engagement with the client regulated in the Service Authority Regulation Finance (POJK) Number 13/POJK. 03/2017 which contains about the use of audit services on information annual historical finance of the same public accountant maximum of 3 (three) financial years consecutive [14]. When the AP has conduct audits for 3 (three) years books in a row, then public accountant must perform a cooling-off period on different companies for 2 (two) consecutive financial years.

Change of auditor’s volunteering can have a negative impact for the auditor and the company. When a new public accountant start the audit process, an auditor must learn business processes and the work environment of the company client to determine audit risk. Lack of understanding of an audit or at the beginning of the audit process, incur start-up costs which will increase the audit fee for the company. In general, time inspection by external audit until the publication of the opinion goes very well short, namely for 3 (three) months or more according to the difficulty of the company. This can lead to high risk error for an auditor in examining corporate financial statements.

Despite the negative impact for the company and the auditor, voluntary auditor switching still a lot going on in Indonesia. Researchers conducted research on 11 sectors classified in Indonesia Stock Exchange industrial classification (IDX-IC). And researcher get the result as following:

Based on Figure 1 above, Sector finance is a sector with number of companies doing voluntary auditor switching term any from other sectors, namely 51 company of 89 companies or as many as 57% of sector companies finance doing voluntary switching auditors. Voluntary phenomenon dance auditor switching performed by the above company can minimize bulk inquiries for users financial information about reasons why companies do voluntary auditor switching.

Research conducted has previously shown there is the difference in results (mix-result) affect companies in Indonesia to do voluntary switching auditors. This research is a replication of the research Wea and Murdiawati (2015) with the difference is the addition of two independent variables, namely Audit fees and managerial ownership [15-20]. The researcher also changed the sample per business into the financial



sector listed on the IDX and change the year of observation by year the most recent being 2015-2022.

Figure 1: The phenomenon of voluntary auditors switching 2015-2022
Data source: www.idx.co.id (processed) [21]

Materials and Methods

Materials and equipment Literature review

Agency Theory

Jensen and Meckling (1976) stated that the agency problem caused by conflict interest and information asymmetry between principals (shareholders) and agents (management) [22]. The agent always put interests first personal so it's hard to me trust the agent will act based on the interests of the principal. In order to prevent action who broke the rules and violated ethics in financial information, monitoring is needed by company, namely the presence of parties third or independent Auditor which trigger agency costs. The principal wants to see financial statements that reflect the real condition of the company his. Meanwhile, the agent has effort to gain trust from principal by trying to present is the company's performance good? To the principal to maintain is his position. It triggers the occurrence of a change of auditors by management without known cause by the principal.

Voluntary Auditor Switching

Lianto (2017) states Auditor switching voluntarily that is, a company that performs auditor replacement within a period of time less than the period of engagement that has been set in the rotation rules auditors [23]. There are two factors that influence the company to change accounts public tan. The first factor is client factors (Client-related Factors), this factor can describe company conditions such as difficulties finances, failed management, and ownership changes. Factor the second is the auditor factor (Auditor-related Factors), these factors can be describe from the auditor's side such as audit fees and audit quality.

Audit Fee

Audit Fee according to Mulyadi (2014) is a reward or wages received by public accountants from the company (client) after perform audit services [24]. When the fee audit exceeds the acceptable tolerance limits set by company, company will look for another auditor with lower cost offer. Thus, relatively high audit fees will have an impact on more the possibility of the company to do a voluntary audit switching if under certain conditions [25-26].

Managerial ownership

According to Bodie (2011) managerial ownership is level of share ownership by parties actively involved management in the decision making of effort [27]. Sumarwoto (2006) stated that right that Management wants auditors who can meet the needs of company view [28]. The greater it is share ownership by management then the greater the chance so Auditor switching automatically voluntary if the auditor is not in line with management interest company.

Percentage Changes in ROA

Researchers Adeng and Adi (2012) define Percentage change ROA as an indicator to see business prospects the company [29-30]. The higher it is ROA percentage change value more effective asset management at the company. Company with the condition of percentage change High ROA indicates that the company has big money to get hire an auditor who is considered more good and competent in strengthening company business expansion se to the quality of financial reports can be improved. So therefore, company with percentage value high ROA changes tend do a voluntary auditor switching to a more qualified auditor in order to increase the prestige and investor confidence in audited results [31-33].

Financial Distress

Platt and Platt (2002) define financial distress as decline in the financial condition of the company before the company experiencing bankruptcy or liquidation [34]. Decline in financial condition it can be seen from the negative profit per effort and inability to company pays current liabilities his. Schwartz and Soo (1995) me state financial distress encourage companies to do auditor switching [35]. Company the one with the problem usually have an engagement period (tenure) audit is more relative short compared to time audit engagements in companies that healthier. This factor is because the criteria for auditors who do not support, such as audit evaluation results against bad companies or audit fees that tend to be high, these factors affect the management decisions in carrying out right auditor switching to an auditor who according to company conditions.

Hypothesis

H_1: Audit fees has a positive effect towards voluntary auditors switching.

H_2: Managerial ownership has a positive effect towards voluntary auditors switching.

H_3: Percentage change in ROA has a positive effect towards voluntary auditors switching.

H_4: Financial distress has a positive effect towards voluntary auditors switching.

Research Methods

Population and sampling

Population used in this study are companies the Financial Sector services listing on the Indonesia Stock Exchange (IDX) in 2015-2022. Picking technique sample choice is determined by use the purposive sampling method, namely the determination of the sample population that determined based on the criteria desired by the researcher. As for These criteria include:

a. Financial sector companies that listed on the Indonesia Stock Exchange 2015-2020 successively;
b. The issuing company complete annual report;
c. Companies that provide data audit fee in the annual report;
d. Companies that have the managerial ownership.

Variable Operation

Variable voluntary auditor switching is measured by use dummy variables. Value 1 will be given if the company carry out a voluntary auditor switching. A value of 0 will be given if the company does not voluntarily dance auditor switching [15]. Variable audit fee measured using log natural arithmetic (Ln) to reduce the number of research samples. Data on audit fees are obtained from external audit profile or accountant public listed on the company annual report closure financial sector [36]. Managerial ownership variable measured using the share management (commissioners, directors, and managers) with a total outstanding shares [37]. Variable percentage change in ROA measured using the comparison of the amount of return on assets previous year with return on current year assets [15]. Variables Financial distress is measured by the DER (Debt to Equity Ratio), Total liabilities divided by total equity. The safe ratio level is DER 100%. If DER ratio > 100% then the company has an indicator deteriorating financial performance and will experience financial distress (financial difficulties) [15].

Data Analysis Method

To test the effect of audit fee, managerial ownership, percent ROA change rate, and financial distress to voluntary auditor switching period 2015-2020 on financial sector, used the model logistic regression analysis (logistics regression). Reasons to use logistic regression analysis that is because dependent variable in research this is dichotomous (dummy) in the calculation. As for the model regression in this study is as follows:

Description:

$$\mathbf{Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Y = Voluntary Auditor Switching

α = Constant

β_1 - β_4 = Regression Coefficient

X_1 = Audit fee

X_2 = Managerial Ownership

X_3 = Percentage change in ROA

X_4 = Financial Distress

ε = Error

Results

Results of Descriptive statistics

Descriptive statistical results on voluntary auditor switching variable has a minimum value of 0, and the value of maximum 1. Average value (mean) of 0.54. It shows that 54% of the total sample have the possibility to do voluntary auditor switching is beingas much as 46% of the sample has probably not doing voluntary auditor switching. and value standard deviation of 0.501.

Descriptive statistical analysis results the audit fee variable has a value of minimum 17.60, and maximum value 23.47. The average value (mean) of 21.2684, This shows that amount of audit fee in sample research tends to be high. and value standard deviation of 1.43892.

Descriptive statistical analysis results managerial ownership variable has a minimum value of 0.000 and maximum value 0.7976. Average value the mean (mean) of 0.078929 or of 7.8929%. This show that the average holding managerial in the research sample tends to be low. And standard value deviation of 0.1878942.

Descriptive statistical analysis results variable percentage change in ROA have a minimum value of -19.85 and maximum value of 20.28. Average value (mean) of 0.0223 or equal to 2.23%. This shows that average percentage change in ROA in the research sample tends to low. And the standard deviation value amounted to 2.77750.

Descriptive statistical analysis results financial distress variable has a minimum value of 0.06 and a value of maximum 16.08. Average value by 5.2812 or by 528.12%, This shows that the average the research sample is in financial distress condition. and value standard deviation of financial distress of 3.03660.

Results of Overall Model Fit Test

This test is to test the hypothesis fit with the data or not. With see whether or not there is a decrease function value -2 Log Likelihood (-2LL) beginning with end. If there is impairment, then it can it is stated that the fit hypothesis model with data.

Based on the tests that treated with SPSS 25, showed that the initial -2 Log Likelihood value of 157,476. After entering independent variable, initial -2LL value decreased to 149,783. There is a decrease in value at -2LL it shows that the hypothesized regression model fit with observational data.

Results of Feasibility Test of Regression Model

Regression model feasibility test in this study using Hosmer and Lemeshow's Goodness of Fit Test as measured by the value of The resulting Chi-Square. If Hosmer and Lemeshow' Test scores > 0.05, then H_0 is accepted which means the model is acceptable because it fits with the observation data or model able to predict the value of the observation.

Based on the tests that treated with SPSS 25, showed that the Chi-Square value is 4.145 with a significance of 0.844. The resulting significance value greater than 0.05. This matter concluded that the research model is able to predict the value of his observations.

Results of Coefficient of Determination Test

Test the coefficient of determination in value using Nagel kerke the resulting R Square. This test is carried out with the purpose of knowing the magnitude the influence of the independent variables on face the dependent variable independently Partial.

Based on the tests that treated with SPSS 25, showed that the value of Nagelkerke R Square of 0.101. It shows that the dependent variable that can explained by the independent variable is 10.1% while Another 89.9% explained by other variables outside the model this research.

Results of Classification Matrix Test

Classification matrix test is used right to show strength predictions from the regression model use predict probability or the possibility of the company doing voluntary auditor switching.

Based on the tests that treated with SPSS 25, showed that the predictive power of the model regression to predict the the possibility of the company doing voluntary auditor switching is by 72.1%. There are 44 per the sample business that is predicted to do a voluntary auditor switch ing of a total of 61 sample companies who do voluntary auditors switching. Predictive power for sample companies that do not carry out a voluntary auditor switching is equal to 54.7%. This matter indicated by the presence of 29 sample companies that do not do voluntary auditor switching of a total of 53 samples of companies that carry out a voluntary auditor switching. The grand total of the models The resulting prediction is by 64.0%.

Results of Multicollinearity Test

Multicollinearity test was carried out to find out whether or not relationship or relationship variables independent with independent variable another short. This test is in do by looking at the value Tolerance and Variance Inflation Factor (VIF). The cut off value used to show the presence of multicollinearity is the value of Tolerance 0.10 and value of VIF 10.

Based on the tests that treated with SPSS 25, showed that all independent variables in this study has a value of Tolerance > 0.10 and VIF < 10. Hal this shows that the model symptom-free logistic regression multicollinearity.

Results of Logistics Regression Analysis

Logistics Regression Test carried out to test the effect of the variable independent which consists of an audit fee, managerial ownership, percentage changes in ROA, and financial distress on the dependent variable namely voluntary auditor switching.

Based on significant test results t is known that the value of the constant the resulting 3.306. This matter shows that if the variable independent audit fee, ownership managerial, percentage change ROA, and financial distress are 0 (zero), then the value of voluntary auditor switching on sample companies will have a value of 3.306. The value of the regression coefficient of each each variable is audit fee of -0.183, ownership of whichjerial of -0.958, the percentage change in ROA is -0.352, and financial distress of 0.158. Results logistic regression coefficient test generate the following model:

$$\mathbf{Y = 3{,}306 - 0{,}183\ X1 - 0{,}958\ X2 - 0{,}352\ X3 + 0{,}158\ X4 + e}$$

Based on significant test results t it is known that the variable Audit fee has a significance value of 0.318 > 0.05, which means the results of the t test not significant, **hypothesis 1 is rejected** and H_0 is accepted. Reasons that can be explain the above results that is because change of auditors at the company the financial sector is still in the same public accounting firm. Case This results in a range of audit fees at the time of the change of auditors much different or just happening slight increase and decrease from the previous year. Difference the amount of audit fee that tends to be This small amount results in an audit fee not a driving factor companies to carry out volundance auditor switching. On the other hand, the size of the audit fee in the process the audit will continue to be approved by the business as long as the benefits are in the form of results auditor performance is comparable to the amount of costs incurred per effort. The results of this study are in line with researchers Dwiyanti and Sabeni (2014), Udayani and Badera (2017), and Kholipah and Suryandari (2019) [2, 38-39]. However, not in line with Fajrin (2015) [40], Pradhana and Suputra (2015) [41] which states that the variable audit fees have a positive effect on switching auditors.

Based on significant test results t it is known that the ownership variable managerial has a significant value fiction of 0.483 > 0.05 which it means that the t test result is not significant **hypothesis 2 is rejected** and H_0 is accepted. The results of this study occur because almost all sector companies finance has ownership managerial below 5%, which means the position of which party is the insider? General Meeting of Shareholders (GMS) is a minority. Where votes from minority shareholders will lose to shareholders majority. And share ownership on the company not only owned by company management only, but also owned by institutions, government, and the general public. Therefore, validation of the report to reliable company audit finance right by users from among wider in taking decision. So, change auditors cannot be determined by one of the owners only. With Thus, the amount of ownership managerial in the company is not influence company decisions do a voluntary auditor switching. The results of this study are in line with researchers Rahayu and Effendi (2015), Astyorini (2015), Fauzi, Hasan, and Oktari (2020). However contrary to researcher Johari (2015), and Meidiyustiani (2018) [42-46] which states that the variable Influential managerial ownership positive for auditor switching.

Based on significant test results t it is known that the percentage variable ROA changes have value significance of 0.179 > 0.05 which it means that the t test results are not significant, **hypothesis 3 is rejected** and H_0 is accepted. The results of this study occur because the value of ROA in sector companies finances are volatile with the difference in value is quite high. Especially in 2020 where the whole world is in a situation Covid-19 pandemic. This pandemic has a major impact on the decline business activities and capabilities company in maintaining his business. Reported from the site sindonews.com, sector net profit banking during the pandemic decreased by about -33.08 % to -56.5% of the year period then. the decrease in net profit also has an impact on the run menu company ROA value. On this research, it can also seen from the sample research data in 2020, the majority of companies has a percentage value per change ROA is negative until it reaches minus thousands of percent and greatly decreased far from the result of percentage change ROA of the previous year. This matter result in variations in the data high and the test results are not significant. These results are in line with the Wea researchers and Murdiawati (2015), Setya (2015), Rosini (2017) [15, 47-48]. But contrary with researcher Mochammad (2012), Adeng and Adi (2012) [29, 31] stated that the variable Percentage change ROA has a positive effect on switching auditors.

Based on significant test results t it is known that the variable financial distress has a significant value of 0.047 < 0.05 which means t test results are significant, hypothesis 4 accepted and H_0 rejected. As for The resulting regression direction is of 0.158 (positive), it means financial distress has a positive effect against voluntary auditor switching. The results of this study occur because in an effort to maintain investors' confidence in the ability of return on investment when experiencing financial distress companies tend to look for auditors who meet the per. criteria effort. If the current auditor's criteria does not support, such as results poor evaluation and audit fees high, can affect the company's decision to do voluntary auditor switching to auditors in accordance with the conditions company. So, companies with financial distress conditions tend to do more volunteering auditor switching compared companies that do not experience financial distress. This result is in line with researchers Dwiyanti and Sabeni (2014) [38], Wea and Murdiawati (2015) [15], Yasinta (2015) [49].

Conclusion

The purpose of this research is to test the effect of audit fees, managerial ownership, percentage changes in ROA, and financial distress on voluntary auditors switching. Based on the results of the analysis data and discussions that have been done, then it can be taken conclusion as follows: audit fee has no effect against voluntary auditor switching. This means that the size of the audit fee offered by public accountants to the company does not determine the company's decision to do a voluntary auditor switching. This is presumably because during public account ants can fulfill criteria and give results audit report in accordance with the company's wishes, then ting how come the audit fee does not become problem for the company. Managerial ownership is not effect on voluntary switching auditors. This is mean that the size is small managerial ownership is not make company decisions to do voluntary switching auditors. This is because right by company management not a holder majority share in the company an. Majority share ownership more dominated by outsider ownership, so that to decision voluntary auditor switching will be more adapted to shareholder needs majority. The percentage change in ROA is not effect on voluntary switching auditors. This is mean that the size ROA percentage change no make company decisions to do voluntary switching auditors. This is because It's because of the company's reputation will be more awake if the company don't often do voluntary switching auditors. Financial distress has an effect positive on voluntary auditor switching. This means that the higher the financial distress experienced by the company then the possibility of the company to do a voluntary audit switching torque will be even greater. Meanwhile, the lower the financial distress experienced by the effort then the probability of effort to do voluntary auditor switching will be getting smaller.

COMPETING INTERESTS

The authors have no compting interest to declare.

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HOW TO CITE THIS ARTICLE:

Hermiyetti, Usmar, & Frengki Hardian. (2024). The effect of audit fee, managerial ownership, percentage changes in ROA, and financial distress on voluntary auditor switching: An empirical study on financial sector companies listed on the Indonesia Stock Exchange. *Seybold Report Journal*, *19*(1), 183-201. DOI: 10.5110/77. 1104

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