

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Globalization has made the world becomes significantly interconnected. This cause the global race become more cutthroat with greater competition and demand for innovation in every industry, especially the business sector. Business find themselves being forced to come to terms with the new normal wrought on, where to remain relevant, company must become a forward-learning organization that sees the value in being proactive and implement new technologies to develop the business processes. It cannot be denied that the more develop the company, the more inevitable the company is in the need for funds from outside parties, whether in the form of equity from investors, loans from creditor or others.

According to Imansyah (2017), OJK Deputy Commissioner of Strategic Management, company in Indonesia is currently more likely to seek funding from the capital market. Company prefers capital market over other funding sources because it offer cheaper interest and lower cost. Imansyah's statement is being reinforced by the fact that during this year, President Director of Indonesia Stock Exchange, Tito Sulistio, had recorded a record where the number of issuers who did initial public offering (IPO) reached 33 companies. These number of companies has made Indonesia become the largest capital market in ASEAN in term of listing its share. As the result, investors are being exposed to the number of options of go public companies (Simamora, 2017).

Every company that go public is required to publish their financial statements as a form of responsibility for funds that have been entrusted by investor. Financial statement is source of

information about company operational activities and financial position. It must indicate the actual state of the company so it can be used by investor as consideration in making the right decision. However, financial statement is actually being prepared by the company itself which make it easily being influenced by personal interest. The existence of interest conflict between company and investor has lead to the need for independent third parties.

Auditor, whose key function is to check the fairness of company financial statement, has been trusted to act independently and do not favor neither company nor investor. An auditor is being independent when they work objectively and honestly. A long term relationship between auditor and company is believed could threaten auditor's independence. This could happen because a long audit tenure could create a "comfortable relationship" and strong fidelity with their client which can reach the stage where auditor's independence is being threatened. In order to increase independence, government found that auditor should rotate more. (Amalia, 2015).

Auditor switching is a rotation of audit firm as an attempt to restrict auditor from interacting frequently with their clients. According to Agiastuti (2016), auditor switching could increase auditor's independence which could enhance the quality of an audit. Indonesia is one of the countries that impose a compulsory change of auditor. Auditor switching in Indonesia is regulated in the Constitution of the Republic of Indonesia Number 5 year 2011 concerning about "Public Accounting Service" which later was regulated in Government Regulation of the Republic of Indonesia Number 20 year 2015. Article 11 paragraph 1 in Government Regulation of the Republic of Indonesia stipulates that the provision of general audit services to the company's financial statements by a public accountant is executed at the latest 5 (five) years consecutively and may receive reassignment after 2 (two) years consecutively does

not perform audit service. The Government Regulation of the Republic of Indonesia Number 20 year 2015 is a change from the Regulation of the Minister of Finance No. 17 / PMK.01 / 2008 regulating "Public Accounting Services" with the rule that the provision of general audit services to the company's financial statements by a public accountant is executed at the latest 3 (three) years consecutively and by Public Accounting Firm conducted 6 (six) consecutive years. The existence of this regulation has resulted company to perform mandatory auditor switching.

Apart from the applicable regulation, there are companies who rotate or switch their auditor voluntarily due to company self-desire or consideration. Such auditor switching is called as voluntary auditor switching. There are a lot of debate over the reason behind company's decision on voluntarily switching their auditor. As Pratitis (2012), ever said:

Company who replaced their auditor will incur a cost which should not be incurred if they just continue to use the same auditor, such as the start-up cost which is used by auditor to learn and understand company's work environment and determine the audit risk.

In addition, auditor who perform their job in the first year have a high probability of errors, time consuming and will interfere the employee's working effectiveness while asking questions about the company (Haruman, 2016). The fact about the reason for voluntary switching auditor is never being disclosed in the financial statement. As it will cause the suspicion of external parties, it is important to know the determinants factors of voluntary auditor switching.

There are many factors that can cause company decided to do voluntary auditor switching. Audit fee is one of those factors. Audit fee is a reward that auditor receives after performing an audit service. As this audit fee is a cost that does not add direct value to the company, naturally, one expect company to choose auditor with lower

fee. However, if company keep on changing their auditor to the lower fee auditor, people will think that company are financially distress which cause them unable to pay audit fee. Previous studies that examined the link between audit fee and auditor switching were conducted by Widanaputra (2016), which result shows that audit fee positively affect the auditor switching. In the same year, Susanti (2016), also did the same research where the result was audit fee affect auditor switching. Company with high audit risk will have a high audit fee which make company tend to switch their auditor. This result is different from the result of Suyono (2013) and Dijkema (2016) that state audit fee does not affect auditor switching.

Going concern opinion is a particular type of audit opinion issued by auditor when they found doubt on the sustainability of the company. Company tries to avoid achieving going concern opinion as it will affect company negatively. It will not only harm the investor's confidence but also reduce the value of the company. Some studies were performed using going concern opinion but the results are inconsistent. Research conducted by Wahyuningsih (2012) states that going concern audit opinion does not affect the auditor switching. While the research conducted by Saputra (2017), stated that going concern opinion is positively affect the auditor switching. According to him, company who receive going concern opinion will change their auditor with hope for the issuance of better audit opinion.

Large public accounting firm is judged to have better capabilities when conducting audits, thereby resulting in better audit quality than the quality of small audit firms. According to Dopuch and Simunic in Stephanie (2017), audit quality is considered as the most important determinant of selecting auditor especially in developed markets. Auditing large clients such as go public company requires more resources from the firms in both human and technical side. This requirement typically could be provided by large audit firms. The size

of the audit firm have a significant relationship with the independence of the auditor. There are several reasons that make company prefer a larger public accounting firm size. One of those reasons are because underwriters such as brokers and audit committees often recommend larger public accounting firm. This happened because they put more trust and confident on reports that generated by large public accounting firms. A research that has been done by Putra (2016), shows that audit firm size does not affects auditor switching. This result is contradictive with the research conducted by Rahmawati (2012) that shows audit firm size affect negatively on auditor switching.

The added value of this research is using total revenue as the measurement of public accounting firm size. Other researches tend to use Big 4 and non-Big 4 as the benchmark of audit firm size. Another adding value is this research using banking sector company which is listed in Indonesia Stock Exchange (IDX). Banking sector is chosen as previous studies tends to use manufacturing or real estate company as their research's population. So research on the banking sector is still rare. Moreover, banking is an important sector because it plays a big role on determining the success of one country's economy. It is also a sources of funds for other industries. As it works in the name of trust, bank are more sensitive while talking about distortions and always do their best to maintain stability in growth. There is a sayings from one of the biggest accounting firm, EY, "Customer trust: without it, you're just another bank". This sayings show how trust makes a bank become big and not vice versa. In addition, the purpose of using banking sector is to make the comparison between sectors listed in the Indonesia Stock Exchange about factors that affect the voluntary auditor switching.

This research intends to re-examine the variables of audit fee, going concern opinion, and public accounting firm size because the

results of previous researches of these variables are inconsistent. Moreover, government has recently change the regulation of auditor switching. Based on the background that has been described above, researcher is interested to do a research with title “**Determinants Factors of Voluntary Auditor Switching (A Case Study on Banking Sector Listed in Indonesia Stock Exchange for period of 2014-2016)**”.

1.2 PROBLEM LIMITATION

As auditor switching is a topic with a wide range of discussion, problem limitation is necessary to create clear boundaries which restrict research conducted become too broad. The limitation of this research are:

1. Company must be banking company listed in Indonesia Stock Exchange (IDX) during observation period, which are 2010 until 2016.
2. The banking company must not delisting from IDX for the period of year 2010-2016.
3. The banking company must publish audited and complete financial statement for year 2010-2016.
4. The banking company must have independent audit report and annual financial report.

1.3 PROBLEM FORMULATION

Based on the description in the background above, the formulation of the problem in this research are as follows:

1. Does audit fee affect voluntary auditor switching?
2. Does going concern opinion affect voluntary auditor switching?
3. Does public accounting firm size affect voluntary auditor switching?

1.4 OBJECTIVE OF THE RESEARCH

Research objective describe what researcher expect to achieve by a project. By this paper, researcher expects:

1. To identify the effect of audit fee on voluntary auditor switching.
2. To identify the effect of going concern opinion on voluntary auditor switching.
3. To identify the effect of public accounting firm size on voluntary auditor switching.

1.5 BENEFIT OF THE RESEARCH

Benefit of research explains the contribution of a research to the society. The writer usually stated clearly several expected improvements that some parties will achieve. This research is expected to be beneficial for several parties such as:

a. Theoretical Benefit

The theoretical benefit writer expects to achieve through the study of factors determines auditor switching are:

1. For readers

This research is means to add insight about the determinants factors of voluntary auditor switching especially in banking sector.

2. For the academic

This research is expected to give insight and knowledge on the development of auditing especially voluntary auditor switching.

b. Practical Benefit

The practical benefit writer expects to achieve through the study of factors determines auditor switching are:

1. For public accountant

This research give auditor information about company practices on auditor switching especially voluntary auditor switching.

2. For future researcher

This research can be used as sources of information or reference for future researcher that interest on the development of voluntary auditor switching.

1.6 SYSTEMS OF WRITING

The research is divided into five chapter systematically such as:

CHAPTER I: INTRODUCTION

In the first chapter of this research contains background of the study where reasons of this research made such as voluntary auditor switching phenomena, inconsistent of the previous research's results and new auditor switching regulation are described with supporting theory and fact. The problem limitation such as specific population of banking sector are stated clearly to prevent a broad and dense discussion. Problem formulation consists of questions that will be answered through this research which will become the objective of the research done. This research is also being expected to be beneficial for several related parties like external auditor, future researcher and academics. Next, the first chapter will be ended by the system of writing that consists summary of each chapter.

CHAPTER II: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The second chapter displays theoretical background which presents some related theories namely agency theory and signaling theory. It also describes concepts that are relevant to the topic of the

research and relate to the border areas of knowledge being considered. The collection of prior researches conducted by previous researcher is mean to support the hypothesis formulation or development which will become the answer of the research done. Research model and framework of thinking are designed or schemed with purpose to simplify or explain the research easily.

CHAPTER III: RESEARCH METHODOLOGY

The third chapter is generally discuss about the type of the research where in this research is quantitative since researcher uses measurable data to formulate facts and uncover pattern in research. The population and requirement needed to become a sample of this research are described followed by the method of data collection where can be known what type of data used for the research. The population of this research is banking companies listed in Indonesia Stock Exchange (IDX) while the data collected method is documentation method since data are collected by studying company records and documents. Data used in this research is secondary data because data are obtained by researcher indirectly. Last, in this chapter also can be seen the definition of variables used with each of the measurement and analysis method.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter presents the general view of the banking sector listed in Indonesia Stock Exchange (IDX). An analysis of the research data will show the tables or graphs resulted by generating numerical or nominal data into usable statistic which is done with the help of several testing needed. In this research, variables will go through several testing such as: descriptive statistic, classical assumption test and hypothesis testing. After that, researcher will translate the data into several facts. This facts are the answers of the research problem

formulation and objectives on whether audit fee, going concern opinion and public accounting firm size affect voluntary auditor switching. Last, those facts will be discussed and served in such a long yet scientific and clear essays.

CHAPTER V: CONCLUSION

In the last chapter, research is ended by a conclusion of the research. The conclusion contains summary of the result and some explanation on the result. Next, an expectation of research contribution is stated as a research implication. Suggestion of the research are delivered for people who interested on this field.

