

**The Effect of Audit Fee and Difficulty of Company Financial Condition on Auditor Switching
With Auditor Reputation as a Moderating Variable**

(Empirical Study on Infrastructure, Utilities & Transportation Sector Companies Listed on the
Indonesia Stock Exchange for the 2017-2021 Period)

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ABSTRACT

The purpose of this study was to determine the effect of audit fees and financial difficulties on auditor switching with auditor reputation as a moderating variable. The research method uses quantitative methods. The research design consists of a descriptive design and a causal design. The sampling technique uses purposive sampling with a total sample of 27 infrastructure, utilities & transportation sector companies registered on the IDX for 2017-2021, where the research sample data is 135 sample data. Data analysis used logistic regression analysis and moderated regression analysis (MRA) with the SPSS Version 20 program. Based on the results of data analysis, it is known that the Nagelkerke R Square value is 0.689. This shows that the variation in giving auditor switching can be explained by 68.9% by the audit fee variable, financial distress with the auditor's reputation as a moderating variable, while the rest is explained by other variables not examined. The results of testing the hypothesis, it is known that audit fees have a positive effect on auditor switching, financial distress has a positive effect on auditor switching, auditor reputation moderates (weakens) the effect of audit fees has a positive effect on auditor switching, and auditor reputation does not moderate the effect of financial distress on auditor switching.

Keywords: *Auditor Switching, Audit Fee, Difficult Financial Condition, Auditor Reputation.*

INTRODUCTION

Auditors have an important role in a company and have an important role in financial statements to gain the trust of clients regarding whether the financial statements are free from misstatement and have no fraud. Independence is the main key of the auditor profession, auditors who maintain an independent attitude, the possibility of audit quality can be higher and auditors are not easily influenced by client interests (Sima & Badera, 2018). *Auditor switching* needs to be done regularly to maintain *auditor* independence. A long audit engagement period can cause the relationship between the auditor and company management to become closer, where the auditor will have an emotional bond with the company which can reduce the auditor's objectivity.

Limiting the audit engagement period is one of the efforts made to prevent auditors from interacting with clients for too long which will affect auditor independence (Gusniar, 2020). *Mandatory* auditor changes according to the latest regulations, namely Government Regulation No.20/2015 concerning Public Accountant Practices,

in article 11 paragraph 1 which explains that KAP is no longer limited in conducting audits of a company, while restrictions only apply to Public Accountants, namely for 5 consecutive financial years.

Limiting the period of auditor engagement is considered necessary, because a long period of engagement can cause auditors to establish excessive family relationships (Abdul Nasser et al., 2006). Auditor *Switching* can occur *mandatorily* or *voluntarily*, Auditor *switching* is done *mandatorily*, which is carried out based on regulations set by the government that limit audit tenure which aims to maintain auditor independence. Meanwhile, *voluntary Auditor Switching* is a decision to change auditors based on the wishes of the company itself or outside of existing regulations (Dwiyanti and Sabeni, 2014).

The phenomenon regarding auditor changes is the case carried out by PT Garuda Indonesia Tbk (GIAA) in 2019. Starting with the results of Garuda Indonesia's financial statements for the 2018 financial year, in the financial statements it is known that PT Garuda Indonesia posted a net profit of USD 809.85 thousand or around Rp 11.33 billion. This figure jumped sharply compared to 2017 which suffered a loss of USD 216.57 million. The financial report has drawn polemics because it is considered not in accordance with the Statement of Financial Accounting Standards (PSAK). This is because PT Garuda Indonesia included the profits of PT Mahata Aero, which has a debt to PT Garuda Indonesia related to the unpaid wifi installation. The Ministry of Finance has conducted an examination of KAP Tanubrata Sutanto Fahmi Bambang & Rekan (Member of BDO International) regarding PT Garuda's 2018 financial statements. The KAP was the auditor of PT Garuda in 2018. Based on the results of the meeting with the KAP, it was concluded that there were allegations of audits that were not in accordance with accounting standards, so that sanctions were given by the Financial Services Authority (OJK).

This study focuses on the audit *fee* variable and the difficulty of financial conditions as *independent variables* and adds the auditor reputation variable as a moderating variable, this is deemed necessary considering that the auditor's reputation is a big name owned by an auditor for his work, achievements, and public trust which can affect the company's desire to change auditors (*auditor switching*) in infrastructure sector companies listed on the IDX in 2017-2020.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Jensen & Meckling state that agency theory is the relationship between two parties who are bound in an agreement and consist of an agent, which is the party given responsibility and the principal who gives responsibility, as long as the relationship between shareholders and managers in the company is purely agency related, it is common to find a connection with the "separation between ownership and control" in the modern ownership structure model that spreads in companies that can be associated with general agency problems. In the relationship between *principals* and *agents*, situations, goals, interests and backgrounds often conflict with each other leading to conflicts of interest. The conflict that occurs between *principals* and *agents* is due to information asymmetry, this information asymmetry occurs when *agents* have more information than *principals*. Because of these differences in interests, it is necessary for a party to carry out the process of monitoring and examining the activities of the stakeholders.

Supervision carried out by independent parties requires costs or *monitoring costs* in the form of audit fees, which is one of the *agency costs*. The activities of the parties are assessed through the financial performance reflected in the financial statements. *Principals* need auditors to verify the information provided by management to the company. For management, auditors need to produce reliable financial statements. The independent auditor performs a supervisory function over the manager's work through the financial statements, then applies audit procedures to the fairness of the financial statements, and the auditor will provide an opinion on the work in the form of an audit opinion that will be used by users of the financial statements to make decisions.

Hypothesis Development

The Effect of Audit Fee on Auditor Switching

Audit fee is the amount of fees that the company must pay to the auditor for services for auditing its financial statements (Najwa & Syofyan, 2020). External auditors, in this case the Public Accounting Firm (KAP) in carrying out their duties to audit the financial statements of client companies have different audit *fees* (Sari & Widanaputra, 2016). If the audit fee exceeds the limit set by

If the company is not comfortable with the audit *fee that must be paid*, then the company as a client will prefer to find an auditor with a lower audit fee or in accordance with the tolerance limit set by the company. If the company is not comfortable with the audit fees that must be paid, then the company will try to do *auditor switching* to find an audit *fee* that suits the company's financial budget.

H1: Audit fees have a positive effect on *auditor switching*.

The Effect of Financial Difficulty Conditions on Auditor Switching

The company's financial condition is basically a complete view of the company's finances during a certain period or period of time (Puspayanti, 2018). This financial condition shows how the company is really doing, whether it is in good condition so that it can maintain its survival or the company is in bad condition so that it threatens the survival of the company itself. Companies experiencing financial difficulties indicate a decrease in the financial health of a company, usually the company's financial statements are in poor condition, such as low profitability, experiencing losses to have debt that is greater than the company's capital. Companies experiencing financial difficulties will generally minimize company expenses, one of which is related to audit *fee* expenses. Puspayanti (2018) states that companies that are under threat of bankruptcy due to financial difficulties will prefer to change their auditors, in this case the Public Accounting Firm (KAP) to minimize company expenses with KAP whose audit *fee* is lower than the previous KAP.

H2: Financial distress conditions have a positive effect on *auditor switching*.

The Effect of Audit Fee on Auditor Switching with Auditor Reputation as a Moderating Variable

The external auditor, in this case the Public Accounting Firm (KAP) as the party that provides audit services for the company's financial statements over a certain period of time. The auditor's reputation shows an achievement and public trust that the auditor carries on behalf of the auditor. According to (Praptitorini, 2007) investors will have more confidence in the audited financial statements of reputable auditors. Companies will look for KAP with a high reputation for credibility to improve the quality of the company's financial reporting in the eyes of users of financial statements even though it has the consequence of higher audit *fees*.

Auditors who are considered to have a reputation come from the *Big Four* KAP with higher audit *fee* consequences, because the *Big Four* KAP is considered to have high quality expertise and tends to complete audit reports faster (Sari & Widanaputra, 2016). If the audit *fee* paid to the auditor is not in accordance with the quality of the resulting audit, the company tends to replace the auditor with a more suitable auditor and in accordance with the company's wishes. However, if the company has used a KAP that has a high reputation and this can improve the company's good name and make it easier for it to obtain capital from buying and selling shares on the stock market because it is audited by a reputable auditor, the company will continue to use a reputable KAP to audit the company's financial statements even though the audit *fee* is higher.

H3: Auditor reputation weakens the effect of audit *fees* on *auditor switching*.

The Effect of Financial Difficulty Conditions on Auditor Switching with Auditor Reputation as a Moderating Variable

The external auditor, in this case the Public Accounting Firm (KAP) as the party that provides audit services for the company's financial statements over a certain period of time. The auditor's reputation shows an achievement and public trust that the auditor carries on behalf of the auditor. According to (Praptitorini, 2007) investors will have more confidence in the audited financial statements of reputable auditors. The company will look for KAP with a high reputation for credibility to improve the quality of the company's financial reporting in the eyes of users of financial statements with the consequence of higher audit *fees*. The existence of an element of *agency cost* arising from the agency relationship allows the company to do *auditor switching* if the company is experiencing *financial distress* as indicated by the high debt to equity ratio which reflects the company has a total debt that is greater than its own capital or total company equity.

The existence of financial difficulties experienced by a company will cause company management to try to reduce company expenses, one of which is related to the cost of auditor audit *fees*, in this case KAP, causing the company to carry out *auditor switching* to minimize company expenses by paying auditor or KAP services at a lower price than the audit *fee* from the previous KAP. However, if the company has used a KAP that has a high reputation even though it is in a state of financial difficulty, where the use of a reputable KAP can improve the good name of the company.

The company makes it easier for it to obtain capital from buying and selling shares on the stock market because it is audited by a reputable auditor, in this case the *Big Four* KAP.

H4: Auditor reputation weakens the effect of financial distress conditions on *auditor switching*

RESEARCH METHODS

Research Method and Design

This research uses quantitative methods, which is research that focuses on testing theories by analyzing data with statistical procedures (Sugiyono, 2018). The research design uses a causal design to find out whether there is a causal relationship from the independent variable to the fixed variable.

Population and Sample

The research population is infrastructure, utilities and transportation sector companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021. The sampling technique uses *purposive sampling* technique, which is a sampling technique based on the subjective considerations of researchers, namely the criteria that must be met by infrastructure, utility and transportation sector companies to be used as research samples, where there are 27 infrastructure, utility and transportation sector companies that meet the *purposive sampling* criteria, where the observation period is 5 years from 2017-2021. Then the research sample data is 135 sample data.

Data Collection Technique

Data collection techniques are carried out by documentation studies with secondary data sources from audited annual financial reports on infrastructure, utilities and transportation sector companies.

Measurement and Operational Variables *Dependent Variable*

The dependent variable (variable Y) in this study is *auditor switching*, which is a change of auditor made by a client company. The *auditor switching variable* uses a *dummy* variable. If a client company changes auditors, it is given a value of 1, but if a client company does not change auditors, it is given a value of 0 (Abdul Nasser et al., 2006).

Independent Variable

The independent variables (variable X) in this study consist of the audit fee variable (variable X1) and the condition of financial difficulties (variable X2) as follows:

1. Audit fee (variable X1)

is the cost of compensation or payment of wages received by an auditor for services rendered (Mulyadi, 2016). The audit fee variable is represented by the *professional fees* account in the *annual report*, the audit fee variable will be measured using the natural logarithm (ln) audit fee proxy (Aulia Najwa & Syofyan, 2020).

2. Financial distress conditions (variable X2)

is a state of the company that is experiencing unhealthy conditions or experiencing financial difficulties so that the company is feared to experience bankruptcy (Faradila & Yahya, 2016). One of the resources used to finance the company's operations comes from debt. Therefore, a special ratio is needed in order to see performance by using the debt to equity ratio (DER). *Debt to equity ratio* is a ratio used to compare the amount of debt to equity (Trisnandari, 2015). In this study, the difficulty of the company's financial condition is proxied by the DER ratio (*debt to equity ratio*) referring to research conducted by (Suparlan et al., 2010).

Moderating Variable

The moderating variable in this study is the auditor's reputation, namely the achievements and public trust that the auditor bears for the big name the auditor has (Rudyawan in (Mahantara, 2013). In this study, auditor reputation is proxied by working with *The Big Four Auditors* using dummy variables. If KAP is included in the *Big Four Auditors* category, it is coded 1, if it is not included in the category it is coded 0 (Rahayu, 2012).

Data Analysis Method

Logistic Regression Analysis

Used to analyze the model 1 equation using the SPSS version 20 program to determine the significance value of each variable as the basis for testing the direct effect hypothesis, namely the first hypothesis and the second hypothesis.

Moderated Regression Analysis (MRA)

Used to analyze the model 2 equation using the SPSS version 20 program to determine the significance value of each variable as a basis for testing the special hypothesis of moderation effects, namely the third hypothesis and the fourth hypothesis.

Hypothesis Test

Using the t test to find out whether there is a direct effect of the independent variable on the fixed variable and to find out whether there is a moderating effect, where the hypothesis acceptance criteria are as follows:

$\text{Sig} > \alpha$ (0.05), then H_0 is accepted and H_a is rejected, meaning that there is no effect of the independent variable on the fixed variable partially or there is no moderation effect.

$\text{Sig} \leq \alpha$ (0.05), then H_0 is rejected and H_a is accepted, meaning that there is an effect of the independent variable on the fixed variable partially or there is a moderating effect.

RESEARCH RESULTS AND DISCUSSION

Logistic Regression Analysis Results

The results of *logistic* regression analysis in model 1 get the significance value of each variable as the basis for testing the direct effect hypothesis, namely the first and second hypotheses.

Table 1. Results of *Logistic Regression Analysis Model 1*

		Variables in the Equation					
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1a	AF_X1	1,523	,447	11,639	1	,001	4,588
	FD_X2	,070	,028	6,459	1	,011	1,073
	RA_M	-4,729	1,628	8,436	1	,004	,009
	Constant	-33,048	9,159	13,019	1	,000	,000

a. Variable(s) entered on step 1: AF_X1, FD_X2, RA_M.

Source: Results of SPSS version 20

Moderated Regression Analysis (MRA) Results

The results of the MRA analysis in model 2 get the significance value of each moderating effect variable as the basis for testing the special hypothesis of the moderating effect, namely the third hypothesis and the fourth hypothesis.

Table 2. Moderated Regression Analysis (MRA) Model 2 results

		Variables in the Equation					
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1a	AF_X1	1,765	,719	6,031	1	,014	5,843
	FD_X2	,199	,100	3,964	1	,046	1,220
	RA_M	,295	2,364	,016	1	,901	1,343
	Mod_1	-,263	,099	7,091	1	,008	,769
	Mod_2	-,142	,115	1,513	1	,219	,868
	Constant	-38,816	14,503	7,163	1	,007	,000

a. Variable(s) entered on step 1: AF_X1, FD_X2, RA_M, Mod_1, Mod_2.

Source: Results of SPSS version 20

Hypothesis Test Results

Hypothesis testing uses the t test (partial test) which is used to determine whether there is an influence of the independent variable on the fixed variable individually. In this study, the hypotheses tested include the first hypothesis (H1) and the second hypothesis (H2) which come from the model 1 equation, while the third hypothesis (H3) and the fourth hypothesis (H4) come from the model 2 equation. Then to facilitate the interpretation of the hypothesis test results, the researcher makes a resume of the hypothesis test results presented in the following table:

Table 3. Resume of t Test Results (Partial Test)

Hypothesis	β	Sig	α	Decision	Description
First Hypothesis <i>Audit Fee (X1) □ Auditor Switching (Y)</i>	1.523	0.001	≤ 0.05	Ha accepted	There is an Influence (Positive)
Second Hypothesis <i>Financial Distress (X2) □ Auditor Switching (Y)</i>	0.070	0.011	≤ 0.05	Ha accepted	There is an Influence (Positive)
Third Hypothesis <i>Moderation 1 (AF*RA) □ Auditor Switching (Y)</i>	-0.263	0.008	≤ 0.05	Ha accepted	There is an Effect Moderation (Weakening)
Fourth Hypothesis <i>Moderation 2 (FD*RA) □ Auditor Switching (Y)</i>	-0.142	0.219	≥ 0.05	Ha rejected	No Moderation Effect

Source: Data processed by researchers, 2023

Discussion

The Effect of Audit Fee on Auditor Switching

Based on the results of the study, it is known that *audit fees have a* positive effect on *auditor switching*. Audit fees proxied by the natural logarithm of audit fees paid by infrastructure, utility and transportation sector companies sampled in this study obtained an average value (*mean*) of 20.52 or 810 million rupiah which is quite large. The average audit fee value shows that on average infrastructure, utility and transportation sector companies pay audit services with a fee value of IDR 810 million.

which is quite large for the services of external auditors, namely the public accounting firm (KAP) in charge of auditing the company's annual report. This shows that the greater the audit fee, the greater the desire of company management to change external auditors, namely from a Public Accounting Firm (KAP) to change to another external auditor or another KAP has a lower audit fee in order to minimize company expenses. In addition, the results of this study are in line with the results of previous studies, namely research by Wulandari & Suputra (2018), Widyanyani & RM (2018) and Sari & Widanaputra (2016) which state that *audit fees have a positive effect on auditor switching* in a company.

The Effect of *Financial Distress* on Auditor Switching

Based on the results of the study it is known that *financial distress has a positive effect on auditor switching*. *Financial distress* or the condition of the company's financial difficulties proxied by the *Debt Equity Ratio* (DER) in companies sampled in the study obtained an average value (mean) of 2.27. The relatively large average value of *Debt Equity Ratio* (DER) because it is greater than 1 indicates that the sample companies have a greater level of debt than the total equity or own capital owned by the company or the higher the *financial distress* or the company is in *financial distress* so that it has limitations in funding related to expenses, one of which is for *audit fees* so that it encourages companies to do *auditor switching* or change auditors with lower *audit fees* to save company expenses. In addition, the results of this study are in line with the results of previous research, namely research by Puspayanti (2018) Widyanti & Badera (2016) which states that *financial distress has a positive effect on auditor switching* in a company.

The Effect of *Audit Fee* on Auditor Switching with Auditor Reputation as a Moderating Variable

Based on the results of the study, it is known that auditor reputation moderates, in this case weakening the effect of *audit fees* on *auditor switching*. Auditor reputation as an external auditor in charge of auditing the company's annual financial statements is proxied by the Public Accounting Firm (KAP) which is classified as *KAP Big Four* and *KAP Non Big Four* in infrastructure, utility and transportation sector companies sampled in this study obtained an average value (mean) of 0.64 or 64%. Average value

This shows that most of the infrastructure, utilities and transportation sector companies use the services of the *Big Four* public accounting firm (KAP). This shows that external auditors who are considered to have a marked reputation from the KAP are affiliated with the *Big Four KAP* because they are considered to have better audit expertise, experience, networks and other advantages but have a larger audit fee than using auditor services from *Non Big Four KAP* whose audit fees are lower. Companies with large audit fees generally use the services of auditors who are included in the *Big Four KAP* category so that they will make the company have no desire to change auditors because the auditor's reputation is considered better and superior in its duties to audit the annual financial statements of the related company. In addition, the results of this study are in line with the results of previous research, namely research by Sari & Widanaputra (2016) which states that auditor reputation moderates, in this case weakening the effect of *audit fees* has a positive effect on *auditor switching* in a company.

The Effect of *Financial Difficulty Conditions* on Auditor Switching with Auditor Reputation as a Moderating Variable

Based on the results of the study, it is known that auditor reputation does not moderate the effect of *financial distress* on *auditor switching*. Auditor reputation as an external auditor in charge of auditing the company's annual financial statements is proxied by KAP which is classified as *KAP Big Four* and *Non Big Four* in companies that are research samples and obtained an average value (mean) of 64%, which means that companies in this research sample mostly use the services of *KAP Big Four*. This shows that companies continue to use external auditors, especially the *Big Four KAP* even though the company is experiencing *financial distress* so that the company does not make a voluntary change of auditors, because it already uses the *Big Four KAP* which is considered to have a high reputation in the eyes of users of financial statements which are expected to continue to attract investment interest in the stock market because the financial statements are audited by a reputable KAP. In addition, the results of this study differ from the results of previous research, namely research by Widyanti & Badera (2016) which states that auditor reputation can moderate the effect of *financial distress* on *auditor switching* in a company.

CONCLUSIONS AND SUGGESTIONS

Summary

Based on the results obtained in this study, the authors can draw conclusions, namely *audit fee has a positive effect on auditor switching, financial distress has a positive effect on auditor switching, auditor reputation moderates (weakens) the effect of audit fee has a positive effect on auditor switching, and auditor reputation does not moderate the effect of financial distress on auditor switching.*

Research Limitations

The implementation of this research activity, the researcher realizes that there are still shortcomings caused by the limitations of the researcher, namely the coefficient of determination in the research model obtained a *Nagelkerke R Square value of 0.689*. This shows that the variation in *auditor switching* can be explained by 68.9% by the *audit fee variable, financial distress* with auditor reputation as a moderating variable, while the remaining 31.1% is explained by other variables, such as audit committee financial expertise, frequency of audit committee meetings, frequency of board meetings, institutional share ownership, managerial, profitability and other variables not examined in this study have an influence on *auditor switching* which is quite significant compared to the variables of this study.

Suggestions

Based on the conclusions, the authors try to provide suggestions to parties concerned with the results of this study, among others:

1. For people who have an interest in investing in infrastructure, utilities and transportation sector companies listed on the IDX, they can consider whether or not there is a change in external auditors, namely the Public Accounting Firm (KAP) made by the company to the KAP even though the time of the work engagement or contract has not ended or *voluntary auditor switching*. The existence of a voluntary change of auditors indicates a problem or finding in the financial statements of the client company so that the company management tries to cover it up with the change of auditors.
2. For further research it is recommended to examine other variables that are also thought to affect *auditor switching*, such as audit opinion variables, *audit report lag*, auditor specialization, the effectiveness of the audit committee and the board of commissioners and other variables so on or can use moderation analysis or mediation analysis to get more comprehensive results.

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