Corporate Social Responsibility, Auditor Opinion, Financial Distress Impact to Auditor Switching for Banking Companies in Indonesia Stock Exchange for Period of 2014 to 2017

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Abstract: The purposes of this research are to analyze the impact of corporate social responsibility, auditor opinion, financial distress. Auditor independence is an issue that causes the change of auditors (auditor switching) or Public Accounting Firm. One suggestion that auditors remain objective in carrying out auditing tasks is the mandatory rotation of auditors. Rotation of auditors is associated with the company’s actions to make the turn auditor (auditor switching) or Public Accounting Firm. The purpose of this study was to determine the effect of corporate social responsibility, the auditor’s opinion financial distress on auditor switching. This study uses data on banking companies listed in Indonesia Stock Exchange 2014 – 2017 period. The samples in this study using purposive sampling method, the number of observations of sample of 132 samples. The technique of data analysis is logistic regression analysis, because the dependent variable using dummy variable. Based on the result of analysis show that the variables of corporate social responsibility, the auditor’s opinion and financial distress does not significantly influence the auditor switching.

1 INTRODUCTION

Every company that has been listed on the Indonesia Stock Exchange (IDX) is required to submit financial statements coming from outside the company. Reliability is one of the main qualitative attributes of a financial statement and therefore an independent third party is required to assess the fairness of a company's financial statements. (Ngala Solo Wea, 2015) A third party who can guarantee the quality of the financial statements is known as a public accountant or auditor who has been registered in Capital Market Supervisory Board and Financial Institution (Bapepam LK). The “auditor change” phenomenon has been found to have implications for the credibility of financial reporting and the cost of monitoring management activities. The relationship between the auditor and the client makes asymmetric financial information or false financial information has the potential to create a conflict of interest between the management of the company and the users of the financial statements coming from outside the company. (Mulyono and Majidah, 2015). There are many of KAPs or audit firm size currently operating give the option to companies to continue to use the same KAP (audit firm size) or make changes to KAP (audit firm size) as known as auditor switching. (Susan and Trisnawati, 2011). The independence of auditor could be impaired with the long auditor-client relationship as the firm’s capacity of critical appraisal may decline with time. The extended auditor-client relationship might deter the ability of the auditor to provide high quality of audit. However, audit failures are generally higher during the first year of auditor-client relationship as the new auditor needs more effort to become familiar with the client operation.

A change of auditor means that they are going to lose clients and income, and for the client it means that they have to incur more cost on the rotation/changes of audit firm found that there are benefits and problems perceived by partners of audit firms and CFOs of client firms. (Nazri, Smith and Ismail, 2012) The Government of Indonesia, through Ministerial decree of Finance No.17 / PMK.01 /
2008, requires companies to replace KAP that have received six consecutive years of audit assignments and auditor switching for three consecutive years. The implementation of mandatory rotation requirement is also based on the theoretical reason that the implementation of auditor and KAP rotation in the company is expected to improve auditor independence. (Dalgleish et al., 2007) when the principal appoints agents as managers and decision makers for the company, at which point an agency relationship exists between shareholders and managers. In agency theory, independent auditors act as mediators between agents and principals that have different interest. Independent auditors also have function to reduce agency costs arising from selfish behaviour by agents (managers). Thus, to prevent the loss of the auditor independence, the government regulates auditor's rotation obligations. Test on the effect of management changes variable has been done by (Winata and Anisykurlillah, 2017) who found that management changes is one of significant variables affecting KAP switching, while proves that management changes does not have effect on KAP switching.

Corporate social responsibility (CSR) is a form of corporate social responsibility in improving social inequalities and environmental damage caused by the company's operational activities. The more forms of social responsibility carried out by companies, the better the company will be. Investors are more interested in companies that have a good image in the community because the better the company's image, the more consumers to participate in increasing sales and profitability of the company (Retno and Prihatinah, 2012) This means that companies that implement CSR tend not to do auditor switching to maintain a good corporate image.

According to financial distress is a company experiencing financial distress if the company cannot meet its financial obligations. This contradicts the findings who found that companies that experiencing financial difficulties is not the cause of replacing KAP. The variable of auditor opinion found evidence that auditors are more likely to be replaced when issuing auditor opinion. While in research (Susan and Trisnawati, 2011) auditor opinion does not affect auditor switching.

This research provides insights into the association between factors related to audit and client firm characteristics and auditor change by companies listed on IDX or BEI. The findings of the research will strengthen and further streamline auditors' responsibilities in the audit of financial statements, and facilitate effective regulation of the auditing profession. Based on the description, the auditor switching along with the factors that influence it become a significant object to study, so the title of this research is entitled "Impact of Corporate Social Responsibility, Auditor Opinion and Financial Distress on Auditor Switching in Banking companies listed on the Indonesia Stock Exchange in 2014 - 2017".

2 THEORETICAL FRAMEWORK

Hypothesis of the research:
H1: Corporate Social Responsibility negatively effect on Auditor switching
H2: Audit Opinion negatively affects on Auditor switching
H3: Financial distress positively affects on Auditor switching

This study used secondary data obtained with documentation. The population in this research was banking companies listed on the Indonesia Stock Exchange during 2014-2017 amounted to 45 companies. The methods used were descriptive analysis and inferential analysis with logistic regression from SPSS. The population in this research are all banking companies listed on the Indonesia Stock Exchange in the period 2014-2017 with a total of 45 companies. The year period used in this study is 4 (four) years, namely from 2014-2017. Taking years of research is intended to explain the actual data variability. The number of banking companies as the sample of criteria are 32 companies.

The method of determining the sample used in this research using logistic regression because the dependent variable is qualitative data that uses dummy variables. The analysis technique with logistic regression does not require more normality tests on the independent variables (Ghozali, 2016). Logistic regression analysis is use SPSS program.

The researchers considered the entry into the sample in this research were those that the following criteria:
1. The Banking companies are listed on the Indonesia Stock Exchange during the period of
2014 - 2017. These criteria are listed to avoid 
over differences in the types of existing 
industries and the deadline for the company's 
financial statements.

2. Financial statements of banking companies 
listed on the Stock Exchange in 2014 - 2017 and 
audited by KAP and include an independent 
auditor's report.

3. The company presents the 2014-2017 financial 
statements stated in rupiah (Rp.)

4. The company did not make auditor switching 
during the 2014-2017 period.

5. The company presents complete information in 
the form of information on the name of the KAP 
auditing, the composition of the Board of 
Directors, total assets, total debt, audit opinion 
and CSR given in the 2014-2017 period.

3 RESULT AND DISCUSSION

From table 1 the results of the analysis presented in 
the table :

<table>
<thead>
<tr>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Banking companies listed on the Indonesia Stock Exchange (BEI) during the 2014-2017 period.</td>
</tr>
<tr>
<td>2</td>
<td>Banking Companies that make audit firm exchange mandatory</td>
</tr>
<tr>
<td>3</td>
<td>Banking companies that do not have complete data needed in this study (overall data is available in publications during the period 31 December 2014-2017).</td>
</tr>
<tr>
<td>Total</td>
<td>Total of Companies sample</td>
</tr>
<tr>
<td>Amount of research samples during the observation period (4 years)</td>
<td>132</td>
</tr>
</tbody>
</table>

Table 2: Hosmer and Lemeshow’s Goodness of Fit Test

<table>
<thead>
<tr>
<th>Step</th>
<th>Chi-square</th>
<th>Df</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6,983</td>
<td>8</td>
<td>0,518</td>
</tr>
</tbody>
</table>

Based on Table 2, it can be seen that the statistical value of the Hosmer and Lemeshow Test is measured by the Chi-square value of 6.983 with a significance of 0.518. The significance value is greater than 0.05 (5%) so it can be concluded that the regression model is able to predict the value of its observations or it can be said that the model is acceptable because it matches the observational data.

The logistic regression model formed produces regression coefficients and significance. The logistic regression model formed can be seen in the parameter estimation value in Variables in The Equation. The following are the results of testing the regression model formed, presented in Table 3.

<table>
<thead>
<tr>
<th>Step</th>
<th>B</th>
<th>S.E</th>
<th>Wald</th>
<th>Df</th>
<th>Sig</th>
<th>Exp (B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CSR</td>
<td>-1.32</td>
<td>5.84</td>
<td>0.07</td>
<td>1</td>
<td>0.83</td>
</tr>
<tr>
<td></td>
<td>AO</td>
<td>-0.03</td>
<td>1.11</td>
<td>0</td>
<td>1</td>
<td>0.95</td>
</tr>
<tr>
<td></td>
<td>Z</td>
<td>0.14</td>
<td>0.23</td>
<td>0.34</td>
<td>1</td>
<td>0.55</td>
</tr>
<tr>
<td></td>
<td>Constant</td>
<td>-1.05</td>
<td>0.64</td>
<td>3.08</td>
<td>1</td>
<td>0.06</td>
</tr>
</tbody>
</table>

The results of the research in Table 3 show that CSR does not show a significant impact on auditor switching. This shows that there is no impact between CSR on the probability of companies to conduct auditor switching. This research cannot prove the effect of CSR on auditor switching. The company is increasingly aware that the survival of the company also depends on the company's relationship with the community and the environment in which the company operates. This is in accordance with the legitimacy theory which states that the company has an agreement with the community to carry out its activities based on social values, and the attitude of the company in response to the interests of the group to legitimize the company's actions. If there is a balance between the company's value system and the community value system, then the company can lose its legitimacy, which in turn will threaten the survival of the company. If this happens it can affect the auditor in giving an audit opinion and if the auditor's opinion is not as expected by the company, then the company will conduct an auditor switching.

The results of the research in Table 3 show that the auditor's opinion did not show a significant impact on the auditor switching. This shows that there is no impact between auditor opinion on the probability of the company to conduct auditor switching. These findings support the results of research conducted (Ekonomi and Diponegoro, 2011); and (Estate, Terdaftar and Bei, 2012) which states that audit opinion does not have a significant effect on auditor switching. This research failed to
prove the influence of auditor opinion on auditor switching. This condition is probably due to the fact that the sample companies have received an unqualified opinion from the independent auditor who audited the company's financial statements.

The results of the research in Table 3 show that financial distress does not show a significant impact on auditor switching. This shows that there is no influence between financial distress on the probability of companies to conduct auditor switching. These findings support the results of research which states that financial distress has no significant effect on auditor switching. This study failed to prove the influence of financial distress on auditor switching. This condition is probably due to the fact that most sample companies use non-Big 4 KAP services, thus auditors switching to the use of Big 4 KAP services will actually complicate the company's financial condition due to the increase in audit fees.

4 CONCLUSION

Based on the results of research and discussion, it can be concluded that CSR, opinion auditor, financial distress did not significantly influence the auditor switching on banking companies listed on the Indonesia Stock Exchange for the period 2014-2017. Future research should consider several theoretical variables that can affect auditor switching such as profitability ratio variables, liquidity ratios or other variables found in financial ratios. In addition, the researcher also suggested to be able to add non-financial variables such as company size or audit fees (audit fees) and use observations of more than 4 (four) years.

REFERENCES


