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THE IMPACT OF COMPANY SIZE AND AUDITOR REPUTATION ON AUDITOR SWITCHING (AN EMPIRICAL STUDY OF MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE FROM 2018 TO 2022)

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Abstract – *This research aims to analyze and obtain empirical evidence about the influence of firm size and auditor reputation on auditor switching. The independent variables used in this research are firm size and auditor reputation. The dependent variable used in this research is auditor switching. The data used in this research is secondary data obtained from the official website of the Indonesia Stock Exchange and the official websites of each company. The population used is all manufacturing companies registered on the IDX in 2018-2022. Using the Purposive Sampling sampling technique, a sample of 44 manufacturing companies listed on the Indonesia Stock Exchange was obtained. The data analysis method in this research uses Logistic Regression Analysis. The research results show that company size has a positive and significant effect on auditor switching and auditor reputation has a positive and significant effect on auditor switching in manufacturing companies listed on the IDX for the 2018 - 2022 per*

Keywords: *Firm Size, Auditor Reputation, Auditor switching*

INTRODUCTION

In the rapidly evolving business world, many companies strive to enhance their efficiency and competitiveness. One way to achieve this is by going public, offering their shares on the Indonesia Stock Exchange (IDX). This process requires the publication of audited financial statements to ensure that the information presented is reliable. Audited financial statements are expected to provide accurate and transparent data, which is crucial for investor and stakeholder decision-making.

Audits conducted by independent auditors play a crucial role in ensuring the integrity of financial statements. Independent auditors are expected to provide an objective and unbiased assessment, so the audit results can accurately reflect the company's financial condition. However, a prolonged relationship between the auditor and the company can affect the quality of the audit. A long-term relationship may create potential conflicts of interest and reduce the audit's objectivity, making it important to periodically change auditors.

To address this issue, the Financial Services Authority (OJK) issued OJK Regulation No. 13/POJK.03/2017, which sets limits on the use of audit services by the same public accountant. This regulation requires entities to replace their public accountant or accounting firm every three consecutive fiscal years. The goal of this regulation is to minimize the risks that can arise from long-term auditor-company relationships that could diminish audit quality.

Additionally, Government Regulation No. 20 of 2015 (PP.20/2015) also governs the obligation to change auditors. This regulation provides further guidelines on the mechanism and period for auditor replacement to ensure that entities continue to comply with high auditing standards and avoid potential irregularities in their financial reports. By adhering to these provisions, companies are expected to maintain the credibility of their financial statements.

Regulations concerning auditor switching aim to improve the quality of audits and the transparency of financial statements. The implementation of this regulation is expected to reduce potential conflicts of interest and ensure that published financial statements are trusted by all

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stakeholders. Through independent audits and appropriate auditor changes, companies can enhance the accountability and integrity of their financial reporting.

This research aims to explore the factors that influence auditor switching in the context of companies. The key questions posed include: first, does the size of the company affect the decision to change auditors? Second, does the reputation of the auditor influence the decision to switch auditors? These two aspects are considered crucial in determining auditor switching practices and require in-depth analysis to understand the relationship between company size, auditor reputation, and the decision to change auditors.

The objective of this research is to obtain empirical evidence regarding the influence of company size and auditor reputation on auditor switching decisions. Specifically, the research aims to provide empirical evidence that reveals how company size may impact the decision to change auditors and how auditor reputation affects this decision. The results of this research are expected to make a significant contribution to the understanding of the factors influencing auditor switching and to assist in the development of better audit practices.

LITERATURE REVIEW

Teori Agensi (Agency Theory)

Agency theory refers to a contract between a manager (agent) and an owner (principal), where the principal grants authority to the agent to make decisions on their behalf. In the context of local government in Indonesia, the people, as principals, delegate authority to local governments, such as village heads and village officials, to manage their interests. This theory, as explained by Jensen and Meckling (1976), arises from the need to address agency problems that occur when the parties in the contract have different objectives, often because agents do not fully own stakes or have vested interests in the organization. This can lead to agents acting in their own self-interest. Agency theory aims to design contracts that can reduce costs caused by asymmetric information and uncertainty, with the goal of minimizing conflicts of interest and enhancing the effectiveness of decision-making.

Auditor switching

Auditor switching refers to the change of Public Accounting Firms (KAP) by a client company, either voluntarily or mandatorily. This practice can be driven by various factors from both the client and the auditor's perspectives. Mandatory auditor switching is typically regulated by rules requiring companies to change auditors after a certain period, while voluntary switching is conducted without such regulations, often to maintain the auditor's independence. A prolonged relationship between the auditor and the client may compromise the auditor's objectivity, making auditor rotation necessary to ensure the integrity and independence of the audit assessment. In Indonesia, regulations such as the Minister of Finance Decree No. 423/KMK.06/2002 set maximum time limits for auditors to serve a client—five years for Public Accounting Firms and three years for Public Accountants. When measuring auditor switching, companies that switch auditors are assigned a value of 1, while companies that do not switch auditors are given a value of 0.

Ukuran Perusahaan

Company size refers to the scale of a company, whether large or small, which can impact its ability to diversify and its likelihood of failure. Large companies, with substantial total assets, generally have a greater capacity to leverage capital from loans for expansion and operations compared to smaller companies. They also have easier access to capital markets, offering greater flexibility and acquisition capabilities. Company size can be measured based on total assets or sales, with total assets often preferred due to the stability of its value. The classification of company size includes micro, small, medium, and large enterprises, as outlined in Law No. 20 of 2008. A micro-enterprise is defined as a productive business owned by individuals or individual business entities, while a small enterprise is an independent business not part of a medium or large enterprise. A medium enterprise is one that meets specific criteria established by the law.

Reputasi Auditor

Auditor reputation reflects the prestige, achievements, and public trust held by an auditor, which can influence the credibility of a company's financial statements. Companies often opt for Public Accounting Firms (KAP) with a strong reputation to boost investor confidence in their financial reports. KAPs are typically categorized into "The Big Four" and "Non-The Big Four," with investors generally

10.22441/ihasj.2022.v5i3.02

having more trust in Big Four firms due to their perceived higher qualifications and strong commitment to maintaining independence. Regulations that set time limits for auditor engagements require companies to switch auditors periodically to ensure the continued quality of financial reporting. Auditor reputation is measured by assigning a code of 1 for auditors from Big Four firms and a code of 0 for auditors from non-Big Four firms.

Previous studies on auditor switching have shown varying findings regarding the factors influencing a company's decision to change auditors. One study by Suryandari et al. (2019) explored the factors influencing auditor switching in financial companies listed on the Indonesia Stock Exchange (BEI) during the 2015-2017 period. The study revealed that the size of the Public Accounting Firm (KAP) had a significant positive effect on auditor switching. This finding aligns with signaling theory, which suggests that companies seeking a good reputation are more likely to choose Big Four firms to enhance their public image compared to non-Big Four firms.

Another study by Handoko & Haryanto (2019) evaluated the influence of auditor opinion, company size, financial distress, and return on assets on auditor switching. The results indicated that company size did not have a significant impact on auditor switching. In this study, most of the sample consisted of large companies using the services of reputable auditors, leading to no significant correlation between company size and auditor reputation.

Simalango and Siagian (2022) examined the effect of company size, auditor opinion, auditor reputation, and management changes on auditor switching in the Main Board Index. Their findings indicated that company size and auditor opinion did not have a significant influence on the decision to switch auditors. However, auditor reputation was a key factor influencing auditor switching decisions. This suggests that while auditor reputation plays a crucial role in the decision to change auditors, company size and auditor opinion do not show significant effects in this context.

METHODS

The research design used in this study is a causal research design, which aims to test hypotheses regarding the influence of one or more variables (independent variables), in this case, Company Size and Auditor Reputation, on another variable (dependent variable), which is Auditor Switching. The data used in this research are secondary data, which require statistical testing to validate the hypothesis. Secondary data refers to information that is not obtained directly from the source but through an intermediary. The secondary data in this study consists of financial statements and annual reports of manufacturing sector companies, published annually from 2018 to 2022 on the official website of the Indonesia Stock Exchange (IDX), www.idx.co.id.

This study uses a population of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. The sample was selected using the purposive sampling method, which involves selecting a representative sample based on specific criteria. These criteria include Manufacturing companies that are publicly listed and registered on the IDX during the study period, Companies that have relevant variable data, Companies that continuously publish financial statements and audit reports, Companies that use the rupiah currency, and Companies that did not experience losses during the study period. The data collection technique was carried out using documentation methods, by accessing financial statements and annual reports published on the official IDX website.

Data analysis was performed using descriptive statistics, regression model feasibility tests, and logistic regression tests to test the research hypotheses. These methods aim to determine the influence of the independent variables (Company Size and Auditor Reputation) on the dependent variable (Auditor Switching).

RESULTS

The data used in this research are secondary data, processed from annual company reports, covering both independent and dependent variables. The research sample consists of 44 manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2018-2022, selected through a purposive sampling method from a total of 220 companies. The research period spans from 2018 to 2022, with 220 observations, including financial data and ICMD (Indonesia Capital Market Directory) reports of the sample companies.

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Descriptive statistics are employed to provide an overview of the minimum, maximum, average, and standard deviation values of the variables under study, such as company size, auditor reputation, and auditor switching. The descriptive test for company size will present data related to these values to understand the distribution and variability of the company size variable in this research. This approach helps to assess the general characteristics and dispersion of the variables being analyzed.

Uji Dekriptif Ukuran Perusahaan

Tabel 4.1 Uji Deskriptif Ukuran Perusahaan Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Ukuran Perusahaan	220	12,73	30,41	23,2593	5,18012
Valid N (listwise)	220				

From the research results, the maximum value of Company Size for manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2018-2022 is 30.41, while the minimum value is 12.73. The average (mean) Company Size for manufacturing companies during this period is 23.2593, with a standard deviation of 5.18012. The fact that the standard deviation is smaller than the mean indicates low variation between the maximum and minimum values during the observation period. This means there is not a significant gap between the lowest and highest Company Size values.

Uji Deskriptif Reputasi Audit

Tabel 4.2 Uji Deskriptif Reputasi Audit

Reputasi Auditor	Frequency	Percent
KAP Tidak Termasuk The big four	113	51.4%
KAP Termasuk The big four	107	48.6%
Total	**220**	**100%**

Based on the descriptive analysis results above, it can be observed that the research sample is predominantly represented by auditors with the status of KAP Not Included in the Big Four, accounting for 113 companies (51.4%). In contrast, auditors with the status of KAP Included in the Big Four make up 107 companies (48.6%).

Uji Deskriptif Auditor switching

Tabel 4.3 Uji Deskriptif Auditor switching

Auditor switching	Frequency	Percent
Perusahaan tidak melakukan *auditor switching*	111	50.5%
Perusahaan melakukan *Auditor switching*	109	49.5%
Total	**220**	**100%**

Based on the descriptive analysis results above, it can be seen that the research sample is predominantly represented by companies that did not undergo auditor switching, totaling 111 companies (50.5%). In contrast, companies that did undergo auditor switching amount to 109 (49.5%).

Uji Goodness-of-Fit.

10.22441/ihasj.2022.v5i3.02

Before proceeding with the multinomial logistic regression analysis, the first step is to test the model's fit with the data using the Pearson chi-square test. This test aims to determine if there is a significant difference between the model's predictions and the observed data. If the test results show a non-significant value, it can be concluded that there is no significant difference between the predictions of the logistic regression model and the observed data. The results of the Hosmer-Lemeshow test are then used to further evaluate the model's fit with the data.

Table 4.4 Hasil Uji Goodness-of-Fit

Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	14,917	8	,061

Based on the results in Table 4.4, the p-value (sig.) in the Homser and Lemeshow goodness-of-fit test is 0.061. Since this value is greater than 0.05, H1 is accepted, meaning that there is no significant difference between the model and the observed data.

Tabel 4.5 Uji Kelayakan Seluruh Model (Goodness of Fit Test) Iteration Historya,b,c

Iteration		-2 Log likelihood	Coefficients Constant
Step 0	1	304,967	-,018
	2	304,967	-,018

From the goodness of fit test table, it can be observed that the value of -2 Log Likelihood at the initial block (Block number = 0) decreased compared to the -2 Log Likelihood value at the final block (Block number = 1). This reduction from Block 0 to Block 1 indicates that the model fits the data well and suggests an improvement in the logistic regression model. Therefore, the model is acceptable as it better aligns with the data.

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Tabel 4.6 Hasil Analisis Regresi Logistik

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B) Lower	Upper
Step 1[a]	Ukuran Perusahaan	,114	,030	14,537	1	<,001	1,121	1,057	1,188
	Reputasi Auditor	1,304	,296	19,358	1	<,001	3,682	2,060	6,581
	Constant	-3,319	,740	20,108	1	<,001	,036		

a. Variable(s) entered on step 1: Ukuran Perusahaan , Reputasi Auditor.

Berdasarkan Tabel 4.6, dapat disusun persamaan regresi linier berganda sebagai berikut :

$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + \varepsilon$ $AS = -3{,}319 + 0{,}114X_1 + 1{,}304X_2 + \varepsilon$

Based on the logistic regression analysis results, both the constant and the independent variables, namely Company Size and Auditor Reputation, exhibit positive values. This indicates that an increase in both Company Size and Auditor Reputation will lead to an increase in Auditor Switching. Specifically The constant value of -3.319 represents the dependent variable's value when all independent variables are zero. The regression coefficient for Company Size (X1) is 0.114, which means that for every one-unit increase in Company Size, Auditor Switching increases by 0.114. This reflects a positive impact of Company Size on Auditor Switching.

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Similarly, the regression coefficient for Auditor Reputation (X2) is 1.304, suggesting that for every one-unit increase in Auditor Reputation, Auditor Switching increases by 1.304. This indicates a positive effect of Auditor Reputation on Auditor Switching.Tabel 4.7 Uji Nagelkerke R2

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	265,379[a]	,165	,220

a. Estimation terminated at iteration number 4 because parameter estimates changed by less than ,001.

In addition to model fit tests, it's necessary to evaluate the model's goodness-of-fit with respect to qualitative independent variables. Based on Table 4.7, the value derived from Nagelkerke's R^2 is 0.220. This value indicates that the variability in the independent variables explains 22% of the variability in the response variable, while the remaining variability is explained by other independent variables not included in the model. A value of 0.220 is considered good for explaining the model's goodness-of-fit.

The classification matrix illustrates the predictive power of the regression model in determining the likelihood of a company switching auditors. This matrix provides information on how well the model predicts auditor switching decisions by comparing the model's predictions to actual data. In other words, the classification matrix helps assess the accuracy and effectiveness of the regression model in identifying companies likely to change auditors based on the analyzed variables.

Tabel 4.8 Matriks klasifikasi

Classification Table[a]

			Predicted		
			Auditor switching		
Observed			Perusahaan tidak melakukan auditor switching	Perusahaan melakukan Auditor switching	Percentage Correct
Step 1	Auditor switching	Perusahaan tidak melakukan auditor switching	78	33	70,3
		Perusahaan melakukan Auditor switching	49	60	55,0
	Overall Percentage				62,7

a. The cut value is ,500

The predictive strength of the regression model shows that, using the model, 781 companies are predicted not to switch auditors. Additionally, the model predicts that 60 companies will switch auditors. Overall, the predictive strength of the regression model is 62.7%.

Uji Parsial

This test aims to examine the significance of the coefficient β\betaβ individually, after previously determining from the simultaneous test that all predictor variables collectively do not affect the response variable. The partial test will identify the effect of each predictor variable on the response variable individually. In this study, the partial test is conducted using the Wald test, which tests the hypothesis for each variable separately to determine whether these variables have a significant impact on the response variable.

10.22441/ihasj.2022.v5i3.02

Tabel 4.9 Uji Wald

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Ukuran Perusahaan	,114	,030	14,537	1	<,001	1,121
	Reputasi Auditor	1,304	,296	19,358	1	<,001	3,682
	Constant	-3,319	,740	20,108	1	<,001	,036

a. Variable(s) entered on step 1: Ukuran Perusahaan , Reputasi Auditor.

Based on Table 4.9, the results of the partial test show that the variable Company Size has a Wald value of 19.358 with a significance level of 0.001, which is less than the significance level of 0.05 (5%). This indicates that the Company Size variable has a positive and significant effect on Auditor Switching, meaning that changes in Company Size significantly influence Auditor Switching.

Additionally, the Auditor Reputation variable has a Wald value of 20.108 with a significance level of 0.000, also less than the significance level of 0.05 (5%). This means that the Auditor Reputation variable has a positive and significant effect on Auditor Switching, and changes in Auditor Reputation significantly impact the decision to switch auditors.

Uji Serentak

This test is conducted to examine the coefficients (β) simultaneously or collectively with respect to the response variable.

Tabel 4.10 Uji Serentak

Model Fitting Information

	Model Fitting Criteria	Likelihood Ratio Tests		
Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	298,610			
Final	259,023	39,587	2	<,001

Based on Table 4.10, the results of the simultaneous test show a chi-square value of 39.587, which is greater than the chi-square table value. This indicates that there is at least one independent variable that is statistically significant. Additionally, the p-value (sig.) is 0.001, which is smaller than the alpha level of 5% (0.05). Therefore, we reject H0, which means that at least one of the independent variables statistically significantly affects the response variable.

DISCUSSION

The Influence of Firm Size on Auditor Switching

Logically, larger companies tend to have better and more stable financial capacity, allowing them to make larger and more frequent investments. A larger company often indicates an ability to manage resources more effectively and benefit from economies of scale, which influences investment decisions and operational expansion. With greater capacity to manage risks and make substantial investments, large companies can continue to grow and improve their performance sustainably.

The Influence of Auditor Reputation on Auditor Switching

In general, companies that choose auditors from large Public Accounting Firms (KAPs), such as those in the Big Four group, tend to do so to meet their more complex new needs. Additionally, companies that use highly reputable auditors often do so to enhance the credibility of their financial statements in the eyes of stakeholders, even if their previous auditors also had a good reputation. This finding aligns with Ramadan (2020), which shows that companies frequently switch auditors to ensure that the audit is conducted by an auditor capable of meeting high standards and addressing the company's specific needs.

CONCLUSION

This study aims to evaluate the impact of Company Size and Auditor Reputation on auditor switching. The findings indicate that the Company Size variable has a positive and significant effect on auditor switching, meaning that larger companies, especially those using auditors from the Big Four firms, tend to switch auditors more frequently. Additionally, Auditor Reputation also shows a positive and significant effect on auditor switching, suggesting that companies with reputable auditors are more likely to change their auditors significantly.

Based on the research results, several recommendations can be made For Future Researchers It is advisable to explore additional independent variables that might affect auditor switching and to extend the research period to increase the sample size. Researchers could consider different industry sectors to obtain more generalized results. For Manufacturing Companies It is crucial to pay attention to significant variables such as Company Size and Auditor Reputation when making decisions about auditor switching, as these factors can significantly influence such decisions.

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