

**THE INFLUENCE OF CERTIFIED PUBLIC ACCOUNTANT FIRM
REPUTATION, FINANCIAL DISTRESS, MANAGEMENT CHANGE,
AUDIT OPINION, AND PROFITABILITY ON AUDITOR SWITCHING:
A STUDY OF MANUFACTURING COMPANIES LISTED ON
INDONESIAN STOCK EXCHANGE FROM 2015-2017**

A THESIS

Presented as Partial Fulfillment of the Requirements
to Obtain the Bachelor Degree in Accounting Department



By:

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**DEPARTMENT OF ACCOUNTING
INTERNATIONAL PROGRAM
FACULTY OF ECONOMICS
UNIVERSITAS ISLAM INDONESIA
YOGYAKARTA
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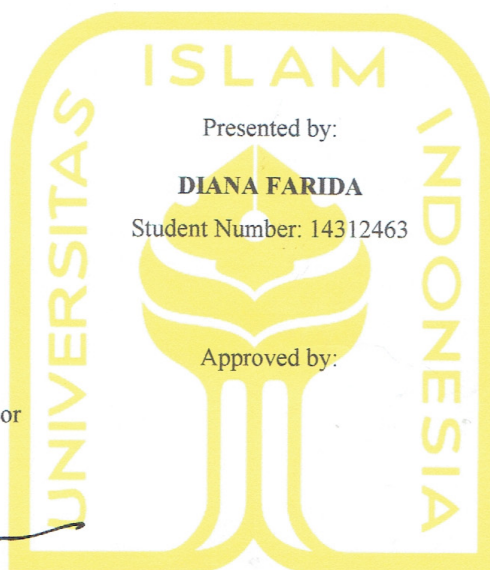
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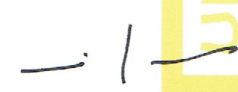
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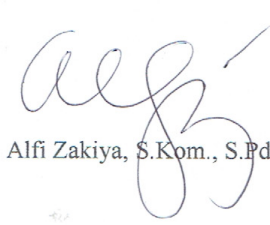
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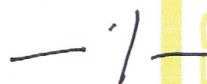
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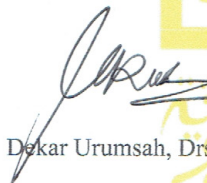
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DECLARATION OF AUTHENTICITY

Herein I declare to the originality of this thesis; I have not presented someone's work to obtain my university degree, nor have I presented anyone else's words, ideas, or expression without acknowledgement. All quotation is cited and listed in the bibliography of thesis. If in the future this statement is proven to be false, I am willing to accept any sanction complying with the determined regulation or its consequences.

Yogyakarta, 8th December, 2018



Diana Farida

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Assalamualaikum Warahmatullahi Wabarakatuh.

All perfect praise is due to Allah, the Lord of the worlds. I bear witness that none is worthy of worship but Allah, alone with no partners. And I bear witness that Muhammad SAW is His Messenger, may Allah exalt his mention.

Alhamdulillah rabbil'alamin, the thesis which entitled **THE INFLUENCE OF PUBLIC ACCOUNTANT FIRM REPUTATION, FINANCIAL DISTRESS, MANAGEMENT CHANGE, AUDIT OPINION AND PROFITABILITY ON AUDITOR SWITCHING: A STUDY OF MANUFACTURING COMPANIES LISTED ON INDONESIA STOCK EXCHANGE FROM 2015-2017** as a partial requirement to obtain the bachelor degree in Accounting Department, International Program, Faculty of Economics, Universitas Islam Indonesia is finally finished.

I realized that this research is far from perfect, however, I had been devoted all the efforts to achieve the maximum result. The author also realizes that this research will not work if not supported and guided by several parties, which they had helped me both morally and spiritually. For this reason, I would like to address my appreciation and regards to:

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TABLE OF CONTENTS

COVER PAGE	i
TITTLE PAGE.....	ii
APPROVAL PAGE.....	iii
LEGALIZATION PAGE.....	iv
DECLARATION OF AUTHENTICITY	v
ACKNOWLEDGEMENT	vi
TABLE OF CONTENT	x
LIST OF TABLES.....	xiii
LIST OF FIGURES	xiv
LIST OF APPENDICES.....	xv
ABSTRACT (In English)	xvi
ABSTRAK (In Indonesia)	xvii
CHAPTER I: INTRODUCTION	1
1.1. Background.....	1
1.2. Statement of The Problem	10
1.3. Objective of The Research.....	10
1.4. Significances of The Research.....	11
1.5. Systematics of Writings	12
CHAPTER II: REVIEW OF RELATED LITERATURE	14
2.1. Literature Review.....	14
2.1.1. Auditing	14
2.1.2. Auditor	15
2.1.3. Auditor Switching	17
2.1.4. Auditor Switching in Indonesia.....	20

2.1.5. Public Accountant Firm Reputation.....	22
2.1.6. Financial Distress	25
2.1.7. Management Change.....	26
2.1.8. Audit Opinion.....	27
2.1.9. Profitability.....	29
2.2. Theoretical Review	30
2.2.1. Agency Theory.....	30
2.3. Hypothesis Formulation.....	34
2.3.1. The Influence of Certified Public Accountant Firm Reputation on Auditor Switching.....	34
2.3.2. The Influence of Financial Distress on Auditor Switching	35
2.3.3. The Influence of Management Change on Auditor Switching.....	36
2.3.4. The Influence of Present Audit Opinion on Auditor Switching.....	37
2.3.5. The Influence of Profitability on Auditor Switching.....	38
2.4. Research Model	40
CHAPTER III: RESEARCH METHOD	41
3.1. Population and Sample	41
3.2. Resource and Method of Data Collection.....	41
3.2.1. Resource and Data Type.....	41
3.2.2. Method of Data Collection.....	42
3.3. Operational Definition And Variable Measurement.....	42
3.3.1. Dependent Variable.....	42
3.3.2. Independent Variable	43
3.4. Data Analysis Method.....	45
3.4.1. Descriptive Statistic.....	45
3.4.2. Correlation Test	46
3.4.3. Hypothesis Testing.....	46
3.5. Operational Hypothesis.....	48
CHAPTER IV: DATA ANALYSIS AND DISCUSSIONS	50
4.1. Description of Object of the Research	50

4.2. Descriptive Statistics.....	51
4.3. Correlation Analysis	54
4.4. Hypothesis Testing.....	55
4.4.1. The effect of CPA Firm Reputation on Auditor Switching.....	55
4.4.2. The effect of Financial Distress Firm Reputation on Auditor Switching	57
4.4.3. The effect Management Change on Auditor Switching.....	58
4.4.4. The effect of Audit Opinion on Auditor Switching.....	60
4.4.5. The effect of Profitability on Auditor Switching.	62
CHAPTER V: CONCLUSIONS AND RECOMMENDATIONS.....	64
5.1. Conclusions.....	64
5.2. Research Implications	65
5.3. Limitations and Suggestions	66
REFERENCES	67
APPENDICES	73

LIST OF TABLES

Table 4. 1 Sample Selection.....	50
Table 4. 2 Descriptive Statistics Analysis Result	51
Table 4. 3 Correlation Test Result	54
Table 4. 4 The Result of the Generalized Linear Model.....	55

LIST OF FIGURES

Figure 2. 1 Conceptual Framework	40
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LIST OF APPENDICES

APPENDIX 1 List of Company Samples	74
APPENDIX 2 CPA Firm Reputation Data 2015-2017	78
APPENDIX 3 Financial Distress Data 2015-2017	82
APPENDIX 4 Management Change Data 2015-2017	86
APPENDIX 5 Audit Opinion Data 2015-2017	90
APPENDIX 6 Profitability Data 2015-2017	94
APPENDIX 7 Generalized Linear Model Analysis	98

ABSTRACT

This research aims to analyze the influence of Certified Public Accountant firm reputation, financial distress, management change, audit opinion and profitability on auditor switching. The populations in this study are the manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2015-2017. The type of data collected in this research was secondary data. The data analysis used in this research was purposive sampling method and 133 companies were selected. The methods of data analysis were descriptive statistics, correlation tests, and generalized linear model (GLM) with Eviews9. The results of this research indicated that the variables of financial distress and profitability had positive and significant influence on auditor switching. Certified Public Accountant firm reputation and management change had negative and significant influence on auditor switching. While, audit opinion did not have influence on auditor switching.

Keywords: Certified Public Accountant (CPA) firm reputation, financial distress, management change, audit opinion, profitability, auditor switching.

ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh reputasi Kantor Akuntan Publik (KAP), kesulitan keuangan, perubahan manajemen, opini audit dan profitabilitas terhadap perubahan auditor. Populasi dalam penelitian ini adalah perusahaan pada perusahaan manufaktur yang tercatat di bursa efek indonesia (BEI) pada periode 2015-2017. Jenis data yang dikumpulkan pada penelitian ini adalah data sekunder. Teknik pengambilan sampel yang digunakan adalah metode purposive sampling yang menghasilkan sampel sebanyak 133 perusahaan. Metode analisis data yang digunakan adalah statistik deskriptif, uji korelasi dan Generalized Linear Model (GLM) dengan Eviews9. Hasil penelitian ini menunjukkan bahwa kesulitan keuangan dan profitabilitas berpengaruh positif dan signifikan terhadap perubahan auditor secara sukarela. Sedangkan variabel, reputasi Kantor Akuntan Publik (KAP) dan perubahan manajemen berpengaruh negatif terhadap pergantian auditor secara sukarela dan opini audit tidak berpengaruh terhadap pergantian manajemen secara sukarela.

Kata Kunci: reputasi dari Kantor Akuntan Publik (KAP), kesulitan keuangan, perubahan manajemen, audit opini, profitabilitas, auditor switching dan perubahan auditor.

CHAPTER I

INTRODUCTION

1.1. BACKGROUND

The rapid growth of business nowadays triggers the high rivalry among corporates. In essence, the development of a business required huge resources, including financial capital to support their activities. In order to obtain an easy approach to the sources of capital, those companies should report the business activities, especially related with company's financial statement and performance (Suyono, Yi, & Riswan, 2013). A financial report is essential for companies in representing their performance within a period of time. According to ISA 200 issued by International Federation of Accountant (2009), the financial statement is a financial information that is trustworthy as representative of an entity's economic resources in a certain period of time and expected to provide reasonable, reliable and understandable information to the users in behalf of the economic decision making. The users of financial statement differed into internal (company's management itself including employees and directors) and external (government, investor and potential investor, creditor, and taxation authorities, and public).

The responsibility of a company to submit financial report has been determined in Indonesian Government Regulation No. 24 Year 1998 then modified by Indonesian Government Regulation No. 64 Year 1999 regarding Indonesian Government Regulation No. 24 Years 1998. Afterward, it was revised by the decree of the Minister of Industry and Trade in the Republic of Indonesia Number

121/MPP/Kep/2/2002. Moreover, IDX (2016) stated that an Indonesian company which was listed publicly in the Indonesia Stock Exchange is required a financial statement accordance with Indonesian Accounting Standards or *Standar Akuntansi Keuangan (SAK)* and it should be audited by certified public accountant firm registered in Capital Market and Financial Institution Supervisory Agency (Bapepam LK) or currently known as Indonesian Financial Services Authority (OJK).

Public accountant provides particular assurance services including external audit and review engagement. According to International Auditing and Assurance Standard Board in the International Standard on Auditing 200 (2009), conducting audit of financial statement has main objectives, first to obtain the reasonable assurance regarding the financial statement as whole which are free from financial misstatement, thereby auditor is able to express an opinion whether the financial statements are prepared and presented true and fair, in all material respects, in accordance with applicable financial reporting framework, and second to give a statement of the financial statement and communicate to the users.

The importance of the audit is exist based on the agency theory. Agency theory is a concept of the relationship between two-parties known as *principals* and *agents* (Jensen & Meckling, 1976). *Principals* here is the stakeholder as individual(s) or organization(s) or group(s) who own a company. Meanwhile, *Agents* are people employed to provide particular services and manage the company. Thereby, the concept is an agent who directly deal with the company

business is responsible and maintain the company in order to optimize *the principal's* interest.

Jensen and Meckling (1976), argued that the condition when information received by *the principals* as interested parties does not describe the real condition of the company, asymmetry information, an agency problem. Therefore, *the principals* should believe that *the agents* probably do not continuously act on behalf of the *principal's* interest. *The principals* necessitate the role of independent third-party to give assurance that *the agent* act on behalf of *the principals* through the audit. Therefore, agency cost occurs as the prevention of agency problem.

As mentioned before that the accountant requires to act as independent third-party since it is essential to follow professional ethics. According to Code of Ethics, as Professional Accountants by International Federation of Accountants (IFAC) (2006), it has concerns on the integrity, objectivity, professional competence and due care, confidentiality and professional behavior as a professional accountant. Independent relates to the point of "objectivity" which means accountants shall not allow bias, conflict of interest or undue influence of others to override professional or business judgment.

There are many issues about auditor independence unto corporate financial scandals and fraud. As explained in the book of ACCA F8 Audit and Assurance textbook by BPP Learning Media (2017), in early 2002 there is a revelation that a senior management at Enron, US energy company, had been deceiving investors by fraudulently overstating profitability. Its auditor, Arthur Andersen, was shown to have lacked objectivity in evaluating Enron's accounting method. This condition

led to the demise of Arthur and Endersen in 2002. Other companies that were also involved in corporate frauds included WorldCom, Parmalat, Cable & Wireless and Xerox, and others. The subsequent fallout of these frauds was a lack of confidence in the way companies were run and audited. In the US, this resulted in the Sarbanes-Oxley Act 2002 which has not radically changed the regulation of the accounting profession in the US but also influenced such issues worldwide.

Similarly, Indonesia also has issues about auditor independence and corporate financial issues as experienced by Kimia Farma (Persero) Tbk., PT. Telkom Indonesia, PT. Kereta Api Indonesia, Bukopin Bank, PT. Sunprima Nusantara Pembiayaan (SNP Finance), and others. According to Detik.com (2018), Concerning the financial report of Bukopin Bank, there is a suspicious activity. After being investigated and clarified with some parties, including the CPA Firm Purwanto, Sungkoro and Surja that affiliated with CPA Firm Ernst & Young, there was manipulated data on credit card transactions. Based on Kompas.com, it was triggered by an abnormal amount of the credit card income. This issue has been done by Bukopin Bank in five years lately and it was not detected by the independent auditor. Therefore, Financial Services Authority (OJK) summon the CPA Firm Purwanto, Sungkoro and Surja that affiliated with CPA Firm Ernst & Young to be investigated (Kompas, 2018).

Another case was experienced by PT. Sunprima Nusantara Pembiayaan or known as SNP Finance about fraud of funds. According to Tempo.co, the fraud through the disbursement of credit funds which related with 14 banks has been distributed to PT. SNP Finance for Rp. 2.2 Trillion. According to Kontan.co.id

(2018), Minister of Finance of the Republic of Indonesia has imposed administrative sanction on each CPA Firm related to this issue including CPA Firm Satrio Bing, Eny and associated that affiliated with CPA Firm Deloitte. The sanctions is in the form of recommendations to make policies and procedures in the CPA Firm quality control system related to the threat of independency for the senior team member and requires to implement those policies and procedures mentioned and report it no later than February 2, 2019.

Hence, in Indonesia oblige to rotate auditors which stated in the regulation of the Indonesian Ministry of Finance Number 423 / KMK.06 / 2002 as amended by the Decree of the Indonesian Ministry of Finance No 359 / KMK.06 / 2003 which was set back public accountant firm with the issuance of the Decree of Indonesian Ministry of Finance Number 17 / PMK.01 / 2006 article 3 paragraph 1 which concern the provision of Certified Public Accountant firm limited to six (6) consecutive years, and by Public Accountant is limited to three (3) consecutive years. The most recent and enactment is Government Regulation Number 20/2015 about Public Accountant Practice which in article 11 paragraph 1 discloses the Certified Public Accountant Firm is no longer restricted in conducting the audit. However, it applies on Public Accountant that provide services is no later than five (5) consecutive years. In addition, Indonesian Financial Services Authority or acknowledged as Otoritas Jasa Keuangan Republik Indonesia issued POJK Number 13 the year 2017, which regulates the financial services institution shall limit the audit services with a public accountant for 3 years consecutively, while the

restriction for the public accountant firm depends on the evaluation of the audit committee.

Auditor Switching is the turnover of Certified Public Accountant Firm or Public Accountant (Auditor) conducted by an entity as a client (Lianto, 2017). The auditor switching is distinguished into two, obligatory and voluntary depends on the point of view. As explained by Putri and Nazar (2015), auditor switching is a mandatory which is seen from auditor's point of view since the length of engagement between CPA Firm or Auditor with client is regulated by some applicable regulation. Auditor switching as voluntarily considered as company or client point of view. It often occurs due to particular considerations derived between auditor and client other than certain regulations.

Several studies have been conducted to determine factors that may affect auditor switching. The researchers who have been researching related topic in Indonesia are Abdoli, Mahmoudzadeh, and Darvishan (2014), Aprillia (2013), Aroh, Odum, and Odum (2017), Arsih and Anisykurlillah (2015), Astrini and Muid (2013), Azhar (2015), Beattie and Fearnley (1995), Darmayanti (2017), Dwiyantri and Sabeni (2014), M. Effendi and Rahayu (2015), Faradila and Yahya (2016), Firyana and Septiani (2014), Gharibi and Geraeely (2016), Juliantari and Rasmini (2013), Khasharmeh (2015), Lianto (2017), Lin and Liu (2010), Luthfiyati (2016), Nazri, Smith, and Ismail (2012), Pawitri and Yadnyana (2015), Prastiwi and Wilsya (2009), Pratitis (2012), Putra and Suryanawa (2016), Putri and Nazar (2015), Saidin, Arifati, and Andini (2016), Salim and Rahayu (2013), Sari and Widanaputra (2016), Susanto (2018), Suyono et al. (2013), Wawo, Nurdin, and Yusran (2017),

and Wea and Murdiawati, (2015). Previous research on a similar topic are also conducted abroad by Abdoli et al. (2014), Aroh et al. (2017), Azhar (2015), Beattie and Fearnley (1995), Gharibi and Geraeely (2016), Khasharmeh (2015), Lin and Liu (2010), Nazri et al. (2012), and Suyono et al. (2013).

In these studies, auditor switching is affected by several factors and results. Factors that have different result among these studies are auditor reputation, audit tenure, certified public accountant firm size, management change, financial distress, audit opinion, opinion going concern, profitability, company size, company growth, audit fee, auditor competitiveness, audit quality, and audit delay. Hereafter, factors that have significant and positive influence toward auditor switching are Certified Public Accountant Firm Reputation by Pawitri and Yadnyana (2015) and Sari and Widanaputra (2016), Management Change by Azhar (2015), Dwiyantri and Sabeni (2014), Firiyana and Septiani (2014), Saidin et al. (2016), Salim and Rahayu (2013) and Wea and Murdiawati (2015), Financial Distress by Azhar (2015), Dwiyantri and Sabeni (2014) and Wea and Murdiawati (2015), Audit Opinion by Darmayanti (2017), Dwiyantri and Sabeni (2014), Faradila and Yahya (2016), Gharibi and Geraeely (2016), Khasharmeh (2015), Luthfiyati (2016), Putra and Suryanawa (2016) and Susanto (2018), Profitability by Firiyana and Septiani (2014) and Suyono et al. (2013).

However, Certified Public Accountant Firm Reputation by Astrini and Muid (2013), Gharibi and Geraeely (2016), Putra and Suryanawa (2016), Management Change by Astrini and Muid (2013), Darmayanti (2017), Juliantari and Rasmini (2013), Khasharmeh (2015), Putri and Nazar (2015) and Susanto (2018), Financial

Distress by Astrini and Muid (2013), Darmayanti (2017), Faradila and Yahya (2016), Firyana and Septiani (2014), Putra and Suryanawa (2016) and Susanto (2018), Audit Opinion by Abdoli et al. (2014), Astrini and Muid (2013), Azhar (2015), M. Effendi and Rahayu (2015), Juliantari and Rasmini (2013), Putri and Nazar (2015), Saidin et al. (2016), Salim and Rahayu (2013) and Wea and Murdiawati (2015), Profitability by Arsih and Anisykurlillah (2015) and Wea and Murdiawati (2015), are insignificant toward auditor switching.

A researcher from Bahrain, Khasharmeh (2015), had a limitation which Bahrain Bourse restricted for the publicly listed company. Therefore, he suggested future researchers to investigate privately limited companies in order to represent overall auditor switching issues in the non-listed privately limited company. Putri and Nazar (2015) has a limitation research only for bank companies. While Firyana and Septiani (2014) give a suggestion for further researcher to expand sample not only public finance company but also other industries. Besides, Astrini and Muid (2013), Azhar (2015), Darmayanti (2017), Faradila and Yahya (2016), Juliantari and Rasmini (2013), Luthfiyati (2016), Putra and Suryanawa (2016), Salim and Rahayu (2013) and Wea and Murdiawati (2015) suggest may research all industries not only manufacturing company in order to generalize the theory correctly. It is different with Arsih and Anisykurlillah (2013) and Astrini and Muid (2013) that have limitation in defining public accounting firm. Thus, researchers gave suggestion to provide further explanation in detail about the public accountant firm changes.

One of the limitations faced by Faradila and Yahya (2016), Salim & Rahayu (2013), Sari and Widanaputra (2016) and Wea and Murdiawati (2015) is about the length of period used by researchers. Due to regulation in Indonesia about auditor switching, Putra and Suryanawa (2016) and Susanto (2018) suggest extending the period of research in order to get strong representation about auditor switching.

On the other hand, Arsih and Anisykurlillah (2015), Astrini and Muid (2013), Azhar (2015), Darmayanti (2017), Juliantari and Rasmini (2013), Suyono et al. (2013) and Wawo et al. (2017) said that there is still a lot of variables that affected auditor switching. Thus, future research can do research which has variables that has never been examined by previous researchers yet.

A prior research that has done this kind of research is Darmayanti (2017), entitled *"The effect of audit opinion, financial distress, client size, management turn, and KAP size on auditor switching"* that examined the influence of audit opinion, financial distress, client size, management turn and KAP Size on the auditor switching among manufacturing companies listed in Indonesia Stock Exchange (IDX). This research is a follow-up research from prior research since there are several inconsistent results. In this research, the researcher made a renewal regarding this research using a new variable. The researcher decided to use a new variable, *profitability and CPA firm reputation* in an exchange with *"Company Size and CPA firm size"* variable that previously used. Based on the in-depth explanation about auditor switching from previous research, this research used proxies that are still very rarely studied. Therefore, the title of this research is **"The Influence of Certified Public Accountant Firm Reputation, Management Change,**

Financial Distress, Audit Opinion, and Profitability on Auditor Switching”

with the research objects of Manufacturing companies listed on the Indonesian Stock Exchange from 2015-2017.

1.2. STATEMENT OF THE PROBLEM

Based on the background description of the problem, the following are the research questions:

1. Does Certified Public Accountant firm reputation influence Auditor Switching?
2. Does financial distress influence Auditor Switching?
3. Does management change influence Auditor Switching?
4. Does audit opinion influence Auditor Switching?
5. Does profitability influence Auditor Switching?

1.3. OBJECTIVE OF THE RESEARCH

Based on the formulation of the problem, the objectives of the research are as follow:

1. To analyze the influence of Certified Public Accountant firm reputation on Auditor Switching for Manufacturing companies listed in the Indonesian Stock Exchange from 2015-2017.
2. To analyze the influence of financial distress on Auditor Switching for Manufacturing companies listed in the Indonesian Stock Exchange from 2015-2017.

3. To analyze the influence of management change on Auditor Switching for Manufacturing companies listed on Indonesian Stock Exchange from 2015-2017.
4. To analyze the influence of audit opinion on Auditor Switching for Manufacturing companies listed on Indonesian Stock Exchange from 2015-2017.
5. To analyze the influence of profitability on Auditor Switching for Manufacturing companies listed on Indonesian Stock Exchange from 2015-2017.

1.4. SIGNIFICANCES OF THE RESEARCH

The researcher hopes that the result of this study benefits to

1. Public Accountants and Companies.

Public accountants and companies may gain an advantage of this research as a reference or consideration in making auditor switching decision.

2. Academicians.

This research is developed from the previous study as a research done by Darmayanti (2017) which examined the influence of audit opinion, financial distress, client size, management turn and KAP Size towards the auditor switching among manufacturing companies listed in Indonesia Stock Exchange (IDX). The researcher brings up uncommon proxy studies of auditor switching by using the "profitability" as a new independent variable which has been rarely studied previously. Hence,

the finding of the study is expected to provide a further significant contribution to the development of accounting and auditing knowledge, especially auditor switching.

3. Further researchers.

This research is expected to be a reference for the other researchers or parties to conduct further studies related to auditor switching.

1.5. SYSTEMATICS OF WRITINGS

This study was prepared by considering the systematic of writings, starting from the explanation of the problem until conclusion. The systematic writings are as follow:

CHAPTER I: INTRODUCTION

This chapter describes the background of the factors affecting the auditor switching on Manufacturing companies listed in Indonesian Stock Exchange. This chapter also explains the statement of the problem, objective of research, and systematic of research writings.

CHAPTER II: REVIEW OF RELATED LITERATURE

This chapter discusses the theories used as the basis for discussion of this research which includes the influence of CPA firm reputation, financial distress, management change, audit opinion and profitability on auditor switching.

CHAPTER III: RESEARCH METHODS

This chapter describes the research methods used in this research. The things described in this chapter include population, sample used in this research,

data collection methods, the definition of research variables, and data analysis techniques.

CHAPTER IV: DATA ANALYSIS AND DISCUSSION

This chapter discusses the results of data processing that has been done and explains the interpretation of the result. It also discusses the results of research whether the hypothesis that has been made is proven or not.

CHAPTER V: CONCLUSIONS AND RECOMMENDATIONS

This chapter contains the conclusions of this research which are the essence of the research results and are the answers to the problem formulation and research objectives. While the suggestions of this research consist of recommendations for improvement which is related to the research topics both in the academic field and society.

CHAPTER II

LITERATURE REVIEW

2.1. LITERATURE REVIEW

2.1.1. Auditing

The performance of an entity management is defined by the existence of a financial statement. According to International Auditing and Assurance Standard Board in the International Standard on Auditing 200 (2009), Financial Statement is a financial information that is trustworthy as representative of an entity's economic resources in a certain period of time and expected to provide reasonable, reliable and understandable information to its users, both internal and external parties, for economic decision making. The users of financial statement such as management, potential investor, investor, creditor, government, and others. According to the Indonesian Stock Exchange (IDX) (2016), an entity in Indonesia publicly listed in the Indonesia Stock Exchange or IDX is requiring a financial statement that accordance with financial accounting standard called *Standar Akuntansi Keuangan (SAK)* and has been audited by public accountant registered in Financial Services Authority or *Otoritas Jasa Keuangan (OJK)*. Thus, an entity in both preparing and presenting the financial statement required the role of public accountant firm to ensure the appropriateness of financial statement through audit of financial statement by an independent auditor.

The process of the audit is by examining and evaluating the evidence regarding assertions (e.g. financial statement) and ascertain the conformity between

those assertions alongside with established criteria. Besides, the objective of an audit is to increase the credibility of entity's assertion by issuing an opinion as of the result of the audit process, whether the financial statements are presented fairly, in all material aspect, or give a true and fair view in accordance with the framework (International Auditing and Assurance Standard Board, 2009). Thereafter, final result will be conveyed to the interested users, such as an investor, government, creditor, as consideration in the making of the economic decision. Based on Code of Ethics by IAI (2016), Independence can be interpreted into two, independence of mind and independence in appearance. However, it generally could be concluded that the auditor is not easily influenced by any parties, especially by an entity or client. Thus, the auditor expected to give an opinion without any bias, conflict of interest or undue influence of others.

2.1.2. Auditor

According to Tuanakotta (2015), public accountant or auditor is someone who licensed to provide services as specified in the legislation. According to the law of public accountant, Government Regulation Republic of Indonesia No 20 in 2015 (Peraturan Pemerintah Republik Indonesia No 20 Tahun 2015), about restrictions of audit services, specifically public accountant or auditor is able to provide services, as follows:

1. Assurance Services
 - a. Audit service of historical financial information
 - b. Review service of historical financial information, and
 - c. Another insurance services

2. Other services related to accounting, finance, and management.

According to Elder, Beasley, and Arens (2013) cited in Darmayanti (2017) there are particular types of the auditor, and commonly can be distinguished as follows:

a. Public Accountant Firm

Public Accountant Firm is a business entity that has authorized by the Minister of Finance as a public accountant in order to provide particular services. Typically, public accountant firm is responsible for auditing the historical financial information published by publicly listed companies including smaller non-commercial organization and private company.

b. Government Auditor

Government Auditor is an auditor who is responsible for conducting the audit of financial in institutions. In Indonesia, it is distinguished as follows:

- Governmental External Auditor

In Indonesia it is called BPK (Badan Pemeriksa Keuangan), the highest institution in Indonesian, it is administration system, which has authority to examine the management and responsibility of the finance of the state.

- Governmental Internal Auditor

It referred as Badan Pengawasan Keuangan dan Pembangunan (BPKP). It is an Indonesian non-ministerial government who carries out governmental duties in the areas of financial supervision and development such as Audit, Consultation, Assistance, Evaluation, Eradication of Corruption, Collusion and Nepotism, Education and Surveillance Training in accordance with applicable regulations.

c. Tax Auditor

Directorate General of Taxes is responsible for state revenues from the taxation sector and law enforcement in the implementation of tax regulation. In addition, one of the main responsibilities to audit the tax returns and determine whether the SPT already complies with the applicable tax provisions.

d. Internal Auditor

Internal Auditor is auditor employed by the companies which is also as the employee of the company. The main task is to audit the management as the BPK audit the state.

2.1.3. Auditor Switching

The independence of an auditor may be affected by the relationship between the auditor and the entity. Basically, an auditor should be independent in order to give true and fair opinion regarding the entity's subject being audited. Through the longer relationship between auditor and entity, there is a chance for both parties in the comfortable situation where the auditor will be emotionally attached to the entity (client) and threaten auditor's independence. Therefore, the way to maintain

public trust and independence of an auditor, some region set the regulation about the obligation of an entity to switch either their public accountant firm or auditor within a specified period.

Auditor switching is a turnover of Public Accountant Firm or Auditor, which is conducted by an entity as a client. Auditor switching occurs either mandatory or voluntary. Those can be distinguished by the point of view from the auditor switching issue (Putri & Nazar, 2015). Auditor switching as mandatory means that the main concern is from auditor point of view, for example when the length of engagement between an auditor or/and public accountant firms is under some regulations which actually has the aim to protect auditor's independence. On the other hand, auditor switching voluntarily happened when an entity or client became the main point of view. It often occurs when there are causative factors derived between auditor and client other than its regulation.

According to Chadegani, Mohamed, and Jari (2011), concerning factors that motivate an entity switches either their auditor or public accountant firm which is voluntarily, classified into client-related factors and auditor-related factors. In this term, the client is an entity which is being audited by the auditor. The factors that are related to the client are financial distress, management change, and client size, and many more. Furthermore, there is audit opinion, audit quality, and audit fees considered as auditor-related factors.

Several studies have been conducted to determine factors that may affect auditor switching. The researchers who have been researching related topic are Abdoli et al. (2014), Aprillia (2013), Aroh et al. (2017), Arsih and Anisykurlillah

(2015), Astrini and Muid (2013), Azhar (2015), Beattie and Fearnley (1995), Darmayanti (2017), Dwiyanti and Sabeni (2014), M. Effendi and Rahayu (2015), Faradila and Yahya (2016), Firyana and Septiani (2014), Gharibi and Geraeely (2016), Juliantari and Rasmini (2013), Khasharmeh (2015), Lianto (2017), Lin and Liu (2010), Luthfiyati (2016), Nazri et al. (2012), Pawitri and Yadnyana (2015), Prastiwi and Wilsya (2009), Pratiti (2012), Putra and Suryanawa (2016), Putri and Nazar (2015), Saidin et al. (2016), Salim and Rahayu (2013), Sari and Widanaputra (2016), Susanto (2018), Suyono et al. (2013), Wawo et al. (2017) and Wea and Murdiawati (2015).

In these studies, auditor switching is affected by several factors and results. Factors that have different result among these studies are public accountant firm reputation, audit tenure, certified public accountant firm size, management change, financial distress, audit opinion, opinion going concern, profitability, company size, company growth, audit fee, auditor competitiveness, audit quality, and audit delay. Hereafter, factors that have significant and positive influence on auditor switching are Certified Public Accountant Firm Reputation by Pawitri and Yadnyana (2015) and Sari and Widanaputra (2016), Management Change by Azhar (2015), Dwiyanti and Sabeni (2014), Firyana and Septiani (2014), Saidin et al. (2016), Salim and Rahayu (2013) and Wea and Murdiawati (2015), Financial Distress by Azhar (2015), Dwiyanti and Sabeni (2014) and Wea and Murdiawati (2015), Audit Opinion by Darmayanti (2017), Dwiyanti and Sabeni (2014), Faradila and Yahya (2016), Gharibi and Geraeely (2016), Khasharmeh (2015), Luthfiyati (2016), Putra

& Suryanawa (2016) and Susanto (2018), Profitability by Firyana and Septiani (2014) and Suyono et al. (2013).

However, Certified Public Accountant Firm Reputation by Astrini and Muid (2013), Gharibi and Geraeely (2016) and Putra and Suryanawa (2016), Management Change by Astrini and Muid (2013), Darmayanti (2017), Juliantari and Rasmini (2013), Khasharmeh (2015), Putri and Nazar (2015) and Susanto (2018), Financial Distress by Astrini and Muid (2013), Darmayanti (2017), Faradila and Yahya (2016), Firyana and Septiani (2014), Putra and Suryanawa (2016) and Susanto (2018), Audit Opinion by Abdoli et al. (2014), Astrini and Muid (2013), Azhar (2015), M. Effendi and Rahayu (2015), Juliantari and Rasmini (2013), Putri and Nazar (2015), Saidin et al. (2016), Salim and Rahayu (2013) and Wea and Murdiawati (2015), Profitability by Arsih and Anisykurlillah (2015) and Wea and Murdiawati (2015), have insignificant influence on auditor switching.

2.1.4. Auditor Switching in Indonesia

In Indonesia, public accountant counts as one of the professions that have the main role in the economy of Indonesia, since it has a role in enhancing the quality and credibility of the financial statement, and it also increases entity's good corporate governance. The developing of accountant public profession in Indonesia has been continuously developed by the center for financial professional development in terms of quality and quantity. Thus, there will be more professional and competitive public accountant (Pusat Pembinaan Profesi Keuangan KEMENKEU, 2014).

Professional accountant has fundamental principles of ethics, which they

must preserve from the time when they are on duty. According to the code of ethics for professional accountant published by Ikatan Akuntan Indonesia (IAI) (2016), objectivity is a general code of ethics for a professional accountant. Objectivity is described for a professional accountant who should not allow bias, prejudice or undue influence of others to override their professional judgment. The objectivity has interrelation with the independent of an auditor. Many parties notice the issues of independent, including the government. Therefore, it is essential for the government to explain and regulate the audit tenure or to preserve the independence of an auditor.

At first, audit switching is regulated in the Decree of the Minister of Finance of the Republic of Indonesia Number 423 / KMK.06 / 2002 in article 6, which explained the provision of service for general audit on financial statement of an entity that was done by the Public Accountant Firm which is limited to five years in sequence and by the public accountant which is limited to three years in a row (Menteri Keuangan Republik Indonesia, 2002, p. 6).

In addition, the Minister of Finance of Indonesia issued Decree of Minister of Finance Number 17/PMK.01/2008 in article 3 paragraph 1, which regulates an Auditor Switching in Indonesia. It explains that the provision of service for general audit on the financial statement of an entity that was done by the Public Accountant Firm which is limited to six years in sequence and by the public accountant is limited to three years in a row (Menteri Keuangan Republik Indonesia, 2008).

In 2015, the government issued Government Regulation Number 20 Year 2015 that regulates the auditor switching. Article 11 paragraph 1 explained that Public Accountant Firms is no longer restricted in conducting the audit of a company. The restriction applies only to Public Accountant, which is limited to five years consecutively (Presiden Republik Indonesia, 2015). Afterward, the Public accountant who provides the services for a company has reached 5 years consecutively. The public accountant is able to re-conduct the services with that company after the 2 years cooling off have been completed.

To maintain the control public accountant to conduct the audit with financial services companies, Indonesian Financial Services Authority or acknowledged as Otoritas Jasa Keuangan (OJK) Republik Indonesia issued POJK Number 13 year 2017, which regulates the financial services institution that shall limit the audit services with a public accountant for 3 years consecutively, while the restriction for the public accountant firm depends on the evaluation of the audit committee. In addition, the financial services institution must use public accountant and public accountant firm listed in Indonesian Financial Services Authority (OJK, 2017).

2.1.5. Certified Public Accountant Firm Reputation

Nowadays, the important role of public accountant services is more desired since the number of public companies is continuously growing. It gives a chance for an entity to choose either change its public accountant firm from one to another (*auditor switching*) or not. Therefore, it causes the increasing of rivalry among public accountant firms. Consequently, public accountant firm should give optimum effort & professional in order to give the maximum performance to their

clients. If a public accountant cannot fulfill management (*client*) objective, probably a public accountant or public accountant firm will be switched.

The reputation of Certified Public Accountant (CPA) firm is also possibly affects the auditor switching. The reputation defines as how the CPA firm certainly noticed by the public concerning the quality of their performances since a long time ago which can be seen from firm's track records (Pawitri and Yadnyana, 2015). Astrini and Muid (2013) argued that the CPA firm reputation is influencing the credibility of client's financial statement. The statement of credibility previously means the increasing of financial statement quality which has the capability to enhance the public trust including the investors.

In this research, the Certified Public Accountant firm is distinguished into two, namely a CPA firm affiliated with The Big Four and a CPA firm that is not affiliated with The Big Four (Aprillia, 2013). The Big Four accounting firm is the largest professional and accounting firms that handle the majority of audit work for public and private companies. The Big Four auditors are:

1. Price Waterhouse Coopers (PWC) affiliated with Public Accountant Firm Tanudiredja, Wibisana, Rintis & Associate,
2. Ernst & Young Public (EY) affiliated with Public Accountant Firm Purwantono, Sungkoro & Surja,
3. Deloitte Public affiliated with Public Accountant Firm of Satrio Bing Eny & Associate,
4. Klynveld Peat Marwick Goerdeler (KPMG) affiliated with Public Accountant Firm Siddharta Widjaja & Associate.

Lin and Liu (2010) identified two possibilities of a company who does the auditor switching, whether switch to a larger auditor or to a smaller auditor. Based on the study findings of auditor switching from the perspective of corporate governance in China, it suggests the firm who has weak in internal corporate governance mechanism to prefer choosing smaller auditors. On the other hand, a firm who has good internal corporate governance should choose large auditors with high quality when switching their auditor. Basically, it depends on the decision of the general meeting of Shareholders.

Darmayanti (2017) said that the quality of Audit is commonly attributed to the reputation of the public accountant firm. The audit process conducted by CPA firm affiliated with The Big Four Firms are usually perceived as being high quality than those are not affiliated with Big due to their larger resources and better training (Schneider, 2017). The relation between auditor independence and an auditor's ability to conduct high-quality audit has been widely discussed among researchers (Hoitash, Markelevich, & Barragato, 2007). This is supported by the research of Wijayanti (2010) that the company will prefer the big-four accounting firm in order to increase the quality of financial statement to enhance the credibility of the company.

Prior studies about certified public accountant firm reputation conducted by Pawitri and Yadnyana (2015), Sari and Widanaputra (2016), have a positive impact on auditor switching. However, according to Astrini and Muid (2013), Gharibi and Geraeely (2016), and Putra and Suryanawa (2016) public accountant firm reputation does not have an impact on auditor switching.

2.1.6. Financial Distress

Financial distress is a condition when the present company suffer difficulty and threatened with bankruptcy or liquidation (Aroh, Odum, & Odum, 2017). The sign of a company experiencing financial distress can be seen from its financial statement. One of the indications is when company liabilities are higher than company assets. This condition represents that a company cannot comfortably meet or has difficulties paying its financial obligations. The obligation referred may be the obligation to suppliers, debts, taxes, bank loan and other obligations (Salim & Rahayu, 2013). The company's situation can even be worse due to incurring more cost, such as expensive financial cost, the opportunity cost of the project and less productive employees. Dwiyanti and Sabeni (2014) assumed that a company who experience a financial distress typically noticeable by the dismissal of labor, unable in paying a dividend, also an insignificant amount of cash flow than long-term debt. This condition possibly supports the company to switch auditor to other auditors in accordance with management's objective.

The financial condition has important implications in the decision in changing public accountant firm or public accountant. Therefore, a company who experience financial distress tend to switch their public accountant firm or public accountant because of financial condition.

Prior studies about financial distress conducted by Azhar (2015), Dwiyanti and Sabeni (2014), Salim and Rahayu (2013), and Wea and Murdiawati (2015), have positive impact on auditor switching. However, according to Astrini and Muid (2013), Darmayanti (2017), Faradila and Yahya (2016), Putra and Suryanawa

(2016), Susanto (2018), and Firyana and Septiani (2014), financial distress does not have an impact on auditor switching.

2.1.7. Management Change

A company is commonly changing its own management to keep their existence within a competitive business environment (Efendi, 2013). The changing of management is expected to give a huge impact by changing a simple process into a major change within several expectations. Thus, this attains the company goals successfully as their stakeholder wishes. It is depicted by the company growth and the whole company goals are achieved.

The changing of management is mainly caused by the decision in a general meeting of a shareholder or the board of directors resigned by their own decision (Wea & Murdiawati, 2015). This new director will lead the company therefore, the role of a director is extremely contributing to a company. The changes in management often followed by changes of policies in accounting, finance and even in the choice of public accountant firm (Utami, 2017). Hence, the more similarities in accounting policies beliefs between public accountant firm and the company related to financial reporting, the less tendency for the company to switch to other accounting firms.

Prior studies about management change conducted by Azhar (2015), Dwiyanti and Sabeni (2016), Saidin et al. (2016), Salim and Rahayu (2013) and Wea and Murdiawati (2015) reached management change to have positive impact, while Luthfiyati (2016) has negative impact on auditor switching. However, according to Astrini and Muid (2013), Darmayanti (2017), Firyana and Septiani

(2014), Juliantari and Rasmini (2013), Khasharmeh (2015), Putri and Nazar (2015) and Susanto (2018), management change does not have impact on auditor switching.

2.1.8. Audit Opinion

The audit opinion is the statement stated by an auditor which assessed the fairness of an entity's financial statement as the final result of the audit process. According to the International Standards of Auditing 705 (2010), there are 4 types of audit opinion:

1. Unmodified opinion (unqualified opinion)

The unmodified or unqualified opinion is expressed by the auditor when auditor concludes that financial statement is prepared, in all material respects, in accordance with the applicable financial reporting framework.

2. Qualified opinion

The qualified opinion shall be expressed by the auditor when:

- The auditor has obtained sufficient and appropriate audit evidence and concludes that misstatements individually or in the aggregate are material but not pervasive to the financial statements; or
- The auditor is unable to obtain sufficient and appropriate audit evidence based on the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

3. Adverse opinion

The auditor shall express an adverse opinion when the auditor has obtained sufficient appropriate audit evidence and concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

4. Disclaimer opinion.

- The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence based on the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
- The auditor shall disclaim an opinion when in extremely rare circumstances involve multiple uncertainties. The auditor concludes that notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties. It is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

The entire management of an entity's desire to get an unqualified opinion from the auditors. If an auditor cannot give the desired opinion, management will dissatisfy toward auditors. Since it motivates to decrease the credibility entity's financial statement. Therefore, the entity tends to change its auditor.

Prior studies about public audit opinion are conducted by Darmayanti (2017), Dwiyanti and Sabeni (2014), Faradila and Yahya (2016), Gharibi and Geraeely

(2016), Khasharmeh (2015), Luthfiyati (2016), Putra and Suryanawa (2016), Susanto (2018) and Wawo et al. (2017) that have positive impact on auditor switching. However, according to Abdoli et al. (2014), Astrini and Muid (2013), Azhar (2015), and Rahayu (2015), Juliantari and Rasmini (2013), Putri and Nazar (2015), Saidin et al. (2016), Salim and Rahayu (2013) and Wea and Murdiawati (2015), audit opinion does not have impact on auditor switching.

2.1.9. Profitability

Profit and profitability are two dissimilar concepts, where profit means an absolute amount which is determined by the amount of income or revenue above the cost or expenses incurred by a company. Tulsian (2014) stated that profitability can be divided into two words which is profit and ability. Profit has been explained previously, while ability denotes as proficiency in operating its company. Riyanto (2001) cited in Arsih and Anisykurlillah (2015) stated that profitability may be defined as the ability of a company to earn a profit in a certain period.

Profit is an absolute amount and profitability is a relative one. Thus, profit has no relevance in comparing the efficiency of a business organization. Since high profit does not indicate an organizational efficiency and low profitability does not indicate organizational inefficiency. In measuring the efficiency of capital employed and measuring operational efficiency, profitability analysis is considered as a standout amongst other procedure (Tulsian, 2014). This research used Return on Asset Ratio to measure profitability variable which is obtained from Net Income divided by Total Assets.

Prior studies about profitability is conducted by Wijaya (2011) and Suyono et al. (2013) which have positive influence on auditor switching. However, according to Arsih and Anisykurlillah (2015) and Wea and Murdiawati (2015), it does not have impact on auditor switching.

2.2. THEORETICAL REVIEW

2.2.1. Agency Theory

Agency theory is a concept enlightening the relationship between two parties as *principal* and *agent*. In this case, management of an entity acts as *the agent* who is accountable to maintain the company in order to optimize *principal's* interest since the *principal* is one or more persons who are considered as the owner of the company (Salim & Rahayu, 2013).

Agency theory discusses agency problem that occurs between the *agent* and *principal* because of the conflict of interest between them and normally they have different objective depends on their point of view (Firyana & Septiani, 2014). In this situation, *the principals* should believe that *the agent* will not always act in the best interest of *the principal* (Jensen & Meckling, 1976).

As the person who directly running the business, *the agent* has the internal information in detail than *principals*. Therefore, *the agent* should make a financial statement as the disclosure of an entity's activity to *the principals* (Firyana & Septiani, 2014). However, when the information is received by interested parties, it does not describe as the real condition of the entity, the agency problem does exist. This condition is known as *information asymmetry* (Jensen & Meckling, 1976).

Agency theory assumes that *agent* and *principal* acting on their own business (self-interest). It is explained with a concept of *principals* fascinated only in making financial earned, where *the agent* does not only concentrate on their performance in order to get high bonus and incentives, but also the additional engage in the agency (Darmayanti, 2017). Faradila and Yahya (2016) explained it based on agency theory, management as an agent is assumed to have its own interest and crave to maximize its own interest. By their own authority in a company, management has the right in the choosing of the auditor. Thus, when they disagree over certain accounting practices, the agent will move to another auditor who may agree with *the agent*.

In return to the objective of *the agent* to get marvelous performance in *principal's* point of view and at the same time who understand the entity very well more than *principal* and other parties, the auditor role emerged. Auditor acts as an intermediate amongst *agent* and *principles* to straighten out the agency problem.

The correlation between Certified Public Accountant Firm Reputation with agency theory is basically auditor as an independent third party who helps in resolving the conflict between the agent and principal. The company is able to choose either CPA Firm which affiliated with The Big Four or not. The CPA Firm that affiliated with the The Big Four has better quality and have high credibility. Then, the auditor can retain its independence and it can improve the quality of the reliability of the financial statement and the company's reputation in the user's perception about entity's financial statement. Investors, as *the principal*, in seeing

the financial statement made by management will be more trusted if the financial statement has been audited by the CPA Firm that affiliated with The Big Four.

There is a relationship between financial distress, a condition where the client is not able to complete the company's obligation and threatened the company's bankruptcy or liquidation, and agency theory. *The principals* and *the agents* ought to act on behalf of mutual benefit, but instead, both parties focus on their own interests which are familiar with the term of self-interest. It means when the company experience the financial distress where it is the worst circumstance in business, the management will take an action on behalf their interests, whether it will affect the principal's interest or not.

The factor related to management change with agency theory is when there is a conflict of interest between *the principals* and *the agents* which results there is no trust between both parties any longer. This lead to the perpetration of management turnover which has been decided in the General Meeting of Shareholder as the decisions of principals or their own willingness. This needs to be done in order to support the principal's objective and may apply a new accounting method.

The relation between audit opinion and agency theory is when an auditor as the independent third party and intermediary between *the principals* and *the agents*. The auditor role is evaluating the client company financial statement and giving an opinion on the fairness, accuracy and reliable financial statement made by *the agent*. If the opinion given by the auditor is not in accordance with the desire of *agent*, it encourages the management to perform auditor switching.

However, the correlation between agency problem and profitability is when it influences the economic decision of *the agents* or *the principals*. Profitability depicts the efficiency of a company in utilizing its resources and capital. The greater profitability of a company means the operational and investment activity of the business is increasing. The consequence, the segregation between *principals* and *management* is more visible. On the other hand, when the operational activity of the business is more complex, the audit process will be complex as well. The more complex audit process required a competent auditor to handle it. Since the company is in profit circumstance, it encourages the company to improve the company competencies in order to make *the principals* believe more to the company.

Based on the description, that agency theory is a theory that discusses the differences of interest between the agent and the principal. Thus, in order to provide fair, accurate and reliable financial information, it required the third party that is independent auditors as a mediator to resolve differences of interest so that information is not harmful to the agent or principal.

2.3. HYPOTHESIS FORMULATION

2.3.1. The Influence of Certified Public Accountant Firm Reputation on Auditor Switching

Agency theory describes the correlation between *the principals* and the *agents*. There is a possibility of agency problem arises among them, where *the agent's* interest is not the same as *the principal's* interest. Therefore, the role of Certified Public Accountant Firm is as an independent party and intermediary between *the principals* and *the agents* in solving certain agency problems.

Firyana and Septiana (2014) argued that *the principals* as the users of financial statement trust the CPA Firm who is affiliated with the The Big Four more than CPA Firm who is not affiliated with The Big Four to audit a company's financial statement. Craswell et al. (1998) in Sari and Widanaputra (2016), argued that the CPA Firm affiliated with The Big Four has excellent performance because the auditors are trained and have been recognized internationally. Thus, in order to increase the quality of financial statement, it is done by pursuing or maintaining the CPA Firm affiliated with The Big Four as their Independent Auditor (Juliantari & Rasmini, 2013). The management wants the users of their financial information, includes the investors, to entrust and invest in the company.

It can be concluded that CPA firm reputation enhance self-confidence of a company in terms of attracting investors because when a company is audited by reputable auditor, investors have more confidence to invest in a certain company. Hence, the results of previous studies were inconsistent with the relationship between Certified Public Accountant Firm Reputation and Auditor Switching.

Some studies report a positive association of auditor switching following CPA Firm Reputation by Pawitri and Yadnyana (2015) and Sari and Widanaputra (2016). Other research reported negative association such as by Astrini and Muid (2013), Gharibi and Geraeely (2016) and Putra and Suryanawa (2016).

This suggested the existence of CPA Firm that is not affiliated with The Big Four allows the client to choose new CPA Firm that is affiliated with The Big Four who are more qualified from the user's point of view. Based on the previous studies, the following hypothesis is developed:

H1: Certified Public Accountant Firm Reputation has negative influence on Auditor Switching.

2.3.2. The Influence of Financial Distress on Auditor Switching

Financial distress is a critical circumstance of company's financial which is predicted to approach bankruptcy or liquidation. Saidin et al. (2016) argued that the financial condition of a client company may be as important influence on the decision of displacing or preserve the CPA Firm as the independent auditor in the company. According to Jensen and Meckling (1976), agency theory assumed that humans are self-interest. Saidin et al. (2016) and Wea and Murdiawati (2015) mentioned the possibility that caused the auditor switching, first is the existence of tension between management and auditors which affected relationship between both parties and second is the client company that does not have longer ability to finance audit fees charged by current CPA Firm due to a decreasing in the company's financial capability. Therefore, the results of previous studies were inconsistent about the relationship between Financial Distress and Auditor

Switching. Some research that reported negative influence on financial distress and auditor switching were Saidin et al. (2016), Khasharmeh (2015), Salim and Rahayu (2013) and Wea and Murdiawati (2015). Other research reported positive influence of auditor switching on Financial Distress by Dwiyanti and Sabeni (2014), and Azhar (2015). Refers to the previous explanation, the agent tends to choose the CPA Firm that is suitable with management interest and client company condition. The client company often tend to experience auditor switching when they suffer financial difficulties than a client company who has a healthier financial performance. Based on the previous studies, the following hypothesis is developed:

H2: Financial Distress has positive influence on Auditor Switching.

2.3.3. The Influence of Management Change on Auditor Switching

Agency theory discusses the conflict of interest between *the principals* and *the agents* where they act on behalf of their own interest or called as self-interest (Jensen & Meckling, 1976). The existence of agency problem between *the principals* and *the agents* might have resulted in management change. Management changes are noticeable by the changes of directors in the general meeting of shareholders since *the principals* have the right in determining persons who are appropriate to lead the company or based on their own consideration. Azhar (2015), Firyana and Septiani (2014) and Wea and Murdiawati (2015) argued that the changes of company's management is frequently followed by changes of company's policy in accounting, finance and involves the choosing of CPA Firm. It allows the new management to change and decide the new CPA Firm which is believed to be more competent and qualified, and in line with management interests and the

company's policies (Azhar, 2015). Thus, some studies by Astrini and Muid (2013), Darmayanti (2017), Khasharmeh (2015) and Susanto (2018) indicated that there is no relationship between management change and auditor switching. Besides, based on the research done by Dwiyantri and Sabeni (2014), Firyana and Septiani (2014) and Saidin et al., (2016), the result showed that there is positive influence between Management Change and Auditor Switching because the existence of new management encourages the client to perform auditor switching by choosing a new CPA Firm/Public Accountant who is considered to be more qualified. Based on the previous studies, the following hypothesis is developed:

H3: Management Change has Positive Influence on Auditor Switching.

2.3.4. The Influence of Previous Audit Opinion on Auditor Switching

The agency theory enlightened the relationship between *the agent and the principals*. Since the agency theory assumes that *the agents* and *the principals* are self-interest, the existence of independent auditor as a party that intermediary both parties in order to make sure whether *the agents* are in line with company's interest as a whole. Moreover, the form of responsibility of management is by establishing the financial statements and it will be audited by the independent auditor (Putra & Suryanawa, 2016). The outcome of the audit process is in the form of audit opinion as a statement by an independent auditor in assessing the fairness of a financial statement being audited (Luthfiyati, 2016). An audit opinion is an important information for the users of client company financial information. Thus, Effendi and Rahayu (2015) and Putra and Suryanawa (2016) argued that the audit opinion is influencing the user's point of view of a client companies financial statement. The

safest situation of a company is when they get an Unqualified Opinion which means the financial statement is prepared, in all material respects, in accordance with the applicable financial reporting framework. Thus, based on the research done by Effendi and Rahayu (2015) and Putra and Suryanawa (2016), the result showed that there is a negative influence between the Audit Opinion and Auditor Switching. The more client company receive an audit opinion other than unqualified opinion. It indicates that the client company is not satisfied with its current opinion. Thus, it encouraged client company to perform auditor switching in the future. Another opinion of unqualified opinion is less favored by the client company because it may reflect negatively on the client company financial statement. Based on the previous studies, the following hypothesis is developed:

H4: Audit Opinion has Negative Influence on Auditor Switching.

2.3.5. The Influence of Profitability on Auditor Switching

The profitability ratio, ROA or Return on Assets, indicates the financial condition of a company. Firyana and Septiani (2014) argued that ROA is a financial indicator to predict and see the future business prospects of a company. Return on Asset is net income before interest and tax divided by total assets. The higher the ROA value means the more effective the management of company assets and the better business prospects in the future. The company's growth shows that the business run by the company does not experience stagnancy (Arsih & Anisykurillah, 2015). Moreover, the development of the company in line with the complexity of the business process. Consequently, the audit process is more complex and the management required a competent auditor to perform the audit

process. In accordance with agency theory, profitability influences the decision of *the principals* and *the agents* to perform auditor switching. Several studies, by Arsih and Anisykurlillah (2015), Wea and Murdiawati (2015), assumed that profitability has positive influence on auditor switching. The higher profitability encourages the management to perform the auditor switching since the company has the desire to impress *the principals* and has an opportunity to do the auditor switching. Based on the previous studies, the following hypothesis is developed:

H5: Profitability has Positive Influence on Auditor Switching.

2.4. RESEARCH MODEL

Independent Variables

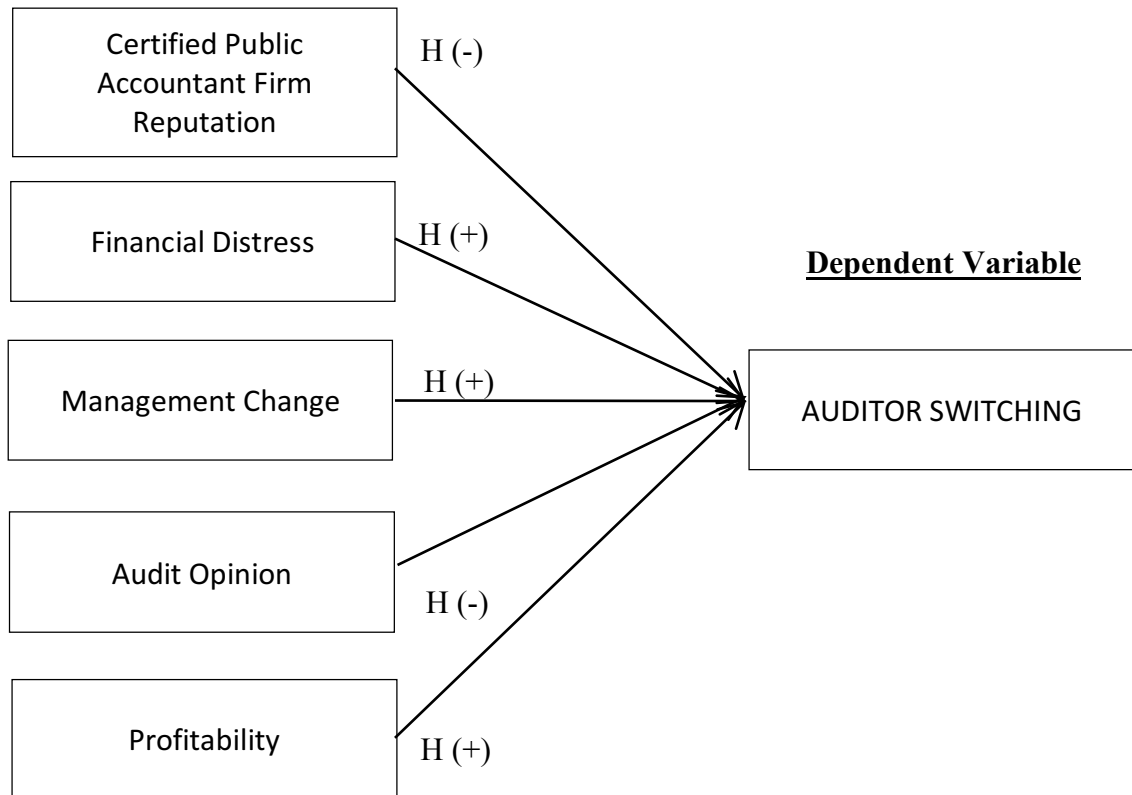


Figure 2. 1 Research Framework

CHAPTER III

RESEARCH METHOD

3.1. POPULATION AND SAMPLE

The population of this study was all companies listed on Indonesia Stock Exchange. In this research, the sample data was all manufacturing companies listed on Indonesia Stock Exchange. The sampling period used in this research was from 2015 to 2017. The technique of sampling in this research was purposive sampling method, which was sampling technique of the population based on certain criteria. The following are the specifications:

1. Manufacturing companies that went public and were listed on Indonesia Stock Exchange from 2015-2017 respectively.
2. Manufacturing companies that published financial statements and independent auditor report from 2014-2017.
3. Manufacturing companies that have done the displacement of Certified Public Accountant Firm and/or Public Accountant (Auditor Switching) from 2015-2017.

3.2. RESOURCE AND METHOD OF DATA COLLECTION

3.2.1. Resource and Data Type

The type of data used in this research was secondary data in the form of quantitative data obtained from the annual financial statements of manufacturing companies listed on Indonesia Stock Exchange from 2014-2017. The annual financial statement data is obtained from the Indonesian Stock Exchange (IDX) by assessing through the website namely www.idx.co.id and other official companies

website. In addition to this, scholarly articles from academic journals, relevant textbooks, and other internet sources were also used.

3.2.2. Method of Data Collection

The data collection method used in this research was secondary data collected from the annual financial statement and independent auditor's report of manufacturing companies of go public and listed on the Indonesian Stock Exchange from 2015 - 2017.

3.3. OPERATIONAL DEFINITION AND VARIABLE MEASUREMENT

This research aimed to analyze the influence of Certified Public Accountant firm reputation, financial distress, management change, audit opinion, and profitability on auditor switching. Therefore, there were two types of variables that were defined in this research, namely the independent variable and dependent variable.

3.3.1. Dependent Variable

3.3.1.1. Auditor Switching

Auditor switching in this research was the turn of the Certified Public Accountant Firm performed by the client company voluntarily. Auditor switching measure used dummy variable which is coded as 1 when a company did auditor switching and 0 if it did not perform auditor switching (Darmayanti, 2017).

Auditor Switching = Dummy Variable, Whereas:

1 = Companies switch their auditor

0 = Companies do not switch their auditor

3.3.2. Independent Variable

3.3.2.1. Certified Public Accountant Firm Reputation

Certified Public Accountant (CPA) Firm Reputation in this research was the Reputation of CPA firm that can be classified by a firm that is affiliated with The Big Four and the firm that is not affiliated with The Big Four. CPA Firm Reputation was measured by using a dummy variable. A company that is audited by CPA firm affiliated with The Big Four is coded as 1 and a company audited by CPA firm that is not affiliated with The Big Four is coded 0 (Sari & Widanaputra,2016).

CPA Firm Reputation = Dummy Variable, Whereas:

1 = Companies audited by CPA Firm affiliated with The Big Four

0 = Companies audited by CPA Firm which is not affiliated with The Big Four

3.3.2.2. Financial Distress

Financial distress in this research was the condition where the company is experiencing financial difficulties. Financial distress in this research was measured using the ratio of Debt to Equity Ratio (DER) (Putra & Suryanawa, 2016). This ratio depicted the company capital structure, the higher the proportion of debt, thus; the higher the risk that will be borne by the investors. Thus, the higher the value of DER ratio, the higher the company

debt alongside with the lower the value of company equity, the greater the burden of a company on creditor (Wicaksono, 2016). This condition is called financial distress.

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

3.3.2.3. Management Change

Management change in this research was the turn of the directors of the company conducted through the decisions in a general meeting of the shareholder or the directors quit on their own volition. If there is a change in directors, it is coded as 1, but if there are no changes in directors it is coded 0 (Darmayanti, 2017).

Management Change = Dummy Variable, Whereas:

1 = Companies experienced management change

0 = Companies do not experience management change

3.3.2.4. Audit Opinion

Audit opinion in this research was an opinion expressed by the auditor in assessing the fairness in conformity of company's financial statement which is being audited. The audit opinion is measured use dummy variable. The company's previous audit opinion is unqualified opinion. It is coded as 1 while the client company receiving other than unqualified opinion is coded as 0 Luthfiyati (2016).

Audit Opinion = Dummy Variable, Whereas:

1 = Companies previously receives an unqualified opinion

0 = Companies previously receives opinion other than unqualified opinion

3.3.2.5. Profitability

To measures this variable, this study used Return on Assets Ratio (Arsih & Anisykurlillah, 2015). The formula is as follows:

$$\text{Return on Assets (ROA)} = \frac{\text{Net Income}}{\text{Total Assets}}$$

3.4. DATA ANALYSIS METHOD

3.4.1. Descriptive Statistic

Descriptive statistics are data collected and processed using descriptive statistical techniques presented in the form of frequency distribution, such as mean, median, minimum, maximum, standard deviation. Mean is an average value from data collected. Median is a middle value of a data collected when it sorted from the lowest up to the highest value. A maximum is the highest value of a data collected, while Minimum is the opposite. Standard deviation is used to determine the distribution of data in the sample. Thus, descriptive statistics describe the data into a clearer and easily understood information (University College Dublin, n.d.).

3.4.2. Correlation Test

Correlation test is used to identify the relationship among variables. The value of 0 is enlightening that there is no correlation among those variables. As the value is 1 or -1, it describes a perfect correlation. The interpretation is when the value is about to reach 1 or -1, it indicates a strong relationship. Thereupon, if the value is about to reach 0, it indicates a weak relationship among the variables.

3.4.3. Hypothesis Testing

3.4.3.1. Generalized Linear Model (GLM)

Regression is a method to model the relationship among several variables. The aims of the researcher doing the research are to identify the relationship between the dependent variable (Y) and the independent variables (X). Thus, the way a researcher in modeling the relationship between the independent variable and the dependent variable is through analysis regression. Generalized Linear Model is the extension of linear regression yet the GLM is a linear model that explains the relationship of not normally distributed data (Wibawati, 2009). Besides, GLM is able to solve a categorical relationship (binary). Based on Nelder & Wedderburn (1972), GLM has a model to deal with binary such as the linear probability model, logit model, and the probit model. However, there are main components in GLM analysis where the dependent variable belongs to the exponential family such as normal, binominal, poisson, and gamma. Afterward, there is a relationship between the mean population with the predictor which stated as link function. The aim of using the Generalized Linear Model is to avoid extreme data, classic assumption and abnormal data.

$$ASWITCH_t = \beta_1 CPA + \beta_2 FD + \beta_3 MCG + \beta_4 AO + \beta_5 PRO +$$

$$\mathbf{3} \dots \dots \dots (3.1)$$

Whereas:

ASWITCH _t	: auditor switching
A	: constants
β ₁ -β ₅	: regression coefficient
CPA	: CPA firm reputation
FD	: financial distress
MCG	: management change
AO	: audit opinion
PRO	: profitability
3	: error

3.5. OPERATIONAL HYPOTHESIS

According to the previous studies and theoretical hypothesis, in this research, the researcher formulized the null hypothesis (H_0) and the alternative hypothesis (H_A). This research tested the null hypothesis to prove whether the null hypothesis (H_0) is rejected or failed to be rejected. The hypotheses are as follow:

3.5.1. Certified Public Accountants (CPA) Firm Reputation

$H_{01}; \beta_1 \leq 0$: CPA firm reputation does not have negative influence on Auditor

Switching

$H_{A1}; \beta_1 < 0$: CPA firm reputation has negative association on Auditor

Switching.

3.5.2. Financial Distress

$H_{02}; \beta_2 \leq 0$: Financial distress does not have positive influence on Auditor

Switching

$H_{A2}; \beta_2 > 0$: Financial distress has positive influence on Auditor Switching.

3.5.3. Management Change

$H_{03}; \beta_3 \leq 0$: Management change does not have positive association on Auditor

Switching

$H_{A3}; \beta_3 > 0$: Management change has positive influence on Auditor Switching.

3.5.4. Audit Opinion

$H_{04}; \beta_4 \leq 0$: Audit opinion does not have negative influence on Auditor

Switching

$H_{A4}; \beta_4 < 0$: Audit opinion has a negative association on Auditor Switching.

3.5.5. Profitability

$H_{05}; \beta_5 \leq 0$: Profitability does not have positive influence on Auditor Switching

$H_{A5}; \beta_5 > 0$: Profitability has positive influence on Auditor Switching.

CHAPTER IV

DATA ANALYSIS AND DISCUSSION

In this chapter, the researcher explains the data analysis and research result about the analysis of CPA firm reputation, financial distress, management change, audit opinion and profitability that influence the auditor switching. Based on the theory that the researcher had explained before, the researcher analyzed the data collected. The analysis of the data was in accordance with problem formulation and hypothesis that the researcher had put forward which was accepted or rejected.

4.1. DESCRIPTION OF OBJECT OF THE RESEARCH

This research aimed to determine the influence of CPA firm reputation, financial distress, management change, audit opinion and profitability on auditor switching. The objects of this research were manufacturing companies listed on Indonesia Stock Exchange in 2015-2017. The research used purposive sampling technique as mentioned in the previous chapter. Based on the criteria that had been determined, the sample selection is described in Table 4.1 as follows:

Table 4. 1 Sample Selection

NO	CRITERIA	TOTAL
	The total of manufacturing companies listed in the Indonesia Stock Exchange from the year of 2015-2017. The sample criteria as follows:	137 companies
1.	Companies do not provide complete data of variables that will be investigated in the company's financial statements during 2015-2017 respectively.	(4 companies)
2.	Auditor switching is not performed during 2015-2017.	(0 companies)
Number of Corresponding Companies Criteria		133 companies
Total Data from 2015-2017 (3 years = 133 x 3)		399

4.2. DESCRIPTIVE STATISTICS

Descriptive statistical analysis is used to provide a description of sample data.

Descriptive statistics include mean, median, minimum, maximum and standard deviation of each variable in the research. The descriptive statistics is consisted of CPA firm reputation (CPA), financial distress (FD), management change (MCG), audit opinion (AO), and profitability (PRO) are described as follow:

Table 4. 2 Descriptive Statistics Analysis Result

	ASWITCH	CPA	FD	MCG	AO	PRO
Mean	0.5840	0.4085	1.3976	0.4586	0.9900	0.0385
Median	1.0000	0.0000	0.8651	0.0000	1.0000	0.0290
Maximum	1.0000	1.0000	162.1920	1.0000	1.0000	0.7160
Minimum	0.0000	0.0000	-166.7490	0.0000	0.0000	-0.5485
Std. Dev.	0.4935	0.4922	12.7987	0.4989	0.0997	0.0999
Skewness	-0.3407	0.3722	0.2775	0.1660	-9.8367	1.082742
Kurtosis	1.1161	1.1385	144.8118	1.0275	97.7601	13.9043
Jarque-Bera	66.7239	66.819	334343.4	66.5126	155718.4	2054.738
Probability	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sum	233.0000	163.0000	557.6389	183.0000	395.0000	15.3699
Sum Sq. Dev.	96.9373	96.4110	65195.16	99.0677	3.9599	3.97015
Observations	399	399	399	399	399	399

Source: Secondary data processed, 2018.

Based on the results of descriptive statistical analysis shown in Table 4.2 above, it can be concluded as follows:

1. In the Auditor Switching (ASWITCH) variable, the mean value is 0.5840 with the standard deviation of 0.4935. The standard deviation value was smaller than mean value, indicating that the ASWITCH data was homogeneous. The maximum and minimum ASWITCH values of the companies were 1 and 0. The companies that had the minimum value means

that the company did not perform auditor switching and the companies with maximum value performed auditor switching.

2. CPA Firm Reputation (CPA) variable in this research used dummy variable. Companies audited by CPA Firm affiliated with The Big Four were rated as 1 and companies who were not audited by CPA Firm affiliated with The Big Four were rated as 0. Therefore, based on Table 4.2, the maximum value was 1 and the minimum value was 0. The maximum value indicated that the company was audited by CPA Firm affiliated with The Big Four. Afterwards, the minimum value indicated that the company was audited by CPA firm which is not affiliated with The Big Four. The mean value was 0.4085 with standard deviation of 0.4922. The standard deviation value was higher than the mean value indicating that the CPA data were heterogeneous.
3. In the Financial Distress (FD) variable, the mean value was 1.3976 with the standard deviation of 12.7987. The standard deviation value was higher than the mean value, indicating that the FD data were heterogeneous. The maximum and minimum FD values of the companies were 162.1920 and -166.7490.
4. Management Change (MCG) variable in this research used dummy variable. Companies that experience management change were rated as 1 and companies that do not experience management change were rated as 0. Therefore, based on Table 4.2, the maximum value was 1 and the minimum value was 0. The maximum value indicated that the company experienced

management change. Afterwards, the minimum value means that the company did not experience management change. The mean value was 0.4586 with standard deviation of 0.4989. The standard deviation value was higher than the mean value indicating that the CPA data were heterogeneous.

5. Audit Opinion (AO) variable in this research used dummy variable. Companies who previously received unqualified opinion were rated as 1 and companies who did not receive unqualified opinion was rated as 0. Therefore, based on Table 4.2, the maximum value was 1 and the minimum value was 0. The maximum value indicated that the company previously received unqualified opinion. Afterwards, the minimum value means that the company was not receiving unqualified opinion. The mean value was 0.9900 with the standard deviation of 0.0997. The standard deviation value was smaller than the mean value indicating that the CPA data were homogeneous.
6. In the Profitability (PRO) variable, the mean value was 0.0385 with the standard deviation of 0.0999. The standard deviation value was higher than the mean value indicating that the PRO data were heterogeneous. The maximum and minimum PRO values of the companies were 0.7160 and -0.5485.

Homogeneous data is a set of data with almost similar values and characteristics and is considered not to have a significant difference between one

and another. Furthermore, heterogeneous data is a source of data whose elements have different characteristics or circumstances (diverse).

4.3. CORRELATION ANALYSIS

Correlation is a testing tool used to measure the existence of a linear relationship between one variable and other variables. Two correlated variables will influence each other. Thus, if there was a change in one variable it would be followed by changes in other variables. Here are the results of the correlation test relationship among variables:

Table 4. 3 Correlation Test Result

	CPA	FD	MCG	AO	PRO
CPA	1				
FD	-0.0396	1			
MCG	0.2071	-0.0067	1		
AO	-0.0187	-0.0099	0.0926	1	
PRO	0.2194	-0.0257	0.04466	-0.0014	1

Source: Secondary data processed, 2018.

Based on the results of correlation analysis shown in the table above, it can be concluded as follows:

1. CPA variable had the same direction or positive influence on MCG of 0.2071 and PRO of 0.2194. In addition, CPA variable also had opposite correlation or negative influence with FD of -0.0396 and AO of -0.019.
2. FD variable had opposite correlation or negative influence on MCG of -0.0067, AO of -0.0099 and PRO -0.0257.
3. MCG variable had the same direction or positive influence on AO of 0.0926 and PRO of 0.04466.

4. MCG variable had the opposite correlation or negative influence on PRO of -0.0014.

4.4. HYPOTHESIS TESTING

Hypothesis testing on this research used Generalized Linear Model or known as GLM. The results are as follows:

Table 4. 4 The Result of the Generalized Linear Model

Hypothesis	Relationship	Coefficient	z-Statistic	Std. Error	Prob.	Status
	C	0.3189	1.9789	0.1611	0.0478	
H (-)	CPA → ASWITCH	-0.1405	-4.6935	0.0299	0.0000	Accepted
H (+)	FD → ASWITCH	0.0058	33.2494	0.0002	0.0000	Accepted
H (+)	MCG → ASWITCH	-0.4514	-18.6441	0.0242	0.0000	Rejected
H (-)	AO → ASWITCH	0.2504	1.5146	0.1653	0.1299	Rejected
H (+)	PRO → ASWITCH	1.0862	4.6540	0.2334	0.0000	Accepted

Source: Secondary data processed, 2018.

4.4.1. The effect of CPA Firm Reputation on Auditor Switching.

Based on the test that has been done, the result can be obtained that the CPA Firm Reputation had a coefficient value of -0.1405. This explained that the value of the beta coefficient of CPA firm reputation of -0.1405 can explain the auditor switching of -14.1% or it can be interpreted that every change into one unit of CPA can cause changes in auditor switching with the value of -0.1405. It also obtained the result that CPA firm reputation had z-Statistic of -4.6935 with p-value of 0.0000 (<0.05). This shows that CPA firm reputation had a significant and negative influence on auditor switching measured by ASWITCH_{*i*}. Based on the test, it can be concluded that from H1 hypothesis that stated CPA firm reputation has negative influence on auditor switching was accepted. Therefore, it can be interpreted that

company which was audited by CPA Firm which was not affiliated with The Big Four tend to perform auditor switching. In the other hand, company that was audited by CPA firm affiliated with The Big Four did not tend to perform auditor switching.

The reputation of CPA Firm is a common belief on the quality performance of CPA firm which became a public trust for a long time and it can be seen from the firm's track record. According to Aprillia (2013), CPA Firm is distinguished into CPA Firm affiliated with The Big Four and CPA Firm not affiliated with The Big Four. Schneider (2017) argued that CPA Firm affiliated with The Big Four is more competent because of the larger resources and training obtained by the employees. In accordance with agency theory, agency theory can reduce the asymmetry information between *the principals* and *the agents* because CPA firm was an independent party and intermediary between *the principals* and *the agents* for solving certain agency problems. Subsequently, Firyana and Septiani (2014) argued the principals trust the CPA Firm affiliated with The Big Four rather than CPA firm which was not affiliated with The Big Four to give some professional judgments on their financial statements.

The studies of Pawitri and Yadnyana (2015), Sari and Widanaputra (2016) supported this research in proving that CPA Firm affiliated with The Big Four will generate the principal's trust. Darmayanti (2017) argued that CPA firm reputation is corresponding with the quality of the auditors. Since a company audited by CPA firm who had good reputation affects the way *principals* see the credibility of the company's financial statement (Astrini & Muid, 2013). In other words, the quality of the company's financial statement is increasing as the increasing of the quality

of CPA Firms who audited the company and its effect on public trust. On the other hand, research by Astrini and Muid (2013), Gharibi and Geraeely (2016), Putra and Suryanawa (2016) was contradicted with this research that stating CPA Firm Reputation had no effect on auditor switching.

4.4.2. The effect of Financial Distress Firm Reputation on Auditor Switching

Based on the test that had been done, the result obtained that Financial Distress had the coefficient value of 0.0058. This explained that the value of the beta coefficient of Financial Distress of 0.0058 can explain the auditor switching of 0.6% or it can be interpreted that every change into one unit of FD can cause changes in auditor switching with the value of 0.0058. It also obtained that Financial Distress had z-Statistic of 33.2494 with p-value of 0.0000 (<0.05). This showed that Financial Distress had significant and positive influence on auditor switching measured by ASWITCH_i. Based on the test, it can be concluded that H2 hypothesis which stated financial distress has positive influence on auditor switching was accepted. Therefore, it can be interpreted that company which suffered financial distress tended to perform auditor switching. On the other hand, company which did not suffer financial distress did not tend to perform auditor switching.

According to Aroh et al. (2017), financial distress is a present condition of a company suffer financial difficulties which can be threatened bankrupt or liquidation. As mentioned before, financial difficulties mean that the company experiences some troubles in fulfilling their obligations such as paying debts, taxes, bank loan, even related obligation to some parties (Salim & Rahayu, 2014). It is in accordance with agency theory which explains the relation of *principals* and *agents*

and assuming both are self-interest (Jensen & Meckling, 1976). A company which is in a condition of experiencing financial difficulties automatically has difficulties in completing their obligation to the auditor, paying auditor fees. In this condition, it will affect the relationship between *the principals* and *the agents* (Wea & Murdiawati, 2015). On the other hand, competence auditor will be more careful in auditing the company. This raises insecurities of the company and tends to switch their auditor who has the same objective as the management.

The studies of Azhar (2015), Dwiyanti and Sabeni (2014), Salim and Rahayu (2014), Wea and Murdiawati (2015) supported this research in proving a company who are experiencing financial distress that tend to switch their auditor because of the company does not have ability to complete their obligations. Saidin et al. (2016) argued financial condition of a company that has an impact on a decision to preserve the current auditor or switch to one who is accordance with *management* interest and company condition. On the other hand, Astrini and Muid (2013), Darmayanti (2017), Faradila and Yahya (2016), Putra and Suryanawa (2016), Susanto (2018), Firyana and Septiani (2014) is contradicted with this research that stated Financial Distress has no effect on auditor switching. They argued that some companies consider the highest of startup fee if they switch the auditor and worsen the financial condition.

4.4.3. The effect Management Change on Auditor Switching

Based on the test that had been done, the result can be obtained that the Management Change had coefficient value of -0.4514. This explained that the value of the beta coefficient of Financial Distress of -0.4514 can explain the auditor

switching of -45% or can be interpreted that every change into one unit of MCG can cause changes in auditor switching with the value of -0.4514. It also obtained that the result of Management Change had z-Statistic of -18.6441 with p-value of 0.0000 (<0.05). Based on the test, it can be concluded that H3 hypothesis, which stated Management Change has positive influence on auditor switching was not proven or rejected in this research. The result shows that management change had negative and significant influence on auditor switching measured by $ASWITCH_i$. Thus, it can be interpreted that management change did not always follow by auditor switching.

Management change was the alteration of management composition in a company. Effendi (2013) argued company changes its management in order to keep their existence within the competitive business environment by expecting that there is an improvement. However, the changes in management normally can cause the changes in policies in accounting, finance and even in the choosing of CPA firm (Utami, 2017). According to agency theory which explains the conflict of interest between *the principals* and *the agents*, both parties act on behalf of their own interests. Azhar (2015) argued that the new management has right to preserve current auditor or change to more competent auditor, which indicates a self-interest of the management.

The result of this research was contradicted to the research of Dwiyanti and Sabeni (2014), Firyana and Septiani (2014), and Saidin et al. (2016) that had positive and significant influence on auditor switching because *the agent* or the management had right to choose a new auditor which was considered to be more

competent and in accordance with management's interest. On the other hand, in line with the research that had been done by Luthfiyati (2016) and Khasharmeh (2015), management change had negative influence on auditor switching. In this case, the new management might feel that the current auditor is independent and competent enough as their independent auditor. Thus, management does not have intention to change their auditor.

4.4.4. The effect of Audit Opinion on Auditor Switching.

Based on the test that had been done, the result can be obtained that the Audit Opinion had coefficient value of 0.2504. This explained that the value of the beta coefficient of audit opinion of 0.2504 could explain the auditor switching of 25% or it can be interpreted that every change into one unit of AO could cause changes in auditor switching with the value of 0.2504. It also obtained that audit opinion had z-Statistic of 1.5146 with p-value of 0.1299 (>0.05). This showed that CPA firm reputation did not have significant influence on auditor switching measured by *ASWITCH_i*. Based on the test, it can be concluded that H4 hypothesis, which stated Audit Opinion has negative influence on Auditor Switching was not proven in this research or rejected.

According to Luthfiyati (2016), audit opinion is the final result of audit process in the form of statement by an auditor which clarify the truth, fairness of an entity's financial statement which is in accordance with applicable financial reporting framework. International Standards of Auditing 705 (2010) explained that there is 4 types of audit opinion, unmodified opinion, qualified opinion, adverse opinion, and disclaimer opinion. A company will be satisfied when it receives an

unmodified opinion or unqualified opinion because it explains that the company has been presented a fair, true financial statement which accordance with applicable financial report framework.

The concept of self-interest in agency theory explained about the relationship between *the principals* and *the agents* (Jensen & Meckling, 1976). This concept describes the desire of the company to get an unqualified opinion so that the investors and public trust to invest in this company. Through the importance of audit opinion in the company, they are willing to change their auditor in order to match their objectives.

The results of this research contradicted with the research by Effendi and Rahayu (2015) and Putra and Suryanawa (2016) that concluded audit opinion had negative and significant influence on auditor switching because the more client the company receives an audit opinion other than qualified opinion, the more management that does not feel satisfied enough and encourage management to perform auditor switching. On the other hand, the research that had been done by Aprillia (2013), Azhar (2015), Saidin et al. (2016), Salim and Rahayu (2014), Wea and Murdiawati, (2015) stated that auditor opinion has no effect on auditor switching.

The result of the research was different from the expectation because the p-value of 0.250416 showed that the significance value was greater than 0.05 ($> \alpha = 0.05$). This result may be due to 98% of the data received an unqualified opinion and only 2% who received other than unqualified opinion. Thus, the audit opinion had no influence on auditor switching.

4.4.5. The effect of Profitability on Auditor Switching.

Based on the test that had been done, the result can be obtained that the Profitability had coefficient value of 1.0862. This explained that the value of the beta coefficient of Profitability of 1.0862 could explain the auditor switching of 1.0862 or it can be interpreted that every change into one unit of PRO could cause changes in auditor switching with the value of 1.0862. It also obtained that Profitability had z-Statistic of 4.6540 with the p-value of 0.0000 (<0.05). This showed that Profitability had significant and positive influence on auditor switching measured by $ASWITCH_i$. Based on the test, it can be concluded that the H5 hypothesis which stated that Profitability has positive influence on auditor switching was accepted. Thus, it can be interpreted the higher profit of company will encourage the company to perform auditor switching. In the other hand, when a company is not experiencing high profitability or stable, it did not tend to perform auditor switching.

Profitability is interpreted into profit and ability (D. M. Tulsian, 2014). Riyanto (2001) in Arsih Anisykurlillah (2015) stated that profitability is defined as the ability of a company to earn a profit in a certain period. Aliffianti, Suzan, & Zultilisna (2017) stated that profitability ratio is a ratio to measure a whole management affectivity which was described in a profit related to the sales and investment. In this research, the use of Return on Asset ratio is to measure the profitability of a company. Return on asset is obtained from Net Income divided by Total Assets. The higher the value of ROA, the more effective the company's asset management that indicates good business prospect.

According to Jensen & Meckling (1976), agency theory described the relationship between the *principals* and *the agents*. This theory leads to a conflict of interest where *the principals* and *the agents* act on their own behalf. In the condition of the company in high profit, the company tends to change the auditor in order to persuade investors and public to invest. The higher the annual profit of a company, the more pleased the investors because it indicates growth. Otherwise, if the ROA is decreasing, it means that asset management of the company not effective enough which indicates the prospect of the business is declining. Those conditions will encourage the management to switch their auditor in accordance with the management's objective (Firyana & Septiani, 2014).

The research of Wijaya (2011), and Suyono et al. (2013) had positive influence on auditor switching. This research proved that Profitability affected auditor switching. The company who is experiencing growth of their companies tend to experience auditor switching (Arsih & Anisykurillah, 2015). On the other hand, research by Arsih and Anisykurlillah (2015), Wea and Murdiawati (2015) contradicted with this research that stated Profitability has no relation to auditor switching.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

5.1. CONCLUSIONS

This research was conducted based on the inconsistent results among the previous studies. This happened because of differences in perspectives among researchers on factors affecting auditor switching. The purpose of this research was to prove CPA Firm Reputation, Financial Distress, Management Change, Audit Opinion and Profitability influence on Auditor Switching by knowing the variable that affected the auditor switching. Therefore, this research aimed to analyze the influence of CPA Firm Reputation, Financial Distress, Management Change, Audit Opinion and Profitability of Auditor Switching on manufacturing companies listed in Indonesia Stock Exchange (IDX) from the period of 2015 to 2017 using the company's annual report from the period of 2014 to 2017 as the years of observation. From the results of hypothesis testing that had been done, the conclusions that can be drawn from this research were as follow:

1. CPA Firm Reputation had negative influence on auditor switching, it was measured by the use of CPA firm affiliated with The Big Four or by the use of CPA firm which was not affiliated with The Big Four.
2. Financial Distress had positive influence on auditor switching. It was measured by debt to equity ratio which was total debt divided by total equity.
3. Management Change had negative influence on auditor switching. It was measured by experiencing management change or not.

4. Audit Opinion did not have influence on auditor switching. It was measured by previously receiving unqualified opinion or not.
5. Profitability had positive influence on auditor switching. It was measured by return on assets ratio which was net income divided by total assets.

5.2. RESEARCH IMPLICATIONS

The results of this research are expected to give contributions to:

1. Companies.

This research proved that the CPA firm reputation, financial distress, management change, and profitability were the factors that encourage the management in conducting auditor switching voluntarily. Thus, company management should reconsider the above in order to make a decision on auditor switching and company management should regularly perform auditor switching based on applicable regulation.

2. Public Accountant.

This research is expected as a reference for public accountants because it proved that companies in Indonesia often perform auditor switching not in accordance with applicable regulation in Indonesia or called as auditor switching voluntarily. Thus, the public accountant is expected to be more independent and careful in doing the audit process.

3. Further Researchers.

This research is expected that the future researcher can get additional insight related to the topic of auditor switching and related variables analyzed which are CPA firm reputation, financial distress,

management change, audit opinion, and profitability. There was a renewal in this research and made this research model rarely studied. This renewal was to change some variables into CPA firm reputation and profitability variables in exchange with CPA firm size and company size variables was suggested from previous research namely Arsih & Anisykurlillah (2015), Astrini & Muid (2013), Azhar (2015), Darmayanti (2017), Juliantari & Rasmini (2013), Suyono et al. (2013), Wawo et al. (2017). The results of this research, CPA firm reputation had negative influence on auditor switching and Profitability had positive influence on auditor switching.

5.3. LIMITATIONS AND SUGGESTIONS

This research had limitations and suggestions that may affect the results of research as follows:

1. The length of time for the observation period was relatively short since it only examined the data for 3 years (2015-2017) which affected some data and became extreme. The future researcher is expected to extend the period of observation by the minimum of 5 years.
2. The researcher predicted that there were a lot of factors that influence a company to conduct auditor switching which was not included in this research. Future research is expected to add a new variable so that the research model will be improved.

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APPENDICES

APPENDIX 1 List of Company Samples

NO	CODE	COMPANIES	TYPE OF INDUSTRY
1	INTP	Indocement Tunggul Prakarsa Tbk	CEMENT
2	SMBR	PT Semen Baturaja (Persero) Tbk	
3	SMCB	Holcim Indonesia Tbk	
4	SMGR	Semen Indonesia (Persero) Tbk	
5	WTON	Wijaya Karya Beton	
6	AMFG	Asahimas Flat Glass Tbk	CERAMICS, GLASS, PORCELAIN
7	ARNA	Arwana Citramulia Tbk	
8	IKAI	Inti Keramik Alamasri Industri Tbk	
9	KIAS	Keramika Indonesia Assosiasi Tbk	
10	MLIA	Mulia Industrindo Tbk	
11	TOTO	Surya Toto Indonesia Tbk	METAL AND ALLIED PRODUCT
12	ALKA	Alaska Industrindo Tbk	
13	ALMI	Alumindo Light Metal Industry Tbk	
14	BAJA	Saranacentral Bajatama Tbk	
15	BTON	Betonjaya Manunggal Tbk	
16	CTBN	Citra Turbindo Tbk	
17	GDST	Gunawan Dianjaya Steel Tbk	
18	INAI	Indal AlumInium Industry Tbk	
19	ISSP	PT Steel Pipe Industry of Indonesia Tbk	
20	JKSW	Jayakarta Kyoei Steel Works Tbk	
21	JPRS	Jaya Pari Steel Tbk	
22	KRAS	Krakatau Steel (Persero) Tbk	
23	LION	Lion Metal Works Tbk	
24	LMSH	Lionmesh Prima Tbk	
25	NIKL	Pelat Timah Nusantara Tbk	
26	PICO	Pelangi Indah Canindo Tbk	
27	TBMS	Tembaga Mulia Semanan Tbk	CHEMICALS
28	BRPT	Barito Pasific Tbk	
29	DPNS	Duta Pertiwi Nusantara Tbk	
30	EKAD	Ekadharma International Tbk	
31	ETWA	Eterindo Wahanatama Tbk	
32	INCI	Intanwijaya International Tbk	
33	SRSN	Indo Acidatama Tbk	
34	TPIA	Chandra Asri Petrochemical Tbk	PLASTIC & PACKAGING
35	UNIC	Unggul Indah Cahaya Tbk	
36	AKPI	Argha Karya Prima Industry Tbk	
37	APLI	Asiaplast Industries Tbk	

38	BRNA	Berlina Tbk	
39	FPNI	PT Lotte Chemical Titan Tbk	
40	IGAR	Champion Pacific Indonesia Tb	
41	IMPC	PT Impack Pratama Industri Tbk	
42	IPOL	Indopoly Swakarsa Industry Tbk	
43	SIMA	Siwani Makmur Tbk	
44	TALF	PT Tunas Alifin Tbk	
45	TRST	Trias Sentosa Tbk	
46	YPAS	Yanaprima Hastapersada Tbk	
47	CPIN	Charoen Pokphand Indonesia Tbk	ANIMAL FEED
48	JPFA	JAPFA Comfeed Indonesia Tbk	
49	MAIN	Malindo Feedmill Tbk	
50	SIPD	Siearad Produce Tbk	
51	SULI	PT SLJ Global Tbk	WOOD INDUSTRIES
52	TIRT	Tirta Mahakam Resources Tbk	
53	ALDO	Alkindo Naratama Tbk	PULP & PAPER
54	FASW	Fajar Surya Wisesa Tbk	
55	INKP	Indah Kiat Pulp & Paper Tbk	
56	INRU	Toba Pulp Lestari Tbk	
57	KBRI	Kertas Basuki Rachmat Indonesia Tbk	
58	KDSI	Kedawung Setia Industrial Tbk	
59	SPMA	Suprama Tbk	
60	TKIM	Pabrik Kertas Tjiwi Kimia Tbk	
61	KRAH	PT Grand Kartech Tbk	MACHINERY & HEAVY EQUIPMENT
62	ASII	Astra International Tbk	AUTOMOTIVE AND COMPONENTS
63	AUTO	Astra Otoparts Tbk	
64	BRAM	Indo Kordsa Tb	
65	GDYR	Goodyear Indonesia Tbk	
66	GJTL	Gajah Tunggal Tbk	
67	IMAS	Indomobil Sukses International Tbk	
68	INDS	Indospring Tbk	
69	LPIN	Multi Prima Sejahtera Tbk	
70	MASA	Multistrada Arah Sarana Tbk	
71	NIPS	Nipress Tbk	
72	SMSM	Selamat Sempurna Tbk	
73	ADMG	Polychem Indonesia Tbk	TEXTILE, GARMENT
74	ARGO	Argo Pantes Tbk	
75	CNTX	Centex Tbk	

76	ERTX	Eratex Djaja Tbk	
77	ESTI	Ever Shine Textile Industry Tbk	
78	HDTX	Panasia Indo Resources Tbk	
79	INDR	Indo Rama Synthetic Tbk	
80	PBRX	Pan Brothers Tbk	
81	POLY	Asian Pasific Fibers Tbk	
82	RICY	Ricky Putra Globalindo Tbk	
83	SRIL	PT Sri Rejeki Isman Tbk	
84	SSTM	Sunson Textile Manufacturer Tbk	
85	STAR	Star Petrochem Tbk	
86	TFCO	Tifico Fiber Indonesia Tbk	
87	TRIS	Trisula International Tbk	
88	UNIT	Nusantara Inti Corpora Tbk	
89	BATA	Sepatu Bata Tbk	FOOTWEAR
90	BIMA	Primarindo Asia Infrastructure Tbk	
91	IKBI	Sumi Indo Kabel Tbk	CABLE
92	JECC	Jembo Cable Company Tbk	
93	KBLI	KMI Wire and Cable Tbk	
94	KBLM	Kabelindo Murni Tbk	
95	SCCO	Supreme Cable Manufacturing and Corporation Tbk	
96	VOKS	Voksel Electric Tbk	ELECTRONICS
97	PTSN	Sat Nusapersada Tbk	
98	AISA	Tiga Pilar Sejahtera Food Tbk	FOOD & BAVERAGES
99	ALTO	Tri Bayan Tirta Tbk	
100	BUDI	PT Budi Starch & Sweetener Tbk	
101	CEKA	PT Wilmar Cahaya Indonesia Tbk	
102	DLTA	Delta Djakarta Tbk	
103	ICBP	Indofood CBP Sukses Makmur Tbk	
104	INDF	Indofood Sukses Makmur Tbk	
105	MLBI	Multi Bintang Indonesia Tbk	
106	MYOR	Mayora Indah Tbk	
107	PSDN	Prasidha Aneka Niaga Tbk	
108	ROTI	Nippon Indosari Corpindo Tbk	
109	SKBM	Sekar Bumi Tbk	
110	SKLT	Sekar Laut Tbk	
111	STTP	Siantar Top Tbk	
112	ULTJ	Ultrajaya Milk Industry Tbk	
113	GGRM	Gudang Garam Tbk	

114	HMSP	Handjaya Mandala Sampoerna Tbk	TOBACCO MANUFACTURERS
115	RMBA	Bentoel International Investama Tbk	
116	WIIM	Wismilak Inti Makmur Tbk	
117	DVLA	Darya-Varia Laboratoria Tbk	PHARMACEUTICALS
118	INAF	Indofarma (Persero) Tbk	
119	KAEF	Kimia Farma (Persero) Tbk	
120	KLBF	Kalbe Farma Tbk	
121	MERK	Merck Indonesia Tbk	
122	PYFA	Pyridam Farma Tbk	
123	SCPI	Merck Sharp Dohme Pharma Tbk	
124	SIDO	Industri Jamu & Farmasi Sido Muncul Tbk	
125	TSPC	Tempo Scan Pacific Tbk	COSMETICS & HOUSEHOLD
126	ADES	Akhsha Wira International Tbk	
127	KINO	Martina Berto Tbk	
128	MRAT	Mustika Ratu Tbk	
129	TCID	Mandom Indonesia Tbk	
130	UNVR	Unilever Indonesia Tbk	HOUSEWARE
131	CINT	PT Chitose International Tbk	
132	KICI	Kedaung Indah Can Tbk	
133	LMPI	Langgeng makmur Industry Tbk	

APPENDIX 2 CPA Firm Reputation Data 2015-2017

NO	CODE	CPA FIRM REPUTATION		
		2015	2016	2017
1	INTP	1	1	1
2	SMBR	0	0	0
3	SMCB	1	1	1
4	SMGR	1	1	1
5	WTON	0	0	0
6	AMFG	1	1	1
7	ARNA	1	1	1
8	IKAI	0	0	0
9	KIAS	0	0	0
10	MLIA	1	1	1
11	TOTO	1	1	1
12	ALKA	0	0	0
13	ALMI	0	0	0
14	BAJA	0	0	0
15	BTON	0	0	0
16	CTBN	1	1	1
17	GDST	0	0	0
18	INAI	0	0	0
19	ISSP	0	0	0
20	JKSW	0	0	0
21	JPRS	0	0	0
22	KRAS	1	1	1
23	LION	0	0	0
24	LMSH	0	0	0
25	NIKL	1	1	1
26	PICO	0	0	0
27	TBMS	1	1	1
28	BRPT	1	1	1
29	DPNS	0	0	0
30	EKAD	0	0	0
31	ETWA	0	0	0
32	INCI	0	0	0
33	SRSN	0	0	0
34	TPIA	1	1	1
35	UNIC	1	1	1

NO	CODE	CPA FIRM REPUTATION		
		2015	2016	2017
36	AKPI	1	1	1
37	APLI	1	1	1
38	BRNA	0	0	0
39	FPNI	1	1	1
40	IGAR	0	0	1
41	IMPC	0	0	0
42	IPOL	0	0	0
43	SIMA	0	0	0
44	TALF	0	0	0
45	TRST	1	1	1
46	YPAS	0	0	0
47	CPIN	1	1	1
48	JPFA	0	0	1
49	MAIN	0	0	1
50	SIPD	0	0	0
51	SULI	1	1	1
52	TIRT	0	0	0
53	ALDO	0	0	0
54	FASW	1	1	1
55	INKP	0	0	0
56	INRU	0	0	0
57	KBRI	0	0	0
58	KDSI	0	0	0
59	SPMA	0	0	0
60	TKIM	0	0	0
61	KRAH	0	0	0
62	ASII	1	1	1
63	AUTO	1	1	1
64	BRAM	1	1	1
65	GDYR	1	1	1
66	GJTL	1	1	1
67	IMAS	1	1	1
68	INDS	0	0	0
69	LPIN	0	0	0
70	MASA	1	1	1
71	NIPS	0	0	0
72	SMSM	1	1	1

NO	CODE	CPA FIRM REPUTATION		
		2015	2016	2017
73	ADMG	1	1	1
74	ARGO	0	0	0
75	CNTX	1	1	1
76	ERTX	0	0	0
77	ESTI	1	1	1
78	HDTX	0	0	0
79	INDR	1	1	1
80	PBRX	0	0	0
81	POLY	0	0	0
82	RICY	0	0	0
83	SRIL	0	0	0
84	SSTM	0	0	0
85	STAR	0	0	0
86	TFCO	1	1	1
87	TRIS	0	0	0
88	UNIT	0	0	0
89	BATA	1	1	1
90	BIMA	0	0	0
91	IKBI	1	1	1
92	JECC	0	0	0
93	KBLI	1	1	1
94	KBLM	0	0	0
95	SCCO	0	0	0
96	VOKS	0	0	0
97	PTSN	0	0	0
98	AISA	0	0	0
99	ALTO	0	0	0
100	BUDI	0	0	0
101	CEKA	1	1	1
102	DLTA	1	1	1
103	ICBP	1	1	1
104	INDF	1	1	1
105	MLBI	1	1	1
106	MYOR	0	0	0
107	PSDN	1	1	1
108	ROTI	1	1	1
109	SKBM	0	0	0

NO	CODE	CPA FIRM REPUTATION		
		2015	2016	2017
110	SKLT	0	0	0
111	STTP	0	0	0
112	ULTJ	0	0	0
113	GGRM	1	1	1
114	HMSP	1	1	1
115	RMBA	1	1	1
116	WIIM	0	0	0
117	DVLA	1	1	1
118	INAF	0	0	0
119	KAEF	0	0	0
120	KLBF	1	1	1
121	MERK	1	1	1
122	PYFA	0	0	0
123	SCPI	1	1	1
124	SIDO	0	0	1
125	TSPC	0	0	0
126	ADES	0	0	0
127	MBTO	0	0	0
128	MRAT	0	0	0
129	TCID	1	1	1
130	UNVR	1	1	1
131	CINT	0	0	0
132	KICI	0	0	0
133	LMPI	0	0	0

APPENDIX 3 Financial Distress Data 2015-2017

NO	CODE	FINANCIAL DISTRESS		
		2015	2016	2017
1	INTP	0.158	0.153	0.175
2	SMBR	0.108	0.400	0.483
3	SMCB	1.050	1.452	1.727
4	SMGR	0.390	0.447	0.609
5	WTON	0.969	0.872	1.572
6	AMFG	0.260	0.529	0.766
7	ARNA	0.599	0.628	0.556
8	IKAI	4.650	(5.285)	(3.180)
9	KIAS	0.171	0.223	0.239
10	MLIA	5.390	3.788	1.957
11	TOTO	0.636	0.694	0.669
12	ALKA	1.332	1.236	2.888
13	ALMI	2.874	4.333	5.272
14	BAJA	4.870	4.001	4.502
15	BTON	0.228	0.235	0.187
16	CTBN	0.723	0.355	0.419
17	GDST	0.472	0.511	0.523
18	INAI	4.547	4.190	3.376
19	ISSP	1.134	1.284	1.207
20	JKSW	(1.602)	(1.618)	(1.566)
21	JPRS	0.093	0.140	0.227
22	KRAS	1.070	1.140	1.221
23	LION	0.406	0.457	0.508
24	LMSH	0.190	0.388	0.243
25	NIKL	2.035	1.991	2.028
26	PICO	1.452	1.402	1.575
27	TBMS	5.023	3.486	3.513
28	BRPT	0.884	0.775	0.806
29	DPNS	0.138	0.125	0.152
30	EKAD	0.335	0.187	0.202
31	ETWA	16.588	162.192	(10.188)
32	INCI	0.101	0.109	0.132
33	SRSN	0.688	0.784	0.571
34	TPIA	1.100	0.865	0.790

NO	CODE	FINANCIAL DISTRESS		
		2015	2016	2017
35	UNIC	0.580	0.408	0.412
36	AKPI	1.603	1.336	1.437
37	APLI	0.393	0.276	0.755
38	BRNA	1.199	1.031	1.303
39	FPNI	1.426	1.090	1.001
40	IGAR	0.237	0.176	0.161
41	IMPC	0.527	0.857	0.780
42	IPOL	0.833	0.814	0.805
43	SIMA	0.394	0.296	2.035
44	TALF	0.240	0.173	0.202
45	TRST	0.716	0.703	0.687
46	YPAS	0.856	0.974	1.388
47	CPIN	0.965	0.710	0.562
48	JPFA	1.809	1.054	1.153
49	MAIN	1.559	1.133	1.394
50	SIPD	2.060	1.246	1.830
51	SULI	(4.934)	(6.930)	94.100
52	TIRT	7.372	5.435	5.940
53	ALDO	1.141	1.043	1.174
54	FASW	1.860	1.718	1.849
55	INKP	1.683	1.440	1.373
56	INRU	1.668	1.089	1.073
57	KBRI	1.793	2.015	2.997
58	KDSI	2.106	1.721	1.736
59	SPMA	1.847	0.970	0.836
60	TKIM	1.807	1.659	1.589
61	KRAH	2.022	2.361	4.151
62	ASII	0.940	0.872	0.891
63	AUTO	0.414	0.387	0.372
64	BRAM	0.595	0.497	0.403
65	GDYR	1.151	1.005	1.310
66	GJTL	2.246	2.197	2.197
67	IMAS	2.712	2.820	2.381
68	INDS	0.331	0.198	0.135
69	LPIN	1.782	8.261	0.158

NO	CODE	FINANCIAL DISTRESS		
		2015	2016	2017
70	MASA	0.732	0.799	0.951
71	NIPS	1.541	1.110	1.158
72	SMSM	0.541	0.427	0.336
73	ADMG	0.569	0.552	0.561
74	ARGO	(5.116)	(3.038)	(2.362)
75	CNTX	11.425	31.224	(166.749)
76	ERTX	2.092	1.633	2.315
77	ESTI	3.364	2.061	3.184
78	HDTX	2.495	3.025	11.098
79	INDR	1.711	1.829	1.814
80	PBRX	1.052	1.282	1.442
81	POLY	1.251	1.247	(1.246)
82	RICY	1.995	2.124	2.194
83	SRIL	1.831	1.861	1.698
84	SSTM	1.957	1.551	1.851
85	STAR	0.489	0.408	0.254
86	TFCO	0.104	0.105	0.124
87	TRIS	0.745	0.846	0.530
88	UNIT	0.895	0.774	0.739
89	BATA	0.453	0.444	0.477
90	BIMA	(1.493)	(1.947)	(2.055)
91	IKBI	0.273	0.024	0.240
92	JECC	2.694	2.375	2.522
93	KBLI	0.510	0.416	0.687
94	KBLM	1.207	0.993	0.561
95	SCCO	0.922	1.007	0.471
96	VOKS	2.012	1.493	1.592
97	PTSN	0.294	0.313	0.330
98	AISA	1.284	1.170	1.562
99	ALTO	1.328	1.423	1.646
100	BUDI	1.955	1.517	1.460
101	CEKA	1.322	0.606	0.542
102	DLTA	0.222	0.183	0.171
103	ICBP	0.621	0.562	0.556
104	INDF	1.130	0.870	0.881
105	MLBI	1.741	1.772	1.357

NO	CODE	FINANCIAL DISTRESS		
		2015	2016	2017
106	MYOR	1.184	1.063	1.028
107	PSDN	0.913	1.333	1.307
108	ROTI	1.277	1.024	0.617
109	SKBM	1.222	1.719	0.586
110	SKLT	1.480	0.919	1.069
111	STTP	0.903	0.999	0.692
112	ULTJ	0.265	0.215	0.232
113	GGRM	0.671	0.591	0.582
114	HMSP	0.187	0.244	0.265
115	RMBA	(5.023)	(0.427)	0.578
116	WIIM	0.423	0.366	0.253
117	DVLA	0.414	0.418	0.470
118	INAF	1.588	1.400	1.906
119	KAEF	0.738	1.031	1.370
120	KLBF	0.252	0.222	0.196
121	MERK	0.355	0.277	0.376
122	PYFA	0.580	0.583	0.466
123	SCPI	13.977	4.947	2.791
124	SIDO	0.076	0.083	0.091
125	TSPC	0.449	0.421	0.463
126	ADES	0.989	0.997	0.986
127	MBTO	0.494	0.610	0.891
128	MRAT	0.318	0.309	0.356
129	TCID	0.214	0.225	0.271
130	UNVR	2.258	2.560	2.655
131	CINT	0.215	0.223	0.247
132	KICI	0.433	0.571	0.633
133	LMPI	0.977	0.985	1.218

APPENDIX 4 Management Change Data 2015-2017

NO	CODE	MANAGEMENT CHANGE		
		2015	2016	2017
1	INTP	1	1	1
2	SMBR	0	0	1
3	SMCB	1	1	0
4	SMGR	1	1	1
5	WTON	0	1	1
6	AMFG	1	1	1
7	ARNA	1	0	0
8	IKAI	1	0	1
9	KIAS	1	1	1
10	MLIA	1	1	1
11	TOTO	1	1	1
12	ALKA	1	1	0
13	ALMI	0	0	0
14	BAJA	0	0	0
15	BTON	0	0	0
16	CTBN	0	1	0
17	GDST	0	0	0
18	INAI	0	0	0
19	ISSP	0	0	0
20	JKSW	0	0	0
21	JPRS	1	0	0
22	KRAS	1	1	1
23	LION	0	0	1
24	LMSH	1	0	0
25	NIKL	0	1	1
26	PICO	0	1	0
27	TBMS	0	1	1
28	BRPT	0	0	1
29	DPNS	0	0	0
30	EKAD	0	1	1
31	ETWA	1	1	1
32	INCI	0	1	0
33	SRSN	0	0	1
34	TPIA	0	0	1
35	UNIC	1	0	0

NO	CODE	MANAGEMENT CHANGE		
		2015	2016	2017
36	AKPI	0	0	0
37	APLI	0	0	1
38	BRNA	1	0	1
39	FPNI	0	0	1
40	IGAR	0	1	0
41	IMPC	0	0	1
42	IPOL	1	1	0
43	SIMA	1	0	1
44	TALF	1	0	0
45	TRST	0	0	0
46	YPAS	0	1	1
47	CPIN	0	1	0
48	JPFA	1	0	0
49	MAIN	1	0	0
50	SIPD	1	1	0
51	SULI	0	1	0
52	TIRT	1	0	0
53	ALDO	0	0	0
54	FASW	0	0	0
55	INKP	1	1	1
56	INRU	1	1	1
57	KBRI	1	0	0
58	KDSI	1	0	0
59	SPMA	0	0	0
60	TKIM	1	0	1
61	KRAH	0	0	0
62	ASII	1	1	1
63	AUTO	1	1	0
64	BRAM	1	0	1
65	GDYR	0	1	1
66	GJTL	1	1	0
67	IMAS	1	0	0
68	INDS	0	0	0
69	LPIN	0	0	1
70	MASA	0	1	1
71	NIPS	0	0	0
72	SMSM	1	0	0

NO	CODE	MANAGEMENT CHANGE		
		2015	2016	2017
73	ADMG	1	1	0
74	ARGO	1	0	0
75	CNTX	1	1	1
76	ERTX	0	0	0
77	ESTI	1	0	1
78	HDTX	0	0	1
79	INDR	0	0	0
80	PBRX	1	0	0
81	POLY	0	0	1
82	RICY	0	0	0
83	SRIL	0	0	1
84	SSTM	0	0	1
85	STAR	0	1	0
86	TFCO	0	0	0
87	TRIS	0	1	0
88	UNIT	1	1	0
89	BATA	1	1	1
90	BIMA	0	0	0
91	IKBI	1	1	1
92	JECC	0	0	1
93	KBLI	0	1	1
94	KBLM	1	1	1
95	SCCO	1	1	0
96	VOKS	1	1	1
97	PTSN	1	0	0
98	AISA	0	0	1
99	ALTO	0	0	1
100	BUDI	1	0	0
101	CEKA	1	1	1
102	DLTA	1	0	1
103	ICBP	1	0	0
104	INDF	1	0	0
105	MLBI	1	1	0
106	MYOR	0	0	0
107	PSDN	0	1	0
108	ROTI	1	1	1
109	SKBM	0	1	1

NO	CODE	MANAGEMENT CHANGE		
		2015	2016	2017
110	SKLT	0	0	1
111	STTP	1	0	0
112	ULTJ	0	0	0
113	GGRM	1	0	0
114	HMSP	1	1	1
115	RMBA	0	1	0
116	WIIM	0	0	0
117	DVLA	1	1	1
118	INAF	0	0	1
119	KAEF	1	0	1
120	KLBF	1	0	1
121	MERK	1	0	0
122	PYFA	1	0	1
123	SCPI	1	0	1
124	SIDO	0	1	0
125	TSPC	1	1	1
126	ADES	0	1	0
127	MBTO	0	1	0
128	MRAT	0	0	0
129	TCID	1	1	1
130	UNVR	1	1	1
131	CINT	0	0	1
132	KICI	0	0	0
133	LMPI	0	0	1

APPENDIX 5 Audit Opinion Data 2015-2017

NO	CODE	AUDIT OPINION		
		2015	2016	2017
1	INTP	1	1	1
2	SMBR	1	1	1
3	SMCB	1	1	1
4	SMGR	1	1	1
5	WTON	1	1	1
6	AMFG	1	1	1
7	ARNA	1	1	1
8	IKAI	1	1	1
9	KIAS	1	1	1
10	MLIA	1	1	1
11	TOTO	1	1	1
12	ALKA	1	1	1
13	ALMI	1	1	1
14	BAJA	0	1	1
15	BTON	1	1	1
16	CTBN	1	1	1
17	GDST	1	1	1
18	INAI	1	1	1
19	ISSP	1	1	1
20	JKSW	1	1	1
21	JPRS	1	1	1
22	KRAS	1	1	1
23	LION	1	1	1
24	LMSH	1	1	1
25	NIKL	1	1	1
26	PICO	1	1	1
27	TBMS	1	1	1
28	BRPT	1	1	1
29	DPNS	1	1	1
30	EKAD	1	1	1
31	ETWA	1	1	1
32	INCI	1	1	1
33	SRSN	1	1	1
34	TPIA	1	1	1
35	UNIC	1	1	1

NO	CODE	AUDIT OPINION		
		2015	2016	2017
36	AKPI	0	1	1
37	APLI	1	1	1
38	BRNA	1	1	1
39	FPNI	1	1	1
40	IGAR	1	1	1
41	IMPC	1	1	1
42	IPOL	1	1	1
43	SIMA	1	1	1
44	TALF	1	1	1
45	TRST	1	1	1
46	YPAS	1	1	1
47	CPIN	1	1	1
48	JPFA	1	1	0
49	MAIN	1	1	1
50	SIPD	1	1	1
51	SULI	1	1	1
52	TIRT	1	1	1
53	ALDO	1	1	1
54	FASW	1	1	1
55	INKP	1	1	1
56	INRU	1	1	1
57	KBRI	1	1	0
58	KDSI	1	1	1
59	SPMA	1	1	1
60	TKIM	1	1	1
61	KRAH	1	1	1
62	ASII	1	1	1
63	AUTO	1	1	1
64	BRAM	1	1	1
65	GDYR	1	1	1
66	GJTL	1	1	1
67	IMAS	1	1	1
68	INDS	1	1	1
69	LPIN	1	1	1
70	MASA	1	1	1
71	NIPS	1	1	1
72	SMSM	1	1	1

NO	CODE	AUDIT OPINION		
		2015	2016	2017
73	ADMG	1	1	1
74	ARGO	1	1	1
75	CNTX	1	1	1
76	ERTX	1	1	1
77	ESTI	1	1	1
78	HDTX	1	1	1
79	INDR	1	1	1
80	PBRX	1	1	1
81	POLY	1	1	1
82	RICY	1	1	1
83	SRIL	1	1	1
84	SSTM	1	1	1
85	STAR	1	1	1
86	TFCO	1	1	1
87	TRIS	1	1	1
88	UNIT	1	1	1
89	BATA	1	1	1
90	BIMA	1	1	1
91	IKBI	1	1	1
92	JECC	1	1	1
93	KBLI	1	1	1
94	KBLM	1	1	1
95	SCCO	1	1	1
96	VOKS	1	1	1
97	PTSN	1	1	1
98	AISA	1	1	1
99	ALTO	1	1	1
100	BUDI	1	1	1
101	CEKA	1	1	1
102	DLTA	1	1	1
103	ICBP	1	1	1
104	INDF	1	1	1
105	MLBI	1	1	1
106	MYOR	1	1	1
107	PSDN	1	1	1
108	ROTI	1	1	1
109	SKBM	1	1	1

NO	CODE	AUDIT OPINION		
		2015	2016	2017
110	SKLT	1	1	1
111	STTP	1	1	1
112	ULTJ	1	1	1
113	GGRM	1	1	1
114	HMSP	1	1	1
115	RMBA	1	1	1
116	WIIM	1	1	1
117	DVLA	1	1	1
118	INAF	1	1	1
119	KAEF	1	1	1
120	KLBF	1	1	1
121	MERK	1	1	1
122	PYFA	1	1	1
123	SCPI	1	1	1
124	SIDO	1	1	1
125	TSPC	1	1	1
126	ADES	1	1	1
127	MBTO	1	1	1
128	MRAT	1	1	1
129	TCID	1	1	1
130	UNVR	1	1	1
131	CINT	1	1	1
132	KICI	1	1	1
133	LMPI	1	1	1

APPENDIX 6 Profitability Data 2015-2017

NO	CODE	PROFITABILITY		
		2015	2016	2017
1	INTP	0.158	0.128	0.064
2	SMBR	0.108	0.059	0.029
3	SMCB	0.010	(0.014)	(0.039)
4	SMGR	0.119	0.103	0.042
5	WTON	0.039	0.060	0.048
6	AMFG	0.080	0.047	0.006
7	ARNA	0.050	0.059	0.076
8	IKAI	(0.279)	(0.548)	(0.190)
9	KIAS	(0.077)	(0.136)	(0.048)
10	MLIA	(0.022)	0.001	0.009
11	TOTO	0.117	0.065	0.099
12	ALKA	(0.008)	0.004	0.050
13	ALMI	(0.024)	(0.046)	0.004
14	BAJA	(0.010)	0.035	(0.024)
15	BTON	0.035	(0.034)	0.062
16	CTBN	0.035	(0.006)	(0.081)
17	GDST	(0.047)	0.025	0.008
18	INAI	0.022	0.027	0.032
19	ISSP	0.029	0.017	0.001
20	JKSW	(0.087)	(0.011)	(0.016)
21	JPRS	(0.061)	(0.055)	(0.042)
22	KRAS	(0.088)	(0.046)	(0.021)
23	LION	0.072	0.062	0.014
24	LMSH	0.015	0.038	0.080
25	NIKL	(0.053)	0.020	0.011
26	PICO	0.025	0.022	0.023
27	TBMS	0.017	0.056	0.046
28	BRPT	0.002	0.109	0.077
29	DPNS	0.036	0.034	0.019
30	EKAD	0.121	0.129	0.096
31	ETWA	(0.168)	(0.059)	(0.114)
32	INCI	0.100	0.037	0.054
33	SRSN	0.027	0.015	0.027
34	TPIA	0.014	0.141	0.107

NO	CODE	PROFITABILITY		
		2015	2016	2017
35	UNIC	(0.004)	0.093	0.053
36	AKPI	0.010	0.020	0.005
37	APLI	0.006	0.080	(0.003)
38	BRNA	(0.004)	0.006	(0.091)
39	FPNI	0.013	0.011	(0.009)
40	IGAR	0.134	0.158	0.141
41	IMPC	0.077	0.055	0.040
42	IPOL	0.009	0.023	0.009
43	SIMA	(0.037)	(0.016)	0.002
44	TALF	0.078	0.034	0.023
45	TRST	0.008	0.010	0.011
46	YPAS	(0.035)	(0.039)	(0.048)
47	CPIN	0.074	0.092	0.102
48	JPFA	0.031	0.113	0.053
49	MAIN	(0.016)	0.074	0.012
50	SIPD	(0.161)	0.005	0.158
51	SULI	0.004	0.004	0.016
52	TIRT	(0.001)	0.036	0.001
53	ALDO	0.066	0.061	0.058
54	FASW	(0.044)	0.091	0.064
55	INKP	0.032	0.029	0.054
56	INRU	(0.008)	0.110	0.001
57	KBRI	(0.107)	(0.081)	0.107
58	KDSI	0.010	0.041	0.052
59	SPMA	(0.019)	0.038	0.042
60	TKIM	0.001	0.003	0.011
61	KRAH	(0.014)	0.001	(0.083)
62	ASII	0.064	0.070	0.078
63	AUTO	0.023	0.033	0.037
64	BRAM	0.043	0.075	0.081
65	GDYR	(0.001)	0.015	(0.007)
66	GJTL	(0.018)	0.034	0.002
67	IMAS	(0.001)	(0.012)	(0.002)
68	INDS	0.001	0.020	0.047
69	LPIN	(0.056)	(0.134)	0.716
70	MASA	(0.045)	(0.011)	(0.012)

NO	CODE	PROFITABILITY		
		2015	2016	2017
71	NIPS	0.020	0.037	0.023
72	SMSM	0.208	0.223	0.227
73	ADMG	(0.058)	(0.054)	(0.023)
74	ARGO	(0.084)	(0.221)	(0.151)
75	CNTX	0.040	(0.036)	(0.029)
76	ERTX	0.099	0.030	(0.030)
77	ESTI	(0.184)	0.063	(0.028)
78	HDTX	(0.073)	(0.083)	(0.210)
79	INDR	0.013	0.002	0.003
80	PBRX	0.019	0.026	0.014
81	POLY	(0.077)	(0.051)	(0.019)
82	RICY	0.010	0.011	0.012
83	SRIL	0.071	0.063	0.057
84	SSTM	(0.014)	(0.022)	(0.039)
85	STAR	0.000	0.001	0.001
86	TFCO	(0.005)	0.019	0.010
87	TRIS	0.065	0.039	0.010
88	UNIT	0.001	0.002	0.063
89	BATA	0.163	0.052	0.063
90	BIMA	(0.008)	0.189	0.177
91	IKBI	0.028	0.028	0.060
92	JECC	0.002	0.083	0.043
93	KBLI	0.074	0.179	0.119
94	KBLM	0.019	0.033	0.036
95	SCCO	0.090	0.139	0.067
96	VOKS	(0.055)	0.096	0.079
97	PTSN	0.002	0.018	0.007
98	AISA	0.041	0.078	(0.097)
99	ALTO	(0.021)	(0.023)	(0.057)
100	BUDI	0.006	0.013	0.016
101	CEKA	0.072	0.175	0.077
102	DLTA	0.185	0.212	0.209
103	ICBP	0.110	0.126	0.112
104	INDF	0.040	0.064	0.059
105	MLBI	0.237	0.432	0.527
106	MYOR	0.110	0.107	0.109

NO	CODE	PROFITABILITY		
		2015	2016	2017
107	PSDN	(0.069)	(0.056)	0.047
108	ROTI	0.100	0.096	0.030
109	SKBM	0.053	0.023	0.016
110	SKLT	0.053	0.036	0.036
111	STTP	0.097	0.075	0.092
112	ULTJ	0.148	0.167	0.137
113	GGRM	0.102	0.106	0.116
114	HMSP	0.273	0.300	0.294
115	RMBA	(0.129)	(0.155)	(0.034)
116	WIIM	0.098	0.079	0.033
117	DVLA	0.078	0.099	0.099
118	INAF	0.004	(0.013)	(0.030)
119	KAEF	0.058	0.059	0.054
120	KLBF	0.150	0.154	0.148
121	MERK	0.222	0.207	0.171
122	PYFA	0.019	0.031	0.045
123	SCPI	0.092	0.097	0.090
124	SIDO	0.156	0.161	0.169
125	TSPC	0.084	0.083	0.075
126	ADES	0.050	0.073	0.503
127	MBTO	(0.022)	0.012	(0.032)
128	MRAT	0.002	(0.016)	(0.003)
129	TCID	0.262	0.074	0.076
130	UNVR	0.372	(0.026)	0.370
131	CINT	0.077	0.052	0.062
132	KICI	(0.097)	0.003	0.053
133	LMPI	0.005	0.009	(0.037)

APPENDIX 7 Generalized Linear Model Analysis

Dependent Variable: ASWITCH

Method: Generalized Linear Model (Newton-Raphson / Marquardt steps)

Date: 11/15/18 Time: 11:44

Sample: 1 399

Included observations: 381

Family: Normal

Link: Identity

Predetermined weights: 1/FD

Weight type: Standard deviation (average scaling)

Dispersion computed using Pearson Chi-Square

Convergence achieved after 0 iterations

Coefficient covariance computed using observed Hessian

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	0.318854	0.161125	1.978925	0.0478
CPA	-0.140504	0.029936	-4.693500	0.0000
FD	0.005834	0.000175	33.24940	0.0000
MCG	-0.451366	0.024210	-18.64410	0.0000
AO	0.250416	0.165339	1.514562	0.1299
PRO	1.086227	0.233395	4.654025	0.0000

Weighted Statistics

Mean dependent var	0.000932	S.D. dependent var	16.86090
Sum squared resid	128.6568	Log likelihood	-592.8815
Akaike info criterion	3.143735	Schwarz criterion	3.205826
Hannan-Quinn criter.	3.168371	Deviance	3.580648
Deviance statistic	0.009548	Restr. deviance	20.97197
LR statistic	1821.387	Prob(LR statistic)	0.000000
Pearson SSR	3.580648	Pearson statistic	0.009548
Dispersion	0.009548		

Unweighted Statistics

Mean dependent var	0.582677	S.D. dependent var	0.493766
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