FACTORS AFFECTING EXTERNAL AUDITOR CHANGES: A CASE STUDY ON INDONESIA CAPITAL MARKET FROM PERIODS 2010-2014

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ABSTRACT

Concomitant with the economic growth, the development of companies in Indonesia is increasing as well. Moreover the company is obliged to prepare and present their financial statements, and it should be open and known by relevant parties, considering their related parties are not only internal parties but also external parties such as investor, creditors, and stakeholders. This causes the role of auditors is needed by the parties who require reliable assurance, because independent auditor is the only credible independent party for those who want to get a reliable assurance. In line with those phenomenon, this research carried to prove the hypotheses used in previous research in determining the auditor change in Indonesia. This quantitative research which analyze Manufacture Company listed in Indonesia Capital Market from 2010 to 2014 as samples. And the prior year audit opinion, CPA's firm size, management rotation, company's growth and financial distress as independent variables. To do the hypotheses test, logistic regression test was conducted. Finally, the result shows that audit opinion has negative significant affect to auditor change and management rotation has positive significant effect to auditor change. Meanwhile, CPA's firm size, ROA Change, and financial distress have negative yet significant effect to auditor change.

Keywords : *Audit, Auditor Change, Financial Distress, ROA Change, Prior Year Audit Opinion, Manufacture*

A. INTRODUCTION

Background

Indonesian companies are developing every year, some of them are changed from unincorporated to be incorporated. The purpose of the companies change their corporation model are to intensify the share price, expand the market, and enhance the variant of the product as well as to won the stakeholder's interest is the main purpose of go-public company. If the people are satisfied with their products or services, and it will increase their profit either. Increased company profits can also attract investors to invest its resources to companies. Due to the higher profits generated by the company the higher the dividends earned by the investor.

The eminence of *go public* company compares with non-*go public* company is, the *go public* company is trusted because it has better performance. The corporate governance and responsibility of the *go public* company is more complex and comprehensive that lead the company run the company with more efficient and effective, because *go public* company have more responsibility to the shareholders, both for internal or external parties (Kumala 2008).

Concomitant with the economic growth in Indonesia and the increased of *go public* company brings a great impact on the audit development. *Go public* company need the auditor services to assess their financial reporting. In order financial statement have credibility and useful for external party who use the financial stament, so it's important for company to ask for independence party advice. In this case the independent party is audit firm about the fairness of company financial statement. And also the compliance with generally accounting principles. In SPA 240 or ISA No. 240, ISA (2009) stated that an auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that financial statements take as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatement of the financial statement may not be detected, even though the audit is properly planned and performed in accordance with the ISAs.

Accurate information can be obtained if auditor use International Standard on Auditing, SPA 200 or ISA No. 200, ISA (2009) stated that ISA deals with the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance to ISAs. Specifically, it sets out overall objective of the independent auditor, an explaination to the nature and scope of an audit designed to enable independent auditor to meet those objectives. It also explain the scope, authority and structure of the ISAs, and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with ISAs.

In Indonesia, the company responsibility to rotate their auditor has stated in the *Peraturan Kementerian Keuangan Republik Indonesia nomor 423/2002 par.4 act.2* about "Public Accountant Services" in 2002, stated that general audit of the financial statements that can still be done by accounting firms (CPAs) which have reached the limit of five (three) years in a row is up to the fiscal year 2003.

The Ministry of Finance re-issuing the relevant regulations of public accounting services, and the *Peraturan Kementerian Keuangan Republik Indonesia nomor 423/2002* amanded to become *Peraturan Kementerian Keuangan Republik Indonesia nomor 17/PMK.01/2008*, Changes made in them are, first, the provision of public audit services to six years in a row by the accounting firm and three years in a row by a public accountant to the same client (article 3, paragraph 1). Second, public accountants and accounting firms may receive back after a one-year assignment book does not provide audit services to clients who are in the top (article 3, paragraph 2 and 3).

This research is a replication from Rahmawati's research (2011). The different of the predecessor research with this research are in the population use and variables. The predecessor researcher just use a general sample of company that listed in BEI (Indonesia Stock Exchange). In this research, researcher used 5 variables are prior audit opinion, audit firm size, management rotation, client size, and client financial distress.

First, based on Rahmawati (2011) said if the auditor cannot give unqualified opinion (which not in tune with what company want), the company will change their Audit firm that maybe can give the unqualified opinion. Based on Kumala (2008) stated that auditor change in Indonesia caused by audit opinion and the increasing number of audit firm so that created an option to a company to choose the audit firm that appropriate to the needs of the company.

Second, based on Adityawati (2011) said competencies enables auditors to perform audits efficiently and effective. The existence of the trust the independence and competence of auditors, because users can rely on the auditor's report prepared. Widiawan (2011) theorized that small audit firm has undergo a shorter period engagement compare with the big four. This difference can impact on the independency of the auditor. Ideally audit firm size must be comparable with the client size. Size of the audit firm is an important factor that related with auditors independence.

Third, based on Sjafputri (2008) the rotation of management can affect company decision to do auditor change. Because new financial policies will come with new board of director, that is has an opoortunity to change the auditor.

Fourth, changes in ROA is one of the significant factors affecting the company changed CPA firm (Kartika 2006). Kumala (2008) successfully proved that the change in ROA gives significant results to the turn of the CPA firm. It will be one over rated in the eyes of stakeholders, with high asset growth potential for the company did not change its auditor, as they were quite satisfied with what they achieved along with the curent auditor.

Fifth, Adityawati (2011) stated that financial distress that experienced by the company can affect them to change their auditor. Nasser, *et al.* (2006) stated that bankrupt more often change their auditor.

Based on the difference result from the prior research, the researcher want to do the research about "**FACTORS AFFECTING EXTERNAL AUDITOR CHANGES: A CASE STUDY ON INDONESIA CAPITAL MARKET FROM PERIODS 2010-2014"** which take the empirical study in the manufacture public company listed in IDX (Indonesia Stock Exchange).

Research Question

Based on explanation above the question that will be appointed is "Whether Prior Audit Opinion, Audit firm size, ROA change, Management rotation, and Financial distress effect on the Manufacture Public Company in change their auditor?"

B. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Return on Assets (ROA) and Financial Distress

This ratio is a profitability ratio, which measures the degree of success or failure of the company or certain divisions throughout a period of time. The ratio of the rate of return on assets (ROA) intended to measure overall profitability of assets. This ratio is calculated by dividing current year asset minus prior year asset and divide by the prior year total asset of the company are used (Kieso, Weygandt, Warfield 2002). Through this ratio, it can be known the level of achievement of the company's profit for each unit of currency of the assets on the company. The higher the ROA, company assets management are more productive.

ROA resulting from the financial statements to be one of the investor reference for performance of company's management. This performance, among others, seen from the ratio of profitability. The higher the amount of ROA indicates that performance of management is in good standing, while the level of achievement of income continues to decline from year to year (declining ROA) indicates that the company is undergoing a failure of management performance, which in the end companies will have financial distress.

If it is associated with agency theory, performance management can be seen from the financial statements that will be submitted to the shareholders and it can increase a company's reputation If the financial statements reported a high level of earnings. Instead, if the change in ROA continues to decline, it will generate a bad reputation for the company, which in turn can trigger a change of auditors (syafputri 2008).

While the client's financial difficulties in this study was associated with LEVERAGE (*Total Debt to Total Assets*), as an indicator of the company concerned in the pressure of the debt or not. In Dewi (2007) financial distress related to the level of leverage that describes the risk level of a company is measured by comparing the total debt to total assets owned by the company. The higher the level of leverage of the company, the higher the level of risk they have, and it means the high level of uncertainty survival of the company concerned.

Audit Opinion

Audit opinion is a statement that given by auditor in assessing fairness of company financial reporting. There are 4 types of audit opinions:

1. **Unqualified Opinion** This opinion given by auditor if there are not limitation in giving the data by company to auditor and Financial statement is fairly presented in all materiality aspect, financial position, result of operations, change in equity and cash flows in accordance with the Generally Accepted Accounting Principles (GAAP).
2. **Qualified Opinion** This opinion given that company stating that the financial statement present fairly, in all material aspects, the financial

position, result of operations, such as cash flows of particular entity in accordance with ISA, except the impact of relating matters:

a. Audit scope was limited by clients.
b. The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements.
c. The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, it could be material but not pervasive.
d. Financial Statements do not following generally accounting standards.
e. Accounting principle used does not consistent each years.

3. **Adverse Opinion** The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. This opinion is expressed when the auditor considers the entity's financial statements are not presented fairly in accordance with accounting principles accepted in Indonesia.
4. **Disclaimer of Opinion** Condition that make an auditor does not give their opinion are:
   a. Extremely scope limitation from client
   b. The au auditor is not independence in fact, so there is relation between the auditor and client.

Audit Firm Size

Based on SK Menkeu No.470/KMK.017/1999 cited in Rahmawati (2011), Audit firm is an entity that has permission from Ministry of Treasury as place for public accountant to do their job. Audit firm size is related with audit fees and qualities. Companies which use Big Four service have more stable financial condition, because they can pay massive fees of audit. And with stable financial condition show that they can keep their life sustainability.

Simamora (2002) mentioned there are four audit firm categorize as their size:

1. **Local Audit Firm** usually have one up to three office, run by one or more public accountant listed that have role as a partner and serve the clients.
2. **Regional Audit Firm** formed from local audit firm that open their office in another city and increase their professionals. Merger with another local audit firms can be one of way to form Regional audit firm.
3. **National Audit Firm** Usually have a lot of office spread throughout big city in a country.
4. **International Audit firm** or so-called *The Big Four*. This audit firm have a lot of office spread among the big city in United States and throughout big city around the world.

Agency Theory

Agency theory examine the interest conflict between agent and principal. And thus conflict become the trigger of management rotation. The problem that then arises in the agency relationship is the presence of information asymmetry, where the agent has more information than the principal. There are two types of information asymmetry that is adverse selection and moral hazard. Difficult for principals to determine whether in fact the agent has acted to maximize the welfare of the principal, to ascertain that the principal using the auditor. Duties of the auditors is give fair opinion based on real company condition (Juliantari and Rasmini 2013).

Client Decision to do Auditor Change

The existence of finance minister's decision letter no. 423/KMK.06/2002 about public accountant services and BAPEPAM regulation no. III. A. 2 about public accountant independency who provide audit services of the company financial statement by audit firm for five consecutive years. And provision of audit services can't be coupled with non-audit service such as management advisory, tax advisory, and financial and investment advisory. This government regulation is one of factor which encourage company to do the auditor changes.

Hypothesis development

A hypothesis (plural hypotheses) is a proposed explanation for a phenomenon. For a hypothesis to be a scientific hypothesis, the scientific method requires that one can test it. Scientists generally base scientific hypotheses on previous observations that cannot satisfactorily be explained with the available scientific theories. Even though the words "hypothesis" and "theory" are often used synonymously, a scientific hypothesis is not the same as a scientific theory. A working hypothesis is a provisionally accepted hypothesis proposed for further research.

In this research, the researcher develop some hypothesis from variables determined: Audit Opinion has an impact to auditor changes, Audit Firm Size has an impact to auditor changes, Client Size has an impact to auditor changes, and Financial Distress impact to auditor changes.

Audit Opinion Impact on Auditor Change

De Angelo (1981) stated that the variable quality of the audit cannot be proxy directly. Therefore, it is used as a measure audit firm as a proxy. In his research, De Angelo divide into two categories of audit firm, audit firm which is affiliated with the Big Four and non-big four audit firm.

High quality auditor, will retain its audit reputation by providing high quality audits as well. As high quality audit, the auditor will be rewarded in the form of a premium price by the client. The use of a professional adviser will be interpreted by investors, that the issuer has no misleading financial information about the prospects in the future. This means, the use of auditors who have a high reputation reduce uncertainty in future (Daljono 2000).

Based on Permatasari (2007), there is a tendency that client will encounter the auditor to audit financial statement to cover up real condition of the company, so they can change audit opinion. If not fulfilled by the auditor in charge, then the client will suspend the assignment of the auditors, and do the auditor change.

Rahmawati (2011) show the negative result between audit opinion and management decision to change their auditors. Research result Kadir (2011),

mention that auditor change in Indonesia caused by audit opinion. Chow and Rice (1982) in Damayanti and Sudarma (2008) in their research conclude that audit opinion significantly effect on the auditor change. Kumala (2008) succeed to show that audit opinion has effect to auditor change.
With the explanation from predecessor research above, so researcher develop this first hypothesis:
H1: Audit Opinion Have Impact on Auditor Changes

Impact of firm size to Auditor Changes

In case audit firm divide into two categorize, auditor who affiliated with International audit firm (the big four) and local audit firm (non-big four). The phenomenon that is expressed that the perception expensive fees of auditor firm will determine the success of the client. However, if the client is having difficulty paying an expensive audit fee will further burden the company, the company tends to change the firm of auditors from big four auditors to non-members of the big four. (Eichenseher and Shields 1989)

The company also will make the change of audit firm from the local to the big four members when the company first went public or to issue new shares for some time. One reason for the company to increase the credibility (Krishnan, 2003).

Dewi (2007) in her research mentioned that the size of the firm which proxied audit quality has a significant impact on auditor changes. It also expressed similar by Putri (2007) and Syafputri (2008) in their research.

Based on explanation above, so researcher develop this second hypothesis:
H2: Firm Size Have Impact on Auditor Changes

Management Rotation

Beasley (1996) found that the role of the board of directors in monitoring the financial reporting process and the associated significantly affect the ability to monitor the process of preparation of the financial statements. management changes followed by changes in accounting policies, finance, election of auditor, company will seek the auditor which consistent with the accounting policies and reporting. In the selection of auditor, the new management hopes that the new auditor can work together and be able to provide an opinion expected by management. The company will look for the auditor in line with company policy that is applied (Yasmin 2013).

Mahantara (2013) success to prove that management rotation variable is affect the auditor change, it is in contrast with kadir (1994) and Sinarwati 2010)

Based on explanation above, the researcher develop this third hypothesis:
H3: Management Rotation has impact on auditor change

Impact of ROA Change to Auditor Changes

This ratio is a profitability ratio that measures the degree of success or failure of the company during the period the book. ROA intended to measure overall profitability of assets in this study, ROA is considered promote company growth, as in the study conducted by Syafputri (2008)

Research by Rahmawati (2011) and Syafputri (2008) failed to prove that the level of ROA has a significant effect on the auditor changes. While research Daughter (2007) proved that ROA has a significant effect on the auditor changes.

Based on explanation above, the researcher develop this third hypothesis:
H4: ROA Change has an impact on Auditors Change

Impact of Financial Distress on Auditor Changes

Client financial condition base on Kartika (2006) in Rahmawati (2008) may be indicated by financial distress, the growth of the company, and the ratio of liabilities to total assets is high. If a company has a debt ratio higher than assets, then it is likely the company's bankruptcy will be even greater. In such circumstances, the company tends to were change their independent auditor, with the excuse to cover up the true financial state of the company.

In this research, using a ratio of debt to assets, to measure the degree of financial difficulties the company is one of the companies, as is done by Syafputri (2008).

Arianti (2003) and Syafputri (2008) mention that once of the significant factor that affect client to do auditor changes is financial distress. Kumala (2008) also mentioned that client financial distress has an effect on the auditor change.
From explanation above, the researcher develop this fourth hypothesis:
H5: Financial Distress Have Impact on Auditor Changes

C. RESEARCH METHODOLOGY

Type of Research

This research is quantitative research, which the research conducted using hypothesis testing. With using hypothesis testing, this research try to indicate the significant relation between variables. This research identified the relation between dependent and independent variables. In conducting this research, researcher use secondary data taken from *Indonesia Stock Exchange* and largely centered in the audit opinion and annual report. Researcher use data and try to prove significant relation between variables which stated and relation with auditor change.

Sample and Population

Population is a group of people, event or something which has specific characteristic. In this research, the population are all of go-public company listed in IDX start from 2011 until 2013. As for the population meets the following criteria's:

- Go-public company listed in IDX
- The companies should be listed in IDX since 31 December 2010 and still listed until 31 December 2014 because the study period is from 2010 until 2014.
- The companies have issued financial report which is accompanied independence audit report for period 31 December 2010 until 31 December 2014.
- The company must be engaged in the manufacture field.
- Currency used by company must be in RP (rupiah) from period 2010-2014 no other, with the aim to simplify the researchers to calculate the data.

This research conduct base on sample. Based on Rahmawati (2011), Samples are part of total and characteristic which have had by population chosen as data resource. The basic idea taking sample is to select part of elements of population, conclusions about entire population, and conclusions about the overall population. Samples have been using non-probability samples or nonrandom selection, which is purpose sampling. Selection of the sample with this method is based on specific criteria.

Research Data

In this research data used is documentary data, that the data in the form of documentation report (company financial report). While data resource used is secondary data, the source of the data acquired indirectly through intermediaries media (Idrianto and Supomo 2002). Advantages of the use of secondary data in this case is the cost savings and efficiency compared with the use of primary data. Data are obtained from *Pojok BEI Universitas Brawijaya.*

Dependent Variable

Auditor Change variable uses dummy variables, i.e. 1 or 0. If the client company to replace public accounting firm, then it is given a value of 1. If the client company does not replace public accounting firm, then it is given a value of 0 (Khasanah and Nahumury 2013).

Independent Variable

Definition of independent variable is the variable that effect on the other variables, and they are not affected by the other variables. In this case the independent variables are Audit Opinion, Firm Size, Client Size, and Client Financial Distress.

Audit Opinion (Opinion)

Audit opinion is a statement of opinion given by the auditor in assessing the fairness of the financial statements of the audited company. Audit opinion variables use dummy variables. If the company received an unqualified opinion in addition to (unqualified), it is given the value 1. Whereas if the client company received a non-unqualified opinion (Qualified, Adverse, or Disclaimer), then given a value of 0 (Khasanah and Nahumury 2013).

Audit Firm Size (Size)

Firm size is the size of the firm are divided into two groups, namely the firm affiliated with the Big 4 and KAP is not affiliated with the Big 4. Measurement variables using the firm size dummy variables. If the firm is included in the category of The Big 4 was coded 1, otherwise coded 0 (Adityawati 2011).

Management Rotation (Rotation)

Management rotation is a condition when the company decide to change their board of directors. Audit opinion variables uses dummy. If the company doing board ofdirectors (president director) rotation it is given the value 1, and if the company didnt rotate their board of directors (president director) it given value 0.

ROA Change (ROA)

Perubahan ROA memproksikan reputasi perusahaan, seperti pada penelitian Dewi (2007), Syafputri (2008), dan Damayanti dan Sudarma (2008), Variabel ini dihitung dengan rumus:

$$\text{ROA Change} = \frac{ROA_t - ROA_{t-1}}{ROA_{t-1}} \times 100\%$$

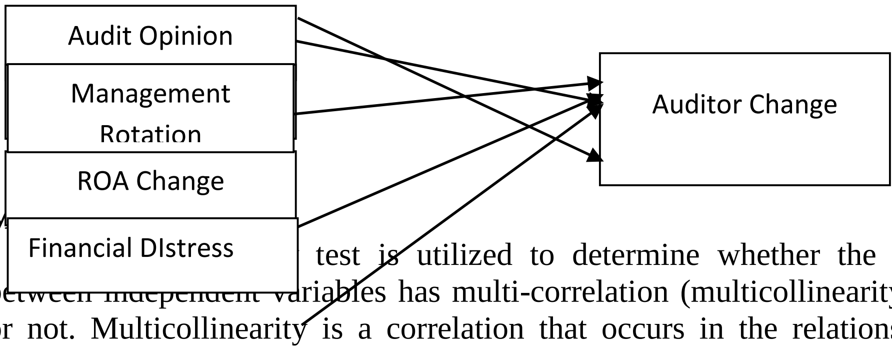
Debt Ratio (Debt)

To measure the client's financial distress, used the proportion of total liabilities to total assets of the company, as contained in Syafputri (2008). This variable is calculated using the formula:

$$\text{Debt Ratio} = \frac{\sum Liabilities}{\sum Assets} \times 100\%$$

Data Analysis Method

In this research used a descriptive analysis method to provide a picture or a description of the data that has been obtained for each study variables without intending to generally accepted conclusion. Descriptive statistical analysis can be seen through the average value, standard deviation, variant, maximum, minimum, sum, range, kurtosis and weakness of distribution (Ghozali 2005).
The method of data analysis in this study are described as follows:



M

test is utilized to determine whether the relationship between independent variables has multi-correlation (multicollinearity symptom) or not. Multicollinearity is a correlation that occurs in the relationship among independent variables. It is a test to find linear correlation in some or all of the variables in regression model. If the variables condition indicates that they are related from one to another, it will be hard to separate its effect to get the comparable measurement for regression coefficients.

Pearson correlation is used to detect whether there is any correlation between variables or multicollinearity. If the coefficient correlation is (r) > 0.8 multicollinearity occurs, but if the coefficient is (r) < 0.8 there is no multicollinearity.

Hypothesis Testing

Hypothesis testing in this study logistic regression, logistic regression is an approach to create predictive models such as linear regression or commonly referred to as Ordinary Least Squares (OLS) regression. The difference is in the logistic regression, the researchers predict dichotomous dependent variable scale. Scale dichotomy intended is the scale nominal data with two categories, for example: Yes and No, Good and Bad or High and Low (Hidayat 2003).
General regression model used is:

$AC = \alpha + \beta 1 Opinion + \beta 2 Size + \beta 3\ Rotation + \beta 4\ ROA + \beta 5\ Debt + E$

AC	: Auditor Change
α	: Constants
$\beta 1$	: Prior YearAudit opinion of regression coefficient
Opinion	: Variable of Prior Year Audit Opinion
$\beta 2$	: Audit firm size of regression coefficient
Size	: Variable of Audit firm Size
$\beta 3$	: Management Rotation of regression coefficient
Rotation	: Variable of Management Rotation
$\beta 4$	: Client size of regression coefficient
ROA	: Variable of Client size
$\beta 5$	: Financial Distress of Regression coefficient
Debt	: Variable of Financial Distress
E	: Error

In the hypothesis testing, researcher using the level of assurance or level of significance (α) as 0.05. Rule of decision making for hypothesis testing are:
If significance level (sig.) > α, H_0 accepted, and Ha rejected
If significance level (sig.) < α, H_0 rejected, and Ha accepted

Logistic Regression Model

The parameter for this regression test can be seen from the regression coefficient. The regression coefficient from each of the variables represent the relationship between the variables. The hypothesis test in this study is conducted through comparing the significant level (α) with the value of probability (sig). The significant level in this study is 0.05, so the hypothesis can be accepted if the probability value is less than 0.05.

D. RESEARCH FINDINGS AND DISCUSSION

Descriptive Statistic and Research Variables

This study aimed to investigate the effect of prior year audit opinion (OPINI), audit firm (SIZE), Management Rotation (ROTATION), ROA Change (ROA), Financial Distress (DEBT), to client decision (go-public manufacture company) doing auditor change. This research data is divided into two categories that are nominal scale (Prior Year Audit Opinion, CPA firm Size, and Management Rotation) and ratio scale (Financial Distress and Company Size).

Logistic Regression Result

The result of logistic regression can be seen from table below:

Table 4.12

Regression Result

		B	Sig.	Notes
Step 1[a]	Opini	-2.269	.001	Significant
	Size	-.187	.875	Not Significant
	Rotation	1.437	.039	Significant
	ROA	-.012	.444	Not Significant
	DEBT	-.152	.886	Not Significant
	Constant	-.327	.583	

a. Variable(s) entered on step 1: Opini, Size, Rotation, ROA, DEBT.

Based on table 4.11, the test result of this model are as follow

AC = -0.327 -2.269 Opinion -0.187 Quality + 1.437 Rotation - 0.012 ROA -0.152 DEBT + e

The regression model above in relation to hypotheses testing results are described as follow:

a. **H1 Prior Year Audit Opinion affect negatively on the Auditor change**

The prior year audit opinion variable shows negative regression coefficient at -2.269 and significance level at 0.001. The significance value is less than 0.05 proves that the hypotheses 1 is supported by empirical fact. This value also indicates that audit opinion affect negatively on the auditor change variable.

b. **H2 CPA firm size affect negatively on the Auditor Change**

The CPA firm size variable shows negative regression coefficient at -0.187 and significance level at 0.875 . The significance is bigger than 0.05 proves that hypotheses 2 is not supported by empirical fact. This value also indicate that CPA firm size has no effect on the auditor change variable.

c. **H3 Management Rotation affect Positively in the Auditor Change**

The Management Rotation variable shows Positive regression coefficient at 1.437 and significance level at 0.39 . The significance is less than 0.05 proves that hypotheses 3 is supported by empirical fact. This value also indicate that management rotation has an effect on the auditor change variable.

d. **H4 ROA Change affect negatively on the auditor change**

The ROA Change variable shows negative regression coefficient at -0.012 and significance level at 0.444 . The significance is bigger than 0.05 proves that hypotheses 4 is not supported by empirical fact. This value also indicate that company’s growth has no effect on the auditor change variable.

e. **H5 Financial Distress affect negatively on the auditor change**

The financial distress variable shows negative regression coefficient at -0.152 and significance level at 0.583 . The significance is bigger than 0.05 proves that hypotheses 5 is not supported by empirical fact. This value also indicate that financial distress has no effect on the auditor change variable.

Research Result Discussion

First Hypothesis Test Result Discussion

The result of statistical tests, the first hypotheses testing shows that prior year audit opinion influence or effect negatively on the auditor change. So, the hypotheses 1 is accepted. The result of this research is similar to several previous researches that have been done by Kadir (1998), Chow and Rice (1982), Damayanti and Sudarma (2008), and Kumala (2008). Those previous research also proved that audit opinion influence negatively on auditor change..

Second Hypotheses Test Discussion

The result of statistical tests, the second hypotheses testing shows that CPA firm size has negatively affected the auditor change, but this research was failed to prove that CPA firm has a direct impact to the auditor change. This result is similar with Sinarwati (2010), Norajati (2012), and Nasser *et al.* (2006) which all of them proved that audit firm size does not affect the auditor change.

Third Hypotheses Test Discussion

The result from statistical tests, the third hypotheses shows that management rotation positively impact on auditor change, so this research is success to prove that the management rotation has an impact to auditor change. This result is in contrast with Kadir (1994), Sinarwati (2010), and Mahantara (2013). Those previous research also provide that management rotation affect the auditor change.

Fourth hypotheses Test Discussion

The result from statistical tests, the fourth hypotheses shows that ROA Change has a negative impact on auditor change, but this research was failed to prove that the company's growth has an impact on auditor change. This result is in contrast with Syafputri (2008), Wijayani and Januarti (2011), Norajati (2012), and Mahantara (2013). Those previous research also provide that company's growth does not affect the auditor change.

Fifth Hypotheses Test Discussion

The result from statistical tests, the fifth hypotheses shows that financial distress negatively impacted on auditor change, but this research was failed to prove that financial distress has an impact on auditor change. This research is in contrast with Syafputri (2008), Sauda (2011), Wijayanti and Januarti (2011), and Norajati (2012). Those previous research also provide that financial distress doesn't affect the auditor change.

E. CONCLUSION & RECOMMENDATION

Conclusion

Based on the analysis and discussion in the previous chapter known that the goals of this research is to find out whether prior year audit opinion, CPA's firm size, management rotation, company's growth and financial distress have an impact on the auditor change. From companies listed in IDX (Indonesian Stock Exchange) on 2010-2014 period accounting. According to the result in chapter 4, it can be concluded as the follows:

1. Prior year audit opinion affect negatively and have significances on the auditor change. This is because the company who get "bad" mark (opinion) from their auditor has a tendency to hire another auditor which purpose to

get the better opinion and they hope that new auditor can be in tune with what company wants. Permatasari (2007) said that, there is a tendency that client will encounter the auditor to audit financial statement to cover up real condition of the company, so they can change audit opinion. If not fulfilled by the auditor in charge, then the client will suspend the assignment of the auditors, and do the auditor change.

2. CPA’s firm size affect negatively but doesn’t have significances to auditor change. This is because the company both using local or big four CPA firm not tend to change their auditor. This is because the fee offered to auditors affiliated with Big Four is bigger than the firm that is not affiliated with the Big Four, so the CPA firm election conducted by the company does not consider the quality, or reputation, but rather because the company's ability to pay a fee of audit services , Also according to Susanto (2009), all auditors have a thorough view and has sufficient competent audit quality in assessing the viability of the company, so they will always be an objective of the work.
3. Management rotation affect positively and have significances to auditor change. This means that company who rotate their management or in other word new director and governance it will make different decision about their financial policies. Management changes followed by changes in accounting policies, finance, election of auditor, company will seek the auditor which consistent with the accounting policies and reporting. In the selection of auditor, the new management hopes that the new auditor can work together and be able to provide an opinion expected by management. The company will look for the auditor in line with company policy that is applied (Yasmin 2013).
4. ROA change affect negatively but doesn’t have significances to auditor change. Even though Higher ROA indicate better company performance, which automatically increase company reputation in stakeholder’s eyes. Conversely, if a company's ROA getting down from year to year, the company's reputation will go down. And company has a tendency to allocate their assets for another purpose like increasing their assets growth rather then hire a new auditors. (syafputri 2008)
5. Financial distress affect negatively but doesn’t have significances to auditor change. Based on Prastiwi (2009) In fact, companies experiencing financial distress would make the auditor change due to several factors:
   1) In Indonesia, the company will consider seriously about the problem since the change of the auditors during their work period, and they have to know and understand the condition of the company. If companies change auditors, companies worry if the new auditor will perform checks against the bookkeeping system and the rate low quality standards of their company's books. This can result in a delay in the presentation of financial statements that caused the company to bear the cost of delay penalties.
   2) Second, the existence of a conflict of interest to the auditor in carrying out audit tasks and provides consulting services. Conflicts of interest may interfere with the independence of auditors who will affect on audit opinion. Companies in Indonesia feels it can provide an advantage, so companies are reluctant to change their auditor.

Research Limitation

There are some limitations in this research:

1. R^2 Shows that the contribution of independent variables in this research are in low level (20.6%), which mean that there are still 79.4% other independents can be included in this research's dependent variable.
2. There are a lot of company during study period that are not change their auditor, it makes the data used in this research decrease significantly.

Recommendation for Future Research

Based on the limitation above, there are several suggestion for all future researchers to reduce abovementioned limitations"

1. The future researchers better to find and use another independent variables aside from independent variables from this research. Because there are still a lot of independent variables that can affect the R^2 of this dependent variables significantly.
2. The future researchers better to enlarge the scope company type, not only from manufacture company but also from Agriculture, Retail, Bank & Finance, Trade Services & Investment, Insurance, Mining, Property, Infrastructure, and *etc.* With purpose to gain more sample of auditor change.

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