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Audit Switching and Audit Tenure as Determinants of Audit Quality

Ni Made Wirasyanti Dwi Pratiwi[1], I Gusti Ayu Astri Pramitari[2], I Made Bagiada[3], Kadek Nita Sumiari[4]

[1,2,3,4]Bali State Polytechnic

ABSTRACT: This research aims to obtain empirical evidence of the effect of auditor switching and audit tenure on audit quality. This research was conducted on all companies listed on the Indonesia Stock Exchange for the 2020-2024 period. The sampling method uses purposive sampling. The total sample for this research was 215 companies. Audit quality in this study uses the earnings surprise benchmark proxy. The data analysis technique used is logistic regression analysis. The research results show that auditor switching has no effect on audit quality and audit tenure has a positive effect on audit quality.

KEYWORDS: Fee Audit, Auditor Switching, Audit Tenure, Earnings Surprise Benchmark, IDX

INTRODUCTION

Audit quality requires accurate (relevance) and reliable information for the benefit of decision making by principals, management, investors, creditors and other stakeholders (Sinaga, 2012). The Financial Accounting Standards Board (FASB) states that financial reports must have information that is relevant and reliable (Tjun et al, 2012). These two characteristics of information are very difficult to measure because management (agent) and owner (principal) each have their own interests, for example management wants to get a bonus at the end of the year or wants to retain managers so they take action so that their financial reports look good, and the owner (principal) wants the financial reports prepared to be in accordance with the operational performance carried out by management. This problem shows that the request for audit services is needed because of a conflict of interest between the agent and the principal.

De Angelo (1981) stated that audit quality is how capable the auditor is of detecting material misstatements contained in the company's financial statements. Audit quality results are used with the aim of increasing the credibility of financial reports which is useful for reducing the risk that the information presented is not relevant and reliable for users of financial report information, especially investors. Audit quality also aims to improve the integrity of financial reports (Mgbame et al. 2012).

BeThe variables used in this research as factors that influence audit quality are auditor switching and audit tenure. Various research results are shown from these three variables so that research is needed again to confirm the relationship between auditor switching and audit tenure on audit quality.

*Switching auditors*This is necessary because a long period of audit engagement with a client will result in a decrease in the auditor's independence and will be emotionally tied and cause problems regarding the escalation of commitment to bad decisions from an auditor (Giri, 2010). Auditor Switching is a change of auditor carried out by the client or company. Mandatory auditor switching helps reduce this attachment or relationship between the client and the auditor (Yuvisa et al. 2008).

*Tenure audits*ais the term of the engagement between an auditor from a public accounting firm and the same auditee (Werastuti, 2013). Audit tenure can also affect audit quality seen from the length of the auditor's engagement with the auditee. Long audit tenure can be considered by the auditor as income, but long tenure can also cause an emotional relationship between the client and the auditor so that it can reduce the auditor's independence which can affect audit quality. Companies are currently starting to have a dilemma with government regulations regarding the length of the bond or tenure period, companies are in a dilemma about making a decision whether to change auditors or want to build and maintain the relationship (Fierdha, 2015).

Much research has been conducted regarding audit tenure on audit quality but found mixed results. Giri (2010) and Siregar et al (2011) found evidence that the longer the duration of the auditor's assignment with the auditee, the lower the quality of the audit. Different results were described by Noviani et al. (2010) who obtained evidence that audit tenure has a positive influence on audit quality. Similarly, Myers et al. (2003) also found evidence that earnings quality increases the longer the audit tenure.

Research conducted by Bambang Hartadi (2009) states that auditor switching no effect on audit quality is thought to be due to the reluctance of the parties market players to explore further whether auditors who issue opinions on audited financial statements have actually experienced rotation or not. Research with the same results also conducted by Knechel and Vanstraelen (2007) found evidence that audit quality was not affected by auditor switching. Chih-Ying et al. (2008) did not find support for the belief that mandatory KAP rotation improves auditor quality. Besides that, Chih-Ying et al. (2008) also did not find consistent evidence supporting the belief that mandatory KAP rotation based on investor perceptions improves auditor quality.

H1: Auditor switching has a negative effect on audit quality.

Auditors appointed by management can be faced with problems when faced with interests in terms of the auditor's agency. Management selects and appoints auditors to carry out audits for the principal's benefit, apart from that, management also covers audit services. The auditor's institutional problems can cause the auditor to become dependent on his client. This is in accordance with the assumption of human nature stated by Eisenhardt (1989) that humans always avoid risk (risk averse). Al-Thuneibat et al. (2011) prove that if the time is too short, there is little specific knowledge about the client so audit quality is low. The longer the auditor's engagement with the client is seen as increasing specific knowledge about the client so that the quality of the audit increases.

Noviani et al. (2010) who obtained evidence that audit tenure has a positive influence on audit quality. Similarly, Myers et al. (2003) also found evidence that earnings quality increases the longer the audit tenure. Manry et al. (2008) found evidence that auditor tenure will further improve auditor quality. Carcello and Nagy (2004) actually found evidence that audit fraud would be found more frequently in short tenure audits compared to long tenure audits.

H2: Audit tenure has a positive effect on audit quality.

METHODS

This research uses quantitative methods based on positivism and uses an associative causality research design. This research was conducted for 5 years on all companies listed on the Indonesia Stock Exchange (BEI) for the 2020-2024 period, by downloading the annual report which is accessed viawww.idx.co.id.PThe population in this research is all companies listed on the Indonesian Stock Exchange, namely 215 companies. The process of determining the sample was a non-probability sampling method using a purposive sampling technique so that 215 samples were obtained using five years of observation.

The sample selection criteria used in this research is the first criterion, namely all companies listed on the Indonesia Stock Exchange in 2010-2015. The second criterion is to publish an annual report during the research period (2010-2015) and state that the financial report has been audited by an independent auditor and that the company has not been delisted from the IDX.

The data collection method used in this research is non-participant observation. The data analysis technique for this research is Logistic Regression Analysis which is processed using the SPSS program. The equation model of Logistic Regression Analysis used in the research is:

RESULTS AND DISCUSSION

Table 1: Logistic Regression Test Results

Test results	
Sig.	0.276
-2 Log Likelihood	Block 0 = 176,182; Block 1 = 134,778
Nagelkerke R Square	0.41

Secondary Data, 2024

The feasibility of the regression model was assessed using Hosmer and Lemeshow's Goodness Of Fit Test. Based on the test results presented in Table 1, it shows a significance probability of 0.276. If the significance value is greater than 0.05, it can be concluded that the model is able to predict the observation value or is acceptable because it matches the observation data.

The test is carried out by comparing the value between -2 Log Likelihood (-2LL) at the beginning (Block Number = 0) with the value -2 Log Likelihood (-2LL) at the end (Block Number = 1). Based on Table 1, the initial -2LL value was 176,182 and the final -2LL decreased to 134,778. This decrease in Likelihood (-2LL) indicates a good regression model or in other words the hypothesized model fits the data.

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The general value of the coefficient of determination in the logistic regression model is shown by the Nagelkerke's R Square value. Based on Table 1, it shows that the Nagelkerke R Square is 0.041. This means that the independent variables used in this research, namely auditor switching and audit tenure, influence the dependent variable audit quality by 4.1%, while 95.9% is influenced by other variables outside this research.

Table 2: Logistic Regression Test Results

								95% CIfor EXP(B)	
		B	S.E	Wald	Df	Sig.	Exp(B)	Lower	Upper
Step 1a	Switches	-7,281	11,229	0.420	1	0.517	-0.001	0,000	2490068.886
	Tenure	4,297	2,143	4,020	1	0.045	73,474	1,101	4901,461

Primary Data, 2024

The first hypothesis states that auditor switching has a negative effect on audit quality. Based on Table 2, the auditor switching variable shows a negative coefficient value of -7.281 with a significance of 0.517 which is greater than 0.05. This means that the first hypothesis is not accepted, which means that auditor switching has no effect on audit quality.

The test results using logistic regression show a negative coefficient value of -7.281 with a significance level of 0.517 which is greater than ⍰ = 5% (0.517 > 0.05). This shows that the auditor switching variable has no effect on audit quality, in other words H1rejected. Institutions between management and auditors are always based on contracts. The contract is made to avoid welfare motives (moral hazard). The results of this research show that the contract made by management with the auditor occurs efficiently so that the auditor can work professionally, which means whoever the auditor is will not affect the audit quality results.

The results of this research are in accordance with the results of research conducted by Bambang Hartadi (2009) that auditor switching has no effect on audit quality, which is thought to be due to the reluctance of market players to explore further whether auditors who issue opinions on audited financial statements have actually experienced rotation or not. . Research with the same results also conducted by Knechel and Vanstraelen (2007) found evidence that audit quality was not affected by auditor switching. Chih-Ying et al. (2008) did not find support for the belief that mandatory KAP rotation improves auditor quality. Besides that, Chih-Ying et al. (2008) also did not find consistent evidence supporting the belief that mandatory KAP rotation based on investor perceptions improves auditor quality.

The second hypothesis states that audit tenure has a positive effect on audit quality. Based on Table 2, the audit tenure variable shows a positive coefficient value of 4.297 with a significance of 0.045, which is smaller than 0.05. This means that the second hypothesis is accepted, which means that audit tenure has a positive effect on audit quality. The test results using logistic regression show a positive coefficient value of 4.297 with a significance level of 0.045 which is smaller than ⍰ = 5% (0.045 < 0.05). This shows that the audit tenure variable has a positive effect on audit quality, in other words H2accepted. Jensen andMeckling (1976) in Rossieta Wibowo (2009) views the relationship between agents and principals within the framework of an agency relationship, the same as management and auditors who have an institutional relationship. This institutional relationship is based on a contract. The contract concerns the provision of services to management in the context of examining the company. In its implementation, auditors who are appointed by management continuously or on an ongoing basis will better understand the complexity of the company because the auditor already knows the auditee's internal control system so that the engagement period or audit tenure has a positive effect on audit quality. A long audit tenure will provide better audit quality results.

The results of this study are in accordance with research conducted by Noviani et al. (2010) who obtained evidence that audit tenure has a positive effect on audit quality and Myers et al. (2003) who also found evidence that earnings quality increases the longer the audit tenure.

CONCLUSION

This research is intended to empirically test the influence of auditor switching and audit tenure on audit quality. Based on the regression analysis and discussion of research results described in the previous chapter, it can be concluded as follows: auditor switching has no effect on audit quality, thus the first hypothesis (H1)rejected. Audit tenure has a positive effect on audit quality, thus the second hypothesis (H2) accepted.

Based on the results of the analysis and conclusions, several suggestions can be put forward for further research and for interested parties as follows. Further research, the coefficient of determination (Nagelkerke R Square) is 0.052, which means that the variability of the dependent variable that can be explained by the independent variable is only 4, 1%, while the remaining

95.9% is explained by other variables outside the research model. Future research can add other variables to predict audit quality such as KAP size, company size, audit committee and management turnover.

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