



The Effect of Financial Difficulties, Company Size Growth on The Change of Public Accountant Offices

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ABSTRACT

An auditor has to maintain his independence. To remain this, there are needed to be an auditor shift. Based on PP NO.20 of 2015, the replacement is only applied to auditors, while for KAP there is no more requirement to move to another KAP. While no more restrictions on KAP replacement, it is interesting to examine what factors are considered by the company to keep replacing KAP in the following year? There are at least five factors that are considered by the client to make KAP changes, namely company growth, and financial distress. This research is a type of quantitative research using statistical tools to answer the problem formulation. The population in this study were Consumer Goods companies listed on the Indonesia stock exchange during the period of 2012 to 2016. The result of this study found that company growth, and financial distress had a significant positive effect on KAP.

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1. Introduction

In Indonesia, every company, the right to choose the Public Accounting Firm (KAP), which will be in charge, to audit the financial statements of the company. Latitude wide open, because the development of the firm and its auditors, in Indonesia is quite rapid. The phenomenon of the AEC (Asian Economic Community) causes global competition to be tricked by the Government by making it easier to become an auditor. It is proven that the number of KAP has grown to 14.91% in 2016 compared to previous years. The job of the KAP is to complete its duties properly so that the company does not change KAP in the next period.

About the turn of the KAP, the case changes are quite fundamental to the issuance of regulations new, namely the launch of PP No.20 of 2015. With regard to the rules of rotation of the public accounting firm regulated in Article 11 of Regulation 20/2015, which in Article 11 paragraph (1) explained that: "The provision of audit services on historical financial information as referred to in Article 10 paragraph (1) letter a on an entity by a Public Accountant is limited to a maximum of 5 (five) consecutive financial years". This regulation confirms that the change is only applied to auditors, while for KAP there is no need to move to another KAP. Regulation is to revise the rules before, namely PMK 17/PMK 01/2008. KAP is limited to only auditing the company's historical financial statements for 6 consecutive years and public accountants for 3 consecutive years.

With no restriction again on the turn KAP, attractive for in meticulous factors of what are considered the company to replace the KAP in the next. Based on the studies before, at least there are five factors to consider clients to do the turn KAP, namely the growth of the company, and kesulitan keuangan.

Growth companies significant results in the availability, sufficient funds to be able to pay KAP quality. Companies with high growth usually immediately change to higher quality KAP. In addition to the availability of funds, pressure from external parties and the need for it, many inputs to compensate for business complexity are reasons why companies should decide to change KAP. Prastiwi and Wilsya (2012) state that company growth has an effect on KAP turnover.

Financial difficulties are a sign, there is a possibility that the company will soon change to KAP. The insufficient causes, companies have to switch to KAP with cheaper audit fees. Wijayani and Januarti (2012) stated that financial difficulties had an effect on the change of KAP.

2. Theoretical Basis

2.1 Agent Theory

Agent theory explains the conflicts that occur between company owners and managers (management). In the implementation of work contracts, it is possible that they are no longer aligned in achieving common goals (Jensen and Meckling, cited by Morris, 1987, in Widiawan 2012). Associated with the change in KAP, conflicts that occur between company owners and management can arise in terms of choosing a KAP. Management may want to choose a KAP with which to work with, to demonstrate the achievements that must be accounted for to the owner. On the other hand, the owner also wants to obtain a quality KAP so that it is able to detect fraud in the financial statements, therefore they tend to replace the KAP, if they feel the KAP is more pro-management.

2.2 Change of KAP

The change of KAP is the shift of auditors carried out by the company. Rotation intended, to maintain the independence of the auditor in order to remain objective in the audit client's financial statements. The regulation regarding the change of KAP, amended again with the existence of PP No. 20 of 2015. In connection with the regulation of rotation of public accountant services regulated in Article 11 PP 20/2015, where Article 11 paragraph (1) explains that: "Providing audit services for financial information historical as referred to in Article 10 paragraph (1) letter a for an entity by a Public Accountant is limited to a maximum of 5 (five) consecutive financial years". This regulation confirms, that the change is only applied to the auditors, while KAP is no longer a necessity to move to another KAP.



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2.3 Hypothesis

- H 1 : It is assumed that company size has a significant positive effect on KAP turnover
- H 2 : It is suspected that financial difficulties have a significant positive effect on KAP turnover.

2.4 Conceptual Framework

To better understand writing, make a conceptual framework as follows:

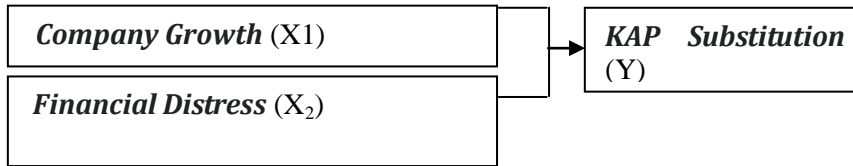


Fig 1 Conceptual Framework

In selecting the research variables above, it is based on theoretical considerations and previous research that examined variables concerning motivation and communication. Therefore, the research that the author is currently doing consists of two independent variables consisting of The Effect Of Financial Difficulties, Company Size Growth On The Change Of Public Accountant Offices.

3. Research Methods

3.1 Types of research

This research is a quantitative type because it uses statistical tools with the help of the SmarttPLS application to answer problem formulations. There is one dependent variable (a variable whose magnitude is influenced by the size of the independent variable), namely the change in KAP. There are five independent variables, namely audit delay , audit opinion, GCG, company growth, and financial difficulties. Secondary data obtained are in the form of financial reports published by the Indonesia Stock Exchange. population of Consumer Consumer Good Companies Listed on the IDX

3.2 Operational Definition of Variables

a. Independent Variable (Independent)

1) Company Growth, namely the scale of the company from year to year. Proxied as follows:

a) Asset growth

$$\frac{\text{Total assets this year} - \text{Total assets last year}}{\text{Total assets last year}}$$

b) Sales growth

$$\frac{\text{Total assets this year} - \text{Total assets last year}}{\text{Total assets last year}}$$

2) Financial difficulties, which is a situation that allows the company to go bankrupt. Proxied as follows:

a) Leverage

$$\frac{\text{Total Debt}}{\text{Total Assets}}$$

b) Profit and Loss Conditions

Score 1 = Company loses
Score 0 = Company is profitable

b. Dependent variable (dependent)

Change of KAP, which is a condition that requires a company to change KAP.

Score 1 = change KAP
Score 0 = not changing KAP

4. Results and Discussion

4.1 Research result

a. Outer Model

At this stage the indicators of each variable must be tested for their validity whether they are feasible as a construct variable to explain the latent variable. Testing by looking at the *loading factor* value of *outer loading*, *cronbach's alpha*, and *average variance extracted (AVE)*.

Table 1
Outer Loading

Variable	Indicator	Outer Loading value	Conclusions
PKAP	Change of KAP 1	1	Significant
Variable	Indicator	Outer Loading value	Conclusions
GROW	Grow1 (Asset Growth)	0.998287	Significant
	Grow2 (Sales)	0.133690	Not significant



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Variable	Indicator	Outer Loading value	Conclusions
DIFFICULT	Growth) Difficult1 (Leverage)	0.989038	Significant
	Difficult2 (Loss)	-0.203909	Not significant

Based on the *outer loading* table stage 1, it is known that the *outer* value that meets the requirements is above 0.7, namely the change of KAP (1 indicator), company growth (1 indicator of asset growth), and financial difficulties (1 *leverage* indicator).

Because each variable is represented by one indicator, the *loading factor* value of *outer loading* stage 2, *cronbach's alpha* and *average variance extracted (AVE)* is automatically valued at 1, so that it meets the requirements.

b. Inner model

Examination of the structural model covering the significance of the relationship line and the value of *R Square (R²)* to see the relationship between the constructs, the significance and value of *R Square* of the research model. The following is the estimation result of *R Square* :

Table 2
R Square Value

Endogenous Variables	R-Square Adjusted Value
Change of KAP	33.33%

Based on the table of the *R Square* value, it can be seen that the independent variable has a relationship to the KAP turnover of 33.33%. Thus, company growth and financial difficulties are able to explain the probability of KAP turnover of 33.33%, while the remaining 66.67% is explained by other variables which are not studied.

4.2 Hypothesis test

Bootstrapping is used to test the hypothesis namely by looking at the significance of the influence between variables by looking at the parameter coefficient and t-statistical significance value, where the t-calculated value is obtained from the inner value of the t-statistical model. Then the values are obtained as follows:

Table 3
Hypothesis Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O / STERR)
Growth -> KAP	0.158047	0.159311	0.012276	0.012276	12.874517
Difficulty -> KAP	0.474736	0.475377	0.018119	0.018119	26,201351

Based on the table of hypothesis test results, it can be seen that company growth and financial difficulties have a significant positive effect on the turnover of KAP, this can be seen from the T statistic with a value above 1.96 and the original sample which is positive, thus the hypothesis is accepted.

4.3 Discussion

a. Company growth towards KAP turnover

The results of testing the firm size growth hypothesis have a significant effect on KAP turnover. Thus, the higher the assets owned by the company, the more likely it is to switch KAP.

Companies that are starting to grow need a number of plans and strategies in order to win the competition. Therefore, companies need consultants who are qualified and experienced, one of which is by *hiring* auditors who are under *reputable* KAP. Adequate funds as the company grows allows it to pay reliable auditors.

b. Financial difficulties with the change of KAP

The results of hypothesis testing show that financial difficulties have a significant positive effect on KAP turnover. Thus, if the company is experiencing financial difficulties, the probability to change KAP will be higher.

The change of KAP is also biased because the company no longer has the ability to pay audit fees which are charged by the KAP due to a decrease in the company's financial capacity (Evi Dwi Wijayani and Indira Januarti, 2012). Financial difficulties experienced by companies can influence the company to replace KAP with financial reasons. Nasser, et al. (2012) stated that companies that go bankrupt more often change KAP than companies that are not bankrupt. A company that is experiencing financial difficulties will have a greater chance of changing KAP (Putra and Suryanawa, 2016).

Companies that experience *financial distress* will tend to practice accounting that tends to increase revenue compared to healthy companies. Conditions that could potentially bankrupt company has a tendency to change auditors because in a corporate environment that is experiencing potential bankruptcy are a great influence on the tension between management and auditors that cause the loss of the working relationship between management and auditors Schwartz and Menon (1985).

This study is in line with Aprilia (2013) who also found there was a positive and significant relationship between financial difficulties and the decision of companies to switch KAP.

5. Conclusion

This study aims to examine the effect of growth in firm size and financial difficulties on KAP turnover. Based on the results of data analysis and the discussion that has been described, the following conclusions are obtained:



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The growth in company size has a significant positive effect on KAP turnover.

Financial difficulties have a significant positive effect on KAP turnover.

For KAP to work more efficiently, effectively, and economically without reducing audit quality, as a work inefficiency, represented by the length of time it takes to publish financial reports, is a factor for companies to switch KAP.

For KAP to not hesitate to give, other than unqualified opinion if the facts in the field require obtaining that opinion, because it is proven that it does not cause the company to change KAP. It's just that KAP must provide recommendations, so that the accounting system will run adequately to deserve an unqualified opinion.

For future researchers, they can continue this research by increasing the number of samples, so that the results will be more comprehensive. You can also add other variables.

6. References

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