

The effect of audit opinion, company size, and KAP size on auditor switching

Subjects
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ABSTRACT

Purpose: This study aims to examine how much influence Audit Opinion, Company Size, and Public Accountant Size have on auditor switching in Manufacturing companies included in the Basic Industry and Chemical Sector, which are listed on the Indonesia Stock Exchange (IDX) from 2017 to 2020.

Methods: This study uses a type of causal associative relationship research with a quantitative approach measured using the logistic regression method using E-views 10. The data used in this study are secondary. The sample was taken using a purposive sampling technique with a total of 40 companies from 2017 to 2020.

Findings: The results of this study indicate that audit opinion does not affect auditor turnover. Meanwhile, company size has a significant effect because larger companies tend to choose quality auditors to maintain the credibility of financial statements. On the other hand, the size of the public accounting firm has no significant effect because the decision to change auditors is based more on the company's ability to pay an honorarium, not on the reputation or quality of the auditor

Practical Implications: The results of this study emphasize the importance of companies, especially large ones, in choosing quality auditors to maintain the credibility of financial statements. Companies are advised to consider not only costs but also the auditor's ability to provide high audit quality. In addition, the finding that audit opinion does not affect auditor turnover provides insight that stakeholders should not focus too much on the opinion when making strategic decisions. Better audit practices may increase transparency and stakeholder trust.

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Abstrak

Tujuan: Penelitian ini bertujuan untuk menguji seberapa besar pengaruh Opini Audit, Ukuran Perusahaan, dan Ukuran Akuntan Publik terhadap perpindahan auditor di perusahaan-perusahaan Manufaktur yang termasuk dalam Sektor Industri Dasar dan Kimia, yang terdaftar di Bursa Efek Indonesia (BEI) pada periode 2017 hingga 2020

Metode: Penelitian ini menggunakan jenis penelitian hubungan asosiatif kausal dengan pendekatan kuantitatif yang diukur menggunakan metode regresi logistik menggunakan E-views 10. Data yang digunakan dalam penelitian ini adalah data sekunder. Sampel diambil dengan menggunakan teknik purposive sampling dengan jumlah sampel sebanyak 40 perusahaan pada tahun 2017-2020.

Hasil: Hasil penelitian ini menunjukkan bahwa opini audit tidak memengaruhi pergantian auditor. Sementara itu, ukuran perusahaan memiliki pengaruh yang signifikan, karena perusahaan yang lebih besar cenderung memilih auditor berkualitas untuk menjaga kredibilitas laporan keuangan. Di sisi lain, ukuran kantor akuntan publik tidak berpengaruh secara signifikan, karena keputusan untuk mengganti auditor lebih didasarkan pada kemampuan perusahaan untuk membayar honorarium, bukan pada reputasi atau kualitas auditor.

Implikasi Praktis: Hasil penelitian ini menekankan pentingnya perusahaan, khususnya yang berukuran besar, dalam memilih auditor berkualitas untuk menjaga kredibilitas laporan keuangan. Perusahaan disarankan untuk tidak hanya mempertimbangkan biaya, tetapi juga kemampuan auditor dalam memberikan kualitas audit yang tinggi. Selain itu, temuan bahwa opini audit tidak berpengaruh pada pergantian auditor memberikan wawasan bahwa pemangku kepentingan sebaiknya tidak terlalu fokus pada opini tersebut saat membuat keputusan strategis. Dengan demikian, hal ini dapat meningkatkan transparansi dan kepercayaan stakeholder melalui praktik audit yang lebih baik.

Kata Kunci: Pergantian Auditor, Opini audit, Ukuran perusahaan, Ukuran kantor akuntan publik

1. Introduction

Financial reports submitted to the public must comply with financial accounting standards (SAK) and have been audited by a public accountant registered with the Financial Services Authority (OJK) by the Financial Services Authority Regulation Article 2 paragraph 1 of 2017. The purpose of an audit of a company's financial statements is to express an opinion on the fairness of financial reporting and to ensure that the financial statements prepared by the company are by the financial accounting standards applicable in Indonesia. According to Faradila and Yahya (2016), company audits are expected to increase the value of a financial report. This issue is becoming increasingly crucial amidst the growing global challenges, where transparency and accountability of financial statements are essential to increase investor and stakeholder confidence. Changing auditors or public accounting firms (auditor switching) often occurs, and it is necessary to understand it in a broader context. A good audit is an integral part of a company's financial oversight, directly affecting reputation and performance. The Enron case in 2001 is a classic example of poor management auditors, where KAP Arthur Andersen was involved in manipulating financial statements. This suggests that auditor switching can be an essential mechanism to maintain the integrity of financial statements. Therefore, it is crucial for

companies to carefully consider the reasons and timing for changing auditors, especially about the audit opinion given.

Research on auditor switching has been conducted extensively in various countries, including Indonesia, and many of them show varying results. Some previous studies, such as those undertaken by Sanulika A. (2018) and Setyoastuti et al. (2020), show that audit opinion has no significant effect on auditor switching. However, other studies use different variables and contexts, resulting in different conclusions. This suggests that differences in research approaches must be further identified to understand the factors influencing auditor-switching decisions fully. On the other hand, a weakness in the current study is the lack of consistency in using different variables and research contexts, which can result in incomprehensive findings. Although many studies show a relationship between audit opinion and auditor switching, many other factors, such as company size and KAP reputation, need to be explored further. Currently, existing research does not sufficiently consider the full context and dynamics involved in the decision to switch auditors, allowing for gaps in this understanding. This study aims to explore the influence of audit opinion, company size, and KAP size on auditor switching in manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange in the period 2017-2020. This study is expected to provide practical benefits for companies in making decisions related to auditor-switching and provide investors with deeper insight into the importance of factors that influence auditor-switching decisions. This practical contribution can help companies choose the right auditor, increase the transparency of financial statements, and build trust with stakeholders.

2. Theoretical Background

Agency theory

According to Jensen and Meckling (1976), agency theory is an agency relationship as a contract in which one or more parties (principals) use another party (agent) to perform certain services for their benefit by delegating some decision-making authority to the agent. Conflicts of interest will arise between the owner (principal) and management (agent) because the agent may not always act by the wishes of the owner (principal). This conflict then gives rise to agency costs.

Legitimacy theory

Legitimacy theory describes the company's ongoing efforts to ensure that the activities carried out are within the boundaries and norms of the society where the company operates (Rawi & Muchlish, 2010). Siregar (2018) cites Suchman's research (1995), which states that legitimacy can be considered an effort to align perceptions or assumptions that an action taken by an entity is desired, appropriate, or in accordance with the system of norms, values, beliefs, and definitions that develop socially.

Stakeholder theory

According to Freeman's stakeholder theory (1984), a company's survival depends highly on stakeholder support, which involves the relationship between the company and various parties, both internal and external. Stakeholders are divided into two categories: primary and secondary. Primary stakeholders include parties who have economic interests and bear risks, such as investors, creditors, employees, local communities, and governments. Secondary stakeholders

include related parties that do not affect the company's economic survival, such as the media and interest groups.

Audit and audit standards

According to Hayes (2014:4), an audit is a systematic process that aims to objectively collect and evaluate evidence related to statements about economic events and activities to ensure compliance with established criteria and communicate the results to interested parties. Meanwhile, Arens et al. (2015:36) emphasize the importance of audit standards as a guideline for auditors in carrying out their professional responsibilities in auditing historical financial statements. In this context, Public Accountant Professional Standards (SPAP) play an important role as a codification of technical standard statements that provide direction for Public Accountants in Indonesia and are issued by the Public Accountant Professional Standards Board under the Indonesian Institute of Public Accountants, as stated by Rachmianty (2015).

Firm Size

Firm size is categorized into Big Four and Non-Big Four, where Big Four KAPs are more able to maintain independence than small KAPs or Non-Big Four, which are considered to have a lower level of independence. According to Maryani Sri et al. (2016), a KAP is considered significant if it is affiliated with the Big Four, has branches and large corporate clients, and has more than 25 professional staff. Conversely, a small KAP is not affiliated with the Big Four and has less than 25 professional staff. Audit quality in Indonesia is often related to foreign affiliations, and KAP size is an important consideration for clients when making auditor switching decisions.

Auditor Switching

Auditor switching refers to a change in KAP or auditor made by a company due to the resignation or dismissal of the auditor by the client company. This process can occur in a mandatory manner, as required by regulations that limit the audit term of office to maintain auditor independence, or voluntarily, as determined purely by the will of the company, without being bound by existing regulations (Dwiyanti & Sabeni, 2014).

Hypotheses

The effect of audit opinion on auditor switching

An audit opinion is given by an auditor regarding the fairness of the presentation of the company's financial statements being audited (Mulyadi, 2014:19). During the audit process. This opinion can influence the auditor's switching decision because the company may consider changing the public accounting firm if the opinion is not in line with its expectations. According to Suryanawa (2016), if the auditor's opinion is not in accordance with the client's wishes, the client tends to choose to replace or dismiss the auditor.

Research conducted by Michael et al. (2019) revealed a significant influence between audit opinion and auditor switching. The study results indicate that an audit opinion that is not unqualified (fair without exception) can indicate a problem in the financial statements, potentially making investors and creditors lose confidence. On the other hand, a study conducted by Sanulika (2018) showed different results, where the audit opinion did not affect auditor switching, indicating that companies that change new auditors are likely to receive opinions that are similar or not much different from those given by the previous auditor because the auditor's

opinion is based on the quality of the company's financial statements. Based on the theoretical framework and the results of previous studies, the first hypothesis is proposed as follows:

H1: Auditor opinion affects auditor switching

The effect of company size on auditor switching

Company size refers to the company's size as measured by total assets. The greater the total assets owned, the larger the company. Conversely, companies with small total assets are considered small (Wijaya & Rasmini, 2015). Large companies tend to use audit services from public accounting firms (KAP) with a high reputation because their operational complexity is higher than that of small companies. According to Andini et al. (2016), large companies usually do not make arbitrary decisions to change auditors.

However, research by Maryani et al. (2016) shows that company size does not affect auditor switching. In their findings, the company size variable does not have a significant impact, which means that changes in the scale of company size, either an increase or decrease based on total assets, do not always lead to auditor changes. This is due to the long adjustment process between the client and the auditor, which requires a thorough understanding of the auditor, the client's business, and the company's actual state, which in turn requires significant costs and time. Based on the theoretical framework and the results of previous studies, the second hypothesis is proposed as follows:

H2: The effect of company size on auditor switching

The effect of KAP size on auditor switching

The size of a public accounting firm (KAP) is an indicator that determines its size. KAP is categorized as large if it is affiliated with the Big Four, while small KAP is not affiliated with the Big Four and generally has less than 25 professional staff. Large KAPs generally handle large companies and have more than 25 professional staff, while small KAPs only perform simpler audits (Firyana, 2014). Companies that still use small KAP or those not affiliated with the Big Four have a high tendency to switch auditors, which is a step to improve the quality of their financial statement audits. However, if the company already uses a large KAP or one affiliated with the Big Four, the possibility of them changing auditors becomes smaller.

In this case, research conducted by Manto and Manda (2018) shows that KAP size significantly affects auditor switching, where the more significant the KAP size, the less likely it is to change auditors. In contrast, research by Sanulika (2019) states that the size of the KAP does not affect auditor switching. This is because both KAPs affiliated with the Big Four and those not affiliated with the same audit standards, namely SPAP, indicate that there is no difference in classification between them regarding the size of the KAP. Based on the theoretical framework and the results of previous studies, the third hypothesis is proposed as follows:

H3: KAP size affects auditor switching.

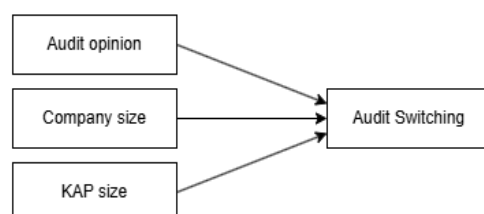


Figure 1. Conceptual farmework

3. Methods

This research is a quantitative study that uses secondary data accessed through www.idx.co.id. The population that is the object of research is manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange (IDX) in the 2017-2020 period. From this population, a sample of 40 companies was selected using a purposive sampling technique, provided that the company must meet specific criteria, namely being listed on the IDX during the specified period, consistently submitting complete financial reports, and presenting financial reports in rupiah currency.

Analysis technique

This study implements logistic regression analysis using E-Views version 10 software for data processing. Starting with descriptive statistical tests, this study aims to describe the characteristics of the variables studied. Logistic regression was chosen because the categorical dependent variable can be analyzed using dummy variables to measure the probability effect of the independent variable on the dependent variable. The feasibility of the model was tested through Hosmer and Lemeshow's Goodness of Fit Test, while the effect of each independent variable was analyzed using the partial (Z) statistical test. The simultaneous effect was assessed using the Likelihood Ratio (LR) statistic. Some previous studies, such as those conducted by Sanulika A (2018) and Setyoastuti et al (2020), show that audit opinion has no significant effect on auditor switching. However, there are also other studies that use different variables and various contexts, resulting in different conclusions.

$$\text{Ln} \left(\frac{AS}{1 - AS} \right) = \alpha + \beta \text{OPINI} + \beta \text{SIZE} + \beta \text{UKAP} + e$$

4. Results and Discussion

Descriptive statistical test

Based on the results of Table 1, the minimum value of the audit opinion of 0 indicates that the company received an unqualified opinion. In contrast, the maximum value of 1 indicates that the company received an opinion other than unqualified. The average value of the audit opinion was recorded at 0.081250, which suggests that only about 8.12% of companies in the sample received an opinion other than unqualified. The standard deviation of 0.274076, more significant than the average value, indicates that the data from the audit opinion are not evenly distributed. Furthermore, company size is measured by the natural logarithm of total assets. The smallest company size was recorded at 25.85490, owned by PT Jakarta Kyoei Steel Works Tbk in 2020, while the largest size was 32.01063, owned by PT Semen Indonesia (Persero) Tbk in 2019. The average value of company size is 28.26086 with a standard deviation of 1.402502, which is smaller than the average, indicating that the data distribution for this variable is pretty even. In addition, the size of the Public Accounting Firm (KAP) is measured using a dummy variable, where a value of 0 means a Big Four KAP does not audit the company, and a value of 1 represents a Big Four KAP audits the company. The average value of KAP size is 0.256250, indicating that approximately 25.63% of companies in the sample use audit services from a Big Four KAP. The standard deviation of 0.437932, which is greater than the average, also indicates that the data distribution for this variable is uneven.

Table 1. Descriptive test

Variabel	Mean	Median	Maksimum	Minimum	Std. Dev	Observasi
Auditor Switching	0.150000	0.000000	1.000000	0.000000	0.358193	160
Opini	0.081250	0.000000	1.000000	0.000000	0.274076	160
Company size	28.26086	28.11771	32.01063	25.85490	1.402502	160
KAP size	0.256250	0.000000	1.000000	0.000000	0.437932	160

Source: Data processed with E-views 10

Finally, related to auditor switching, the average shows a minimum value of 0, meaning there is no auditor change, and a maximum value of 1, meaning there is an auditor change. The average of 0.150000 indicates that auditor switching occurred in approximately 15% of companies in the study period, with a standard deviation of 0.358193 is also greater than the average value, indicating that the data distribution for this variable is also uneven.

Hypotheses testing

Based on Table 2, the results of the logistic regression test show that the logit equation used in this study is

$$\ln AS \ 1-AS = -15.08434 - 0.594563OPINION + 0.476897SIZE - 0.830055UKAP + e$$

From this logistic regression equation, it can be seen that the constant value (C) has a negative coefficient of 15.08434, which means that if the independent variable is considered constant (value = 0), the probability of auditor switching will decrease by 15.08434. Furthermore, the audit opinion variable shows a negative coefficient of 0.594563, which means that if the audit opinion variable increases by 1%, assuming other variables are constant, then auditor switching will decrease by 0.594563; this illustrates that a decrease in the audit opinion variable will cause an increase in auditor switching. In terms of firm size, the results show a positive coefficient of 0.476897, meaning that every 1% increase in firm size, assuming other variables are constant, will increase auditor switching by 0.476897; this indicates that an increase in firm size contributes to the rise in auditor switching. Likewise, the KAP size variable produces a negative coefficient of 0.830055. This means that if the KAP size increases by 1%, assuming other variables are constant, auditor switching will decrease by 0.830055; therefore, a decrease in KAP size is related to an increase in auditor switching.

Table 2. Hypotheses testing

Variabel	Koefisien	Std. Error	z-Statistic	Prob.
C (Konstanta)	-15,08434	5,45315	-2,76617	0,0057
Opinion	-0,594563	0,192201	-0,54804	0,5837
Company size	0,476897	0,618439	2,481247	0,0131
KAP size	-0,830055	1,084886	-1,34218	0,1795
Hosmer and Lemeshow		3,4855	0,9003 (df = 8)	
McFadden R-squared		0,053908		
LR statistik		7,292000		

Source: Data processed with E-views 10

Based on the Hosmer and Lemeshow test results, the chi-square probability value is 0.9003, more significant than the significance level of 0.05, so H₀ is accepted. This indicates that this regression model is suitable for further analysis because it can predict the observation value well. For the Z-statistic test results of each independent variable on the dependent variable, the audit opinion variable obtained a value of 0.5837, greater than 0.05, so H₀ is accepted and indicates that the audit opinion variable does not affect auditor switching. Conversely, company size shows a value of 0.0131, which is smaller than 0.05, so H₀ is rejected, which shows that company size affects auditor switching. While the size of the public accounting firm obtained a value of 0.1795, which is greater than 0.05, H₀ is accepted, indicating that the size of the public accounting firm does not affect auditor switching. From the chi-square calculation results, the LR statistical value of 7.292000 is compared to the chi-square table value of 7.82 (df = 3) at the 0.05 significance level. This indicates that $7.292000 < 7.82$. Furthermore, the LR test shows Prob (LR statistic) of 0.063151, which is greater than 0.05, so H₀ is accepted, and H_a is rejected, which means that simultaneously, the independent variables (audit opinion, company size, and KAP size) do not affect the dependent variable (auditor switching). The feasibility of the model was tested through Hosmer and Lemeshow's Goodness of Fit Test, while the effect of each independent variable was analyzed using the partial (Z) statistical test.

Discussion

The effect of audit opinion on auditor switching

The results show that audit opinion does not significantly impact the company's decision to change auditors. The statistical analysis indicates that the probability value related to audit opinion is higher than the established threshold, thus confirming that this opinion is not a determining factor in the auditor switching decision during the study period. Although audit opinion serves as an essential source of information for users of financial statements, especially external parties, it does not directly influence the decision to change auditors because companies that receive an unqualified opinion or other types of views cannot predict whether they will change auditors. This finding is in line with Sanulika's research (2018), which also states that audit opinion has no effect on auditor switching, but contradicts the research of Michael et al. (2019), which confirms a significant effect. This difference in results reflects the complexity of the context and other factors that influence the company's decision to change auditors, which requires further research.

The effect of Company Size on Auditor switching

The results showed that company size significantly affects auditor replacement decisions. This study reveals that the larger the size of the company, the greater the responsibility of management to shareholders, which encourages companies to choose high-quality independent auditors to produce credible financial reports. According to Nazri et al. (2012), an increase in company size also increases the complexity of its activities, making oversight by shareholders more difficult. In this context, management as an agent is more likely to change auditors to find a new, more extensive, and higher quality auditor in order to bridge the interests between the principal and the agent. Research shows that as the company's scale increases and its total assets are more significant, management's responsibility to shareholders increases, leading to a change of auditors. In this case, companies tend to utilize the services of the Big Four KAP to increase the credibility of their financial statements. This research aligns with previous research by I Pratiwi and Ketut RM (2015), which also found a positive effect of company size on auditor

switching. However, this contradicts the findings of Maryani et al. (2016), which states otherwise.

The effect of KAP size on auditor switching

The results showed that the size of KAP does not affect auditor switching. The Z statistical test results indicate that the probability value for KAP size is greater than the 0.05 significance level, thus concluding that there is no significant effect. Companies with Big Four and Non-Big Four KAP tend to change auditors because the selection of KAP is based more on the financial ability to pay audit fees, not on quality or reputation. However, investors tend to trust audits conducted by Big Four KAP more because they try to maintain the quality of audit services. This does not mean that Non-Big Four KAPs do not maintain quality, considering that the auditor's code of ethics states the importance of maintaining independence and integrity. This finding aligns with Sanulika's (2019) research, which also shows no effect of KAP size on auditor switching because all KAPs, regardless of affiliation, use the same audit standards. However, these results contradict the research of Manto and Manda (2018), which found that KAP size has a significant effect, where the larger the size of the KAP, the less likely it is to do auditor switching.

5. Conclusion

This study aims to analyze the effect of audit opinion, company size, and public accounting firm size on auditor switching in manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange (IDX) during 2017-2020. Using logistic regression analysis through E-Views 10 software, the results showed that audit opinion does not affect auditor switching because a fair opinion, either with or without exceptions, cannot predict a change in auditors, considering that the opinion is related to the fairness of the financial statements. In contrast, company size positively affects auditor switching; larger companies tend to choose more qualified independent auditors to increase the credibility of financial statements in the eyes of shareholders. However, the size of the public accounting firm does not affect the decision to change auditors because the selection is mainly based on the company's financial ability to pay for audit services. This study has limitations, including difficulties in obtaining complete financial reports for the 2017-2020 period because not all sample companies provide annual reports, as well as the limited number of variables used. For the development of further research, it is recommended that additional variables such as financial distress, profitability, earnings management, audit fees, and company growth be considered, as well as expanding sector coverage so that the results can be generalized more broadly. Investors and companies are encouraged to better understand the auditor switching process without relying too much on audit opinion, considering that all public accounting firms try to maintain their audit quality. Future research should follow the latest provisions in the code of ethics for the public accounting profession regarding auditor switching and consider using public accounting firms of various scales, both national and local.

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