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The Moderating Role Of Auditor Reputation On The Influence Of Audit Fees And Corporate Financial Distress On Auditor Switching (Empirical Study on Infrastructure, Utilities, and Transportation Sector Companies Listed on the Indonesia Stock Exchange for the 2020-2023 Period)

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Article Info	ABSTRACT
Keywords: Auditor Switching, Audit Fee, Difficult Financial Condition, Auditor Reputation.	The purpose of this study was to determine the effect of audit fees and financial difficulties on auditor switching with auditor reputation as a moderating variable. The research method uses quantitative methods. The research design consists of a descriptive design and a causal design. The sampling technique uses purposive sampling with a total sample of 27 infrastructure, utilities & transportation sector companies registered on the IDX for 2020-2023, where the research sample data is 135 sample data. Data analysis used logistic regression analysis and moderated regression analysis (MRA) with the SPSS Version 23 program. Based on the results of data analysis, it is known that the Nagelkerke R Square value is 0.689. This shows that the variation in giving auditor switching can be explained by 68.9% by the audit fee variable, financial distress with the auditor's reputation as a moderating variable, while the rest is explained by other variables not examined. The results of testing the hypothesis, it is known that audit fees have a positive effect on auditor switching, financial distress has a positive effect on auditor switching, auditor reputation moderates (weakens) the effect of audit fees has a positive effect on auditor switching, and auditor reputation does not moderate the effect of financial distress on auditor switching.
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INTRODUCTION

Public companies listed on the Indonesia Stock Exchange (IDX) are required to submit financial statements prepared in accordance with the Financial Accounting Standards (SAK) and audited by public accountants registered with the Capital Market Supervisory Agency (BAPEPAM). The increasing number of public companies listed on the IDX also increases the demand for public accounting services. This has led to competition among Public Accounting Firms (KAP) to attract clients by striving to provide the best audit services.

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In a company, financial statements play a crucial role both internally and externally. They serve as a means of accountability for the company's management to the owners and shareholders. Auditors hold an essential role in a company, particularly in ensuring the reliability of financial statements, instilling confidence in clients that the financial reports are free from material misstatements and fraud.

Independence is the cornerstone of the auditing profession. Auditors who maintain independence are more likely to deliver higher-quality audits and are less influenced by client interests (Sima & Badera, 2018). Regular auditor rotation is necessary to uphold auditor independence. Prolonged audit engagements may lead to close relationships between the auditor and company management, potentially compromising the auditor's objectivity.

Audit engagement term limits are one measure to prevent auditors from maintaining excessively long interactions with clients, which could impact auditor independence (Gusniar, 2020). Mandatory auditor switching, based on the latest regulations—Government Regulation No. 20/2015 on Public Accountant Practices, Article 11 Paragraph 1—stipulates that KAPs are no longer restricted in auditing a particular company. However, limitations still apply to individual public accountants, restricting their tenure to five consecutive financial years.

Limiting the audit engagement period is considered essential, as prolonged engagements could lead to excessive familiarity between auditors and clients (Abdul Nasser et al., 2006). Auditor switching can occur either mandatorily or voluntarily. Mandatory auditor switching is enforced based on government regulations that limit audit tenure to maintain auditor independence. In contrast, voluntary auditor switching occurs at the discretion of the company, independent of regulatory requirements (Dwiyanti and Sabeni, 2014).

A case of voluntary auditor switching can be seen in PT. Inovisi Infracom Tbk (INVS), which faced a temporary suspension of stock trading by the IDX due to numerous errors in the company's financial performance report for Q3-2014. As a result, PT Inovisi Infracom Tbk was required to replace its KAP and auditor. The 2013 financial statements, previously audited by KAP Jamaludin, Ardi, Sukimto, and Partners, were later audited by Kreston International (Hendrawinata, Eddy Siddharta, Tanzil, and Partners) for the 2014 fiscal year to improve the quality of financial reporting in compliance with applicable standards and regulations.

In addition, a case of voluntary auditor switching was also observed at PT. Garuda Indonesia Tbk (GIAA) in 2019. The issue began with Garuda Indonesia's 2018 financial report, which recorded a net profit of USD 809.85 thousand, equivalent to approximately IDR 11.33 billion. This figure represented a significant turnaround from the USD 216.57 million loss reported in 2017. However, the financial report sparked controversy as it was deemed inconsistent with the Financial Accounting Standards (PSAK). Specifically, PT. Garuda Indonesia included revenues from PT. Mahata Aero, which owed PT. Garuda Indonesia for unpaid Wi-Fi installation fees.

The Ministry of Finance conducted an investigation into KAP Tanubrata Sutanto Fahmi Bambang & Partners (a member of BDO International), the auditor of PT. Garuda Indonesia for 2018. The investigation concluded that there were indications of non-compliance with

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accounting standards during the audit, leading to sanctions imposed by the Financial Services Authority (OJK).

For a company, the reputation of the auditor is crucial. Companies seek highly credible KAPs to enhance the credibility of their financial statements. Auditor reputation refers to the auditor's established standing based on their work quality, achievements, and public trust. Auditors with a strong reputation possess higher auditing expertise and deliver better audit quality, which can help companies attract potential investors and gain public trust.

This study focuses on audit fees and financial distress as independent variables while incorporating auditor reputation as a moderating variable. This addition is deemed necessary, as auditor reputation—representing the auditor's established standing based on work quality, achievements, and public trust—can influence a company's decision to engage in auditor switching. This research examines this phenomenon specifically within the infrastructure, utilities, and transportation sectors listed on the Indonesia Stock Exchange for the 2020–2023 period.

METHODS

This study employs a quantitative method, focusing on theory testing through statistical data analysis (Sugiyono, 2018). Using a causal research design, it examines cause-and-effect relationships between independent and dependent variables. Data collection was conducted through documentation studies using secondary data from audited annual financial statements of infrastructure, utilities, and transportation companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. The study population consists of these companies, with purposive sampling employed to select 27 companies meeting specific criteria, resulting in 135 data points over a five-year observation period.

The dependent variable is auditor switching, measured using a dummy variable, where a value of 1 indicates a change in auditor and 0 otherwise (Abdul Nasser et al., 2006). Independent variables include audit fee (X1), represented by the professional fees account in annual reports and measured using the natural logarithm of audit fees (Aulia Najwa & Syofyan, 2020), and financial distress (X2), proxied by the debt-to-equity ratio (DER) as per Suparlan et al. (2010). The moderating variable is auditor reputation, proxied by collaboration with Big Four auditors, using a dummy variable where 1 represents Big Four auditors and 0 represents non-Big Four auditors (Rahayu, 2012).

Data analysis involves logistic regression for the direct effect model and moderated regression analysis (MRA) for testing moderation effects, using SPSS Version 23. Hypothesis testing uses the t-test, with the acceptance criteria as follows: if Sig > α (0.05), H0 is accepted (no significant effect or moderation); if Sig < α (0.05), H0 is rejected (significant effect or moderation exists). Logistic regression evaluates the significance of direct effects (hypotheses 1 and 2), while MRA examines moderation effects (hypotheses 3 and 4).

RESULTS AND DISCUSSION

Result

Descriptive Statistics Results

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The results of the descriptive statistical analysis of the research variables are presented in the table as follows:

Table 1. Logistic Regression Analysis Results for Model 1

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Auditor Switching (Y)	135	0	1	,06	,237
Audit Fee (X1)	135	17,39	24,39	20,5245	1,38461
Financial Distress (X2)	135	-90,52	82,40	2,2733	11,17088
Reputasi Auditor (M)	135	0	1	,64	,480
Valid N (listwise)	135				

Source: Processed Data Results Using SPSS Version 23

Logistic Regression Analysis Results

The logistic regression analysis for Model 1 yielded the significance values for each variable as the basis for hypothesis testing of direct effects, specifically the first and second hypotheses, as presented in the table below:

Table 2. Logistic Regression Analysis Results for Model 1

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	AF_X1	1,523	,447	11,639	1	,001	4,588
	FD_X2	,070	,028	6,459	1	,011	1,073
	RA_M	-4,729	1,628	8,436	1	,004	,009
	Constant	-33,048	9,159	13,019	1	,000	,000

a. Variable(s) entered on step 1: AF_X1, FD_X2, RA_M.

Source: Processed Data Results Using SPSS Version 23

Moderated Regression Analysis (MRA) Results

The moderated regression analysis (MRA) for Model 2 provided the significance values for each moderating effect variable as the basis for testing specific hypotheses on moderating effects, namely the third and fourth hypotheses, as presented in the table below:

Table 3. Moderated Regression Analysis (MRA) Results for Model 2

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	AF_X1	1,765	,719	6,031	1	,014	5,843
	FD_X2	,199	,100	3,964	1	,046	1,220
	RA_M	,295	2,364	,016	1	,901	1,343
	Mod_1	-,263	,099	7,091	1	,008	,769
	Mod_2	-,142	,115	1,513	1	,219	,868
	Constant	-38,816	14,503	7,163	1	,007	,000

a. Variable(s) entered on step 1: AF_X1, FD_X2, RA_M, Mod_1, Mod_2.

Source: Processed Data Results Using SPSS Version 23

Results of the Coefficient of Determination Test

The coefficient of determination is used to measure the model's ability to explain the variation in the dependent variable or to determine the magnitude of the effect of independent variables on the dependent variable, expressed as a percentage. The coefficient of determination test in models using logistic regression analysis, both in Model 1 and Model 2, can be determined from the Nagelkerke R Square value in the statistical output of the logistic regression analysis (Ghozali, 2016:97). The results of the coefficient of determination test for Model 1 are presented in the following table:

Table 4. Coefficient of Determination Test Results

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	21,972[a]	,250	,689

a. Estimation terminated at iteration number 9 because parameter estimates changed by less than ,001.

Source: Processed Data Results Using SPSS Version 23

Based on Table 4, it is known that Model 2 achieved a Nagelkerke R Square value of 0.689. This indicates that 68.9% of the variation in auditor switching can be explained by the variables audit fee and financial distress, with auditor reputation as the moderating variable, while the remaining 31.1% is explained by other variables not included in this study. In other words, the effect of audit fee and financial distress on auditor switching, with auditor reputation as the moderating variable, amounts to 68.9%.

Hypothesis Testing Results

Hypothesis testing was conducted using the t-test (partial test) to determine whether individual independent variables have an influence on the dependent variable. In this study, the hypotheses tested include the first hypothesis (H1) and the second hypothesis (H2) derived from the equation in Model 1, as well as the third hypothesis (H3) and the fourth hypothesis (H4) derived from the equation in Model 2. To simplify the interpretation of the hypothesis testing results, the researcher summarized the findings in the following table:

Table 5. Summary of t-Test (Partial Test) Results

Hypothesis	β	Sig	α	Decision	Explanation
First Hypothesis					
Audit Fee (X1) → Auditor Switching (Y)	1.523	0.001	<0.05	Ha accepted	Significant positive effect
Second Hypothesis					
Financial Distress (X2) → Auditor Switching (Y)	0.070	0.011	<0.05	Ha accepted	Significant positive effect
Third Hypothesis					
Moderation 1 (AF*RA) → Auditor Switching (Y)	-0.263	0.008	<0.05	Ha accepted	Significant moderating effect (weakened)
Fourth Hypothesis					
Moderation 2 (FD*RA) → Auditor Switching (Y)	-0.142	0.219	>0.05	Ha rejected	No significant moderating effect

Source: Processed by the researcher, 2024

Discussion

The Influence of Audit Fees on Auditor Switching

Audit fees represent the amount paid by a company to an auditor for their services in auditing the company's financial statements. External auditors, specifically Public Accounting Firms (KAP), charge varying audit fees for their services. When audit fees exceed the budget set by a company, the company, as a client, may opt to look for auditors offering lower fees or fees within the company's predetermined tolerance limit. If a company finds the audit fees uncomfortable or burdensome, it is likely to switch auditors in search of one with fees that align with its financial budget (Amalia, 2015).

If the audit fees offered by an auditor are too high, companies may choose to find an auditor with lower fees, prompting auditor switching to avoid increasing the company's financial burdens. Auditors from Big Four KAPs are often perceived as having high reputations due to their superior expertise in auditing, international affiliations, exclusive image among financial statement users, faster completion of annual audit reports, and various other advantages. However, these benefits come with higher or more expensive audit fees compared to non-Big Four KAPs.

The research findings indicate that audit fees positively affect auditor switching. Audit fees, proxied by the natural logarithm of the fees paid by companies in the infrastructure, utilities, and transportation sectors, yielded an average value (mean) of 20.52 or approximately IDR 810 million, which is considered relatively high. This average audit fee indicates that companies in these sectors typically pay substantial fees for the services of external auditors, specifically public accounting firms (KAP), tasked with auditing the companies' annual financial statements.

This finding suggests that the higher the audit fees, the greater the likelihood that company management will seek to switch external auditors. This involves moving from one Public Accounting Firm (KAP) to another with lower audit fees to minimize the company's financial burdens.

The Influence of Financial Distress on Auditor Switching

A company's financial condition essentially represents a comprehensive picture of its finances over a specific period (Aprilia, 2019). This condition reflects whether the company is in good health and capable of sustaining its operations or in poor health, which may threaten its continuity. Companies experiencing financial distress indicate a decline in financial health, often demonstrated by unfavorable financial statements, such as low profitability, losses, and debts exceeding the company's equity. Companies facing financial difficulties generally aim to reduce expenditures, including audit fees for external auditor services.

Aprilia (2019) states that companies threatened by bankruptcy due to financial distress tend to switch auditors—specifically Public Accounting Firms (KAP)—to minimize expenses by opting for KAPs with lower audit fees than their previous auditors. Widyanti & Badera (2016) explain that financial distress creates business uncertainty, compelling companies to switch KAPs. The client company's status as facing bankruptcy tends to heighten the

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auditor's subjective assessment and caution, prompting companies to engage in auditor switching to obtain audit results (opinion shopping) that align with the client's expectations. Auditor switching may also occur due to the company's declining financial capacity, rendering it unable to afford the audit fees charged by the KAP.

The research findings indicate that financial distress has a positive influence on auditor switching. Financial distress, proxied by the Debt-to-Equity Ratio (DER) of the sampled companies, yielded an average value (mean) of 2.27. This relatively high average DER, exceeding 1, indicates that the sampled companies have debt levels greater than their total equity, reflecting severe financial distress. Such financial challenges limit the company's ability to fund expenditures, including audit fees, thereby driving the company to switch auditors to those with lower fees to reduce costs. Furthermore, these findings are consistent with previous studies by Puspayanti (2018) and Widyanti & Badera (2016), which also concluded that financial distress positively influences auditor switching in companies.

The Influence of Audit Fees on Auditor Switching with Auditor Reputation as a Moderating Variable

External auditors, represented by Public Accounting Firms (KAP), provide auditing services for company financial statements over a specific period. Auditor reputation reflects the achievements and public trust held by the auditor, signifying their credibility and standing. Amalia (2015) states that investors place higher trust in financial statements audited by reputable auditors. Companies generally seek KAPs with high credibility to enhance the quality of financial reporting in the eyes of financial statement users, even though this often entails higher audit fees.

Najwa (2016) categorizes external auditors in Indonesia into two groups based on their reputation: Big Four KAPs and Non-Big Four KAPs. The Big Four KAPs in Indonesia are Price Waterhouse Coopers (PWC), Klynveld Peat Marwick Goerdeler (KPMG), Ernst & Young (E&Y), and Deloitte Touche Thomatsu (Deloitte). Non-Big Four KAPs are those not affiliated with the Big Four. Auditors from Big Four KAPs are considered highly reputable due to their expertise, faster audit report completion, and other advantages, but they come with higher audit fees.

If the audit fees paid to auditors do not correspond to the quality of the audit provided, companies are likely to switch auditors to find one that better suits their expectations. However, if a company already employs a highly reputable KAP, this can enhance the company's reputation and facilitate capital acquisition through stock transactions on the exchange market. In such cases, companies may choose to retain reputable KAPs for their financial audits, despite the higher fees.

Research findings reveal that auditor reputation moderates—specifically weakens—the influence of audit fees on auditor switching. Auditor reputation, as represented by Big Four and Non-Big Four KAPs, was analyzed in companies from the infrastructure, utilities, and transportation sectors. The sample data yielded an average (mean) value of 0.64 or 64%, indicating that the majority of these companies use the services of Big Four KAPs. This suggests that external auditors affiliated with Big Four KAPs are perceived as more reputable due to their superior expertise, experience, networks, and other advantages, despite their higher audit fees compared to Non-Big Four KAPs.

Companies that pay high audit fees typically engage Big Four KAPs, leading them to avoid auditor switching due to the superior reputation and performance of these auditors in auditing annual financial statements. These findings align with prior research by Sari & Widanaputra (2016), which also found that auditor reputation moderates, specifically weakens, the positive influence of audit fees on auditor switching in companies.

The Influence of Financial Distress on Auditor Switching with Auditor Reputation as a Moderating Variable

External auditors, represented by Public Accounting Firms (KAP), provide auditing services for a company's financial statements over a specific period. Auditor reputation reflects the achievements and public trust held by the auditor, showcasing their credibility and stature. Amalia (2015) states that investors place greater trust in financial statements audited by reputable auditors. Companies generally seek KAPs with high credibility to enhance the quality of financial reporting, even though this often entails higher audit fees.

Auditors in Indonesia, particularly KAPs, are categorized into two groups based on their reputation: Big Four KAPs and Non-Big Four KAPs (Najwa, 2016). The Big Four KAPs in Indonesia are Price Waterhouse Coopers (PWC), Klynveld Peat Marwick Goerdeler (KPMG), Ernst & Young (E&Y), and Deloitte Touche Thomatsu (Deloitte). Non-Big Four KAPs are those not affiliated with the Big Four. Auditors from Big Four KAPs are considered reputable due to their high expertise and faster audit completion but charge higher fees.

If the audit fees paid to auditors do not match the quality of the audit results, companies are likely to switch auditors to find a more suitable fit. However, if a company already engages a reputable KAP, this can enhance its reputation and facilitate capital acquisition through stock market transactions. Consequently, companies often retain reputable KAPs for their audits, even at higher fees, to maintain investor confidence.

Research findings indicate that auditor reputation does not moderate the influence of financial distress on auditor switching. Auditor reputation, proxied by Big Four and Non-Big Four KAPs, was analyzed in the sampled companies, yielding an average (mean) value of 64%. This indicates that the majority of the sampled companies use Big Four KAPs.

The findings show that companies continue to use external auditors, particularly Big Four KAPs, even during periods of financial distress. These companies do not voluntarily switch auditors because they value the high reputation of Big Four KAPs. Audits conducted by reputable KAPs are expected to attract investment interest in the stock market, even if the company is experiencing financial difficulties. These findings differ from prior research by Widyanti & Badera (2016), which suggested that auditor reputation moderates the influence of financial distress on auditor switching in companies.

CONCLUSION

Based on the results obtained in this study, the author can conclude that audit fees have a positive effect on auditor switching, financial distress has a positive effect on auditor switching, auditor reputation moderates (weakens) the positive effect of audit fees on auditor switching, and auditor reputation does not moderate the effect of financial distress on auditor switching.

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