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CHANGE OF PUBLIC ACCOUNTING FIRM: ANALYSIS BASED ON CEO TURNOVER AND MODIFIED AUDIT OPINIONS

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Abstrac
This study aims to determine the factors that can affect chenge of Public Accounting Firms. The factors used are CEO (Chief Executive Officer) turnover and audit opinions. The population of this study is mining companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2020. To obtain samples with the required criteria use the purposive sampling method. Hypothesis testing is done by logistic regression due to the dependent variable, which is the change of public accounting firm used is a dummy. The results of this test indicate that (1) the CEO (Chief Executive Officer) turnover has a significant effect on the change in the Public Accounting Firm (2) Audit opinion has no significant effect on the change in the Public Accounting Firm.

Key Words: *change of public accounting firm, CEO turnover, audit opinion.*

INTRODUCTION

The change of Public Accounting Firm is one of the important things that can be done in an effort to maintain auditor independence. On the other hand, a prolonged engagement between the Public Accounting Firm and the company being audited can create a conflict of interest. To minimize this risk and to maintain public trust in the audit function and to protect auditor objectivity, it is necessary to replace Public Accounting Firm (Fenadi, 2019). The independence of public accountants is very important in the auditing profession. One of the factors that influence the independence of public accountants is the length of their relationship with their clients (Yunita & Tertiarto, 2018).

Mandatory changes are carried out by the company due to regulations that limit the Public Accounting Firm engagement period regulated by the government, while voluntary changes are carried out outside the regulations. This voluntary change can be carried out by the company, namely in the form of dismissal of the Public Accounting Firm and can also be carried out by the Public Accounting Firm itself in the form of resignation. Companies that change Public Accounting Firm outside of existing regulations can be caused by Public Accounting Firm acting conservatively and not in line with the interests of management, so the company changes Public Accounting Firm voluntarily (Aini & Yahya, 2019). Changes in public accountants can occur due to several factors, including the CEO (Chief Executive Officer) turnover and the company obtaining a modified audit opinion.

CEO turnover in the company can affect the occurrence of policy changes in the fields of accounting, finance and the selection of a Public Accounting Firm. CEO turnover can be followed by a change of Public Accounting Firm because it is required to follow the will of management, such as the accounting policies used by management (Augusty & Wilopo, 2019). Therefore, management requires public accountants who are more qualified and able to meet the demands of the company's growth. Referring to the agency theory proposed by Jensen & Meckling (1976), agency problems arise due to differences in interests between shareholders and managers. This conflict of interest directly or indirectly encourages the change of Public Accounting Firm, because company management tends to look for Public Accounting Firms that are aligned in reporting and accounting policies (Liang & Lyu, 2018).

In order for companies to provide fair, easy to understand and reliable financial information, procedures are needed for financial audits carried out by Public Accounting Firm through an independent accountant. Basically, companies need the services of a public accountant to audit their financial statements and then provide an opinion on the results of the audit. An audit opinion is an opinion from an auditor or public accountant on the financial statements of a company being examined (Pawitri & Yadnyana, 2015). Dissatisfaction with the auditor's opinion may cause tension in the relationship between management and the Public Accounting Firm. This can be the reason the company decides to switch Public Accounting Firm. Based on agency theory, management as an agent is assumed to have personal interests and wants to maximize their interests (Wati, 2020). The authority owned by management can be used to decide on the change of public accountants if the opinion obtained is not in accordance with the wishes of the management. This change is carried out in the hope that the company can find a public accountant who has a more consistent view. Unqualified opinion (opinion without modification) will improve the company's reputation, while opinions other than unqualified opinion (opinion with modification) can reduce the company's image (Rahayu, 2014).

LITERATURE REVIEW

Agency Theory

Agency theory was first put forward by Jensen & Meckling (1976) and later developed by subsequent researchers, one of which is the concept of agency theory according to (Safriliana et al., 2018). The focus of this theory is to determine the most efficient contract to regulate the principal and agent relationship on assumptions about human behavior such as self-interest, rationality limits, risk aversion, conflicts between members within the organization, and information as a commodity that can be purchased (Niemi et al., 2012).

The assignment of a public accountant in a company is a form of supervision over the performance of management as an agent of the principal in a company with an audit report produced by a public accountant. The report is used by the principal as a reliable source of information to evaluate management as an agent and make strategic plans for the company going forward.

Change of Public Accounting Firm

Basically the change of Public Accounting Firm is one way to increase the independence of public accountants and audit quality. This change can occur due to restrictions on the public accountant's engagement period which is regulated in a regulation issued by the government (mandatory), or it can occur due to the wishes of the company or the public accountant itself (voluntary) (Wibowo & Rahmawati, 2019). If the company changes its public accountant voluntarily, then it is necessary to ask what things are causing the company to make the change.

CEO (Chief Executive Officer) Turnover

CEO turnover in a company is usually followed by another change of management. If the company changes the board of directors, both the president director and the commissioners will cause a change in company policy. Each management has their own leadership style and goals. So, if there is a CEO turnover it will directly or indirectly encourage the change of a public accounting firm because the new company management tends to look for a Public Accounting Firm that is in accordance with management policies (Rahayu, 2014).

Audit Opinion

The financial statements of a company that are examined by a public accountant, produce an audit opinion, namely the opinion of the auditor or public accountant (Pawitri & Yadnyana, 2015). The Management has the authority to determine changes to the public accountant if the opinion given is not in line with the wishes of the management. There are two types of audit opinion, the first is unqualified opinion (unmodified opinion) and non-qualified opinion (modified opinion)

HYPOTHESIS DEVELOPMENT

CEO Turnover and Public Accounting Firm Changes

Changes in the main director or CEO can occur due to several factors, including being dismissed, resigning, or passing away. With the new CEO, the possibility will also influence policy changes in accounting, finance, and also the selection of Public Accounting Firm. Research conducted by (Dwiyanti & Sabeni, 2014; Fahmi & Haris, 2015; Lesmana & Kurnia, 2016; Manto & Wanda, 2018; Ruroh & Rahmawati, 2016) shows that CEO turnover has an effect on Public Accounting Firm turnover.

H1: CEO turnover has a significant effect on Public Accounting Firm Changes

Modified audit opinion and Public Accounting Firm Changes

An audit opinion is a statement of an assertion issued by the auditor. Managers believe that unfavorable audit opinions will affect share prices and financing capacity, so a modified audit opinion is likely to influence the company's decision to terminate the contract with a public accountant (Wibowo & Rahmawati, 2019). In other words, companies that receive unexpected audit opinions on their financial statements will tend to change Public Accounting Firm.

H2: Modified audit opinion has a significant effect on Public Accounting Firm Changes

METHOD

The research method used in this study is a quantitative research method with a descriptive research approach and associative analysis, because of the variables that will be examined in relation to it and its purpose is to present/provide an overview of the relationship between the variables studied. The type of data used is secondary data collected from the official website of the Indonesia Stock Exchange www.idx.co.id and idn.financial. The population in this study are mining companies listed on the Indonesia Stock Exchange (IDX)

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for the period 2016-2020. The research sample was determined using the purposive sampling method, so as to obtain the required criteria. The sample companies are 21 mining companies for 5 years of observation.

Table 1
Variabel Operation

No	Variabel	Indicator	Scale
1	Change of Pubic Accounting Firm (Y)	There is a change = 1 No change = 0	Nominal
2	CEO Turnover (X1)	There is a change = 1 No change = 0	Nominal
3	Audit Opinion (X2)	Modified = 1 Without Modification= 0	Nominal

Data analysis technique

Testing the hypothesis in this study was carried out using logistic regression using the Statistical Package for Social Science (SPSS) 25 program. The logistic regression model used to test the hypothesis was as follows:

Ln = PAF/(1-PAF) = $\boldsymbol{\alpha} + \boldsymbol{\beta}_1$CEO + $\boldsymbol{\beta}_2$OA +

Information :

PAF/(1-PAF) = Public Accounting Firm change

CEO = CEO turnover

OA = Audit Opinion

= Significance Level

= Logistics Regression Coefficient

= Residual Error

RESULTS AND DISCUSSION

Logistics Regression Analysis

Fit Model

This test is done by comparing the value between -2 log likelihood (-2LL) at the beginning (Block Number = 0) with a value of -2 log likelihood (-2LL) at the end (Block Number = 1). The decrease in value between the initial -2LL (initial -2LL function) and -2LL value in the next step (final -2LL) indicates that the hypothesized model fits the data.

The results of the model fit test can be seen in the following table:

Table 2
Fit 1 Test Result

Iteration		-2 Log Likelihood	Coefficient s Constant
Step 0	1	175,292	-1,143
	2	174,580	-1,293
	3	174,579	-1,299
	4	174,579	-1,299

Table 3
Fit 2 Test Result

Iteration			-2 Log Likelihood	Constant	X1 CEO	X2 OAM
Step	1	1	175,110	-1,264	1,392	1,153
		2	174,024	-1,476	1,604	1,366
		3	174,019	-1,490	1,618	1,380
		4	174,019	-1,490	1,618	1,380

Tables 2 and 3 show the comparison between the value of -2LL in the first block and with -2LL in the second block. From the results of the calculation of the value of -2LL, it can be seen that the value of the first block (Block Number = 0) is 174,579 and the value of -2LL in the second block (Block Number = 1) is 174,019. With these results it can be concluded that the second regression model is better, because there is a decrease in the value from the first block to the second block, if there is a decrease in the value of -2LL then this shows a good regression model or in other words the hypothesized model fits the data .

Assessing Regression Eligibility

In the table above, it can be seen that the statistical value of Hosmer and Lemeshow's Goodness of Fit Test is 112 with a significant probability of 0.738, which is far above the 0.05 figure. Thus it can be concluded that the model is able to predict the value of the observations or it can be said that the model used is Fit or accepted because it fits the data in the study and the data can be continued with further model testing.

Table 4
Hosmer and Lomeshow's Goodness of Fit Test

Step	Chi – Square	Df	Sig
1	112	1	,738

In the table above, it can be seen that the statistical value of Hosmer and Lemeshow's Goodness of Fit Test is 112 with a significant probability of 0.738, which is far above the 0.05 figure. Thus it can be concluded that the model is able to predict the value of the observations or it can be said that the model used is Fit or accepted because it fits the data in the study and the data can be continued with further model testing.

Hypothesis testing

Table 5
Partial Test

Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
							Lower	Upper

Step 1a	CEO Turnover	1,618	0,435	13,823	1	0,000	5,045	2,149	11,84
	Audit Opinion	1,38	0,828	2,777	1	0,096	3,976	0,784	20,158
	Constant	-1,49	0,222	45,179	1	0,000	0,225		

After a partial test (Wald test), of the two variables only the CEO turnover (X1) variable has a significant influence because it has a significant level of 0.000 <0.05. Meanwhile, audit opinion has a significance of 0.096 > 0.05, so the hypothesis is not supported.

The results of the data processing test prove that the CEO turnover has an effect on the change in the Public Accounting Firm. This is supported by previous research conducted by (Augusty & Wilopo, 2019; Rahayu, 2014; Ruroh & Rahmawati, 2016; Wandeca, 2012; Wijanarko & Sari, 2015) which stated that CEO turnover had a significant effect on Public Accounting Firm change. The CEO turnover is carried out in order to bring a better impact to the company so that it is necessary to change the Public Accounting Firm according to the new management policy. The company will look for a Public Accounting Firm that is in line with accounting policies and reporting, so that CEO turnover is a factor in the occurrence of Public Accounting Firm changes.

Hypothesis testing that examines the effect of audit opinion shows a significance value of 0.096, this explains that audit opinion has no significant effect on Public Accounting Firm change. This phenomenon can happen when the company experiences a change in Public Accounting Firm, the opinion given by the new auditor is not much different from the opinion of the previous auditor. The new auditor will seek information on the opinion given by the old auditor. It is also not easy for companies to change accountants even if the company gets an opinion other than unqualified (modified audit opinion) because companies that often change their public accountants will cause negative assumptions from shareholders.

CONCLUSION

Based on the results of the tests and analyzes that have been carried out, it can be concluded that CEO turnover can be a factor causing the change in public accounting firms. This is because the new management usually has different policies from the previous one, both in accounting and other matters.

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