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Determinant Factors Affecting The Auditor Switching: An Indonesian Case

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This paper investigates the determinant factors affecting auditor switching, namely, financial condition of the client, audit fees, level of competition among audit firms, size of audit firm, and tenure of the auditor around the manufacturing companies listed on Indonesian Stock Exchange. It is important because of few previous studies on this topic, particularly in Indonesia, where there has been growing cases of auditor switching in recent years. It will contribute to the developement of knowledge in the auditing field by providing empirical evidence of the causes of auditor switching. This study used the survey method in which data were collected through questionnaire distribution to the chairmen of manufacturing companies listed on the Indonesian Stock Exchange. 136 questionnaires were sent to the respondents between February to July 2012 and 45 questionnaires were returned, therefore, the response rate is 33%. The design of this research is explanatory with the purpose of hypothesis testing. Applying agency theory (Jensen and Meckling 1976) to explain auditor switching in Indonesia, with multiple linear regression analysis, the findings show that the financial condition of the client, level of competition among audit firms and tenure affect significantly auditor switching. Meanwhile, audit fees and size of audit firm do not affect auditor switching.

Keywords: financial condition of the client, audit fees, level of competition among audit firms, size of audit firm, tenure of the auditor

Field : Accounting (Auditing and Assurance)

1. Introduction

1.1 Research Background

Financial reporting provides usefull information for all users, including managers, investors, creditors and government, in supporting the decision-making process. The value of the financial reports increases if they are audited by independent third parties from pubic accounting firms. Those conditions encourage the need of audit services, especially after the Indonesian government issued a regulation that states that companies listed on the Indonesian Stock Exchange must be audited by a public accounting firm (Sutoyo 1989).

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According to previous studies in many countries, the factors that affect auditor switching are auditor-client dispute on audit opinion, financial distress or bankruptcy of the client, size of the audit firm, audit fees, tenure of auditor, audit firm reputation, management changes, etc. This research tries to explore deeper financial condition of the client, audit fees, level of competition among audit firms, size of the audit firm and tenure of auditor; as the independent variables which affect auditor switching. This topic becomes very important because of few studies on those variables in Indonesia where the cases of auditor switching increased in the dramatically changing audit environment.

The financial condition of the client has a close relationship with the perception of auditor's independence. Knapp (1985) found empirical evidence that when the financial condition of the client is bad, the banker's reliance on auditor independence increases. Schwartz and Menon (1985) found empirical evidence that auditor changes among the failed firms are more frequent than among non-failed firms. Chen et al. (2005) extended their study to examine empirically testable implications between auditor changes and the probability of the client's subsequent financial distress by adopting a logistic model to examine the relationship between auditor changes and client's subsequent financial distress. The empirical results, based on documenting auditor changes in one year before a formal announcement of financial distress as the pivotal empirical variable, generally support the testable implications drawn from the proposed model. Specifically, a higher possibility of financial distress is seen to be positively associated with auditor changes. The previous studies commonly just tested the financial condition of the client in financial distress which means a bad financial condition. Therefore, this study tested client financial conditions, namely, bad financial condition and good financial condition.

Previous studies that examined the link between audit fees and auditor switching were conducted by Simunic (1980), Taffler and Ramalinggam (1982), Francis (1984), Francis and Stokes (1986), Palmrose (1986), Francis and Simon (1987), Chung and Lindsay (1988), Pong and Whittington (1994), Firth (1997), Ferguson and Stokes (2002), Willekens and Achmadi (2003), Asthana et al. (2004), Schloetzer (2006) and Ho and Wang (2006). From those previous studies, there are three directions of auditor switches: downward (from Big Four to non-Big Four), upward (from non-Big Four to Big Four) and lateral (within the same tier). Willekens and Achmadi (2003) reported a positive correlation between audit fees and auditor switches in the Belgian private market in 1989 and 1997. Asthana et al. (2004) argued that audit fees increases are for riskier clients. This study investigates the unique condition in Indonesia where the client commonly tries to negosiate the audit fees and there is a tendency for the client to choose the auditor who offers the cheapest audit fees.

Sterling (1973) explained that the responsibility of the auditor is higher than his/her authority because the main problem faced by auditor is the lack of power over his/her client. Furthermore, Sterling explained that the existence of competition among auditors in attracting clients will reduce their authority. It means that the client has a stronger authority than the auditor. Therefore, the existence of high competition among auditors in attracting the client enables the client to select or to switch auditors freely. This condition also enables the client to negosiate the amount of audit fees. Previous studies, generally, analyzed the link between competition and audit quality such as Kallapur et al. (2010), Newton et al. (2012) and Francis et al. (2012).

Therefore, this paper is the first study which tries to investigate the effect of competition among audit firm on the auditor switching.

Size of the audit firm is a classificatioan in which divides the audit firms into large and small. A big audit firm is one that has huge resources and the ability to give audit service to the large companies listed on the stock exchange (Gul 1989). Meanwhile, a small audit firm is one that cannot fulfill the requirements of the large company. Mautz and Sharaf (1961) argued that, first, a small audit firm is more dependent on the client icompared with a large audit firm because for small audit firm one client makes a significant contribution to the firm's total income and, secondly, small audit firm tends to engage in close relationships with the clients. This condition will impair the auditor's independence. Weiner (2012) explained that there is a tendency that when the client becomes larger it will switch to the more qualified auditor from a big audit firm. The difference of this study from previous studies is in measuring the size of audit firm by having 5 measurements that can be seen in the methodology section.

The tenure of the auditor is the period that the auditor serves the client's needs (Schockley 1981). Long audit tenure has an effect that can endanger the auditor's independence (Mautz and Sharaf 1961). The effect of a long relationship between the auditor and the client consists of: self-complacency, lack of innovation, inaccurate audit procedures and an embarrassed feeling in the client (U. S. Senate 1976 in Shockley 1981). Audit tenure became an issue for debate among regulators, auditors and academicians (Shockley 1981; Arrunada & Paz-Ares 1997; Geiger & Raghunandan 2002; Johnson et al. 2002). Long-term relationships could endanger auditor's independence. Following the corporate scandals in the United States of America, the regulators in Indonesia, such as the Indonesian Securities Commission (ISC) and the Indonesian Stock Exchange (IDX), became more concerned with mandatory audit-firm rotation and required the client to switch the auditor after 5 years. Previous studies analysed the effect of audit tenure on the auditor independence; this paper investigates the effect of audit tenure on the auditor switching.

Kadir (1993) and Regep (1996) found empirical evidence in Indonesia that there are a tendency in which the client is more favourable to the auditor that has apositive perception of independenc by the financial statement users. Therefore, the client will switch the auditor when the financial ststement users have a perception that the auditor is not independent. It is a very interesting finding because the actual phenomenon is an adverse condition in which the client is more favourable to the auditor that follows all the client's wishes.

This paper has been organized into five parts. After the Introduction, the literature review has been given in the second section. The third section is devoted to methodology. Then, the findings and discussion are in Section four. The conclusion is rendered in the fifth section.

1.2 Problem Formulation

1. Does the financial condition of the client affect auditor switching?
1. Does the audit fees affect auditor switching?
2. Does the level of competition among audit firms affect auditor switching?
3. Does the size of audit firm affect auditor switching?
4. Does the tenure of audit affect auditor switching?

2. Literature Review

The concept of auditor independence has benn well documented by Younkins (1983) and Previts (1985). Traditionally, the auditor's independence is viewed as one of the important principles of the auditor's job. If the auditor can not preserve the independence principle, the value of audited financial statement decreases. This condition makes for uncertainty in investment activities in capital markets (Meigs et. al. 1977; AISG 1976; Firth 1980).

The value of audited financial statements rests on the assumption that the auditor is independent of the client. The auditor's independence rests not only on the real field work but also rest on the opinion on the audited financial statements. It has become a controversy in recent days (Cohen Commission in AICPA 1978; Briloff 1987).

Auditors play a vital role in reducing information risk to all users of financial reports which is the prime economic reason behind the demand for audit services. In performing their duty, auditors are said to face a substantial role conflict because they try to maintain professional norms and at the same time must consider the client's wishes (Chi 1999).

According to agency theory, audit activities are a kind of monitoring cost to assure that managers as agents of the principal, work in line with the owners wishes. Therefore, the decision to switch auditors was due to the principal/agent problem of separation of ownership and control of a firm (Jensen & Meckling 1976) and the separation of risk bearing, decision-making and control functions in firms (Fama & Jensen 1983). Auditor-switch decisions involve change of incumbent auditor resulting in the choice of quality differentiated audit firms to realign the characteristics of the audit firm with the growing needs of clients under changing circumstances (Huson et al. 2000).

Burton and Robert (1967) concluded that the most dominant factor that causes the client to switch the auditor is change of management. The new management will select the audit firm which is suitable for the problems that appear.

Corp and Stawser (1971) identified the factors that caused the companies listed on the New York Stock Exchange to switch auditors because of the regulations of the SEC. They concluded that the main factors that cause companies to switch the audior are the underwriter and management.

Chow and Rice (1982) concluded that a qualified opinion by the auditor tends to encourage the client to switch auditors.

Schwartz and Mioni (1985) used companies listed on the New York Stock Exchange (NYSE) suffering financial distress. The finding was that financial distress affects significantly auditor switching.

Eichenser and Shields (1983) identified the factors that cause companies subject to SEC regulations to switch the auditor. They concluded that audit fees and good relationships in the long period affected significantly auditor switching.

Supriono (1987) found factors that affected auditor switching, i.e., audit opinion, change of management, audit fees, financial distress, creditor preference, audit firm package of services and the audit firm's reputation.

Kadir (1993) found empirical evidence that management changes, audit opinion and audit-firm reputation affected significantly auditor switching. Regep (1996) found the perception of auditor's independence by the users affected auditor switching. It means that client will choose the auditor that has a good perception in independence by the users.

This study contributes to the extant literature by investigating the determinant factors affecting auditor switching in Indonesia, i.e., financial condition of the client, audit fees, level of competition among the audit firms, size of the audit firm and the tenure of the auditor.

The financial condition of the client presented in the financial statements may be good or bad. Huang and Scholz (2012) found that financial restatements have significant implications for auditor-client relationships. They estimated that a restatement dramatically increases the odds of an auditor resignation. Restatements involving fraud, reversing profit to loss and those disclosed in press releases appear to drive the increased resignation likelihood. Furthermore, companies with relatively severe restatements are more likely to hire smaller auditors following a resignation. Collectively, these results are consistent with auditors interpreting restatements as an indication of increased client risk. Chen et al. (2005) stated that prior empirical studies only find evidence that there is a significant association between auditor changes and ultimate bankruptcy. No such significant association has been found between auditor changes and financial distress. However, research has identified many other reasons for switching auditors, such as business growth or requirements for new audit procedures. When companies require more complex audits, it may become necessary to choose a different auditor. When faced with the decision to choose a new auditor, more often than not, a company will choose a Big Four firm (Weiner 2012). No previous studies tested the effect of good financial condition on auditor swicthes, meanwhile all of those studies tested the effect of bad financial condition auditor swicthes, for instance, financial distress and bankruptcy. This study provides the empirical evidence that better financial condition encourages clients to change the auditor to a more reputable one according to the perceptions of users of financial statement.

H_1 : Financial condition of the client affects significantly auditor switching

Ho and Wang (2006) explained that auditing theories suggest audit-fee premiums charged by large audit firms can be attributed to their brand name or stronger reputations due to providing distinguished quality services to their clients. This statement is in line with DeAngelo (1981), Simunic and Stein (1987), Francis and Wilson (1988), Brinn et al. (1994), Lee (1996), Simon (1997), DeFond et al. (2000) and Peel and Roberts (2003) who concluded that the rise of audit fees will make the client change the auditor. Asthana et al. (2004) argued that higher audit fee increases are for riskier clients, therefore, the increase of audit fees triggers downward auditor switch from big four to non-big four. This paper investigates the uniqueness in Indonesia where the client tries to negotiate the audit fee with the auditor and tends to choose the auditor who offers the lowest audit fee.

H2 : Audit fees affect significantly auditor switching

The audit market contains several features that distinguish it from other product markets. In particular, although the formal audit product output is fairly standardised, what the direct clients (i.e., companies) demand and receive is a more varied and more complex product, broadly comprising three parts: the technical audit, value-added services on top of the audit itself and insurance against catastrophes and reputational risk (Oxera 2006). The level of competition among audit firms represents the dramatic changes in the audit services environment that could be seen from so many new competitors entering the audit services market (Fairfiled & Burton 1982). Probably, for audit firm that exist in this competitive environment it is very dificult to be independent of the client because It is very easy for the client to switch auditors. Previous studies investigated the link between audit-market competition with auditor independence and audit quality; this study investigates the effect of competition onauditor switching.

H3: The level of competition among audit firms affects significantly auditor switching

Size of the audit firm is an important factor related to auditor's independence. Mautz dan Sharaf (1961) argued that the small audit firm has a tendency to be more dependent on the client because for a small audit firm one client makes a significant contribution to the audit firm's total income. Secondly, there is a tendency for small audit firms to have a close relationship with the client. Weiner (2012) examined companies' decisions to retain or switch auditors following corporate fraud. He collected research on 17 different companies that experienced corporate fraud and analyzed the company's decision to switch auditors. The finding showed that in many cases the company decided to switch to one of the Big Four firms, and in a few cases, the company retained its original auditor. Most previous studies measured the size of audit firm using a dummy variable to classify the big four and non-big four. This study measures the size of audit firms in Indonesia in 5 classifications, i.e., large audit firm big four affiliation, large audit firm non big four affiliation, medium audit firm, small audit firm and very small audit firm.

H4: The size of the audit firm affects significantly auditor switching

Tenure of the auditor is the period of audit enggagement for an auditor in serving the client needs (Schockley 1981). Tenure of the auditor is divided into two chategories, i.e., (1) less than 5 years and (2) more than 5 years. This categorization is in line with the rules from the AICPA sub-practice of the SEC, which requires the auditor to give audit service for a period of not more than 5 years (Shockley 1981). Siregar et al. (2012) investigated the Indonesian regulation which has made it compulsory to rotate the appointment of public accountants every 3 years and the appointment of public accounting firms every 5 years since the end of 2002. Siregar et al. Investigated four points, i.e., first, the period before mandatory auditor regulation and the period after; second, the non- linear relationship between audit tenure and audit quality; third, the effects of both audit tenure and auditor rotation; and provide evidence on audit tenure and auditor rotation, both at partner level and firm level. This study investigates the link between audit tenure and auditor swiching because there are no previous studies which evaluated that relationship. This study classifies the tenure of the auditor according to the Indonesian regulation issued by financial service authorities into : (1) less than 3 years, (2) 3-5 years and (3) more than 5 years.

H5: The tenure of the auditor affects significantly auditor switching

3. Methodology

3.1 Research Method

This research uses survey method by questionnaire distribution to respondents. This research is an explanatory study the purpose of which is to verify the hypotheses about the impact of independent variables on the dependent variable.

The respondents are chairmen of manufacturing companies listed on the Indonesian Stock Exchange, 138 companies. Therefore, 138 sets of the questionnaire were sent to the respondents between February and July 2012 and 46 questionnaires were returned. After all data were analyzed the descriptive method was used to explain the findings.

3.2 Variables and Measurement

a. Financial condition of the client (X_1) is measured by the growth of profitability ratio in the last 5 years categorized as follows; very good (5), good (4), medium (3), bad (2) and very bad (1).
b. Audit fees (X_2) is measured by categorization as: very expensive (5), expensive (4), medium (3), cheap (2) and very cheap (1).
c. Level of competition among audit firms (X_3) is measured by categorization as: very competitive (5), competitive (4), medium (3), low (2) and very low (1).
d. Size of the audit firm (X_4) is measured by categorization as: national large audit firm with big four affiliation (5), national large audit firm non-big four affiliation (4), medium audit firm (3), small audit firm (2) and very small audit firm (1).
e. Tenure of the auditor (X_5) is measured by categorization according to Indonesian law as: more than 5 years (5), 3-5 years (3) and under 3 years (1).
f. Auditor switching (Y), is measured by the frequency of auditor switching within last 10 years that be categorized as: 5 times (5), 4 times (4), 3 times (3), twice (2) and once (1).

The incremental developements of this paper are the differences of the measurement model from previous studies. Measurement scales of all variables by classifying of scoring into 5, 4, 3, 2 and 1 are new and different from previous studies. The developement model on the variable of financial condition of the client is by analyzing the effect of financial condition not only in financial distress or bankruptchy like previous studies but also when the client financial condition is good. No previous study investigated the link between level of competition and size of audit firm with auditor switching. Therefore, this paper contributes the empirical evidence to develop the knowledge of auditing, particularly by developing this new model.

3.3 Statistical Analysis

(1) Validity Testing

The purpose of validity testing is to know how far the instrument measures correctly and accurately. Validity testing uses *product moment correlation* with the criterion of acceptance as the following:

The item of questionaire is valid if $r_{statistic}$ higher than r_{table} at degree of freedom 95% (α = 0.05).

(2) Reliability Testing

The purpose of reliability testing is to examine the consistency of the data. In this research reliability is measured by the *internal consistency approach* which stresses the consistency between items in the questionnaire. Reliability measurement with *one shot* and then the result will be compared with other items in the questionnaire. A construct or variable is reliable if the Cronbach Alpha is more than 0.6 (Ghazali 2006).

After all instruments were tested for validity and reliability, *the classical assumption of multiple linear regression* was tested for the following aspects.

(1)Normality Testing

The purpose of normality testing is to know that all data of independent and dependent variables have normal distribution. In this research, normality testing based on *Kolmogorov-Smirnov* in which, if the *assymptotic significant* (two tail) is higher than *alpha* (α = 0.05), all data have normal distribution.

(2)Multi-collinearity Testing

Multcollinearity is a condition in which one or more indepedent variables are in a linear relationship with other independent variables. It means that one or more independent variables correlate with other independent variables. Gujarati (2003) explains that multi-collinearity would happen if the correlation coefficient among independent variables is more than 0.95.

(3)Heteroscedasticity Testing

Heteroscedasticity occurs when *variance disturbance* is not consistent from one time to another time at all observations. It can affect the coefficient of regression; underestimation, overestimation or misleading. Heteroscedasticity testing uses the *Park Glejser* method in which, if the probability value is higher than alpha (α = 0.05), there is no heteroscedasticty.

3.4 Hypothesis Testing

There is one dependent variable correlated to five independent variables. Therefore, this reseacarch will be analyzed based on *multiple linear regression,* with the following equation:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

Where :

Y = auditor switching
a = value of Y if $X_1, X_2, X_3, X_4, X_5 = 0$
b_1, b_2, b_3, b_4, b_5 = coefficients of regression
X_1 = financial condition of the client
X_2 = audit fees
X_3 = level of the competition among audit firms

X_4 = size of audit firm
X_5 = tenure of auditor
e = residual value

Hypotheses are tested by *t-test* with the following formula (Ghazali 2006) :

$$t = \frac{b_j}{S_{bj}}$$

Explanation :

t = t value that is resulted from the calculation
bj = coefficient of regression
Sbj = standard error of regression coefficient

The criteria of testing are as follows :

H_0 : b_1, b_2, b_3 , b_4, b_5 = 0 (financial condition of the client, audit fees, level of competition among audit firms, size of the audit firm and tenure of the auditor do not affect the auditor switching)
H_a : b_1, b_2, b_3, b_4, b_5 ≠ 0 (financial condition of the client, audit fees, level of competition among audit firms, size of the audit firm and tenure of the auditor affect the auditor switching)

Then, H_0 would be accepted if $t_{statistic}$ is smaller than t_{table}, and H_0 would be rejected if $t_{statistic}$ is higher than t_{table}.

4. Findings and Discussion

4.1 Findings of Validity and Reliability Testing

The results of all correlation coefficients for questionnaire items have total scores of more than 0.250 (r_{table}), thus all data in this research are valid as shown in the following tables.

Table 1: Validity test for financial condition of the client (X_1)

	1	**2**	**3**	**4**	**5**
r statistic	0.669	0.714	0.639	0.614	0.599

Table 2:Validity test for audit fees (X_2)

	1	**2**	**3**	**4**	**5**	**6**	**7**
r statistic	0.766	0.676	0.677	0.754	0.723	0.719	0.681

	8	**9**	**10**	**11**	**12**	**13**
r statistic	0.527	0.775	0.801	0.804	0.760	0.773

Table 3: Validity test for level of competition among audit firms (X_3)

	1	2	3	4	5	6	7
r statistic	0.692	0.583	0.681	0.634	0.587	0.517	0.317

Table 4: Validity test for size of the audit firm (X_4)

	1	2	3	4	5	6	7
r statistic	0.477	0.563	0.594	0.583	0.593	0.560	0.519

Table 5: Validity test for tenure of auditor

	1	2	3	4	5	6	7
r statistic	0.905	0.915	0.874	0.929	0.944	0.949	0.937

	8	9	10	11	12	13
r statistic	0.916	0.945	0.952	0.958	0.971	0.934

The result of reliability testing using *Cronbach's alpha* for financial condition of the client is 0.649; audit fees is 0.924; level of the competition among audit firms is 0.642; size of audit firm is 0.633 and the tenure of auditor is 0.704. As all values of *Cronbach alpha* are more than 0.6, all data are reliable.

4.2 Findings of Classical Assumption Testing

(1) Normality

Kolmogorof-Smirnov normality testing shows that the value of *asymtotic significance* is 0.315 which is higher than alpha (α = 0.05), thus all data have normal distribution.

(2) Heteroscedasticity

The output of the *Park Glejser test* for detecting the existence of heteroscedasticiy shows that significance of financial condition of the client (0.326), audit fees (0.716), level of competition among audit firms (0.236), size of the audit firm (0.491) and tenure of auditor (0.618) are higher than alpha (α = 0.05) so there is no heteroscedasticity in this model.

(3) Multi-collinearity

Table 6: Correlation matric among independent variables

	X_1	X_2	X_3	X_4	X_5
X_1	1.000	-0.391	-0.190	-0.467	-0.564
X_2	-0.391	1.000	0.177	-0.106	0.109
X_3	-0.190	0,177	1.000	-0.130	-0.186
X_4	-0.467	-0.106	-0.130	1.000	-0.203
X_5	-0.564	0.109	-0.186	-0.203	1.000

Table 6 shows that all correlation coefficients among independent variables are smaller than 0.95 which means that there is no multi-collinearity within independent variables.

4.3 Findings

Table 7: The result of regression analysis

Variables	Coefficient of determination (R^2) 0.984						Conclusion
	$F_{statistic}$	F_{tabel}	Regression coefficient	$t_{statistic}$	t_{table}	P_{value}	
	474.619	2.61				0,000	
- constant			6.954E-02				
- financial condition of the client			0.154	4.691	2.020	0.000	significant
- audit fees			5.289E-02	1.506	2.020	0.140	not signif
- level of competition			0.490	7.838	2.020	0.000	significant
- size of the audit firms			0.107	1.816	2.020	0.077	not signif
- tenure of auditor			0.245	3.082	2.020	0.004	significant

source : output of regression test

From Table 7 the regression equation is :

$$Y = 0.006954 + 0.154X_1 + 0.005289X_2 + 0.49X_3 + 0.107X_4 + 0.245X_5$$

From the $t_{statistic}$ and the probability value that can be seen in Table 7, it can be concluded that financial condition of the client (X_1), level of competition among audit firms (X_3) and the tenure of auditor (X_5) affect significantly auditor switching, audit fees (X_2) and size of the audit firm (X_4) do not affect significantly auditor switching.

4.4 Discussion

Coefficient of determination (R^2) shows the proportion or percentage of total variation within dependent variable (Y) explained by independent variables (X). Result of multiple regression analysis shows R^2 is 0.984. This means that determinant factors affecting auditor switching, i.e., financial condition of the client, audit fees, level of competition among audit firms, size of the audit firm and tenure of auditor, explain auditor switching.

The finding for the variable of financial condition of the client has the value of regression coeficient 0.154 and the result of $t_{statistic}$ 4.691 higher than the *critical value* 2.020. It is also supported by the result of probability value of 0.000 that is smaller than $\alpha = 0.05$ which means that financial condition of the client affects positively auditor switching. Therefore, the first hypothesis in this model is accepted. The model in this paper differs from previous studies because It does not focus only on the client financial distress condition but also on the general financial conditions, including bad and good condition. Thus, the findings of this paper are different from previous studies, such as Schartz and Mioni (1985), Supriyono (1987) and Chen et al. (2005) who concluded that financial distress affected positively auditor switching. This finding contributes new evidence in Indonesia: clients with better client financial condition tends switch to a more reputable auditor. Even though the finding is different from previous studies, it could be a complement to the extant studies because of the different measurement and definition of the variables.

The finding for the variable of audit fees has the value of regression coefficient 0.005289 and the result of $t_{statistic}$ 1.506, smaller than the *critical value* 2.020. It is also supported by the result of probability value of 0.140 that is higher than α = 0.05. It means that audit fees does not affect auditor switching. Therefore, the second hypothesis is rejected. The finding of this paper is contrary to Supriyono (1987), Willekens and Achmadi (2003) and in line with Asthana et al. (2004) who argued that higher audit fees increases are for riskier clients. It means that the increase of audit fees is not automatically followed by auditor switch. Generally, auditors increase the audit fees in order to improve the audit quality.

The finding for the variable of level of competition among audit firms has the value of regression coeficient 0.490 and the result of $t_{statistic}$ 7.838 which is higher than the *critical value* 2.020. It is also supported by the result of probability value of 0.000 that smaller than α = 0.05. This means that the level of competition among audit firms affects positively auditor switching. Therefore, the third hypothesis is confirmed. This finding is consistent with Sterling (1973) and shows new evidence on the effect of level of competition on auditor switching, because no previous study tested directly this relationship. Sterling (1973) tested the relationship between level of competition among audit firms and auditor independence and indirectly stated that a very high level of competition will cause the auditor difficulty in implementing an idealistic independent mental attitude because, in such conditions, the client has powerfull bargaining power to change the auditor.

The finding for the variable of size of audit firm has the value of regression coefficinet 0.107 and the result of $t_{statistic}$ 1.816 is smaller than the *critical value* 2.020. It is also supported by the result of probability value of 0.077 that is higher than α = 0.05. It means that size of the audit firm does not affect auditor switching. Therefore the fourth hypothesis is rejected. This finding is in line with DeAngelo (1981), Dye (1993) and Weiner (2012). Weiner concluded that large companies that already use a Big-Four firm are most likely to stick with a Big-Four firm rather than switch to a smaller firm. It means that the size of audit firm does not affect auditor switching. De Angelo (1981), Dye (1993) and Weiner (2012) indicated that the client switches the auditor to the bigger one when there is a litigation case in order to improve the financial report quality.

The finding for the variable of audit tenure has the value of regression coeficient 0.245 and the result of $t_{statistic}$ 3.082 which is higher than the *critical value* 2.020. It is also supported by the result of probability value of 0.004 that is smaller than α = 0.05. It means that the tenure of auditor affects positively auditor switching. Therefore, the fifth hypothesis is accepted. This finding contributes new evidence on the impact of audit tenure to the auditor swicthes because of no study which evaluates this relationship.

5. Conclusions

The results of statistical tests show that financial condition of the client, level of competition among audit firms and audit tenure affect significantly auditor switching; meanwhile, audit fees and size of the audit firm do not affect auditor switching. This paper makes a new contribution to knowledge developement in the auditing field, particularly by providing new evidence on the links between good financial condition, level of competition among audit firms and audit tenure and auditor switchin on which there is no previous evidence. These findings confirm the concept of principal/agent relationship (Jensen & Meckling 1976) which explains the existence of audit activities as a monitoring cost to reduce the information risk in financial reports.

Good financial condition represents the growth of the company, therefore, It will move to the more reputable auditor to maximize the control function in the agency concept because the more reputable auditor will improve the trust of financial statement users.

On the high level of competition among audit firms, the client has many alternatives to select the auditor. The client will swicth the auditor when users of audited financial statement have a negative perception of an auditor's independence. Such a condition aims to maintain the effective monitoring and is in line with agency theory.

The longer tenure of the auditor leads to a tendency for the client to switch auditors because the longer relationship between auditor and client will suggest to the users of financial statements that the auditor is not independent.

The size of audit firm and the audit fees cannot be used to determine the auditor's independence, therefore, they will not induce the directors to switch auditors.

This paper has many limitations, for instance, few references on this topic particularly in Indonesia, limited sample and excluding many independent variables that could affect auditor switching, such as conflict on audit opinion, management changes, auditor reputation, etc. Further research can include those variables.

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