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**The Influence of Abnormal Audit Fee and Auditor
Switching Toward Opinion Shopping**

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Abstract

This study examines the influence of abnormal audit fee and auditor switching toward opinion shopping in non-financial company listed in Indonesian Stock Exchange in 2011-2015. The data were analysed using ordinal logistic regression. The results showed that the abnormal audit fee positively influenced opinion shopping, as compared to auditor switching which did not have any effect. Furthermore, company size, ROA changes, leverage changes, company growth; loss and public accounting firm's (PAF) size were employed as control variables in this study. However, only company size, company growth, loss and public accounting firm's (PAF) size had effects on opinion shopping. In summary, it is empirically proved that abnormal audit fee affects opinion shopping.

Keywords: Opinion Shopping, Abnormal Audit Fee, Auditor Switching

INTRODUCTION

Independent auditors provide assurance service to improve the reliability and quality of information in financial statements that they are strong enough to be the basis of appropriate business decisions from stakeholders. The assurance an auditor provides for the reliability and quality is reflected on auditor's opinion. In his/her role, he/she has to provide professional audit judgment which will affect his/her opinion which in turn will have impact on decisions taken by the stakeholders (Syafi'i & Jayanto, 2015). The relationship between auditor and management can give rise to a conflict of interest. In a side, an auditor has to

keep his/her independence. However, on the other side, he/she as a business entity has to maintain clients' loyalty. The independence of an auditor is questionable since s/he is chosen and paid by the management (Barbadillo *et al.*, 2006).

An auditor's opinion displays the assurance from him/her for the reliability and quality of the financial statements. An unqualified auditor's opinion is an ideal and beneficial one for management. When management fails to provide a reliable financial statement for unqualified opinion, they might attempt to obtain such opinion by means of opinion shopping. Securities Exchange Commission (SEC) defines opinion shopping as an attempt to look for an auditor who agrees to provide a support the company designed accounting treatments that the company can achieve their reports' objective. The existence of opinion shopping is based on the assumption that management object to the auditor's opinion which is not beneficial and on that management has control over starting or discontinue contract with public accounting firms (PAF) (Lennox, 2002).

In a study conducted by Lennox (2000) in testing opinion prediction received by clients if they switch auditor by using data of the United Kingdom (UK), it was shown that there was a tendency that clients would switch auditor when the probability is higher that the alternate auditor give a more beneficial opinion compared to the current one. Furthermore, Chen *et al.* (2005) and Xie *et al.* (2010) who carried out a study at the stock exchange in China on the influence of abnormal audit fee toward the improvement of auditor's opinion found out that there were positive effects. Similar to that, Yuejun's (2011) study indicates that at companies with higher motivation to avoid loss, abnormal audit fee is linked with the improvement of auditor's opinion.

Lu (2006) concluded that auditor switching was the most effective ways for opinion shopping, but this finding is still debatable among experts and practitioners. The finding from Lennox (2002) shows that some clients have tendency to switch auditor in an expectation to receive a better auditor's opinion. Furthermore, the auditor rotation regulation might be used to support opinion shopping by disguising the behavior as abiding to the rotational regulation (Choi *et al.*, 2014)

It is still uncommon that studies in opinion shopping are conducted in Indonesia. This study tested how abnormal audit fee and auditor switching influence the probability of a company to receive unqualified opinion which means that opinion shopping takes place. Bernardus & Fitriani (2015) conducted a study on the influence of abnormal audit fee toward opinion shopping at companies registered at Indonesia Stock Exchange which shows that there was a positive influence of abnormal audit fee toward the probability of companies to received unqualified opinion and that opinion shopping phenomenon happened in Indonesia.

The control variables of this study are company size, ROA changes, leverage changes, company growth, loss, public accounting firm's (PAF) size to control audit quality, and loss to describe the existence of pressure to management to avoid unfavourable auditor's opinion (Chen *et al.*, 2005).

This study aims at analyzing the influence of abnormal audit fee and auditor switching toward opinion shopping at non-financial companies registered at the Indonesian Stock Exchange in 2011-2015. The results are expected to contribute to the development of science.

LITERATURE REVIEW

The agency theory assumes that all individuals act for their own self-interest. The assurance given by auditor for financial statements' reliability and quality is reflected in the auditor's opinion (Bernardus & Fitriany, 2015). The unqualified opinion is ideal and favourable for management. When it fails to provide a sound financial statements in an effort to received unqualified opinion, it might attempt to find a way to keep the opinion. This attempt is called opinion shopping. It takes place on negotiation at which the management put pressure to the auditor to agree to accounting practices in the company under the threat of auditor switching or dismissal

In relation to abnormal audit fee, agency issue reemerges in the relationship of public accountant with principal party and agent in which PAF is chosen and take action for the interest of principal party but received audit fee from management (Bernardus & Fitriany, 2015). PAFs as business entities have a dependency in the form of audit fee to maximize profit and to keep loyalty of clients amidst the competition in the business. This will make an agreement is possible between them. Extremely high or low audit fee could cause an uncertainty toward the competence of auditor in applying the current technical or professional standard.

In connection with auditor switching, agent is entitled to do auditor switching on the basis of disagreement in certain accounting practice. An agent can switch to other auditor who can agree with them. In agency theory, it is assumed that they will get satisfaction not only from monetary compensation but also from the involvement in the agency relationship. With the agreement on the accounting practices, it is expected that the auditor provide a favourable opinion.

Audit fee is the payment received by auditor for his/her service to the client (syafi'i & Jayanto, 2015). According to Halim (2008) the amount of the fee vary depending on factors in auditing process such as size of client's company, audit service complexity, audit risk and the public accountant firm's reputation.

Institute Akuntan Publik Indonesia (Public Accountant Institute of Indonesia) (IAPI) issued a decision letter No. Kep.024/IAPI/II/2008 on 2 July 2008 on the policy of Audit Fee decision. It is explained that the guidelines are for all

members of Public Accountant Institute of Indonesia who are public accountant in deciding the normal amount of audit fee for their professional service. It also gives explanation on consideration in deciding audit fee for the firm, i.e. clients' requirement, legal duties and requirements, independence, level of expertise and difficulty of work, length of time needed, and the basis of agreed fee.

Abnormal audit fee, either to high or low, as compared to the previous auditor will cause doubt on the ability and competence of auditor in applying the current technical and professional standards. An exorbitant fee will create auditor economic dependence toward client. It describes the extent of economic relationship between them. The stronger the economic bond the lower the quality of audit, which will corrupt auditor's independence. (Fitriani *et al.*, 2015)

Choi *et al.* (2010) describes that abnormal audit fee is the difference between paid audit fee with expected normal audit fee for the audit contract. Furthermore, Fitriani *et al.*, (2015) explains that the fee is divided into two components: normal and abnormal components. Normal audit fee covers regular audit cost (e.g. audit team expenses, litigation risk, and normal benefit margin. On the other hand abnormal audit fee does not have transparent criteria in its decision and is a covered agreement between auditor and client.

Abnormal Audit Fee

Abnormal audit fee is the difference between paid audit fees with expected normal audit fee for the audit contract (Choi *et al.* 2010). Auditor receiving exorbitant abnormal audit fee is assumed to possess the incentive to allow the client to do an opportunistic profit management. Opinion shopping in form of abnormal audit fee is also an incentive for auditor to give unqualified opinion. This can affect the independence and objectivity of the auditor, which will cause the neglect of the actual financial statements. The higher the abnormal audit fees the higher the probability of a company to receive unqualified opinion.

Auditor Switching

Auditor switching is the switch of firm or auditor performed by company either voluntarily or mandatorily. In his/her service, auditor is required to be independent toward the client who, however, pays him/her. The client is also entitled to terminate contract with the auditor if the service is considered unsatisfactory. Lennox (2000) says that auditor switching is chosen to avoid unfavorable opinion. A company is assumed to do opinion shopping when they switch auditor if they receive unfavorable opinion. The avoidance of unfavorable opinion by auditor switching is under the assumption that the new one is more probable to give unqualified opinion. This assumption is based on the situation that the new auditor still has a lot to learn about company as compared to the one he/she replaces. From the above points, it is concluded that auditor switching has a positive influence over the probability that a company to receive unqualified opinion.

METHODS

Population and Sample

In this study the population was 338 companies registered at Indonesian Stock Exchange in 2011-2015. The companies taken for sample were required to satisfy the following conditions: (1) consistently attached audit fee paid to public accountant firm in the annual report in 2011-2015, (2) published the complete audited financial statements and it expired on 31 December in Rupiah, (3) kept complete data needed by the researchers. Based on the criteria, 21 companies were chosen.

Data Collection Technique

Secondary data of audited financial statements and financial statement expired on 31 December 2011-2015 from Indonesian Stock Exchange Website.

Research Model

This study used ordinal logistic regression model with the following equation:

$$OP = \alpha + \beta_1 AAFEE + \beta_2 SWITCH + \beta_3 SIZE + \beta_4 DROA + \beta_5 DLEV + \beta_6 GROWTH + \beta_7 LOSS + \beta_8 BIG4 + \varepsilon$$

In which,

OP	= Auditor's Opinion in year t
AAFEE	= <i>Abnormal audit fee</i>
SWITCH	= <i>Auditor switching</i>
SIZE	= Natural Logarithm on total of asset
DROA	= Change in <i>Return on Assets</i>
DLEV	= Change in <i>Leverage</i>
GROWTH	= Company growth
LOSS	= Loss
BIG4	= Size of Public Accountant Firm

Operational Definition

Opinion Shopping

Opinion shopping is the binary variable describing opinion of company. In accordance with Xie et al. (2010), the variable was measured in ordinal scale ranging from 1 (one) to 3 (three) in which scale 1 is going concern opinion, scale 2 is unqualified opinion with explanatory language, and scale 3 is unqualified opinion.

Abnormal Audit Fee

Abnormal audit fee is the difference between paid audit fees with expected normal audit fee for the audit contract. As stated by Choi *et al.* (2010) and Bernardus & Fitriani (2015) abnormal audit fee model is as follows:

$$\text{Abnormal Audit Fee} = \text{Factual Audit Fee} - \text{Estimated Audit Fee}$$

Estimated audit fee was measured using the following model:

$$\begin{aligned} \text{AAFEE} = & \beta_0 + \beta_1 \text{LNTA} + \beta_2 \text{NBS} + \beta_3 \text{NGS} + \beta_4 \text{INVREC} + \beta_5 \text{EMPLOY} \\ & + \beta_6 \text{LOSSLAG} + \beta_7 \text{LEV} + \beta_8 \text{ROA} + \beta_9 \text{LIQUID} + \beta_{10} \text{BIG4} \\ & + \beta_{11} \text{SHORT_TEN} + \beta_{12} \text{BTM} + \beta_{13} \text{CHGSALE} + \varepsilon \end{aligned}$$

In which,

AAFEE	= natural logarithm on factual audit fee
LNTA	= natural logarithm on total of asset
NBS	= natural logarithm on 1 add to number of business segments
NGS	= natural logarithm on 1 add to number of geographical segments
INVREC	= inventory and credit divided by asset
EMPLOY	= square root of number of employees
LOSSLAG	= 1 if Net Income period t-1 is negative, 0 others
LEV	= leverage (total liabilities divided by total asset)
ROA	= return on assets (net income divided by total asset)
LIQUID	= current assets divided by current liabilities
BIG4	= 1 if auditor is from Deloitte & Touche, Ernst & Young, KPMG, and Price waterhouse Coopers, 0 others
SHORT_TEN	= 1 if audit in first or second audit period, 0 others
BTM	= <i>book-to-market ratio</i> (book value of equity divided by market value of equity)
CHGSALE	= Previous year sale divided by current year total of asset

Auditor Switching

Auditor switching is the switch of firm or auditor performed by company either voluntarily or mandatorily. Auditor switching is a dummy variable, in which it is 1 if auditor switching occurred, and 0 if not.

Company Size (SIZE)

Company size was measured using total of company asset. Asset is resource controlled by company as a result of past events and from economic benefit in the future the company expect to get. Size was measured using natural logarithm of total of asset.

Difference of Return On Asset (DROA)

Return On Asset (ROA) is the profitability ratio to measure company ability to produce profit with level of return of asset. The change in ROA is between year t and t-1.

Equation of DROA:

$$DROA = \left[\frac{Net\ Income_t}{Total\ Aset_t} \right] - \left[\frac{Net\ Income_{t-1}}{Total\ Aset_{t-1}} \right]$$

Difference of Leverage (DLEV)

Leverage is the use of asset and financial resources by company, which spend fix expense to increase profit potential for shareholder. Leverage was measured using ratio of total debt on total asset. The change in leverage is the difference between ration of debt total and asset total.

Equation of DLE:

$$DLev = \left[\frac{Total\ Liabilities_t}{Total\ Aset_t} \right] - \left[\frac{Total\ Liabilities_{t-1}}{Total\ Aset_{t-1}} \right]$$

Company growth (GROWTH)

Company growth (GROWTH) is a control variable to control the effect of difference of financial condition and company performance. It was measured by growth rate on total of asset.

Equation of Growth:

$$Growth = \frac{(Total\ Aset_t - Total\ Aset_{t-1})}{Total\ Aset_t}$$

LOSS

Loss is a control variable to reflect pressure and incentive on management to avoid unfavorable opinion. The loss was measured using dummy variable. It was valued 1 if in period t company loss, and 0 if not.

Size of PAF

Size of PAZ was a control variable to reflect quality of audit. The size of PAF was measured using dummy variable. It was valued 1 if associated with the big four, and 0 if not.

FINDINGS

Table 1. Descriptive Statistic of *Abnormal Audit Fee*, Company Size, Change in ROA, Change in Leverage and Company Growth

	N	Minimum	Maximum	Mean	Std. Deviation
AAFEE	105	-1,3150	,8186	,000000	,3821685
SIZE	105	26,1089	32,7441	29,704171	1,4803167
DROA	105	-,2037	,2382	-,006080	,0449977
DLEV	105	-,2579	,5249	,020299	,0940660
GROWTH	105	-,6103	,4610	,101548	,1401673
Valid N (listwise)	105				

Source: *Output SPSS, 2016*

The mean of abnormal audit fee (AAFEE) is 0,000000 (rounding from 1,07718397512191E-14), standard deviation is 0,3821, minimum is -1,315 and maximum is 0,8186. Furthermore, the mean of SIZE is 29,704, standard deviation is 1,4803, minimum is 26,1089 and maximum is 32,7441. The mean of DROA is -0,00608, standard deviation is 0,0449977, minimum is -0,2037 and maximum is 0,2382. The mean of DLEV is 0,020299, standard deviation is 0,0940660, minimum is -0,2579 and maximum is 0,5249. The mean of GROWTH is 0,101548, standard deviation is 0,1401673, minimum is -0,6103 and maximum is 0,4610. The variables of opinion shopping, auditor switching, loss and size of PAF were not included in the calculation because of their nominal scale.

Hypothesis Testing

Table 2. Parameter Estimates

		Estimate	Std. Error	Wald	df	Sig.
Threshold	[OP = 1]	-13,301	5,322	6,246	1	,012
	[OP = 2]	-9,563	5,210	3,370	1	,066
Location	AAFEE	1,255	,605	4,306	1	,038
	SIZE	-,373	,169	4,857	1	,028
	DROA	-6,465	5,033	1,650	1	,199
	DLEV	-2,203	2,627	,703	1	,402
	GROWTH	6,269	1,870	11,246	1	,001
	[SWITCH=0]	,394	,546	,521	1	,470
	[SWITCH=1]	0 ^a			0	
	[LOSS=0]	1,565	,747	4,388	1	,036
	[LOSS=1]	0 ^a			0	
	[BIG4=0]	-1,284	,482	7,097	1	,008
[BIG4=1]	0 ^a			0		

Source: Output SPSS, 2016

Analysis employed in this study was the ordinal logistic regression. The parameter estimates was indicated from the result of ordinal logistic regression SPSS output in table 2.

Table 2 exhibits the result of testing using ordinal logistic regression at significance level of 0.05 (5%). The threshold coefficient value here was not interpreted individually, but only by representing the intercept especially the point which auditor's opinion can be predicted into a higher category. Coefficient value in ordinal logistic regression is cumulative. The results of the testing are in the following ordinal logistic regression equation.

$$\text{Logit (p1)} = -13,301 + 1,255 \text{ AAFEE} + 0,394 \text{ SWITCH} - 0,373 \text{ SIZE} - 6,465 \text{ DROA} - 2,203 \text{ DLEV} + 6,269 \text{ GROWTH} + 1,565 \text{ LOSS} - 1,284 \text{ BIG4}$$

$$\text{Logit (p1+p2)} = -9,563 + 1,255 \text{ AAFEE} + 0,394 \text{ SWITCH} - 0,373 \text{ SIZE} - 6,465 \text{ DROA} - 2,203 \text{ DLEV} + 6,269 \text{ GROWTH} + 1,565 \text{ LOSS} - 1,284 \text{ BIG4}$$

In which p1 is the probability of going concern opinion, p2 is probability of unqualified opinion with explanatory language. Based on table 2 with equations 1 and 2, explanations of every variable is as follows:

Abnormal Audit Fee (AAFEE)

The coefficient for Abnormal audit fee (AAFEE) is 1.255 and significant value 0.038. To simplify the interpretation of this variable, the probability calculation in is shown in table 3.

Table 3. Abnormal Audit Fee parameter on the level of auditor’s opinion

AAFEE	Category of opinion		
	Going Concern	Qualified with explanatory language	Unqualified
Logit Cumulative	-	-12,046*	-8,308*
Odds ratio Cumulative	-	5,86946E-06**	0,00024647**
Cumulative Probability	1,000000	0,999994131***	0,99975359***
Category Probability	0,00000587	0,000240538	0,99975359

Source: Processed Secondary Data, 2016

*) Calculated from threshold coefficient added to AAFEE coefficient

**) Exp (logit cumulative)^p

***) 1/[1+ Exp(logit cumulative)]

Based on table 3, the increase of abnormal audit fee for 1 unit (assuming 0 value for other variables), will increase the probability of going concern opinion by 0.00000587, unqualified opinion with explanatory language by 0.000240538 and unqualified opinion by 0.99975359. The other interpretation is that the increase of 1 unit of abnormal audit fee (assuming 0 value for other variables) will increase odd ratio of unqualified opinion by (exp 1.255) 3.508419. The significance value is 0.038 < 0,05, indicating that abnormal audit fee significantly influence the auditor’s opinion.

Auditor Switching (SWITCH)

The coefficient of Auditor switching (SWITCH) is 0.640 with significance value of 0.222. To simplify the interpretation of this variable, its probability calculation is presented in table 4.

Table 4. Auditor Switching Parameter on the level of auditor's opinion

SWITCH	Category of opinion		
	Going Concern	Unqualified with explanatory language	Unqualified
Logit Cumulative	-	-12,907*	-9,170*
Odds ratio Cumulative	-	2,48057E-06**	0,00010416**
Cumulative Probability	1,000000	0,999997519***	0,99989585***
Category Probability	0,00000248	0,000101672	0,99989585

Source: Processed Secondary Data, 2016

*) Calculated from threshold coefficient added to SWITCH coefficient

**) $\text{Exp}(\text{logit cumulative})^p$

***) $1/[1 + \text{Exp}(\text{logit cumulative})]$

Based on table 4, if the company switches PAF (assuming 0 value for other variables), the probability of going concern opinion increase by 0.00000248 unqualified opinion with explanatory language by 0.000101672 and unqualified opinion by 0.99989585. The other interpretation is that if the company switch PAF (assuming 0 value for other variables), will increase odd ratio of unqualified opinion by $(\exp 0.394)$ 1.482739. The significance value is $0.470 > 0.05$, indicating that auditor switching do not significantly influence the auditor's opinion.

The Influence of Abnormal Audit Fee toward Opinion Shopping

The results of the study using ordinal logistic regression in table 2 show that the significance value of abnormal audit fee is 0.038, which is less than 0.05, and with coefficient of 1.255. It means that abnormal audit fee has significant influence and has positive correlation toward the probabilities of a company to receive unqualified opinion. This is consistent with the results of study from Chen *et al.* (2005), Xie *et al.* (2010) and Yuejun (2011). This also support the findings of Bernardus dan Fitriany (2015) who state that opinion shopping has taken place in Indonesia which is proven by that abnormal audit fee influence the probability of unqualified opinion.

PAF as a business entity has a dependent in the form of audit fee to maximize profit and to keep clients' loyalty in a strict competition of audit market so that in this relationship it is possible that auditor make agreement with the management. According to Chen *et al.* (2005), economic pressure provided by the management of the company in the form of abnormal audit fee might be a

compromise for the auditor's independency (Choi *et al.*, 2010). As long as it is the management who decide the amount of audit fee paid to PAF, the management possesses the capacity to manipulate audit results to an extent.

The influence of Auditor Switching toward Opinion

The ordinal logistic regression analysis on table 2 shows that the significance value of auditor switching is 0.470 which is higher than 0.05 and with coefficient value of 0.394, this means that auditor switching does not have any significant influence toward the probability of a company to receive unqualified opinion. This indicates that auditor switching does not influence opinion shopping. This finding supports the results of study from (Lie & Wu, 2002) and (Wu & Tan, 2005) who states that auditor switching does not affect opinion shopping. But this, on the other hand, in contrast with Lennox (2000, 2002) who states that a company has more probability to receive qualified opinion compared to unqualified opinion after auditor switching.

According to Lennox (2000), a company does auditor switching to avoid receiving unfavorable auditor's opinion. The company receiving unfavorable opinion can be assumed to be involved in opinion shopping if it switches auditor. However, in this study, auditor switching is proven not to have any effects toward the probability of a company to receive unqualified opinion. This means that the company is not proven to have committed an opinion shopping by auditor switching. Some reasons that the company does auditor-switching covers the following: exorbitant audit fee and needs of a more diverse professional service and of higher credibility PAF.

The Influence of Company Size, change in ROA, Change in Leverage, Company Growth, Loss and PAF Size toward Opinion Shopping

From table 2 it is known that company size, company growth, loss, and PAF size significantly influence auditor's opinion meanwhile the change in ROA and Leverage does not significantly influence the opinion.

In table 2, it is displayed that the significance value of company size is 0.028. It is significantly influenced toward unqualified opinion at 5% level. The coefficient of this variable is negative. This indicates that company size decrease the probability for unqualified opinion. The company size increase the risks for the auditor, including audit risk and exposure risk which is more susceptible in big company (Bernardus dan Fitriany, 2015).

The significance value of company growth is 0.002, and it is significant toward unqualified opinion at 5% level. The coefficient is positive. This exhibits that company growth which is measured by *growth rate* on total of asset, increase the probability of unqualified opinion. An ever-growing company signifies a substantive improvement of company operational performance and company's financial condition.

Loss' significance value is 0.036 toward the unqualified opinion at 5% level with positive sign. This means that loss experienced by a company in current year

decrease the probability of unqualified opinion. A company's loss in current year will increase audit risks assumed by auditor-to-auditor is extra cautious in audit judgment.

Size of PAF's significance level is 0.008, significant toward unqualified opinion at 5% level with negative sign. This means that PAF size, which is measured with KAP big four and non-KAP big four decrease the probability of unqualified opinion. It indicates that PAF joining the big four has a tendency to be harder to guess such opinion since PAF big four have a high integrity.

CONCLUSION

Based on the testing of abnormal audit fee and auditor switching toward opinion shopping using ordinal logistic regression, it can be concluded that abnormal audit fee increase the probability of a company to receive unqualified opinion. However, auditor switching does not influence the probability of a company to receive unqualified opinion company size. For the control variables, company growth, loss, PAF size significantly influence auditor's opinion. Meanwhile the change in ROA and Leverage does not significantly influence the opinion.

The successive researches are expected to use auditor's opinion classification based on the most current audit standard, the SPAP year 2013, which has adopted ISA (*International Standards on Auditing*). This research only studies opinion shopping from the perspective of company only, for future researches it is expected that it will also see auditor's perspective. Opinion shopping is an interesting topic to be studied, so it is recommended that for other researchers to conduct a qualitative study to analyze company's reasons to do opinion shopping.

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