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Analysis of The Influence of The Size of KAP, Management Turnover and Size of Company toward Auditor Switching (An Empirical Study on Manufacturing Companies Registered in Indonesian Stock Exchange Year 2011-2015)

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Abstrak

Auditor Switching merupakan proses pergantian KAP yang dilakukan oleh perusahaan. Pergantian KAP di Indonesia dapat dilakukan secara mandatory ataupun voluntary. Pergantian KAP secara voluntary dapat menimbulkan kecurigaan dari stakeholder untuk mengetahui apa yang penyebabnya. Populasi dalam penelitian ini adalah perusahaan manufaktur yang terdiri dari 170 perusahaan. Teknik purposive sampling menghasilkan sampel sebanyak 29 perusahaan. Variabel independen dalam penelitian ini adalah Ukuran KAP, Pergantian Manajemen, dan Ukuran Perusahaan. Variabel dependen dalam penelitian ini adalah Auditor Switching. Hasil penelitian ini menunjukkan bahwa variabel Ukuran KAP berpengaruh negatif terhadap auditor switching, variabel Ukuran Perusahaan berpengaruh negatif terhadap auditor switching. Sementara variabel Pergantian Manajemen tidak berpengaruh terhadap auditor switching. Saran untuk Penelitian selanjutnya mengenai Auditor Switching, diharapkan dapat menerapkan Perturan Menteri Keuangan yang terbaru tahun 2015 yaitu Peraturan Menteri Keuangan Republik Indonesia Nomor 20 tahun 2015. Pergantian manajemen untuk penelitian selanjutnya disarankan untuk melihat dari pergantian Dewan Komisaris, Karena Dewan Komisaris dalam perusahaan memiliki andil dalam pemilihan Kantor Akuntan Publik.

Abstract

Auditor Switching is an exchanging of KAP which is conducted by the company. The change of KAP in Indonesia can be conducted by mandatory and voluntary. Auditor Switching by voluntary may raise suspicion of stakeholders to find out what the cause. The purpose of this study is to analyze the influence of Size of KAP, Management Turnover, and Size of Company toward Auditor Switching. The population in this study are the manufacturing companies which consist of 130 companies. The technique of purposive sampling which results for 57 samples. The independent variables in this study are management turnover, size of KAP, and size of company. While the dependent variable in this study is Auditor Switching. The results of this study shows that the following variable size of KAP have a negative affect toward auditor switching, but management turnover and size of company don't have an affect toward auditor switching. The value of Nagelkerke R Square is 0.192, it's mean that the variation of the dependent variable that can be explained by the independent variable around 19.2%, and the remaining 80.8% is explained by other variables outside the model. For the next research on auditor switching is expected to apply the newest Ministry of Finance Regulation in 2015, namely the Indonesian Government Numer 20 year 2015.

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INTRODUCTION

This statement is potentially influenced by personal interests. Meanwhile, the third parties, as the external users of financial statements are very concerned to obtain reliable financial statements/reports. The financial statements are one of the most important media in communicating facts about the company and as a basis to determine or assess the financial conditions and activities of a company. Many parties are interested in the financial statements of a company, including the owners of the company itself, creditors, financial institutions, investors, government, people in general and other parties (Novianty, 2001). Given the number of parties concerned about the financial statements, the information presented in the financial statements should be reasonable, reliable and must not mislead the users, so that the needs of each interested party can be met.

Audit independence means independent perspectives in test execution, evaluation of audit results, and preparation of audit reports. The mental attitude of the audit should include "independence in fact and independence in appearance ". Arens el al (2012) stated the auditor will be deemed to be dependent if the auditor has a particular bond (eg family relationship) with his client, which may arouse a suspicion that he will favour his or her clients or not being independent. There are many phenomena describing a long audit engagement period and the independence of an auditor, one of which is Enron Case in 2002. Enron's case was revealed in 2002 involving many parties such as the Chief Executive Officer (CEO), the board of directors, Chief Audit Executive Enron (Head of internal audit), as well as external auditors. The KAP Arthur Andersen was a company that audited Enron's financial statements, as well as the Enron management consultant. KAP Arthur Andersen was also one of the Big Five of KAP members at that time.

In Indonesia, a similar case also ever happened when Bapepam-LK found an oddity in stock trading transactions of PT Great River International Tbk (GRIV) after receiving a report from the Jakarta Stock Exchange (BEJ) related to unusual trading activities. The inconsistency was found after Bapepam-LK conducted an investigation on the alleged pseudo-trading of the corporate shares. Suspecting an accounting fraud practices conducted by PT Great River International Tbk with a public accountant Justinus Aditya Sidharta, Bapepam-LK finally delegated the legal process of the case to the Attorney in 2006 (HukumOnline, 2007).

The companies which want to generate reliable financial statements are required to conduct audit rotations. Audit rotation is the auditors' rotation rules that must be performed by the company to generate high-quality and enforce the auditor's independence; therefore, the auditor switching is a transfer of the auditor conducted by the client of the company due to the auditors' rotation obligation. Indonesia is a country that requires the auditor switching. The regulation is set forth in the Decree of the Minister of Finance No. 359 / KMK.06 / 2003 on "Public Accounting Services" (article 2) as amendment to Decree of the Minister of Finance No. 423 / KMK.06 / 2002 which discusses the provision of general audit services to the financial statements of an entity may be made by a Public Accounting Firm (hereinafter referred to as KAP) no later than 5 (five) consecutive yearbooks and by a public accountant for at least three (3) consecutive yearbooks.

Some factors influencing the auditor switching in this study are high-credibility of the size of KAP to improve the credibility of financial statements in the eyes of the users (Damayanti and Sudarma, 2007). Expertise KAP is one of attributes in large KAP services. The existence of the expertise will determine the auditor switching by the company. Based on the description, the researcher is interested to test the size of KAP, management turnover and the size of the company, which is a form of replication on the research conducted by Satriantini and Sinarwati (2014). The research conducted by Satriantini and Sinarwati (2014) used management turnover, size of KAP and audit opinion as the variables on Real Estate and Property companies; the difference is the author uses the size of company and case studies on the manufacturing companies. The manufacturing field is chosen because it is considered as most appropriate object and it takes a lot of data for predictable types of research (Adityawati and Januarti 2011). The study period was from 2011-2015.

Jensen and Meckling (1976) explained that agency relationship is a contract in which one or more principals ask the agent to carry out a number of jobs on behalf of the principal, involving delegation of some authorities and the decision-making process lies on the agent. There are two basic assumptions that must be met in the agency relationship to generate an efficient contract between the principal and agent, namely (1) information symmetry and (2) defined return on the agent. However, in fact, the agent as the manager of the company always has wider information access and has more information about the company's conditions than with the principal itself. This is called information asymmetry i.e. unideal information condition viewed from the principal's interest.

Eisenhardt (1989) reminds us of the three assumptions of human nature related to agency theory: (1) human beings are generally self-interested, (2) human beings have limited thinking about the bounded rationality, and (3) human always tries to avoid risks (risk averse). Considering the three assumptions above, Eisenhardt (1989) warned that the agent would tend to act opportunistically to prioritize their personal interests rather than keeping their commitment to the principal, so that they would tend to prepare financial statements in accordance with their own purpose, not in the interest of the principal. This agency theory explains the need for a party who is able to mediate the interests of public accountants and the agent. The conflicts between the public accountants and agent may occur because the public accountants do not always publish their audit opinions in accordance with agent's wishes. Such conflicts can lead to substantial agency costs.

The Regulation of the Minister of Finance No. 17 / PMK.01 / 2008 governs the services of public accountants thoroughly. In 2011, Indonesia issued the Law of the Republic of Indonesia Number 5 Year 2011 on the public accountants. One regulated in the Act is about the change of KAP. The limitation of the provision of audit services is described in paragraph 1 and 2 of Article 4 which reads "the provision of audit services by a Public Accountant and / or KAP of a client's historical financial information for a consecutive financial year may be limited within a certain period of time". Paragraph 2 reads that the provisions concerning the limitation of audit services to the historical financial statements are regulated in a Government Regulation.

The regulation is then amended by the issuance of Government Regulation No. 20 of 2015 on Public Accountant Practices in Chapter 5 on "Restricted Audit Services" in articles 10 and 11. The Article 11 paragraph (1) mentions the provision of audit services to historical financial information as intended in the Article 10 paragraph (1) letter a to an entity by a Public Accountant shall be limited to a maximum of 5 (five) consecutive yearbooks. While the Article 11 paragraph (4) states the Public Accountant may give audit services back to historical financial information to an entity as referred to in paragraph (1) after 2 (two) consecutive yearbooks does not provide such services. Regulation of the Minister of Finance No. 17 / PMK.01 / 2008 and the Government Regulation of the Republic of Indonesia Number 20 Year 2015 regulate the change of KAP. This is used as the basis for this study, from 2011-2015.

According to Victor Vroom (1967) in Robbins and Judge (2008: 253) the theory of hope describes the power of a tendency to act in a certain way depending on the strength of a hope that the action will be followed by the results and on the appeal of the result against the individual. The fundamental question to be answered by the theory of hope is what determines a person's willingness to devote his energy and mind in carrying out organizational activities. The effect of management turnover on the auditor switching can be attributed to the theory of hope and can be the basis of the agent's motivation in deciding the change of KAP. The new management turnover is usually followed by the change of accounting methods that will be applied in the company. Damayanti and Sudarma (2008) reinforced that the management turnover can trigger the change of KAP due to new management board which has strong expectation on new KAP to be able to be more cooperative, so that company get audit opinion as expected by the agent.

The auditor switching is a behavior undertaken by the company for the transfer of auditors. It is caused by the obligation of audit rotation. Based on theoretical evidence, the auditor rotation results in shorter auditing engagements (*audit tenure*) and the company will hold the auditor switching (Nasser et al, 2006). The obligatory and voluntarily auditor switching can be distinguished based on which party is the focus of attention from the auditor independence issue. If the auditor switching occurs voluntarily, then the main concern is on the client side. Conversely, if it takes place on a mandatory basis, the primary concern turns to the auditor (Febrianto, 2009). The size of KAP is a measure used to determine the size of a Public Accounting Firm (KAP). The size of KAP can be classified as large if it is affiliated with *Big 4*, has branches and clients of large companies and has professional staffs over 25 people. Meanwhile, the size of the Public Accounting Firm is small if it is not affiliated with the Big 4, has no branch office and its clients are small companies and the number of its professionals is less than 25 people (Arens, et al, 2003). The size of KAP also affects the quality of audits that impact on the auditor switching, because a Big 4 KAP will be considered more able to increase its independence than the small ones. (Nasser et al 2006 in Pratini 2013), and non big 4 KAP is considered to have lower level of independence. The clients tend to move to Big 4 KAP to look for a better audit.

The management turnover is caused by the decision of the general meeting of shareholders, or the management decides to quit due to their own willingness, so that the shareholders have to replace it with the new management as a Chief Executive Officer. The existence of a new CEO may lead to policy changes in accounting, finance and selection of KAP (Damayanti dan Sudarma, 2010 in Wijayani and Januarti, 2011). This is also in line with Nagy's research (2005) in Sinarwati (2010) which states that the management turnover within the company is often followed by changes in corporate policies. If the new management hopes that the new KAP can be more cooperative and more able to provide expected opinions by the management-accompanied by the auditor's preference to be used-the change of KAP can occur within the company. The size of the client's company is a scale that classifies the size of the company that is associated with its financial conditions, where a large company is believed to solve its financial difficulties than the small one (Mutchler, 1985 in Wijaya, 2011). The large companies have surely great resources. With such large resources, they need and be able to finance the provision of information for internal purposes. The information is at once a material for the purposes of disclosure of other information to the external parties, so there is no need for higher additional costs to perform wider disclosure. In contrast, the small companies with relatively small resources may not have ready-to-serve information as the large ones, thus to provide wider information it is required substantial cost. (Fitriani, 2010).

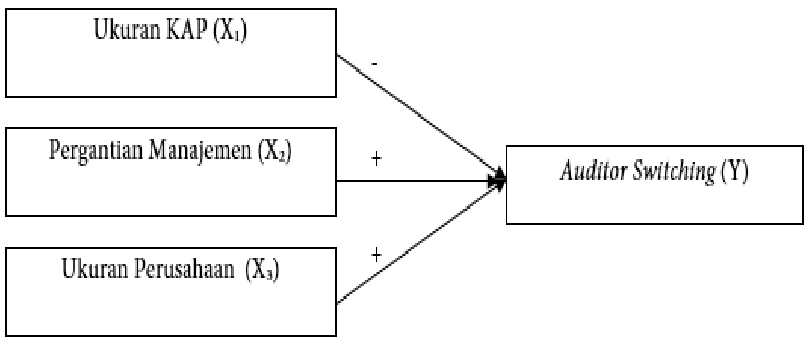

Figure 1. Research Framework

Based on previous research and the framework above, the hypotheses in this study can be formulated as follows:
H1: The size of KAP negatively influences the auditor switching
H2: The Management Turnover has a positive influence on the auditor switching
H3: The size of company size positively affects the auditor switching

METHODS

This study used secondary data in the form of audited financial statements of public companies (manufacture companies) in BEI from 31st December 2011-31st December 2015 obtained from Indonesian Capital Market Directory (ICMD) from the official website of BEI at www.idx.co.id. The data used in this study were taken from 31st December 2011 – 31st December 2015. The companies were selected from the list of go-public companies and were listed in ICMD. The sampling technique was purposive, presented in table 1 below.

Table 1. Criteria of Sampling

Description	Number of Companies
Manufacturing companies listed in Indonesian Stock Exchange (BEI) per 31st December 2011 – 31st December 2015	130
The companies taken as the research samples from the period of 31st December 2011 – 31st December 2015 (per year)	72
No data completeness required consecutively from 31st December 2011 – 31st December 2015	15
The data completeness is required consecutively from 31st December 2011 – 31st December 2015	57
Observation on 57 companies x 5 years	285 data

Source: secondary processed data, 2016

RESULTS AND DISCUSSION

The *overall model fit* test is conducted to examine if the hypothesized model is fit with the data or not. The test is performed by comparing the values between -2 *Log Likehood* (-2LL) at the beginning (*Block Number = 0)* with the value of -2 *Log Likehood* (-2LL) at the end (*Block Number = 1).* The results of the feasibility test of the model step 0 are shown in the following table 2.

Table 2. Initial Model Feasibility Test (-2LL)

Iteration		-2 Log likelihood	Coefficients Constant
Step 0	1	273.157	-1.270
	2	270.815	-1.485
	3	270.806	-1.500
	4	270.806	-1.500

Source : processed data, 2016

The table 2 above shows the Log-Likelihood (-2LL) value in step 0 or at early step. In this table, the number that we see in the second column of the last line is 270.806. If there is a decrease of -2LL in the feasibility test of step 1 model, then the hypothesized model is fit with the data. Here is the result of feasibility test of step 1 model.

Table 3. Model Feasibility Test (-2LL) Step 1

Iteration		-2 Log likelihood	Coefficients Constant	UK	PM	LnTa
Step 1	1	246.414	-2.073	-1.094	.237	.097
	2	235.908	-2.959	-1.755	.373	.156
	3	235.201	-3.210	-1.993	.409	.173
	4	235.195	-3.229	-2.018	.412	.175
	5	235.195	-3.229	-2.019	.412	.175

a. Method: Enter

b. Constant is included in the model.

c. Initial -2 Log Likelihood: 270.806

d. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Source : processed data, 2016

In table 3 above, it shows that the result of -2LL is decreased by 35,661. This result is the difference of -2LL step 0 of 204,757 with -2LL step 1 of 235,195. This decrease shows a good regression model, or, in other words, the hypothesized model is fit with data. The following table 4 is a summary to make it easier to analyze the feasibility test of all models.

Table 4. Comparison between Initial -2LL and Final -2LL

-2LL Initial (Step 0)	270.806
-2LL Final (Step 1)	235.195
Decrease difference	35.661

Source : Processed data, 2016

The logistic regression is a modified regression model, so the characteristics are not the same as the simple or multiple ones. The determination of significance is also different from the multiple regressions, that is the suitability of the model (goodness of fit) by seeing it from R2 or F test.

Table 5. Goodness of fit test

Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	12.919	8	.115

Source : Processed data, 2016

The significance value of Hosmer and Lemeshow Goodness of Fit Test statistic is 0.115; greater than the Fit Test statistic (0.05), meaning there is no significant difference between the model and the observed value so that the model can predict the observed value, or it can be said that the model is acceptable because it matches observation data. The determination coefficient is used to find out how much variability of independent variables. The determination coefficient on the logistic regression can be seen in Nagelkereke R^2. The value of Nagelkereke R^2 can be interpreted the same as the value of R^2 in multiple regression.

Table 6. Determination Coefficient

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	235.195[a]	.117	.192

Source: Output SPSS, 2016

The value of Nagelkereke R Square as the result of SPSS data processing shows the value of 0.192, which means that variability of dependent variables that can be explained by independent variables is 19.2%, while the remaining 80.8% is explained by other variables outside this research model. The multicollinearity test aims to test whether the regression model is found to be correlation between independent variables. A good regression model should not be correlated among independent variables (Ghozali, 2013). Here is presented multicollinearity detection method by analyzing correlation matrix among the independent variables in table 7 below.

Table 7. Correlation Matrix

		Constant	UK	PM	LnTa
Step 1	Constant	1.000	.164	-.032	-.990
	UK	.164	1.000	-.071	-.231
	PM	-.032	-.071	1.000	-.009
	LnTa	-.990	-.231	-.009	1.000

Source: Output SPSS, 2016

In the table 7 above, it is shown that there is no correlation coefficient value between the independent variables above 0.90, so it can be concluded that there are no symptoms of multicollinearity among the independent variables. The parameter estimation can be done through the regression coefficient. The regression coefficient of each tested variable shows the relationship between the variables. Hypothesis testing is done by comparing probability value with the significance level (α). In the logistic regression output, the parameter estimation and interpretation can be seen in the output of SPSS variable in the equation. Here are the results of parameter estimation and its interpretation for the variable in the equation.

Table 8. Parameter Estimation and Interpretation

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	UK	-2.019	.379	28.355	1	.000	.133
	PM	.412	.474	.754	1	.385	1.510
	LnTa	.175	.101	2.970	1	.085	1.191
	Constant	-3.229	1.442	5.011	1	.025	.040

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	UK	-2.019	.379	28.355	1	.000	.133
	PM	.412	.474	.754	1	.385	1.510
	LnTa	.175	.101	2.970	1	.085	1.191
	Constant	-3.229	1.442	5.011	1	.025	.040

Source: Output SPSS, 2016

$Ln\ \frac{p(SWITCH)}{1-P(SWITCH)}$ = -3.229 + (-2.019)UK+0.412PM+0.175LnTa+e

The logistic regression result shows that the odds ratio for UK variable (size of KAP) is 0.133. Since the coefficient B is negative and the data is qualitative where 1 for audited companies by Big 4, and 0 for audited companies by non-Big 4, the value can be interpreted that if the Management Turnover and Size of KAP are considered constant, then the probability of the companies to switch from Big 4 to non Big 4 is down by 0.133 times lower for those performing auditor switching compared to those that do not.

Hypothesis 1 states that the size of KAP partially negatively affects the auditor switching. The test results of the logistic regression show that the size of KAP used by the company has negative regression coefficient of -2.019 and significance value of 0,000, which means Ha is accepted, because the significance value is less than 0.05. So, it can be concluded that H1 is supported and hypothesis 1 is accepted. The test results that generate a negative influence direction indicate that companies that have used the Big Four KAP services have less possibility to conduct auditor switching. The selection of KAP will determine the audit switching, so that the companies will prefer Big 4 KAP to increase their credibility before the market participants.

Hypothesis 2 states that the management turnover has no positive influence on the auditor switching. The test results of the logistic regression show that the management turnover conducted by the company has a positive regression coefficient value of 0.412 with the significance value of 0.385, which means Ha is rejected, because the value of significance is greater than 0.05. Thus, it can be concluded that H2 is unsuccessful, and hypothesis 2 is rejected. Although there is a management turnover, it is not necessarily that the new management will do the auditor switching. KAP that has conducted an audit on the company has been raising quality audit reports. Therefore, the new management does not necessarily do auditor switching by performing new KAP selection, because the new management think if they perform the switching, new KAP will start from the beginning again to study the company, so they are afraid if the audit report issued by KAP will not meet their expectations.

Hypothesis 3 states that size of company has no positive effect on the auditor switching. Test results of the logistic regression shows the size of company in this study seen from total assets have a positive regression coefficient value of 0.175 with the significance value of 0.085 which means Ha is rejected, because the value of significance is greater than 0.05. Thus, it can be concluded that H3 is unsuccessful, and hypothesis 3 is rejected. Based on the description above, when the size of the company-in this case the total assets of the company-begins to rise, then the company do not need to hold the auditor switching by replacing the KAP to non Big 4, because they already use the services of Big 4 KAP. In addition, when the size of the company-in this case the total assets of the company-is getting increased, then the companies do not need to replace the KAP, because if they do, the new KAP will cause a decrease in audit quality results, because it will takes time to adapt in auditing the companies.

CONCLUSIONS

Based on the results obtained through the logistic regression testing and discussion as described earlier, it can be concluded as follows: The test results by using logistic regression in this study indicate that there is a negative influence of the size of KAP toward the auditor switching. (H1 is accepted); The results of logistic regression in this research show that there is no influence of the management turnover on the auditor switching (H2 is rejected); the results of testing using logistic regression in this research indicate that there is no influence of the size of the company toward the auditor switching (H3 is rejected). For further research on the Auditor Switching, it is expected to apply the latest Minister of Finance's Decree (2015). For the Size of Company, the measurement can be done by using formulas other than the total asset logarithm.

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