



Empirical Study of Public Accounting Firm Changes on The Company after The Emergence of The Public Accounting Firm Regulatory Liability

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Article History

Received September 2016
Approved October 2016
Published November 2016

Keywords:

Financial Distress; Going Concern Opinion; Management Changes; Profitability

Abstrak

Penelitian ini bertujuan untuk menganalisis pengaruh pergantian manajemen, financial distress, opini going concern dan profitabilitas terhadap pergantian Kantor Akuntan Publik (KAP). Populasi dalam penelitian ini adalah perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) tahun 2011-2014 yang terdiri dari 90 perusahaan. teknik pengambilan sampel adalah metode purposive sampling yang menghasilkan sampel sebanyak 28 perusahaan. Metode analisis data menggunakan analisis statistik deskriptif dan analisis regresi logistik. Hasil penelitian menunjukkan bahwa variabel pergantian manajemen, financial distress, opini going concern dan profitabilitas secara simultan berpengaruh terhadap pergantian KAP. Sementara itu, variabel pergantian manajemen, financial distress, opini going concern secara parsial berpengaruh terhadap pergantian KAP, variabel profitabilitas tidak berpengaruh secara parsial terhadap pergantian KAP.

Abstract

The purpose of this research are to analyze the influence of management changes, financial distress, going concern opinion and profitability toward Public Accounting Firm switching. The population of this study was the manufacturing companies listed in Indonesia stock Exchange for year of 2011-2014 which consisted of 90 companies. The sampling technique was purposive sampling method which resulted for 28 samples. The data analysis method used descriptive statistic analysis and logistic regression analysis. The result of this study showed that the variables of management changes, financial distress, going concern opinion, and profitability affected simultaneously toward Public Accounting Firm switching. On the other hand, management changes, financial distress, going concern opinion affected partially toward Public Accounting Firm switching, but profitability did not affect partially toward Public Accounting Firm switching.

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ISSN 2252-6765

INTRODUCTION

Financial statements provide the information needed for interested parties such as investors, managers, creditors and governments. Asymmetric financial information or false financial information has the potential to create a conflict of interest between the management of the company and the users of the financial statements coming from outside the company. Reliability is one of the main qualitative attributes of a financial statement and therefore an independent third party is required to assess the fairness of a company's financial statements. A third party who can guarantee the quality of the financial statements is known as a public accountant or auditor who has been registered in Capital Market Supervisory Board and Financial Institution (Bapepam LK).

The Government of Indonesia, through Ministerial decree of Finance No.17 / PMK.01 / 2008, requires companies to replace KAP that have received six consecutive years of audit assignments and auditor switching for three consecutive years. The implementation of mandatory rotation requirement is also based on the theoretical reason that the implementation of auditor and KAP rotation in the company is expected to improve auditor independence. Jensen and Meckling in Suparlan and Andayani (2010) when the principal appoints agents as managers and decision makers for the company, at which point an agency relationship exists between shareholders and managers. In agency theory, independent auditors act as mediators between agents and principles that have different interest. Independent auditors also have function to reduce agency costs arising from selfish behaviour by agents (managers). Thus, to prevent the loss of the auditor independence, the government regulates auditor's rotation obligations. Test on the effect of management changes variable has been done by Sinarwati (2010) who found that management changes is one of significant variables affecting KAP switching, while Aprillia (2013) proves that management changes does not have effect on KAP switching.

According to Baldwin and Scott in Wijayanti (2011) financial distress is a company experiencing financial distress if the company cannot meet its financial obligations. This contradicts the findings of Wijayanti (2010) who found that companies that experiencing financial difficulties is not the cause of replacing KAP. The variable of going concern opinion in Andra's study (2012) found evidence that auditors are more likely to be replaced when issuing going concern opinion. While in research Sinarwati (2010) going concern opinion does not affect KAP switching.

Variable of profitability has been done by Rochmat (2014) and Arsih (2015) who found evidence that the profitability measured using ROA does not affect the KAP changes. This study refers to research conducted by Sinarwati (2010) that examines the factors that affect the company to switch the KAP. The research uses variables of going concern, management changes, auditor reputation, financial distress, and auditor changes. The sample used in her research is manufacturing companies listed on the BEI in the period 2003-2007. While in this study, researchers want to re-examine management changes, financial distress, going-concern opinion and profitability because of inconsistent results from previous studies. The sample in this research is manufacturing companies listed on IDX year 2011-2014. This research is different from previous research because it uses profitability variable that will be examined as a factor affecting on KAP switching. The results of this study are expected to contribute in the discipline of economics, material information on the profession of public accountants regarding the practice of KAP switching, and provide insight into the development of auditors, especially regarding KAP switching.

Hypothesis of the research

H1: Management changes has a positive effect on KAP switching

H2: Financial distress positively affects on KAP switching

H3: Going concern opinion negatively affects KAP switching

H4: Profitability negatively affects on KAP switching

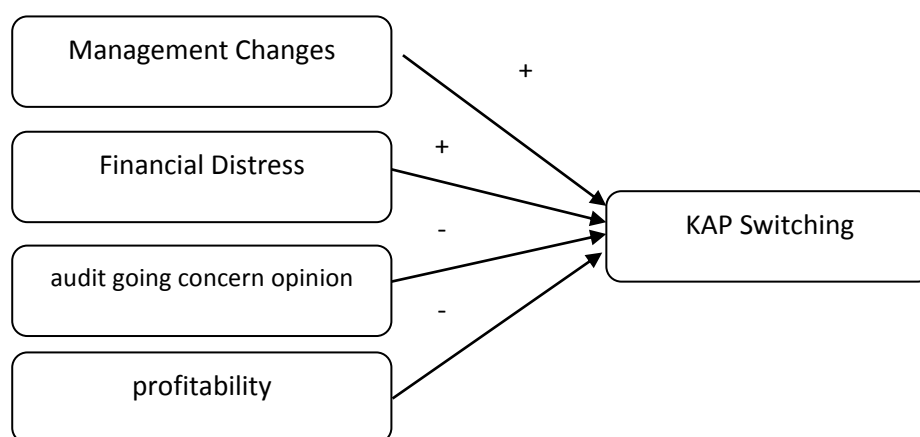


Table 1. Theoretical Framework

METHODS

This study used secondary data obtained with documentation. The population in this study was manufacturing companies listed on the Indonesia Stock Exchange during 2011-2014 amounted to 124 companies. From 90 companies, the samples were 27 companies in each year, while the total observation taken as the sample of this study was a number of 108 companies. The methods used were descriptive analysis and inferential analysis with logistic regression from SPSS.

KAP switching was a change of KAP conducted by the company either voluntary or mandatory. If the company conducted voluntarily, then it was given score 1, whereas if the company did not conduct KAP switching voluntarily then given score 0. Management changes was if the company replaced the directors. If there was a change of company management then given score 1, whereas if there was no change of management then given score 0.

Financial distress was a company condition that was in a period of financial difficulties, in this study by using DER analysis method, where total debt divided by total equity. Going concern opinion was an opinion conducted by auditor to determine whether the company could maintain its survival. If the company get a going concern opinion then given score 1, whereas if not then given score 0. Profitability was the company's ability to earn profits from business activities that it did. Profitability measured the level of profit generated by the company. This variable was measured using ROE in which ROE was calculated using profit after tax divided by equity.

RESULTS AND DISCUSSIONS

From table 1 the results of the analysis using descriptive statistics on the management changes (PMAN) which was the comparison of the change of president of the board of directors in year t and t-1 showed the minimum value of 0, the maximum value of 1 with an average of 0.30 or 30%. This meant that average sample companies experienced a growth of 30% compared to the previous year. Analysis result using descriptive statistics on financial distress (FD) measured using DER is the ratio of total debt divided by equity showed the minimum value of -2, the maximum value of 8 with an average of 1.51 or 151%. This meant the companies have grown by 151% compared to the previous year.

The result of analysis by using descriptive statistics to opinion of going concern (OGC) opinion which was the result of going concern opinion in year t-1 showed the minimum value of 0,

the maximum value of 1 with an average of 0.18 or 18%. This meant that average companies get a going concern opinion 18% compared to the previous year. Analysis results by using descriptive statistics on profitability which was measured using ROE was the ratio of the total profit after tax divided by equity showed the minimum value of -0.389, the maximum value of 0.881 with an average of 0.190 or 19%. This meant that average companies have increased profitability by 19% compared to the previous year.

Table 1. Result of descriptive statistics test

	N	Minimum	Maximum	Mean	Std. Deviation
PKAP	108	0	1	0.30	0.459
PMAN	108	0	1	0.30	0.459
FD	108	-1.579	7.720	1.51382	1.681267
OGC	108	0	1	0.18	0.383
ROE	108	-0.389	0,881	0.19	0.287
Valid N (listwise)	108				

Initial -2LL value was 131.262. After the four independent variables were included, the final -2LL value decreased to 87.920. This decrease of likelihood (-2LL) showed a good regression model or in other words the model hypothesized fit with data.

Table 2. Comparison between initial -2LL and final -2LL

Initial -2LL (block number = 0)	131,262
Final -2LL (block number = 1)	87.920

The testing showed a chi-square value of 10.241 with significance (p) of 0.249. Based on the result, due to the value of significance was greater than 0.05, then the model could be concluded being able to predict the value of observation.

Table 3. Coefficients of Determination

Step	-2 likelihood	Log Cox & Snell R Square	Nagelkerke R Square
1	87.920a	.331	.470

Classification matrix indicated predictive power of the regression model to predict the possibility of Public Accounting Firm (KAP) displacement done by company. The predictive power of the regression model to predict the possibility of the company performing KAP switching was 59.4%. This showed that using the regression model used there were companies (59,4%) which predicted would make KAP switching from total of 32 companies that did KAP switching. The predictive power of the company model that did not do KAP switching was 90.8%, which meant that with the regression model used there were 69 companies (90.8%) predicted not to switch the KAP from the total 82 companies, 76 companies did not switch KAP.

Table 4. Classification matrix

Observed		Predicted		Percentage Correct
		PKAP Not	Change	
Step 1	PKAP Not	69	7	90.8
	Change	13	19	59.4
Overall Percentage				81.5

Source: SPSS output

In logistic regression output, parameter estimation and its interpretation could be seen on SPSS output in table 5.

Table 5. Variable in the equation

	B	S.E.	Wald	Sig.
Step 1 ^a				
PMAN	2.348	0.572	16.855	0.000
FD	0.605	0.179	11.433	0.001
OGC	0.197	0.769	0.066	0.798
ROE	-2.676	1.223	4.789	0.029
Constant	-2.414	0.517	21.784	0.000

a. Variable(s) entered on step 1: PMAN, FD, OGC, ROE.

Hypothesis 1 stated that the management changes had a positive effect on KAP switching. Test result of the logistic regression showed that the management changes conducted by the company had a positive regression coefficient value of 2.348 with a significance value of 0,000 which meant H1 was accepted. The result of this study supported research conducted by Sinarwati (2010) but did not support research conducted by Aprilia (2013). The result showed that the management changes were always followed by the change of corporate policy in using the services of a KAP. Hypothesis 2 stated that financial distress positively affected on KAP switching. Test result of the logistic regression showed that financial distress had a positive coefficient of 0.605 with a significance value of 0.001, which meant H2 was accepted. This research supported Sinarwati's research (2010) but did not support Wijayanti's research (2010). High DER ratio showed a high debt level with low equity so that it had impact greater company's load on the outside party (creditor) and in this condition, the company would experience financial distress.

Hypothesis 3 stated that going concern opinion had a negative effect on KAP switching. Test result from the logistic regression showed that the opinion of going concern had a positive coefficient of 0.197 with a significance value of 0.798 which meant H3 was accepted. The result of this study supported the findings of Andra (2012) who found that auditors were more likely to be replaced if issued a going concern opinion. But this study did not support research conducted by Sinarwati (2010). This indicated that although the company obtained the opinion of going concern on the previous period's financial statements this did not cause the company to make KAP switching.

Hypothesis 4 stated that profitability negatively affected on KAP switching. Test result from the logistic regression showed that profitability had a negative coefficient of -2.676 with a

significance value of 0.29 which meant H4 was rejected. The result of this study supported the research of Ashbaugh et al (2003) in Suparlan and Andayani (2010) which made ROE as a control variable in his research for factors that determined the selection of auditors by clients. This showed that although the company had a low profit return level on the financial statements this caused the company to switching the KAP.

CONCLUSIONS

Based on the result of testing by using logistic regression in the study, it shows that there are simultaneous effect of variables of management changes, financial distress, going-concern opinion, and profitability. Based on the results of testing by using logistic regression in the study indicates that partially there is the effect of variables of management changes, financial distress, going concern opinion on KAP switching at manufacturing companies, whereas profitability variable partially does not have effect on KAP switching at manufacturing companies. The least of analysis unit findings on the acceptance of company's going concern audit opinion should be taken into consideration in further research, because it will affect data analysis process of the research. Notice the comparison of percentage data of corporate events that do not switching KAP greater than the number of percentage of corporate events that do KAP switching, it becomes an interesting issue when it is examined further on the next research topic.

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