

The effect of public accounting firm size, financial distress, institutional ownership, and management change on the auditor switching in manufacturing companies listed in Indonesia Stock Exchange

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ARTICLE INFO

Article history:

Received 15 September 2013

Revised 20 December 2013

Accepted 1 January 2014

JEL Classification:

M40

Key words:

Auditor Switching,
Accounting Firm Size,
Financial Distress,
Institutional Ownership,
Management Change.

DOI:

10.14414/tiar.14.040210

ABSTRACT

The purpose of this study is to examine the effect of public accounting firm size, financial distress, institutional ownership, and management change on auditor switching in the manufacturing companies listed in Indonesia Stock Exchange (IDX) from 2007 to 2012. The total samples in this research are 294 companies selected by using purposive sampling method based on specific criteria. Data are collected using secondary data from manufacturing companies listed in Indonesia Stock Exchange. The hypothesis is analyzed with Logistic Regression using SPSS's program 20.0 version for windows. The result of this research indicates that public accounting firm size has significant effect on auditor switching, meanwhile financial distress, institutional ownership, and management change do not have significant effect on auditor switching.

ABSTRAK

Tujuan dari penelitian ini adalah untuk menguji pengaruh akuntansi ukuran umum perusahaan, financial distress, kepemilikan institusi, dan perubahan manajemen terhadap auditor switching dalam perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) dari 2007 sampai 2012. Total sampel dalam hal ini penelitian adalah 294 perusahaan yang dipilih dengan menggunakan metode purposive sampling berdasarkan kriteria tertentu. Data dikumpulkan dengan menggunakan data sekunder dari perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia. Hipotesis dianalisis dengan Regresi Logistik menggunakan SPSS's program 20.0 version for windows. Hasil penelitian ini menunjukkan bahwa ukuran kantor akuntan publik berpengaruh signifikan terhadap auditor switching, sementara financial distress, kepemilikan institusi, dan perubahan manajemen tidak memiliki pengaruh yang signifikan terhadap auditor switching.

1. INTRODUCTION

The financial statement presented by a company provides a wide range of information that is used as a tool for decision making either for internal party or external party of the company. Financial statement should contain qualified information that can be used as a basis to make decision appropriately. Statement of Financial Accounting Concepts (SFAC) No. 2 describes the characteristics of qualified information which are relevant and reliable (Boynton et al. 2002: 53).

To ensure that the company's financial statement contains qualified information, the financial

statement itself must be audited by an auditor. The auditor is required to be independent and objective in providing audit services (Ekka Aprillia 2013). Mulyadi (2002: 26) defined independent as "the mental attitude that is free from influence, not controlled by other parties, and not depend on others", while objective is "fair attitude, impartial, intellectually honest, not prejudiced or biased, and free from conflict of interest or under the influence of the other parties."

The auditor's important role makes the need for audit services increase significantly, especially with the rapid growth of public companies. Public accounting firms will then compete for clients

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(companies) by providing the best possible audit services, thus the company has the option whether to continue using the same public accounting firm or to change the public accounting firms, or commonly known as auditor switching. According to Susan and Estralita Trisnawati (2011), auditor switching can be divided into mandatory auditor switching and voluntary auditor switching.

Mandatory auditor switching is carried out in accordance with the Regulation of the Minister of Finance of the Republic of Indonesia No. 17 / PMK.01 / 2008, (a refinement of the Minister of Finance Decree No. 359 / KMK.06 / 2003 and No. 423 / KMK.06 / 2002). While voluntary auditor switching is carried out when there are no regulations that require making switching (Susan and Estralita Trisnawati 2011). In Indonesia, voluntary auditor switching is often done by companies. According to Aprilia Ekka (2013), of 37 banking companies listed in Indonesia Stock Exchange (IDX) from 2004 to 2011, as many as 23 companies of which carry out auditor switching voluntarily, and according to Ni Kadek Sinarwati (2010), of the 155 companies listed in Indonesia Stock Exchange from 2003 to 2007, as many as 153 companies of which also carry out auditor switching voluntarily.

The research on auditor switching is very interesting because when a company carries out auditor switching out of the Regulation of the Minister of Finance of the Republic of Indonesia, this will raise questions and suspicions from investors to know the causative factors. For example, the research conducted by Nasser et al. (2006) was able to prove the effect of the client size, public accounting firm size, and financial distress on the auditor switching, while the research conducted by Endina Sulistiarini and Sudarno (2012) showed that public accounting firm size and management change affect the auditor switching. On the other hand, the research conducted by Ni Kadek Sinarwati (2010) provided empirical evidence that public accounting firm size does not affect the auditor switching.

This study aims to obtain empirical evidence whether public accountant firm size, financial distress, management change, and institutional ownership affect the auditor switching. The result of this study is expected to be useful for the researches relating to auditor switching.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Agency Theory

Agency theory explains that there are conflicts of interest between the agent (manager) and principal

(owner) (Jensen and Meckling 1976 in Ni Kadek Sinarwati 2010). The conflicts of interest between the agent and principal arise because of the contract defined by the principal who uses the agent to carry out the services for the interest of the principal. Both principal and agent want to gain profit as big as possible. Both parties also want to avoid the risk that possibly occurs (Jensen and Meckling 1976 in Endina Sulistiarini and Sudarno 2012).

In management, agent (manager) is the right person to run the company. In general, he knows the information about the position of the financial statements and the results of operations of the company better than the principal (owner). Hence, to avoid manipulation of the financial reporting by the manager, it is required to employ a role of the independent auditor. The important role of independent auditor makes the need for audit services increase significantly. Public accounting firms will then compete for clients by trying to provide the best possible audit services, so, in this case, the company has the option whether to continue using the same auditor or to change the public accounting firms, or commonly known as auditor switching.

In addition, conflicts of interest between the agent and the principal trigger the change in management (Jensen and Meckling 1976 in Ni Kadek Sinarwati 2010). Changing in company management is followed by the change of policy in the field of accounting, finance, and the election of auditor (Nagy 2005 in Shulamite Damayanti and Made Sudarma 2008). The new management will usually apply new accounting method and tend to seek the auditor who is in line with the accounting reporting and policies, so that the new management will propose to the board of commissioners through General Meeting of Shareholders to carry out auditor switching (Ni Kadek Sinarwati 2010).

Indonesian Government Regulations Regarding Mandatory Rotation of Auditors

In Indonesia, the regulations governing audit tenure are the Minister of Finance Decree No. 359/KMK.06 / 2003 on "Public Accountant Services" article 2, paragraph 1 and 2 (a change of Minister of Finance Decree No. 423/KMK.06/2002, in effect since September 30, 2002). The Decree was then updated with the Minister of Finance Regulation No. 17/PMK.01. 2008 on "Public Accountant Services" article 3, paragraph 1 and 2 in effect from February 5, 2008.

The Minister of Finance Regulation No. 17/PMK.01.2008 on "Public Accountant Services" also includes some sanctions in case of violation. Article 63 states that in the event of the violation of

article 3, it is included in serious violation and will be subjected to license suspension sanction, whereas in Article 73 states that "the public accounting firm that is being penalized license suspension is prohibited from providing services to clients and barred from applying for the closure of the public accounting firm".

Auditor Switching

In Indonesia, Auditor Switching means the change of public accountant firm conducted by the client company (Ekka Aprillia 2013). There are many terms used for the change of public accountant firm. The researches conducted by Ekka Aprillia (2013), Yanwar Titi Prastitis (2012), and Nasser et al. (2006) call it as auditor switching, while the research conducted by Shulamite Damayanti and Made Sudarma (2008) calls it as auditor changes, on the other hand the researches conducted by Divianto (2011) and Susan & Estralita Trisnawati (2011) call it as auditor switch. This study calls the change of public accounting firm as auditor switching because most previous researchers use this term.

The important role of independent auditor makes the need for audit services increase significantly. The growing need for audit services affect the growth of public accounting profession in Indonesia. Thus, it makes the public accountant firms compete for clients by trying to provide the best possible audit services, so the client company, in this case, has the option whether to continue using the same public accountant firm or to change the public accounting firm. According to Susan and Estralita Trisnawati (2011), the change of public accounting firm can be divided into mandatory switching and voluntary switching. Mandatory switching is conducted in accordance with the Regulation of the Minister of Finance of the Republic of Indonesia No. 17 / PMK.01 / 2008, while voluntary switching is done when there are no regulations that require the switching.

Public Accounting Firm Size

Public accounting firm is a term used for the firm that is responsible for auditing the financial statements of a company (Elder et al. 2011: 19). The designation of public accounting firm reflects the fact that the auditors who expressed an opinion on financial statements must be licensed as a public accountant. There are 500 public accounting firms operating in Indonesia, consisting of big and small public accounting firms.

The size of public accounting firm, in this study, is divided into two groups; big public ac-

counting firm, which affiliates the big four, and small public accounting firm, which does not affiliate the big four. The size of public accounting firm is usually associated with the audit quality. Shockley and Holt (1983), Eichenser and Danos (1983), William (1988), and Francis and Wilson (1988) in Divianto (2011), stated that public accounting firm size has an effect on audit quality. Thus, when compared with the small public accounting firm, the big public accounting firm has better ability in conducting the audit, so as to be able to produce a higher quality audit. Most companies choose the public accounting firm, with higher quality, to improve the quality of financial reporting and to enhance the company's reputation in the eyes of the users of financial statement (Halim 1997: 79-80 in Divianto 2011).

Public accounting firms that affiliate the big four are Price Waterhouse Coopers (PWC), Klynveld Peat Marwick Goerdeler (KPMG), Ernesd & Young (E & Y), and Deloitte Touche Thomatsu (Deloitte) (Elder et al. 2011: 34). The big four public accounting firms audit nearly all big companies in Indonesia and the world as well as smaller companies.

Financial Distress

Financial distress is a condition in which a company is experiencing financial difficulties. It begins when the company is not able to pay all or part of the debt (liabilities) which is due at the time billed. The inability of the company to pay its obligation, especially short-term debt, is caused by several factors. First, the company does not have any funds. Second, the company has the funds but at the due date the company does not have the funds in cash so it has to wait in certain time to unfreeze other assets such as collecting receivables, selling securities, and selling stock or other assets (Kasmir 2008: 128).

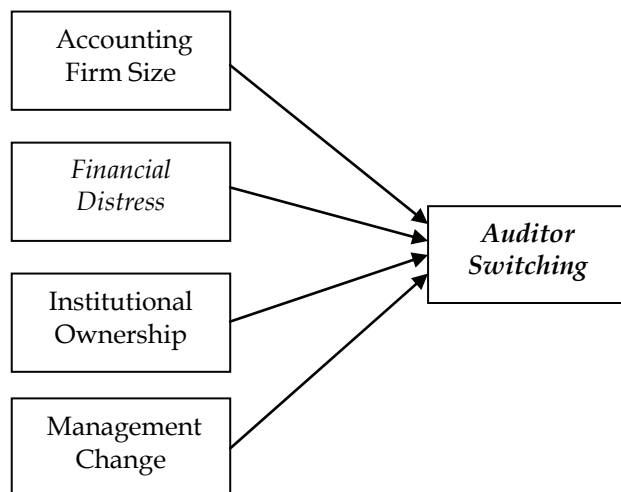
One way to determine the financial distress of a company is using solvency ratio. Solvency ratio is a ratio used to measure the extent to which the company's assets are financed with debt.

Institutional Ownership

Institutional ownership (investor) is defined as the percentage of shares held by the institution (Beiner et al. 2003, in Muh.Arief Ujiyantho and Bambang Agus Pramuka 2007). Siregar and Utama (2006) in Welvin I Guna and Arleen Herawaty (2010) called institutional ownership as the stocks ownership by financial institutions such as insurance companies, banks, pension funds, and investment banking.

Shleifer et al. (1997) in Suparlan and Wuryan Andayani (2010) stated that "institutional owner-

Figure 1
Research Framework



ship has a role in overseeing the manager's behavior to be always careful in making a decision". Institutional ownership also determines an increase in the demand for audit quality (Chan et al. 2007). Therefore, if the majority of the company's shares are owned by institutions, there is possibility that the company will switch from low-quality auditor to high quality auditor, so that it triggers the change of public accounting firm.

Management Change

Jensen and Meckling 1976 in Endina Sulistiarini and Sudarno (2012) argued that the conflicts of interest between the agent (manager) and principal (shareholders) arise because of the contract defined by the principal of using an agent to carry out services for the interest of the principal. Based on the above arguments it can be concluded that the contract between the principal and the agent is an agreement in which the owner or the shareholder of the company appoints a manager to manage the company.

Management change is the replacement of company's directors as a result of the decision of the General Meeting of Shareholders or the directors quit because of their own accord (Endina Sulistiarini and Sudarno 2012). According to Nagy (2005) in Shulamite Damayanti and Made Sudarma (2008), the change of company management is followed by the change of policy in the field of accounting, finance, and the election of public accounting firm. The company will seek for public accounting firm that is in line with its accounting and reporting policies and require qualified auditors who are able to meet the demands of the rapid growth of the company. If this cannot be fulfilled, the company will possibly replace its auditors (Joher et al. 2000, in the Susan and Estralita Trisnawati 2011).

The underlying framework of this research is presented in Figure 1. Based on the theoretical basis, the research hypothesis is formulated as follows:

H1: Public accounting firm size affects auditor switching in manufacturing companies listed in Indonesia Stock Exchange.

H2: Financial distress affects auditor switching in manufacturing companies listed in Indonesia Stock Exchange.

H3: Institutional ownership affects auditor switching in manufacturing companies listed in Indonesia Stock Exchange.

H4: Management change affects auditor switching in manufacturing companies listed in Indonesia Stock Exchange.

3. RESEARCH METHOD

This research type is descriptive research. The data used are secondary data in the form of financial statements of companies listed in Indonesia Stock Exchange (IDX) from 2007 to 2012. The method used in collecting the sample is purposive sampling method.

Operational Definition and Variable Measurement **Dependent Variable**

Auditor switching is the change of public accounting firm performed by the client company, both mandatory and voluntary. Mandatory change of public accounting firm is conducted in accordance with the Regulation of the Minister of Finance of the Republic of Indonesia No. 17/PMK.01/2008, while voluntary change of public accounting firm is conducted when there are no regulations that require the change. Auditor switching, in this study, is voluntary in nature. Voluntary auditor switching means that when the company replaces the old public accounting firm with the new one, at least twice within a period of six years without following the regulations set by the government regarding the rotation of public accounting firm. The variable of auditor switching is measured using a dummy variable. If a company performs voluntary auditor switching, then it is given a value of 1, otherwise it is given a value of 0 (Nasser et al. 2006).

Independent Variable

Public accounting firm size is divided into two groups; big public accounting firms, which affiliates the big four, and small public accounting firms, which do not affiliate the big four. The variable of public accounting firm size is measured using dummy variable. If a company is audited by a big public accounting firm, then it is given a value of 1,

and if a company is audited by a small public accounting firm, then it is given a value of 0 (Ekka Aprillia 2013).

Financial distress is a condition in which a company is experiencing financial difficulties. The company which is experiencing financial distress tends to perform auditor switching (Schwan and Soo 1995 in Endina Sulistiarini and Sudarno 2012). In this study, the variable of financial distress is proxied by Debt to Equity Ratio (DER) which refers to the research of Ni Kadek Sinarwati (2010), Suparlan and Wuryan Andayani (2010), and Endina Sulistiarini and Sudarno (2012). The safe level of DER ratio is 100%. The DER ratio above 100% is one of indicators of the deteriorating financial performance so that the company will experience financial distress (Ni Kadek Sinarwati 2010). In this study, the variable of financial distress is measured using dummy variable. If a company has DER ratio more than 100%, then it is given a value of 1 and if a company has DER ratio less than or equal to 100%, then it is given a value of 0 (Endina Sulistiarini and Sudarno 2012).

Institutional ownership is defined as the percentage of shares held by institutions (Beiner et al. 2003, in Muh.Arief Ujijantho and Bambang Agus Pramuka 2007). Institutional investors, in this study, are government, investment companies, insurance companies, pension funds, mutual funds, banks, and other organizations or institutions. In this study, the institutional ownership variable is measured based on the percentage of shares owned by institutional investors compared to the number of shares outstanding.

Management change is the replacement of company's directors or Chief Executive Officer (CEO) caused by the decision of the General Meeting of Shareholders or the directors quit because of their own accord (Endina Sulistiarini and Sudarno 2012). In this study, the variable of management change is measured using dummy variable and is proxied by the change of chief executive officer (CEO) because the CEO is the supreme leader who has full authority in determining the company policy (Nur Wahyuningsih and I Ketut Suryanawa 2011). If the company replaces CEO, it is given a value of 1 and if the company does not replace CEO, then it is given a value of 0 (Ekka Aprillia 2013).

Data Analysis Technique

The test tool used is logistic regression analysis. The reason for the use of this test tool is because the dependent variable is dichotomous in nature (performing auditor switching and not performing auditor switching). The use of logistic regression

method does not require the assumption of normality of the data because the size of variable is a mixture of metric and non-metric (Imam Ghazali 2011: 333). The stages of the test are as follows:

Descriptive Statistics

Descriptive statistics are used to describe the data obtained by each variable of the study without intending to make generally accepted conclusions. The descriptive statistics used in this study try to describe or explain the various characteristics of the data, such as the mean, standard deviation, maximum and minimum.

Logistic Regression Model

The test tool used in this study is *logistic regression* analysis that is by seeing the effect of public accounting firm size, financial distress, institutional ownership and management change on auditor switching in manufacturing companies listed in Indonesia Stock Exchange. The formula used is as follows;

$$SWITCH = \beta_0 + \beta_1 KAP + \beta_2 DER + \beta_3 INST + \beta_4 CEO + e \quad (1)$$

Where :

$SWITCH$ = auditor switching

β_0 = constant

$\beta_1 - \beta_4$ = regression coefficient

KAP = firm size

DER = financial distress

$INST$ = institutional ownership

CEO = change of management

e = residual error.

-2Log Likelihood (-2LL)

The first step is to assess the overall fit model to the data. The hypothesis used to assess the fit model is as follows:

H0: The hypothesized model fits the data.

HA: The hypothesized model does not fit the data.

From this hypothesis, it is obvious that the null hypothesis is not rejected in order that the model fits the data. The statistics used are based on the likelihood function. The Likelihood L of the model is the probability that the model which is hypothesized describes the input data. To test the null and alternative hypothesis, L is transformed into -2Log Likelihood. The decrease in likelihood (-2LL) indicates that the regression model is better, or the hypothesized model fits the data (Imam Ghazali 2011: 340).

Hosmer and Lemeshow's Goodness of Fit Test

The feasibility of regression models is assessed using Hosmer and Lemeshow's Goodness of Fit Test. The hypothesis to assess the feasibility of logistic

Table 1
Sample Selection Process with Criteria

Sample Criteria	Number of Companies
The number of manufacturing companies listed in Indonesia Stock Exchange from 2007 to 2012	131
The number of observations from 2007 to 2012	786
Financial statement data are not available in full from 2007 to 2012	(82)
The number of sample companies	49
Observation year (year)	6
The number of total samples during the study period	294

regression models is as follows:

H0: There is no difference between the model and the data.

HA: There is difference between the model and the data.

If the value of Hosmer and Lemeshow's Goodness of Fit Test Statistics is equal to or less than 0.05, the null hypothesis is rejected, which means that there are significant differences between the model and its observation value, so the goodness of fit model is not good because the model cannot predict the value of its observation. If the value of Hosmer and Lemeshow's Goodness of Fit Test Statistics is greater than 0.05, then the null hypothesis cannot be rejected and this means that the model is able to predict the value of its observation, or it can be said that the model is acceptable because the model fits the data of its observation (Imam Ghozali 2011: 341).

Nagelkerke Rsquare

Cox and Snell's R Square is a measure that seeks to imitate the size of R^2 in *multiple regressions* based on the likelihood estimation technique with the maximum less than one so that it is difficult to interpret. *Nagelkerke R Square* is a modification of the *Cox and Snell* coefficient to ensure that its value varies from zero to one. This is done by dividing the value of *Cox and Snell RSquare* with its maximum value. The value of *Nagelkerke RSquare* can be interpreted as the value of R^2 in multiple regressions. The small value means that the ability of the independent variables in explaining variation in the dependent variable is very limited. The value which is close to one means that the independent variables provide almost all the information needed to predict variation in the dependent variable (Imam Ghozali 2011: 341).

Hypothesis Test

The hypothesis testing of the effect of public accounting firm size, financial distress, institutional ownership, and management change on auditor switching is done by using Wald test. The hypothesis testing using Wald test is aimed at determining the effect of each independent variable on the de-

pendent variable partially. If the Wald test result of the independent variables produces a significance value <0.05 , then the variables significantly affect the dependent variable.

4. DATA ANALYSIS AND DISCUSSION

The manufacturing companies listed in Indonesia Stock Exchange during the period 2007 - 2012 are 131 companies. This means that of the 131 companies there are 786 observations. The manufacturing companies that can serve as the research sample are 49 companies, as specified only for companies that report its financial statement and listed in Indonesia Stock Exchange for six consecutive years. The total observations that can be used as the research sample are 294 observations (see Table 1).

The subsequent analysis is model test using -2LL, *Hosmer and Lemeshow's Goodness of Fit Test*, and *Nagelkerke RSquare*. The test result of -2LL is shown in Table 2.

The testing is done by comparing the value between -2LogLikelihood of the initial model (*block number* = 0) to the value of -2LogLikelihood (-2LL) of the last model (*block number* = 1). If the value of -2LogLikelihood of the initial model (*block number* = 0) is greater than the value of -2LogLikelihood of the last model (*block number* = 1) then H0 is accepted and HA is rejected, this means that the hypothesized model fits the data.

Table 2 shows that the initial value of -2LogLikelihood, or before the independent variables are included in the model, is 353.598. And then after the independent variables are included in the -2LogLikelihood model, the value is 335.556. This shows that the value of -2LogLikelihood of the last model decreases compared to the value of -2LogLikelihood of initial model. Based on these results, H0 is accepted and HA is rejected, so it can be concluded that the logistic regression model fits the data.

Table 3 shows that *Hosmer and Lemeshow's Goodness of Fit Test* produces *chi-square* value of 9.509 with the significance value of $0.301 > 0.05$, so H0 is accepted and HA is rejected, and it can be concluded that there is no difference between model and data. This shows that the logistic regres-

sion model produced is able to predict the value of its observation, so that the model can be accepted and be used to test the effect of independent variables on dependent variable.

Table 4 shows that the value of *Cox and snell R Square* obtained are 0.060, with *Nagelkerke RSquare* value of 0.085. This shows that voluntary *auditor switching* done by the manufacturing companies listed in Indonesia Stock Exchange is only 8.5% influenced by the factors of public accounting firm size, financial distress, institutional ownership, and management change, while the remaining 91.5% is influenced by other factors which are not studied.

In Table 5, it shows that only variable of public accounting firm size which produces significance value less than 0.05, so H_0 is rejected and H_1 is accepted. Statistically, it can be concluded that public accounting firm size has significant effect on auditor switching. The test result produces the direction of negative effect which shows that the companies that have used the services of big public accounting firm (affiliate the big four) before have smaller possibility to perform auditor switching. Conversely, the companies that have used the services of small public accounting firm (not affiliate the big four) before have greater possibility to perform auditor switching. The companies will continue using the service of big public accounting firm because the big firm has better ability in performing audit, so as to be able to produce higher quality of audit than the small one. The companies hope that the good reputation of the big public accounting firm can generate positive reaction from the investors. The test on variables of financial distress, institutional ownership, and management change produces significance value of Wald test more than 0.05. This can be concluded statistically that the variables of financial distress, institutional ownership, and management change do not have significant effect on auditor switching.

Discussion

Based on the results of hypothesis testing in the logistic regression through the Wald test, it can be concluded that of the four independent variables, public accounting firm size are the size, financial distress, institutional ownership, and management change, only variable of public accounting firm which has significant effect on auditor switching.

The Effect of Public Accounting Firm Size on Auditor Switching

The test result of logistic regression shows that the variable of public accounting firm size has significant

Table 2
Value of -2Log Likelihood

-2Log Likelihood	Value
Block 0	353.598
Block 1	335.556

Table 3
Hosmer and Lemeshow's Goodness of Fit Test

Chi-square	Sig.
9.509	0.301

Table 4
Value of Cox and Snell R Square and Nagelkerke R Square

Cox and Snell R Square	Nagelkerke R Square
0.060	0.085

effect on auditor switching. Thus, this study accepts the first hypothesis (H_1) which states that the public accounting firm size affects auditor switching.

The size of public accounting firm, in this study, is divided into two groups, namely big public accounting firms (affiliate the big four) and small public accounting firms (do not affiliate the big four). The size of public accounting firm is usually associated with audit quality. In general, big public accounting firm has a better ability in conducting the audit, so as to be able to produce a higher quality audit (Halim 1997: 79-80 in Divianto 2011). The test result produces negative effect direction which shows that the companies that have used the services of a big public accounting firm before have small possibility to change the public accounting firm. The existence of the expertise factor of public accounting firm will determine changes in the audit so that the companies will choose the public accounting firm with higher quality to improve the quality of financial reporting and to enhance the company's reputation in the eyes of the users of financial statement. In addition, they think that the credibility of a big public accounting firm is very good and trusted by the public as well as the stakeholders of the company.

The Effect of Financial Distress on Auditor Switching

Financial distress is a condition in which the company is in financial difficulties. It begins when the company is not able to pay all or part of the its debt (liabilities) that is due when billed. The companies that are experiencing financial distress or uncertainty in business tend to perform auditor switching. This is because the company is unable to meet the audit fee charged by public accounting firm

Table 5
The Result of Wald Test

Variable	Wald	Sig.	Description
Accounting Firm	16.779	0.000	Significant
DER	0.000	0.993	Not Significant
INST	0.220	0.639	Not Significant
CEO	0.362	0.547	Not Significant
Constant	1.535	0.215	-

that performs the audit (Schwan and Soo 1995 in Endina Sulistiarini and Sudarno 2012). In addition, Mohammad Hudaib and T.E. Cooke (2005) also stated that the company which is experiencing financial distress tends to perform auditor switching compared to the healthy companies.

The result of logistic regression test, in this study, indicates the opposite that the variable of financial distress has no effect on auditor switching. Therefore, this study rejects the second hypothesis (H2) which states that financial distress affects the auditor switching.

Statistically, the result of this study shows that financial distress is not a driving factor for the company to make auditor switching. The reason is that the start-up costs are high if the company has to change its auditor. While at the time of financial distress, the company is not in a stable condition. Therefore, the management prefers using corporate funds to improve the condition of the company, which is in unstable condition at the time of financial distress, to hiring new auditor. Besides, the company that often performs auditor switching will lead to a negative perception of the shareholders (Wijayanti 2011 in Endina Sulistiarini and Sudarno 2012). Shareholders are parties that provide funds to the company's operations. Therefore, the shareholders' good perception to the company should really be maintained so that the funds will still be given for the operations of the company.

The Effect of Institutional Ownership on Auditor Switching

Institutional ownership is defined as the percentage of shares held by institutions. According to Chan et al. (2007), institutional ownership determines the increase in the demand for audit quality. If the majority of the company shares are owned by institutions, it is possible for the company to switch from low-quality auditor to high-quality auditor, so that it triggers the change of public accounting firm.

The result of logistic regression test, in this study, indicates that the variable of institutional ownership does not affect the auditor switching. This study, therefore, rejects the third hypothesis

(H3) which states that institutional ownership affects the auditor switching.

The result of this study indicates that institutional ownership is not a driving factor for the company to perform auditor switching. The existence of outside party's ownership concentration does not cause the effect that can change the management of the company which initially runs in accordance with the wishes of the company and then it changes to have limitation. This indicates that the concentrated share ownership does not necessarily encourage the company to change the public accounting firm. The company will retain the old public accounting firm to perform audit. This is because concentrated ownership will dominate the minority shareholders. The higher institutional share ownership encourages the decision-making that does not harm all shareholders (Herusetya 2008 in Endina Sulistiarini and Sudarno 2012). This means that there will be no change of public accounting firm although the majority of shares are owned by institutions. The company considers that the frequent change of public accounting firm may cause negative perception that interferes the image of the company.

The Effect of Management Change on Auditor Switching

Management is a group of individuals who are actively planning, coordinating and controlling the course of the company's operations. Management is responsible for applying appropriate accounting policies, maintaining adequate internal controls, and presenting reasonable financial statements. Management change is the change of company's board. Theoretically, the change of company's management is followed by the change of policy in the field of accounting, finance, and election of public accounting firm (Nagy 2005 in Shulamite Dama-yanti and Made Sudarma 2008). The company will seek for public accounting firm which is consistent with its accounting and reporting policies and requires qualified auditors who are able to meet the demands of fast growing company.

However, the result of this study indicates that the variable of management change does not affect

auditor switching. Thus, this study rejects the fourth hypothesis (H4) which states that management change affects auditor switching.

The test result shows that the change of company's management is not always followed by the change of policies in the selection of public accounting firm because the policies and the accounting reporting presented by the old public accounting firm can be aligned with the new management policies by means of re-negotiation between the two parties. The existence of such phenomenon is closely associated with the state of public companies in Indonesia which are majority controlled and run jointly by the people in one family.

Management change is a change that lies within and is controlled by organizations that include changes in technology, vision, mission, reconstruction of manpower, cooperation with other companies, and the production of new program, while the decision to change public accounting firm is a change that occurs outside the organization (Nickols 2000 in Nelly Kawijaya and Juniarti 2002). In addition, the sample companies studied are mostly using the services of a big public accounting firm, therefore auditor switching is rarely done, because the big public accounting firm is able to produce higher audit quality.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

It can be concluded that during the six years of observation (2007-2012) in the manufacturing companies listed in Indonesia Stock Exchange (IDX), the variable of public accounting firm size has significant effect on auditor switching. Big public accounting firms (affiliate the big four) are considered to have a higher quality audits than the small public accounting firms (do not affiliate the big four). The company will select the big public accounting firm to increase the company's credibility in the eyes of capital market participants. The test result shows negative effect direction which means that the company that already use the services of a big public accounting firm has smaller probability to change the public accounting firm.

During the six years of observation (2007-2012) in the companies listed in Indonesia Stock Exchange, the variable of financial distress does not have significant effect on auditor switching. The sample companies still use the services of the old public accounting firm because of the audit fee factor, in which the company will adjust the audit fee in accordance with the company's financial ability. The company does not perform auditor switching

because it requires extra cost.

During the six years of observation (2007-2012) in the companies listed in Indonesia Stock Exchange, the variable of institutional ownership does not have significant effect on auditor switching. The concentrated share ownership does not encourage companies to change public accounting firm. This indicates that the public accounting firm that has made the audit in the company will still be maintained by the company although the share ownership of the institutions is getting greater.

During the six years of observation (2007-2012) in the companies listed in Indonesia Stock Exchange, the variable of management change did not have significant effect on auditor switching. The change of company's directors did not change the policy of the company in the selection of the public accounting firm. The accounting and reporting policies of the old public accounting firm can still be aligned with the new management policies by means of re-negotiation between the two parties.

The limitations of this study include: this study is based only on the secondary data sources. The secondary data are obtained from www.idx.co.id, and the Indonesian Capital Market Directory (ICMD), so there are some companies that are excluded from the sample because of the incompleteness of the data of the companies; This study is only concerned on the change of public accounting firm and does not pay attention to the change of independent auditors; The sources used show that there are still many incomplete data which in turn reduce the study sample; This study only uses DER ratio to assess the condition of the company in financial difficulty time, or financial distress.

Due to the limitations above, the suggestions for further researches include: Future studies should consider the use of primary data so as to provide maximum results; Future studies should extend the study period more than six years because the longer period is expected to be able to make classification based on audit tenure; Future studies may consider the object of all companies listed in Indonesia Stock Exchange in relation to the change of public accounting firm so that it can be seen that theoretical generalizations are valid; Future studies should not only pay attention to the change of public accounting firm but also the change of independent auditors; Future studies may consider other variables that may affect the auditor switching, such as audit fees and mergers to increase the knowledge of audit tenure and auditor switching in Indonesia; Future studies should not only use the data in Rupiah units but also in foreign currency units, like dollar or euro and

thus increase the study sample; Future studies may consider other ratios to assess the condition of the company in financial distress time, such as the Debt Ratio.

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