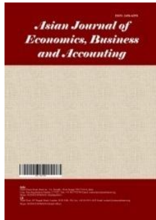

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Public Accounting Firm Switching: Empirical Study on Manufacturing Companies Listed in Indonesia Stock Exchange

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Authors' contributions

This work was carried out in collaboration among all authors. Author Mukhatruddin gave the research idea, methodology and wrote the research protocol. Author YS did the literature review, hypothesis formulation and measurement of variable. Author Tiara wrote the manuscript, did the data analyses and reviewed the previous research. All authors read and approved the final manuscript.

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ABSTRACT

Public Accounting Firm (PAF) switching in companies follows the regulation number 17/PMK.01/2008 article 3 of the Minister of Finance Republik Indonesia, which is in a period of 6 years or voluntarily.

The purpose of this research is to analyze the effect of the size of PAF, financial distress (FD), firm size of client (FSC), client management switching (CMS), audit comitee switching (ACS) to PAF switching voluntarily on manufacturing companies listed in Indonesia Stock Exchange (IDX) in 2010-2014. The population in this research are manufacturing companies listed in IDX in 2010-2014. The sample in this study were taken by purposive sampling method and 21 companies are selected as the sample by criteria. These variables are then tested using logistic regression at a significance level of 5 percent.

The result showed that the size of PAF, FD, FSC, CMS does not affect PAF Switching and ACS has affect PAF Switching. The limitations of this research, the variables used only five independent variables, the research period only five years, and sample selection is only based on a purposive sampling.

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Keywords: Public accounting firm switching; size of public accounting firm; financial distress; firm size client; client management switching and audit committee switching.

1. INTRODUCTION

1.1 Background

One of the factors affecting the development of the economy in Indonesia is the existence of the companies in Indonesia, whether it is the merchandising company, service company or manufacturing company. Certainly, companies with good quality which can give a positive contribution to the development of the economy in Indonesia. However, it is not easy for the company to achieve the category of good quality company, both in terms of financial and non-financial. Good company quality is also affected by the quality of financial reports.

A financial statement is a financial information of a company in one accounting period that can describe financial performance of a company. Therefore, the management of the company needs to present the financial statement as good as possible. A good quality of a financial statement surely because it is supported by the results of financial auditing done by a good quality auditor. The financial statement which has audited by the auditor will contain very useful information for the owner of the company, investor, creditor, government, and the society.

The main key to the auditing profession is the independence of the auditor. Independence can also mean the presence of honesty in considering the fact and the objective view from the auditor which doesn't take a side when making a statement. Generally, there are two forms of the auditor independence: Independence in fact and Independence in appearance. Independence in fact, requires the auditor to state an opinion in a statement as if the auditor is a professional observer. Independence in appearance, require the auditor to avoid the situation that can make people think the auditor doesn't maintain a fair mindset [1].

According to Lanvin [2] auditor independence is affected by some following factors: Financial and business ties with clients, other services than audit services provided by the client and the length of the relationship of the PAF with the client. Those are the factors which can affect auditor independence, especially the relationship lenght of the PAF with the client can affect the auditor mentally and the opinion of themself. The length of the relationship between auditor and client will create a sense of comfort between these two sides, where this condition can give auditor independence a threat, for example, making wrong assumptions and not being objective to the current evidence.

An auditor who has a long-term relationship with its client will bring up a high economic bond between auditor and client. The higher the auditor's economic attachment to the client, the higher the possibility of the auditor will allow the client to choose the extreme accounting method. This will create a research about the auditorswitching, which started from the discovery of Enron cases to the public, where the PAF, which was one of the big five, Arthur Andersen, failed to maintain its independence in auditing his client, Enron. The result of that case, the Sarbanes-Oxley Act (SOX) was created in 2002 as a solution to a major corporate scandal that occurred in America.

Following up on The Sarbanes-Oxley Act (SOX) in 2002, Indonesian Government regulates the obligation to make a change in PAF by issuing regulation of the Minister of Finance No. 17/PMK.01/2008 which is a refinement of the existing regulation namely Minister of Finance Decree No.359/KMK.06/2003 and No.423/KMK.06/2002. The amendment of this rule states that the provision of general audit services on financial statements of an entity can be made within 6 (six) consecutive fiscal years by the same PAF and 3 (three) consecutive years by the same auditor to the same client. Through this regulation, it is expected to improve the reliability of financial statements and the independence of auditors can be maintained.

In the research done by Joher et al. [3] classified PAF measurement as the Big4 and Non-Big4. PAF reputations which has audited a company has an important effect on the level of trust of the external parties towards financial statement generated by management parties. The PAF switching done by the Big4 PAF to the non-Big4 PAF generally will have an effect on the decrease in audit quality which certainly reduces the confidence of external parties and riskier than if still using the services of The Big Four PAF.

This research is a development of the previous research done by Nasser [1]. The differences

between this research with Nasser [1] is the setting of research done in Malaysia when there was no rule about the companies required to do auditors switching. While the setting of this research is done in Indonesia when there was a government regulation about auditor switching to be required to change the PAF according to the length set of time. However, it does not rule out that there are only companies that do the PAF switching before the set time, which surely caused by other factors. It is interesting to examine, what factors can affect the company do voluntary PAF switching. Nasser's [1] independent variable that has re-tested the size of PAF, FD and FSC. Because of the result of Nasser [1] research stated that FD, FSC significantly affected on auditor switching. However, in this research, financial distress measured by Debt to Asset Ratio (DAR) then created to be dummy variable. The reason for using the ratio is because it can show how far the company funded by debt (External parties funding). This ratio also shows indication of the security level from the creditor, in this case, the bank is represented. In addition, the ratio can also be used to acknowledge how far the ability of the company to pay for the obligations if the company is liquidated [4]. Thus, the ratio is considered to be more capable to measure FD.

It is different compared to the previous research that measured the financial distress with Z-score analysis (Altman) or with other analysis and ratio. The analysis is not used because it's only company's financial prediction so that Z-score cannot be the benchmark to determine whether the company will be completely bankrupt or not bankrupt because management must look at in terms of indicators of corporate failure. This model also has a weakness and that is there is no exact time range of when the bankrupt is going to happen after the Z-score is known to be less than the set standard. The time to tell the bankruptcy of a company will be affected by some factors such as the ability of banks to assist in financial restructuring, other corporate conditions, negotiations with workers and overall economic conditions, while these factors are not included in the model. This model also cannot be used because there are sometimes different results if we use different models [5].

Independent Variable, the level of client development, that is not being re-tested will not take effect significantly towards the auditor switching. In addition, researchers adding an independent variable that is the CMS which is a suggestion and limitation of Nasser [1]. Researchers also adding one more independent variable that is ACS which has not analyzed by Nasser [1]. ACS is a suggestion and limitation by Satriantini, Sinarwati, dan Musmini [6], they are suggesting for the next researchers to add audit committee that plays a role in the switching in the company to have exact results of the study.

Theoretically can be argued that the size of PAF, FD, FSC, CMS, and ACS switching will have an impact on PAF switching. Tate [7] stated that company prefers to move to the bigger PAF (Big4) than the smaller one (non-Big4). Then, the PAF switching tend to be caused by the FSC that can be seen from the total of company's assets and vice versa. A size discrepancy between a large client firm audited by a small audit firm can lead to an end to audit involvement of the switching auditor. The change of company's management if the company change the board directors, both directors, and commissioners. This, of course, will also lead to changes in company policy in the field of accounting, finance, and election of PAF. Similarly, changes to audit committees that tend to affect PAF switching. Because, recommending the appointment and replacement of PAF is an important part of the role, responsibility, and existence of the audit committee itself.

Other than those five variables explained above, there are lots of variables that can be studied in the PAF switching but will not be studied in this research. Such as audit fees, this variable can be substituted with the financial distress variable which will be studied in this research, because the company which had a financial distress, the company tend to change the PAF from the Big4 to the non-Big4 because of highly reputable PAF set a higher rate when compared to the low reputation of PAF [8]. Another variable is audit opinions that can be represented by studying the CMS because management tends to want the auditor to give an unqualified opinion on its financial statements. Thus, the opinion other than that is undesirable by the client management and seem not to have any advantages for the financial statement user (Willingham & Charmichael, 1997). If there is a change of management in the company, the new management expects the new PAF to contribute in giving an opinion, the PAF switching can happen [9]. In this research, manufacturing company was chosen because in total there are a lot of more of these companies compared to others. Therefore, manufacturing company is

considered to represent companies listed on IDX to acknowledge any factors that can persuade PAF switching in the company. Other than that, manufacturing companies listed in IDX consist of many sub-sectors industry with the result to mirror the practice of the change in PAF done by the company as a whole.

2. LITERATURE REVIEW

2.1 Agency Theory

Agency theory developed by Jensen and Meckling [10] states agency problem caused by the existence of different interests and information asymmetry between management (agent) and the owner (shareholder). Those differences causing interests conflicts, they are: (1) between owner and manager, (2) between owners and debtholders and (3) between the owner, manager and debtholders. There are some mechanisms can be used to reduce agency problem, thus with dividend policy, debt policy, and ownership by the institution. Interest conflicts between owner and manager happen because, probably, the manager does not act accordingly to the ownership interests, so it triggers agency cost. In agency theory, independent auditor plays a role as the mediator of both owner and manager with different interests. Independent author also functioned to reduce agency cost that appeared because of selfish behavior by the manager. The level of cost in organization varies, depend on the variables such as the size of a company and the ownership of management shares. In the information economy, the selection of a credible auditor is used as a signal of management's honesty [1].

In Indonesia, the regulations of the audit work period are the decree of the Minister of Finance of the Republic of Indonesia No. 359/KMK.06/2003 article 2 on Public Accounting Services. The regulation is an amendment to the decree of the minister of Finance No. 423/KMK.06/2002, which provided that the general audit services of an entity's financial statements may be conducted by the maximum amount of PAF for 5 consecutive years and by an accountant public for a maximum of 3 consecutive yearbooks. Furthermore, the regulation was renewed by the issuance of regulation of the minister of finance of the Republic of Indonesia Number 17/PMK.01/2008 article 3 on Public Accountant services article 3. This regulation stipulates the provision of general audit services to the financial statements of an entity performed by most PAF for a period of 6 consecutive fiscal years, and by a public accountant for a maximum of 3 consecutive fiscal years. Public accountants and public accounting firms may receive reassignment after one year of book does not provide audit services to the above clients. Ths study uses the basis of the decree of the Minister of Finance of the Republic of Indonesia number 17/PMK.01/2008 on Public Accountant services article 3, because the setting of this research is the year above the year 2008. As the result of the published regulations, it is mandatory for the companies to follow the PAF switching to another public accounting firm after 6 consecutive years.

2.2 Public Accounting Firm Switching

PAF is an entity that has obtained permission from the Minister of Finance as a place for CPAs in providing services. Davidson, et al. [11] points out that there are some motivations that underlie a company to switch PAF, which wants a more effective new auditor, expects development in the company's credibility with better quality of audit, reduce audit fees,and any changes in the contractual relations. In addition, Lennox [12] states that the rationalization of substituting PAF with other PAF who already has a good reputation will add to firm value. Great PAF will provide higher audit quality and offer a better credibility to the financial statements rather than small PAF.

2.3 Size of Public Accounting Firm (PAF)

Level of company reputation has a positive effect on company performance. Large PAF has a greater incentive to audit more accurate because they have more specific relationship with the client that will be lost if they provide inaccurate reports. Typically, larger PAF more considering the credibility when accepting clients who are at high risk. While smaller PAF is more courageous to accept clients who have a higher risk due to their long-term relationship motives. Greater PAF (the Big4) are considered more able to maintain an appropriate level of independence than their counterparts who are smaller because they can provide a range of services to clients in larger quantities, thereby reducing their dependence on specific clients [1]. In addition, a larger PAF is generally regarded as a provider of high quality audits and enjoys high reputation in the business environment and therefore, will attempt to maintain their independence to maintain their

image [1]. So the company that has audited by the large PAF will be less likely to switch PAF.

2.4 Company Financial Distress

One of the indicators that can be used to determine a company's financial distress is to use the leverage ratio. The measurement of the leverage ratiomost commonly used is the debt to assets ratio which is the ratio between total liabilities and total assets. The high debt ratio will increase the potential bankruptcy of a company. This not good Conditions of companies tend to be more likely to switch PAF compared to companies with a good condition. Hudaib and Cooke [13] stated that the company with the financial pressures tend to switch PAF compared to a more healthy company.

2.5 Client Firm Size (CFS)

The CFS is the size of a company whether large or small, can be expressed in the total assets of the company. When the total assets are growing, the greater firm size and vice versa. According to research results of Afriansyah & Siregar [14], stated that listed companies with large total assets still choose the Big4 accounting firm as its auditor, which reflects the suitability of size between the firm and its clients. Selection of the Big4 accounting firm are also likely due to the large companies get more attention from investors than small enterprises. This affects the selection of accounting firm to audit the financial statements of the company. Obviously, large companies will choose the Big4 PAF in order to maintain the image of its financial statements.

2.6 Client Management Switching (CMS)

In agency theory, shareholders are treated as the owner (principle) and management as an agent, where the management is a party contracted by the shareholders to work in the interests of shareholders [10]. Therefore, management is given most of the power to make decisions for the best interest of shareholders. Therefore, management is required to account for all his efforts to the shareholders. Management requires a qualified auditor who is able to meet the demands of companys’ rapid growth and would want the auditors give an unqualified opinion on its financial statements. If this is not fulfilled, the possibility is the company will replace the existing auditor. By replacing its auditors with auditors who has more reputation, then the company's reputation will also be raised among investors [15].

2.7 Audit Committee Switching (ACS)

In this case, the role and characteristics of the audit committee are believed to hamper efforts of management to switch auditor. The audit committee is expected to maintain the integrity of the audit reporting process due to the duty in providing recommendation for the appointment and replacement of PAF is an important part of the role, responsibilities and the existence of an audit committee itself [12].

Framework

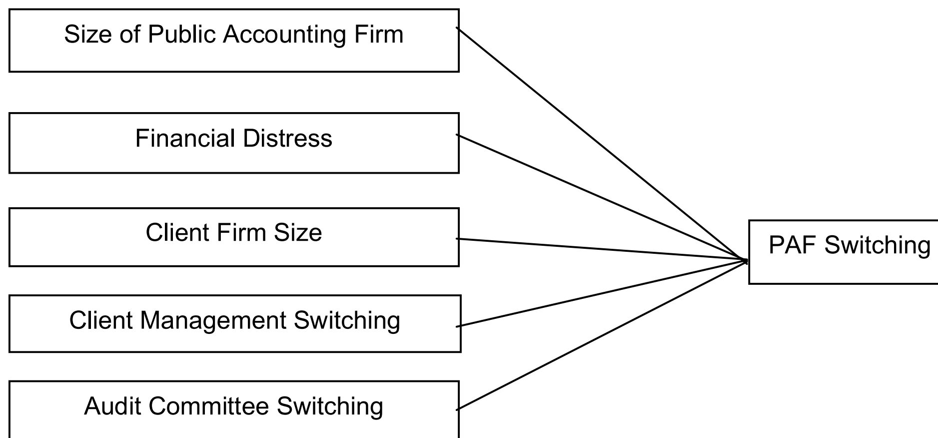

Fig. 1. Theoretical framework

2.8 Hypothesis Development

2.8.1 Size of public accounting firm

Management and company will seek a highly reputable accounting firm, as investors and stakeholders who use financial statements trust more in the results of the audit issued by a reputable accounting firm. This is because basically the investors and users of financial statements make the auditor's reputation as an indicator of the credibility of the financial statements. Expertise PAF is one of the attributes in servicing large PAF [16]. Larger PAF also often considered more able to maintain independence than small PAF, because large PAF provides services to clients in large numbers, causing ability to reduce their dependence on certain clients, so that if company is already using larger PAF, then the greater tendency to replace PAF is small. Based on the above statement, then the hypothesis is

> ***H1:*** *Size of PAF affect the accounting firm's switching in a company.*

2.8.2 Company financial distress

Nasser et al. [1] stated that the bankrupt company more often to switch PAF than companies that are not bankrupt. Hudaib and Cooke [13] also stated that the company with the financial pressures tend to change PAF compared to a more healthy company. PAF switching can be caused if the company can not meet the audit fees charged by the firm due to the declining of financial condition of the company. Thus, companies that are experiencing financial distress will tend to change PAF compared to healthy companies. Based on the above explanation, hypothesis is as follows

> ***H2:*** *Company financial distressaffect the accounting firm's switching in a company.*

2.8.3 The client firm size

Firm size clients is a scale that can be measured in financial terms by considering the total assets. The greater the total assets of the company, indicating the company is large and vice versa. Increasingly, companies grow into a large company, the number of the agency relationship created will also be increasing as well. Therefore, the situation can be overcome by using a more independent accounting firm in order to reduce risk. A discrepancy between the size of a large client companies audited by small audit firms could lead to the end of the audit engagement that is the auditor switching. Based on the above expanation, hypothesis is as follows

> ***H3:*** *The client firm size affect the accounting firm's switching in a company.*

2.8.4 Client management switching

Agency conflicts occurring between business owners with management often makes the owners of the company took the decision to make management changes. Switch of management in the enterprise is often followed by a change in company policy, including in terms of the selection of PAF [17]. If the new management hopes that the new PAF can be invited to cooperate more and more able to give their opinions as expected by management, accompanied by its own preferences on the auditor that will be used, the change may occur in the company's accounting firm. The company will look for PAF are aligned with accounting and reporting policies [9]. Management requires more qualified auditor and able to meet the demands of a fast growing company. If this is not met, it is likely the company will replace its auditor [3]. Based on the above hypothesis is as follows

> ***H4:*** *Client management switching affect the PAF in a company.*

2.8.5 Audit committee switching

One of the goals of the establishment of an audit committee is recommending the selection of an external auditor to audit the company. The agency is in charge of selecting and assessing the performance of the company is public accounting firms [18]. The Audit Committee also played a role in oversight of the financial reporting process by management, thus the agency problems such as management actions for the prosperity itself can be minimized. The audit committee would have the assessment criteria on the choice of external auditors to be his favorite and has met the specified standards and criteria to audit a company. If a change in the members of the audit committee could potentially affect the results of a different recommendation for the appointment of PAF before. Based on the above hypothesis is as follows

> ***H5:*** *ACS has affected to the PAF switching in a company.*

3. RESEARCH METHODOLOGY

3.1 Population and Sample

Population used in this research is manufacturing companies listed in IDX in 2010-2014, amounting to 141 companies. Manufacturing industries chosen because it has the most number of companies registered in comparison with other industries, so the manufacturing industry is considered to represent the companies listed on IDX to see the PAF switching practices at the company. The focus of this study is eager to see the effect of FS, FD, FSC, CMS, and ACS towards the PAF switching in manufacturing companies.

The samples were based on a sample that had been met completeness of the data. The samplingmethod used is purposive sampling,which is a sampling technique based on the criteria and specific objectives.

The population of manufacturing enterprises in 2010-2014 was obtained as many as 141 companies. However, there are 29 companies that did not present data of financial statements that has audited, in order to obtain a total of 112 companies in accordance with the first criterion. During 2010-2014 there were 91 manufacturing companies that do not make the PAF switching at least twice in a period of the year, in order to obtain as many as 21 companies according to the second criterion. So the final result of the sample obtained in this study were 21 manufacturing companies.

3.2 Operational Definition and Measurement of Variables

3.2.1 PAF switching

In this study, which is the dependent variable is the PAF switching. This variable is a dummy variable, if companies switch PAF coded 1 and if not coded 0. The purpose of the change is if the company replace the old PAF with the new PAF minimum of twice within a period of six years without following prescribed rules government regarding the rotation PAF (not mandatory). If a change of one partners, or more researchers meant as a rotational partner and not PAF switching [17].

3.2.2 PAF size

PAF size in this study is the size of PAF which divided into two groups, namely Big4 and non-Big4. Variable firm size using dummy variables. If the companies audited by the Big4, given the value 1, if the companies audited by non-Big4 given the value 0 [1].

Auditors are included in the group of the Big Four are (1) Deloitte Touche Tohmatsu (Deloitte) affiliated with Hans Tuanakotta Mustafa & Halim; Osman Ramli Satrio & Partners; Osman Bing Satrio & Partners, (2) Ernest & Young (EY) affiliated with Prasetio, Sarwoko & Sandjaja; Purwantono, Sarwoko & Sandjaja, (3).

Klynveld Peat Marwick Goerdeler (KPMG), which is affiliated with Siddharta & Widjaja and (4) Pricewaterhouse Coopers (PwC), which is affiliated with Haryanto Sahari & Partners; TanudiredjaWibisana & Partners; Drs. Hadi Susanto & Partners.

3.3 Corporate Financial Distress

Debt to Assets Ratio is used to measure a company's financial distress. According to Shamsuddin [19], DAR is as a measure of how much the assets financed by creditors. The higher the debt ratio, the greater the amount of loan capital used in generating profits for the company. In addition, according to Harahap [20], this ratio indicates the extent to which the debt can be covered by a larger asset ratio is safer (solvable). Can also read as some portion of debt compared to assets. Formula Debt to Asset Ratio (DAR) according Brealey, Myers and Marcus [21] as follows:

Total Debt Ratio = Total Liabilities/Total Assets

Variable financial distress using dummy variable. If the client firm has a DAR ratio above 100%, it means that the company is experiencing financial distress then given the value 1. Meanwhile, if the client firm has a DAR ratio below 100%, it means that the company is not experiencing financial distress then given the value of 0.

3.4 Client Firm Size

Firm size is the size or magnitude of the assets owned by the company. The greater the total assets of the company, the greater firm size. And conversely, the smaller the total assets of the company, then the smaller firm size. Firm size in this study was measured using the value of the natural logarithm of total assets [1]. To measure the size of the companies, used the formula:

Firm size = Ln (total assets)

The use of total assets in measuring firm size due to total assets is considered more stable and representative in indicating firm size than market capitalization and sales are heavily influenced by demand and supply [22], in addition to the use of total assets was also selected as to prevent the less valid results because the measurement with total assets is not affected by the market so that it can produce valid data.

3.5 Client Management Switching

The management switching is a change of the company's directors which is mainly caused by the decision of annual general meeting or the board of directors to stop by their own volition. Variable of management change using dummy variable. If there is a directors switchingwithin the company then given a value of 1. Whereas if there is no directors switching within the company, then given the value of 0 [23].

3.6 Audit Committee Switching

Membership of the audit committee in a company is established based on the provisions of the audit committee membership issued by the Board of Directors of PT. Jakarta Stock Exchange. Variables of Audit committee switching is a dummy variable, if there is a membership switching in an audit committee, then given a value of 1 and if there is no membership switching in the committee is given a value of 0.

3.7 Data Analysis Techniques

3.7.1 Regression model formed

The analysis used in this research is logistic regression analysis, such as by looking at the effect of PAF size, financial distress, client firm size, client management switching, and audit committee switching on the PAFswitching at manufacturing company in Indonesia which is listed in IDX. Logistic regression model in this research is as follows:

SWITCHt = α + b1X1 + b2X2 + b3X3 + b4X4 + b5X5 + e

Ln (PAFswitching/(1-PAFSwiching) = α + b1X1 + b2X2 + b3X3 + b4X4 + b5X5 + e

Ln (PAFswitching/(1-PAFSwiching), which is the dummy variable, category 0 for companies which do not change PAF and category 1 for companies which do PAF switching.

α: Constants, SWITCH: PAFswitching, b1-b5: Regression coefficient of independent variables, X1: PAF size, X2: Financial distress, X3: Client firm size, X4: client management switching, X5: Audit committee switching, and e: Error

3.8 Hypothesis Testing

3.8.1 Assessing the eligibility of the regression model

The eligibility of the hypothesis regression model for assessing fit is the null hypothesis which is a hypothesized fit model with the data and the hypothesis one is the hypothesized model not fit with the data. Assessing the fit model is measured by chi-square with the condition i.e. if the statistical value is greater than 0.05 then the null hypothesis is accepted, while if the statistical value is less than 0.05 then the null hypothesis is rejected [24].

3.8.2 Determination coefficient (R^2)

Measurement of determination coefficient is conducted to know percentage of independent variable affect to change of dependent variable. Through this test is known how much the dependent variable can be explained by the independent variable, while the rest is explained by other causes outside the model.

Nagelkerke's R square is a modification of Cox and Snell coefficients to ensure that its value varies from 0 to 1. This is done by dividing the Cox and Snell's R^2 values with their maximum values. Nagelkerke's R^2 values can be interpreted as R^2 values in multiple regression. A small value means the ability of independent variables to explain the variation of the dependent variable is very limited. A value close to one means that independent variables provide almost all the information needed to predict the variation of the dependent variable [24].

3.8.3 Significance testing of regression coefficients

The regression coefficient test is conducted to test how far all the independent variables included in the model have an effect on the PAFswitching. Logistic regression coefficients can be determined using p-value (probability value).

4. RESULTS AND DISCUSSION

4.1 Logistic Regression Analysis

Binary logistic regression is a regression used to model a probability of occurrence with Y-variable (response) of two-choice categorical type [25]. In this study, the dependent variable (response) Y is categorical/two options type such as: Companies which don't do PAFswitching = 0 and companies that do the PAF switching with value = 1.

2x2 classification table used to calculate true and false estimation value. This function used to predict dependent variable. In the classification table, it shows the prediction power from regression model to predict the possibility of company to do PAFswitching is 66.1%. It shows that by regression model testing which has done, there is 39 companies (66.1%) voluntary predicted will do PAFswitching from 59 companies which do PAFswitching. Prediction power from company which don't do PAFswitching is 60.9%. It shows that regression model used, there are 28 companies which predicted will not do PAFswitching from 46 companies which not do PAFswitching. In classification matrix testing can be concluded that prediction power of regression model is 63.8%.

4.2 Assesing Eligibility of Regression Model

The further analysis is the eligibility of logistic regression model which will be used. This eligibility testing conducted by using Goodness of fix test which measured by Chi- Square with the condition if statistical value greater than 0.05 then null hypothesis is accepted, while if statistical value is les than 0.05 then null hypothesis is rejected which can be seen at Hosmer and Lemeshow test in Table 2.

From the above table shows that value of Hosmer and Lemeshow's Goodness of Fit Test, chi square value is 9.301 with significance of 0.318 with the significance level is greater than α level of 0.05, then H0 accepted and means the model can predict their observation value or can be said the model is acceptable because suitable with observation data.

4.3 Determination Coefficient (R^2)

Determination coefficient used to know how much variability of independent variables can clarify the variability of dependent variables. The value of determination coefficient in logistic regression model showed by Nagelkerke R Square value [24].

Table 1. Classification table

Classification table[a]					
	Observed		**Predicted**		
			PAF switching		**Percentage correct**
			0	1	
Step 1	PAF Switching	0	28	18	60.9
		1	20	39	66.1
	Overall Percentage				63.8

The cut value is. 500
Source: Output SPSS (2015)

Table 2. Hosmer and Lemeshow test

Step	Chi-square	Df	Sig.
1	9.301	8	.318

Source : Output SPSS (2015)

Table 3. Model summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	133.623[a]	.094	.126

Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.
Source : OutputSPSS (2015)

Tabel 4. Variables in the equation

		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1[a]	PAF Size	-.276	.774	.128	1	.721	.758
	Financial distress	2.007	1.105	3.298	1	.069	7.438
	Client Firm Size	-.009	.119	.005	1	.941	.991
	Client Management Switching	.445	.420	1.126	1	.289	1.561
	Audit Committee Switching	.856	.422	4.119	1	.042	2.354
	Constant	-.241	3.220	.006	1	.940	.786

Variable(s) entered on step 1: X1, X2, X3, X4, X5.
Source : Output SPSS (2015)

Nagelkerke R Square coefficient in model summary table is a modification of Cox & Snell R Square coefficient to ensure that the value varied from 0 to 1. From the table above, coefficient value of Nagelkerke R Square is 0.126 which explain that in this regression model, the ability of PAF size, financial distress, client firm size, client management switching, and audit committee switching in explaining divident policy is 12.6% and the rest 87.4% explained by other variables.

4.4 Hypothesis Testing

4.4.1 Significance testing of regretion coefficient

The analysis tool used in this study is logistic regression. It is because the dependent variables is dummy, which the company voluntary do PAFswitching and not do PAFswitching. In assumption test of normality, autocorrelation, and heteroscedasticity can't fullfil because its independent variables are a mixture between matrix and non-matrix variable.

From variables in the equation table can be seen that constant value for the regression equation in this study is -0.241. Coefficient used is beta coefficient because this study aims to see the effect of independent variables on dependent variables. Regression coefficient value for PAF size variable is -0.276, financial distress of comapny variable has a regression coefficient value of 2.007, regression coefficient value of client firm size variable is -0.009, regression coefficient value for client management switching variable is 0.445 and regression coefficient value for audit committee switching variable is 0.856. Based on that result, it obtained logistic equation as follows:

$$\text{LN} \frac{\text{PAF Switching}}{1-\text{PAF Switching}} = -\ 0{,}241 - 0{,}276X1 + 2{,}007X2 - 0{,}009X3 + 0{,}445X4 + 0{,}856X5$$

Based on the result of logistic regression equation above, it can be explained as follows:

1. Constants (a). The constant α denotes a negative that is -0.241 indicating that the sample tends toward the value of zero (0). The constant of -0.241 means that if it is not influenced by the 5 independent variables in this research model, then the firm will tend not to do auditor switching (towards the PAFswitching = 0).
2. Regression Coefficient (b) X1. The regression coefficient for PAF size variable is obtained at -0.276. The direction of the negative coefficient means that if the company has previously been audited by non-Big4, then the probability of the company making a PAFswitching will be greater. The regression coefficient value of -0,276 means that companies using the Big4 (code = 1) performs a lower PAFswitching of 27.6% than companies using non-Big4 (code = 0).
3. Regression Coefficient (b) X2. The regression coefficient for variable financial distress is obtained at 2.007. The direction of the positive coefficient means that if the company previously experienced financial distress, then the probability of the company doing a PAFswitching will be greater. The regression coefficient value of 2.007 means that the company experiencing financial distress (code = 1) performs higher PAFswitching at 200.7% than a company which does not have financial distress (code = 0).
4. Regression Coefficient (b) X3. Client firm size variable (X3), has negative regression coefficient of -0.009, it means that if client firm size variable increased by 1% then PAFswitching (Y) will decrease 0.9%.
5. Regression Coefficient (b) X4. The regression coefficient for client management switching variable is 0.445.

The direction of the positive coefficient means that if previously company do a client management switching, then the probability of the company do a PAFswitching will be greater. The value of regression coefficient of 0.445 means that the company which do client management switching (code = 1) do a 44.5% higher PAFswitching than the company which do not do client management switching (code = 0).

6. Regression Coefficient (b) X5. The regression coefficient for the audit committee switching variable is 0.856. The direction of the positive coefficient means that if the company previously do audit committee switching, then the probability of the company do PAFswitching will be greater. The regression coefficient value of 0.856 indicates that the company which do the audit committee switching (code = 1) do a PAFswitching higher by 85.6% than the company which do not do audit committee switching (code = 0).

To test the significance coefficient of each independent variable used p-value (probability value) with a significance level of 5% (0.05). If the significance value is less than 0.05 then the regression coefficient is significance.

1. The first variable, PAF size shows the correlation beta value of 0.276. The significance value of 0.721 is greater than 0.05 which means that the PAF size does not affect the PAFswitching. This implies that H1 is rejected.
2. The second variable, the financial distress shows a correlation beta value of 2.007. The significance value of 0.069 is greater than 0.05 which means the financial distress have no effect on PAFswitching. This means that H2 is rejected.
3. The third variable, client firm size shows the correlation beta value of -0.009. The significance value of 0.941 is greater than 0.05 which means the client firm size has no effect on PAFswitching. This implies that H3 is rejected.
4. The fourth variable, client management switching shows the correlation beta value of 0.445. The significance value of 0.289 is greater than 0.05 which means the client management switching does not affect the PAFswitching. This means that H4 is rejected.
5. The final variable, the audit committee switching shows the correlation beta value of 0.856. The significance value of 0.042 is smaller than 0.05 which means the audit committee switching affect the PAFswitching. This implies that H5 is accepted.

5. DISCUSSION OF RESEARCH RESULT

5.1 Effect of PAF Size on PAF Switching

Based on the results of logistic regression testing, PAF size variables in manufacturing companies in Indonesia Stock Exchange 2010 to 2014 have no effect on the PAF switching. Viewed from the results of the study indicate that the company that performs audit service relationship with the Big4 when performing the PAF switching is still using the Big4, and vice versa for companies that use the services of PAF non Big4. The results of this study support previous research, namely research Sinarwati [17]. This is caused the sample companies under study have used the Big4, when performing the PAF switching still using the Big Four PAF. Similarly, the sample companies that use non-Big4, when doing the PAF switching still use non-Big4. In this study there is only 1 sample of companies who make the PAF switching from Big4 to non-Big4, after a year back again to the Big4. This research has different results with the research of Sulistiarini and Sudarno [26], Nasser [1] and Damayanti and Sudarma [23]. The differences in the results of this study with the three studies above are due to the different periods of the research period, the difference in the years of the research and the country in which the research is conducted, for example Sulistiarini and Sudarno [26] studying from 2006-2010. Nasser's research [1] conducted in Malaysia was studied in the period 1990-2000 for 11 years. The test results show the direction of negative influence which means that companies already using the services of Big4 have a smaller probability to change PAF [26]. Companies will tend to choose Big4 that is considered to be of better quality instead of non-Big4, so the company can increase credibility in the eyes of capital market players [23]. Nasser's research [1] states that large companies tend to maintain the image of the company by using the services of the Big4. If the company has to make a PAF switching then the company will also choose PAF affiliated with the Big4 rather than non-Big4. Expertise PAF is one of the attributes in large PAF service [16]. However, the results of this study prove that the existence of the expertise factor does not specify the PAF switching by the

company so that companies prefer large PAF. Thus, large PAF do not necessarily have better capabilities in auditing than small PAF, so large PAF may not be capable of producing higher audit quality than small PAF.

5.2 Effect of Company's Financial Distress to the PAF Switching

Based on the results of logistic regression testing, the variable financial distress on manufacturing companies in Indonesia Stock Exchange 2010 to 2014 did not affect the switching PAF. Viewed from research results indicate that, most companies experiencing financial distress companies do not directly take the decision to replace the PAF that audit the company. The results of this study support previous research, namely research of Abdillah and Arifin [27], Sulistiarini and Sudarno [26] and Damayanti and Sudarma [23]. The results of Sulistiarini and Sudarno [26] suggest that auditees who are insolvent and experiencing unhealthy financial position are more likely to bind their auditors to maintain the trust of shareholders and creditors and reduce the risk of litigation. Research Damayanti and Sudarma [23] stated that companies experiencing financial distress and make a PAF switching to the Big Four will actually complicate the company's financial condition due to increased audit services. Research of Abdillah and Arifin [27] declared the independence of PAF also become one of the factors that can be a reason for the company not to change the PAF even if the company is in poor condition. An independent PAF will provide audit results based on materiality and avoid the pressure from clients in giving their opinions. This study has different research results with research of Nasser [1] and Sinarwati [17]. The differences in the results of this study with the two studies above are due to differences in the period of the research year and the country in which the research is conducted, eg Nasser's [1] research conducted in Malaysia was studied in the period 1990-2000 for 11 years. In companies that are experiencing financial distress companies tend to replace PAF rather than companies that do not experience financial distress companies [1]. Research of Sinarwati [17] states that the financial distress is one proxy of audit quality so that it can be concluded that audit quality is an important factor affecting the company to make a PAF switching.

The results of this invention reject the hypothesis stating that companies experiencing financial distress will make a PAF switching. In fact, it is not necessarily that companies experiencing financial problems will make a PAF switching due to several factors, namely: first, in Indonesia, companies will seriously consider the issue of PAF switching because the PAF that they have used already know and understand the condition of the company. If the company replaces the Firm, the company is worried that the new PAF will conduct checks on the bookkeeping system and assess the low standards of their company's bookkeeping standards. This can result in delays in the presentation of financial statements that cause the company to charge a late fee penalty. Second, there is a conflict of interest to the PAF in carrying out the audit task and providing consultant services. These conflicts of interest may interfere with the auditor's independence which will affect the audit opinion. Companies in Indonesia feel it can provide benefits, so companies are reluctant to make changes PAF [28].

5.3 Effect of Client Firm Size on PAF Switching

The results of this study indicate that the size of client companies in manufacturing companies in Indonesia Stock Exchange 2010 to 2014 have no effect on the PAF switching. Viewed from the results of the study showed that, companies that have made adjustments between the size of the PAF with firm sizetend not to make a PAF switching.

According to the results of research Afriansyah and Siregar [14] stated that issuers with large total assets still choose Big Four PAF as its auditor, which reflects the suitability of the size between PAF and its clients. Large companies that use the Big4 tend not to change PAF because the company will make adjustments between the size of PAF with the size of clients and vice versa. This study has different research results with the research of Nasser [1]. The difference in the results of this study with Nasser's [1] study is due to differences in the period of the research year and the country in which Nasser's research was conducted in Malaysia and studied in the period 1990-2000 for 11 years. Tenure audits that occur in larger companies are longer than small firms because large firms tend to make lower switching of firms compared to small firms. The size of the firm's increase can lead to conflict and generate the need for the quality of the auditor [1]. Based on this research, firm size is not a factor influencing

PAF switching in Indonesia. Large companies that use the services of the Big4 PAF tend not to make a PAF switching because the company will make adjustments between the size of PAF with firm size. Similarly, small companies do not have a tendency to change the PAF if they have used the services of Non Big Four PAF.

5.4 Effect of Client Management Switching to PAF Switching

The Company changes its management after it is recommended by the decision of the general meeting of shareholders or the decision of the majority shareholder of the company. The existence of new management allows for policy changes in accounting, finance and election of PAF [23]. Based on the results of logistic regression testing, the client management switching at manufacturing companies in Indonesia Stock Exchange 2010 to 2014 has no effect on the PAF switching. Viewed from the results of research indicates that, change of management within the company does not necessarily affect the company to replace the PAF audit the company. The results of this study support previous research, namely research Abdillah and Arifin [27] and Damayanti and Sudarma [23]. Any change of management in a company will not always be followed by a change of company policy to make a PAF switching [23]. A change of management is likely to affect the PAF switching in accordance with the interests and preferences of the new manager. However, the PAF switching sometimes also requires approval in shareholder general meeting, so the new management desire is sometimes not fulfilled [27].

This research has different research results with research of Sulistiarini and Sudarno [26] and Sinarwati [17]. The differences in the results of this study with the two studies above are due to differences in years of research, such as Sulistiarini and Sudarno [26] research which conducted research from 2006-2010. The change of management has a significant effect on the PAF switching. This shows that the change of management is often followed by the change of policy including the policy in the case of the PAF switching. The new management will select a PAF that complies with the company's accounting reporting policy [26]. Differences of interests between the management and the vulnerable principle lead to conflicts that will lead to change of company management and followed by the PAF switching. This is because the change of management within the company is often followed by changes in the company's policy, the new management hopes to get auditors who can be invited to cooperate in giving opinion [17].

The underlying reason for this research is that new managers will tend to choose a PAF that suits their interests and preferences. This happens if the former PAF is deemed incompatible with the manager who leads the management of the company, then the manager seeks to replace the new PAF with the new PAF assessed in accordance with the conditions of the company and the manager. However, the PAF switching sometimes also requires the approval in general meeting of shareholders, so that the desire of new management sometimes not fulfilled. The results of this study reject the hypothesis that if there is a change of management within the company will cause a PAF switching within the company. Not all companies that change their management can change PAF that audit the company. Based on this research, the change of management is not a factor influencing the PAF switching in Indonesia.

5.5 Effect of Audit Committee Switching on PAF Switching

One of the objectives of the establishment of the audit committee is to recommend the selection of external auditors to audit the company. This body is responsible for selecting and assessing the performance of public accounting firm [18]. The audit committee certainly has an assessment criteria on the choice of external auditor who became his favorite and has met the standards and criteria specified to audit a company. In the event of a change of members in the audit committee it is likely to have an effect on the results of PAF appointment recommendation which is different from the previous PAF.

Based on the results of logistic regression testing, audit committee switching variables at manufacturing companies in Indonesia Stock Exchange 2010 to 2014 affect the PAF switching. Judging from the results of the study showed that, the audit committee switching that occurred in the company can influence the company to replace the PAF auditing company.

This research has different result of research with Sulistiarini and Sudarno [26]. Differences results of this study with the above research is

due to differences in the years of research, because research Sulistiarini and Sudarno [26] conducted in the year 2006-2010. The results of the Sulistiarini and Sudarno [26] studies indicate that if PAF that audit the company is Big Four PAF that is believed to have high independence and credibility it will not make the audit committee recommend the company for a PAF switching.

This research can prove the effect of audit committee change on the PAF switching. The results of this study indicate that with the change of membership in an audit committee in a company causes audit committee to recommend to the company to make the previous PAF switching with new PAF. As explained, the audit committee is tasked with selecting and assessing the performance of the company's public accounting firm. The audit committee certainly has an assessment criteria on the choice of external auditor who became his favorite and has met the standards and criteria specified to audit a company. Thus, if there is a change of membership in an audit committee in a company there will likely be a PAF switching in the company in accordance with the audit committee's recommendations.

6. CONCLUSIONS

This research is to examine the effect of PAF size, financial distress, firm size, client management switching and audit committee switching to PAF switching. This research takes a manufacturing company listed on Indonesia Stock Exchange observation period for five years from 2010 until 2014.

1. Based on the results of data analysis and discussion that have presented in chapter five, the conclusions can be obtained from the results of this study are as follows: The size of the PAF does not affect the PAF switching because the Big Four PAF does not necessarily have a better ability to audit than PAF Non Big Four, so the Big Four PAF is not necessarily capable of producing a higher audit quality than the Big Four PAF.
2. The company's financial distress have no effect on the PAF switching due to several factors, namely: firstly, in Indonesia, companies will seriously consider the PAF switching because the PAF they have used already knows and understands the condition of the company. Second, there is a conflict of interest to the PAF in carrying out the audit task and providing consultant services.
3. The size of the client firm does not affect the PAF switching because large companies using PAF services The Big Four is less likely to change the PAF because the company will make adjustments between the size of PAF with firm size, and vice versa.
4. Switching of client management does not affect the PAF switching because of the PAF switching sometimes also requires the approval in general meeting of shareholders, so that the new management desire sometimes not fulfilled.
5. Switching of audit committee affects the PAF switching because the audit committee certainly has the criteria of the assessment of the choice of external auditor who became his favorite and has met the standards and criteria specified to audit a company. Thus, if there is a change of membership in an audit committee in a company there will likely be a PAF switching in the company in accordance with the audit committee's recommendations.

7. LIMITATIONS OF RESEARCH

This study has several limitations that require improvement and development in subsequent studies. The limitations of this study are:

1. The independent variables used in this study only test the variables from the client side that is PAF size, corporate financial distress, firm size, client management switching and the audit committee switching.
2. The study period is only 5 years from 2010 until 2014. This is due to limitations in the provision of corporate data required in this study.
3. The population of this study is a manufacturing company, the selection of samples is based on purposive sampling and there are only 21 research samples with the number of observations as many as 105 observations.

8. RECOMMENDATION

Some suggestions that can be given related to the results of this study are:

1. Adding other variables besides those used in this research such as variables from the auditor's side are audit fee, audit opinion, client firm growth rate, and going concern opinion so as to increase the understanding of the PAF switching.
2. For further research it is advisable to use more samples and expand the research by increasing the period of years of research of all companies listed on the Indonesia Stock Exchange so that the results obtained will be more generalizable and will better describe the actual condition for the long term.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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