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Research Paper

Analysis of Factors Affecting the Substitution of Public Accounting Firm (PAF) in Property and Real Estate Companies Listed on the Indonesia Stock Exchange (IDX)

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ABSTRACT

The aim of this study was to examine and analyze the influence of factors such as the size of the Public AccountingFirm (PAF), management substitution, audit opinion, leverage, ROA percentage change, client size, company growth, and institutional ownership partially and simultaneously on the change of PAF. This study was conducted by using associative research which used secondary data. The populations in this study were all Property and Real Estate Companies listed on the Indonesia Stock Exchange in 2010-2014 which amounted to 54 companies. By purposive sampling, sample met the criteria in this study were 42 companies totaling 210 observations. The data was processed using logistic regression test with the testing grounds of the dummy variables. The results of this study proved that the partiallyPAF sizeand institutional ownership had significant effects on the substitution of PAF, meanwhile the management substitution, audit opinion, leverage, percentage of change in ROA, client size, and company growth had no significant effects on the substitution of PAF. Simultaneously, the PAF size, management substitution, audit opinion, leverage, ROA percentage change, client size, company growth, and institutional ownership did not significantly influence the PAF substitution.

Keywords: PAFSize, Substitution Management, Leverage, Percentage of Change in ROA, Client Size, Growth Company, Institutional Ownership, PAF Substitution

I. INTRODUCTION

The development of the Public Accountant is so rapid, especially in conducting audits of the company's financial statements. Various ways are carried out by several Public Accountants to provide convenience to clients, so that clients continue to use their audit services. Too much comfort can also reduce the independence of the Public Accountant, by following the wishes of the client.

Under pressure to restore public confidence, the congress passed the Public Company Accounting Reform Act and Sarbanes-Oxley Investor Protection in July 2002. Similar to the effects of the Securities Act in 1933 and 1934, the Sarbanes-Oxley Act began with a broad reform process in practice Corporate governance will be the duty and practice of public companies, financial analysts, external auditors, and stock exchanges (Messier *et al.*, 2006, p. 41).

Due to the importance of the independence of the Auditor in a PAF to clients and the occurrence of PAF Arthur Anderson and PAO Hans Tuanakotta & Mustofa (HTM) made the issuance of

Minister of Finance Decree No. 423/KMK.06/2002 and updated KMK No. 359/KMK.06/2003. This regulation discusses the provision of general audit services on the financial statements of an entity that can be carried out by the Public Accounting Firm or auditor, for PAF for a maximum of 5 (five) consecutive years and by a Public Accountant for a maximum of 3 (three) years book in a row. After that the decision was revised with the Minister of Finance Regulation No. 17/PMK.01/2008 concerning public accounting services regarding the limitation of the period of audit services provided by PAF for a maximum of 6 consecutive financial years and auditors for a maximum of 3 consecutive years, causing companies inevitably have an obligation to make changes to their auditors and PAF after a certain period of time (Minister of Finance Regulation No. 17/PMK.01/2008).

In a mandatory rotation environment, companies are still possible to rotate public accounting firm (PAF) voluntarily. Empirical evidence shows that companies that rotate PAF voluntarily are caused by the previous PAF acting according to the auditor's wishes, and not in line with the interests of the company's management. So, voluntary PAF rotation at the initiative of the company is possible because the company wants to find PAF that meets its interests (Sumarwoto, 2006).

Several factors that enable companies to make PAF changes are PAF size, management change, audit opinion, financial leverage/difficulty, percentage of change in ROA, company size/client size, company growth, institutional ownership, and several other factors.

II. LITERATURE REVIEW

Theoretical Framework

The Substitution of the Public Accounting Firm (PAF)

The failure of PAF Arthur Anderson in maintaining its independence has led to the issuance of provisions regarding audit tenure which have been explained in the Decree of the Minister of Finance of the Republic of Indonesia No. 359/ KMK.06/2008 article 3, namely the audit engagement period for a maximum of 6 consecutive years and by a public accountant for a maximum of 3 (three) consecutive financial years. The regulation explains the obligation for a company to carry out auditor rotation (auditor change) if it has reached the specified engagement deadline. This regulation concerning this change has emerged in 2002 in the form of a Minister of Finance Decree. In Article 6 paragraph 4 the Decree of the Minister of Finance No. 423 of 2002 said "The provision of general audit services for financial statements of an entity can be carried out by the Public Accounting Firm for a maximum of 5 (five) consecutive years and by a Public Accountant for 3 (three) consecutive financial years".

In 2003, the 2002 decision was amended by the Minister of Finance Decree No. 359/KMK.06/2003. Then on February 5, 2008, the Minister of Finance issued Minister of Finance Regulation No. 17/PMK.01/2008 concerning "Public Accounting Services" article 3.

PAF Size

Nasser, *et al*. (2006) state that larger PAFs (big-4) are usually considered more capable of maintaining a sufficient level of independence than smaller PAFs, because they usually provide coverage of services to a large number of clients.

Management Change

Management change can affect the replacement of PAF. Substitution of company management can be followed by policy changes in the fields of accounting, finance, and the selection of PAF (Damayanti & Sudarma, 2008). Management requires auditors who are more qualified and able to meet the demands of rapid company growth. If this is not fulfilled, chances are that the company will replace its auditors (Damayanti & Sudarma, 2008).

Audit Opinion

Basically the company wants a reasonable audit opinion without exception from PAF, that opinion is the opinion desired by the company. With this unqualified opinion means that the company has compiled financial statements in accordance with the Financial Accounting Standards (FAS) that apply in Indonesia. Then the unqualified audit opinion will allow the company to change the PAF to another PAF that will provide an unqualified opinion. Audit opinion issues are also often used as an excuse by management to replace PAFs that are still allowed to conduct audits in the company concerned. This condition arises when the client company does not agree with the previous audit opinion or future audit opinion. This problem can trigger one party to separate themselves (Asti & Putra, 2013).Basically the company wants a reasonable audit opinion without exception from PAF, that opinion is the opinion desired by the company. With this unqualified opinion means that the company has compiled financial statements in accordance with the Financial Accounting Standards (FAS) that apply in Indonesia. Then the unqualified audit opinion will allow the company to change the PAF to another PAF that will provide an unqualified opinion. Audit opinion issues are also often used as an excuse by management to replace PAFs that are still allowed to conduct audits in the company concerned. This condition arises when the client company does not agree with the previous audit opinion or future audit opinion. This problem can trigger one party to separate themselves (Asti & Putra, 2013).

Leverage

Financial difficulty (financial distress) is a condition where the company is threatened with bankruptcy or not yet able to fulfill its obligations financially. Companies that experience bankruptcy will more often make changes to accounting firms than companies that have not gone bankrupt (Nasser *et al.*, 2006).

Percentage of Change in ROA

Companies that produce low ROA make it possible to replace the Public Accounting Firm (PAF) or its auditors because of a decline in performance so that business prospects are likely to decline. The higher the value of ROA means the more effective management of assets owned by the company and the better the business prospects (Damayanti&Sudarma, 2008).

Client Size

Positive relationship between client size and selection of high quality audit companies. Research uses total assets as a proxy for firm size, will look for PAF that can provide high audit quality (Suparlan & Andayani, 2010).

Company Growth

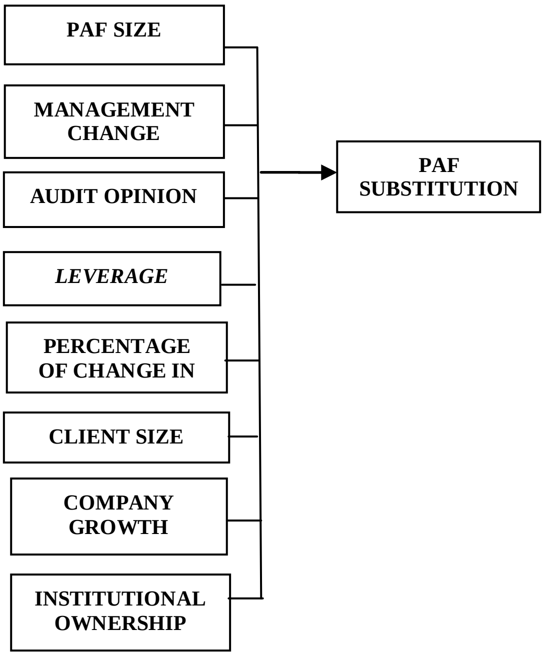
Substitution of PAF can also be influenced by the growth of client companies (Nuryanti, 2012). Along with the growth of the company, the operational activities are becoming increasingly complex, also the separation between management and owners has increased. Thus, the demand for auditor independence increases to reduce agency costs due to the growth of the company (Nasser, *et al*., 2006).

Institutional Ownership

Suparlan and Andayani (2010) state that institutional ownership plays a role in monitoring manager's behavior to be careful in making decisions. Supervision of these institutions will reduce agency problems. Institutional share ownership determines the increase in audit quality demand. So with the desire for better audit quality, it can enable companies to choose or make changes to the Big-4 PAF (Suparlan & Andayani, 2010).

III. Conceptual Framework and Hypothesis

Conceptual Framework



Hypothesis

PAF size, management change, audit opinion, leverage, percentage of change in ROA, client size, company growth, and institutional ownership partially and simultaneously affect the turnover/change of PAF in Property and Real Estate Companies on the Indonesia Stock Exchange (IDX).

IV. Research Method

Types of Research

Associative research is research that aims to determine the relationship between two or more variables. To obtain the data and information needed, this study uses secondary data. Secondary data was obtained from the financial statements of the Property and Real Estate Companies in the period 2010 to 2014. The technique used to obtain the sample was purposive sampling. Companies that are sampled in research must meet the following criteria: 1). The company was listed on the Indonesia Stock Exchange (IDX) in 2010-2014. 2). The company has an independent auditor's report as material to determine the size of PAF in 2010-2014. 3). The company has a complete board of directors in 2010-2014. The research data used in this study uses pooling data, the population in this study were 54 companies, the samples obtained were 42 companies for 5 years, thus obtaining a total sample of 210 companies.

Operational Definitions and Variable Measurement Methods

Operational definitions and measurement of variables used in this study are:

1. Dependent Variable

The Value of the Company

In this study the dependent variable used is the substitution of PAF (Switch). PAFsubstitution is a replacement made by the company to the auditor or Public AccountingFirm that has audited its financial statements. The PAFsubstitution variable uses a dummy variable. If the client company moves PAF, then the value is given 1. Whereas if the client company does not move PAF, then a value of 0 is given in Vita and Fatchan (2014).

2. Independent Variables

a. PAF Size

PAF size is measured through the size of PAF which is divided into two groups, namely PAF affiliated with The Big 4 and PAF that are not affiliated with The Big 4. PAF size variable uses dummy variables. If a company is audited by PAF The Big 4, then it is given a value of 1. Whereas if a company is audited by PAF non Big 4, then it is given a value of 0 (Sinarwati, 2010).

b. Management Change

Management change is the change of company directors which is mainly due to the decision of the general meeting of shareholders and directors to stop because of their own volition. Management change variable uses dummy variables. If there is a change of directors in the company then given a value of 1. Whereas if there is no change of directors in the company, then a value of 0 is given (Damayanti&Sudarma, 2007 in Sinarwati 2010).

c. Audit Opinion

Audit opinion is an auditor's opinion report on the fairness of a company's financial statement. Audit opinion variable uses dummy variables. If the audit opinion given is an opinion without exception (OWE), then the value is given 1. Whereas if the audit opinion given is OWE then a value of 0 is given (Damayanti&Sudarma, 2008).

d. Leverage

It is a condition of the company that shows the relationship between the amount of debt given by creditors with total equity. In this case using the Suptlan and Andayani (2010) Debt to Equity Ratio (DER) ratio:

$$DER = \frac{\text{Total liability}}{\text{Total equity}} \quad X100\%$$

e. Percentage of Change in ROA

The decrease in the percentage of ROA in this study was calculated using the method carried out by Sudarma and Damayanti (2007):

$$\Delta ROA = \frac{ROA_t - ROA_{t-1}}{ROA_{t-1}} x100\%$$

f. Client Size

Client size is calculated based on the total assets of the company which will be in the form of Natural Logarithms (Ln) based on research by Nasser, *et al*. (2006).

g. Company Growth

The company's growth is calculated by means of this year's sales minus last year's sales divided by last year's sales multiplied by 100% (Gede, 2013), the form of the formula is:

$$\Delta S = \frac{S_t - S_{t-1}}{S_{t-1}}$$

h. Institutional Ownership

Suparlan and Andayani (2010) mention institutional ownership as the proportion of share ownership at the end of the year owned by institutions, such as insurance, banks and other institutions. Can be seen in the Notes to the Financial Statements (NFS) of the company in the Share section there is already an institutional ownership percentage.

$$KI = \frac{\text{Institutional Ownership Number}}{\text{Number of Available Shares}} \quad X100\%$$

Data Analysis Method

The data analysis method in this study uses a logistic regression analysis model:

Logistic Regression Analysis

$$Ln\,\frac{p(SWITCH)}{1-p(SWITCH)} = \alpha + b_1KS + b_2PM + b_3OA + b_4DE + b_5ROA + b_6UK + b_7PP + b_8KI + e$$

$Ln\,\frac{p(SWITCH)}{1-p(SWITCH)}$ = Value ratio of the likelihood of companies changing public accounting firm

α = Constant

b_1..,b_8 = Regression coefficient

KS = PAF size

PM = Management change

OA = Audit opinion

DE = Leverage

ROA = Percentage of change in ROA

UK = Client size

PP = Company growth

KI = Institutional ownership

e = error

IV. RESULTS AND DISCUSSION OF THE STUDY

Multicollinearity Test

A good regression model is a regression that has no symptoms of a strong correlation between the independent variables. This test uses a correlation matrix between variables to see the magnitude of the correlation between the independent variables. If the independent variables correlate with each other, then these variables are not orthogonal. Orthogonal variables are independent variables equal to zero (Ghozali, 2006).

The highest correlation value is 0.375 (Variable <0.9). This shows that there is no correlation coefficient between independent variables whose value is greater than 0.90, it can be concluded that there is no indication of multicollinearity between independent variables.

Hosmer and Lemeshow's Goodness of Fit Test

The feasibility of the regression model was assessed using Hosmer and Lemeshow's Goodness of Fit Test. If the statistical value of Hosmer and Lemeshow's Goodness of Fit Test is greater than 0.05, the null hypothesis cannot be rejected and means that the model is able to predict the value of its observations or it can be said that the model is acceptable because it is in accordance with observational data.

From the results of the research data obtained a chi-square value of 11.214 with a significant value of 0.190. From these results it can be seen that the significance value of 0.190 is greater than alpha (0.05) which means that the decision taken is to accept H_0, which means that no differences in the classification are observed. That means the logistic regression model can be used for further analysis.

Fit Model Test

This test is used to assess the hypothesized model that has been fit or not with the data. Testing is done by comparing the value between -2 log loftiness at the beginning (block number = 0) with the value of -2 log lunar at the end (block number = 1). The decrease in the value between the initial -2LL (initial-2LL function) and the value of -2LL in the next step (-2LL end) indicates that the model is hypothesized to be fit with the data (Ghozali, 2006).

Table comparison of this study is the value of -LL first block with -2LL second block. From the observation of the value of -2LL it can be seen that the value of the first block (Block Number = 0) is 155.424 and the value of -2LL in the second block (Block Number = 1) is 137.468. This decrease in likelihood (-2LL) shows a better regression model or in other words a model hypothesized to be fit with data.

Results of Logistic Regression Analysis

The results of the logistic regression analysis can be seen with the regression equation as follows:

$Ln\ \frac{p(SWITCH)}{1-p(SWITCH)}$ =-5,498 – 1,384KS + 0,341PM + 0,592OA – 0,251DE – 0,007ROA + 0,04UK + 0,001PP + 3,642K1+e

Hypothesis Testing

Simultaneous Significant Test (F Test)

Omnibus Tests of Model Coefficients				
		Chi-square	df	Sig.
Step 1	Step	11.793	8	.161
	Block	11.793	8	.161
	Model	11.793	8	.161

Based on the table above it can be seen the results of the chi-square count of 11,793. For a significance level of 10% or 0.1 and a free degree of 7 a chi-square of 12.017 is obtained. Chi-square counts are smaller than Chi-square tables. Significance value of 0.161 or 16.1% is greater than the significance level of 0.1 or 10%, this showed that PAF size, management change, audit opinion, DER, percentage of change in ROA, client size, and company growth did not have the significant effects of change in PAF.

Partial Significant Test (t Test)

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	KS	-1.384	.782	3.130	1	.077	.251
	PM	.341	.467	.534	1	.465	1.406
	OA	.592	.874	.458	1	.498	1.807
	DE	-.251	.289	.754	1	.385	.778
	ROA	-.007	.034	.042	1	.838	.993
	UK	.040	.091	.193	1	.661	1.041
	PP	.001	.003	.096	1	.757	1.001
	KI	3.642	1.733	4.413	1	.036	38.154
	Constant	-5.498	3.202	2.948	1	.086	.004
a. Variable(s) entered on step 1: KS, PM, OA, DE, ROA, UK, PP, KI.							

Based on the table above, it can be seen that only the PAF Size and Institutional Ownership variables had the significant effects on the substitution ofPAF, meanwhile the management change, audit opinion, leverage, percentage of change in ROA, client size, company growth, and institutional ownership had no any effects on PAFsubstitution.

Coefficient of Determination

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	137.468[a]	.055	.107
Estimation terminated at iteration number 6 because parameter estimates changed by less than .001.			

Based on the table above it can be seen that the R2 value is 0.107 or 10.7% which means the variable X is the measure of PAF (KS), management change (PM), Audit Opinion (OA), Debt To Equity Ratio (DE), percentage of change in ROA (ROA), client size (UK), company growth (PP), and institutional ownership (KI) affected the Y variable (PAF change) by 10.7%. The remaining 89.3% is influenced by other factors outside of the variables studied.

V. DISCUSSION

The Effect of PAF Size on PAF Substitution

In this study obtained a significant value of PAF size of 0.077 where this value is smaller than 0.1, which means that the hypothesis Ha is accepted and H_0 is rejected. With a significance level of 7.7%, it can be stated that the size of PAF had a significant effect on the turnover of PAF.

This study supports the research of Nasser, *et al.* (2006) which states that larger PAFs (big-4) are usually considered more able to maintain a sufficient level of independence than smaller PAFs, because they usually provide coverage of services to a large number of clients.

The Effect of Management Change on PAF Substitution

From the results of testing the variables partially, that is for management change variable towards the substitution of PAF. So in this study obtained a significant value of management change of 0.465 where this value is greater than 0.1, which means the hypothesis Ha is rejected and H_0 is accepted. With an error rate of 46.5%, it can be stated that the management change did not affect the change of PAF in the Property and Real Estate Companies listed on the Indonesia Stock Exchange (IDX).

It is possible for management to continue to use PAF services in carrying out financial statement audit services. So that management changes do not really affect the substitution of PAF.

The Effect of Audit Opinion on PAF Substitution

From the results of testing the variables partially, namely for audit opinion variable towards the substitution of PAF. So in this study obtained a significant audit opinion value of 0.498 where this value is greater than 0.1, which means that the hypothesis H_0 is accepted and Ha is rejected. With an error rate of 49.8%, it can be stated that the audit opinion had no significant effect on the substitution of PAF.

The average company receives a reasonable opinion without exception

(OWE), few companies get opinions other than OWE. This causes no significant influence between audit opinion and PAF change. In addition, the cause for not changing the PAF is probably due to the Minister of Finance Regulation No. 17/PMK.01/2008 concerning "Public Accounting Services" article 3 concerning the services of public accountants regarding the limitation of the period of providing audit services by PAF for a maximum of 6 consecutive financial years and auditors for a maximum of 3 consecutive years, this is mandatory so the company does not make changes to PAF.

The Effect of Leverage on PAF Substitution

From the results of testing the variables partially, that is for the DER ratio variable to the turnover of PAF. So in this study obtained a significant audit opinion value of 0.385 where this value is greater than 0.1, which means that the hypothesis H_0 is accepted and Ha is rejected. With an error rate of 38.5%, it can be stated that leverage did not have a significant effect on the substitution of PAF.

As for what causes no influence between leverage and turnover of PAF, according to my observation, the amount of equity in a company can still cover all company debts.

The Effect of Percentage of Change in ROA on PAF Substitution

From the results of testing the variables partially, namely for the ratio of percentage changes in ROA variable to the turnover of PAF. So in this study obtained a significant audit opinion value of 0.838 where this value is greater than 0.1, which means that the hypothesis H_0 is accepted and Ha is rejected. With an error rate of 83.8%, it can be stated that the percentage of change in ROA had no significant effect on the substitution of PAF.

The result of this study are in accordance with the result of research conducted by Damayanti and Sudarma (2007) which states that the percentage of change in ROA does not significantly influence the turnover of PAF. The thing that causes the percentage of change in ROA did not have a significant effect according to my observation is that there was a decrease in the value of ROA but there was no change in PAF.

The Effect of Client Size on PAF Substitution

From the results of testing the variables partially, namely for the client size variable to change PAF. So in this study obtained a significant value of the client size of 0.661 where this value is greater than 0.1, which means that the hypothesis H_0 is accepted and Ha is rejected. With an error rate of 66.1%, it can be stated that the size of the client had no significant effect on the substitution of PAF.

The thing that causes the percentage of client size had no significant effect according to my observations was that large companies and small companies continue to use the same PAF services as before.

The Effect of Company Growth on PAF Substitution

From the results of testing the variables partially, that is for the company growth variable towards the PAF substitution. So in this study obtained a significant value of the client size of 0.757 where this value is greater than 0.1, which means that the hypothesis H_0 is accepted and Ha is rejected. With an error rate of 75.7%, it can be stated that the growth of the company had no significant effect on the substitution of PAF.

The thing that causes the percentage of company growth had no significant effect according to my observations was that although some companies experienced a decrease in their sales/income but some of these companies continued to use the services of previous PAF.

The Effect of Institutional Ownership on PAF Substitution

From the results of testing the variables partially, namely for institutional ownership variable on the turnover of PAF. So, in this study obtained a significant value of PAF size of 0.036 where this value is smaller than 0.1, which means that the hypothesis Ha is accepted and H_0 is rejected. With a significance level of 3.6%, it can be stated that institutional ownership had a significant effect on the substitution of PAF.

Institutional ownership has a role in monitoring and controlling management activities in a company. The greater the level of institutional ownership, the greater the institutional ownership role in monitoring and controlling activities within the company.

The Effect of PAF Size, Management Change, Audit Opinion, Leverage, Percentage of Change in ROA, Client Size, Company Growth, and Institutional Ownership on PAF Substitution

From the results of testing the research variables altogether (simultaneous), namely the effects of the PAF size, management change, audit opinion, leverage, percentage of change in ROA, client size, and company growth towards the substitution of PAF. From the results of the study, the results of the chi-square count were 11,793. For a significance level of 10% or 0.1 and a free degree of 7 a chi-square of 12.017 is obtained. Chi-square counts are smaller than Chi-square tables. Significance value of 0.161 or 16.1% was greater than the significance level of 0.1 or 10%. With a significant level of 16.1%, it can be stated that there were no effects on the PAF size, management change, audit opinion, leverage, percentage of change in ROA, client size, company growth, and institutional ownership altogether (simultaneous) on the substitution of PAF. This is likely due to Minister of Finance Regulation No. 17/PMK.01/2008 concerning "Public Accounting Services" article 3 concerning the services of public accountants regarding the limitation of the period of providing audit services by PAF for a maximum of 6 consecutive financial years and auditors for a maximum of 3 (three) consecutive years, this is mandatory so the company does not make changes to PAF.

VI. CONCLUSION AND SUGGESTION

Conclusion

Simultaneously the PAF size, management change, audit opinion, leverage, percentage of change in ROA, client size, company growth, and institutional ownership did not affect the substitution of PAF.

Partially the PAF size and institutional ownership had a significant effect on PAF substitution, meanwhile management change, audit opinion, leverage, percentage of change in ROA, client size, and company growth had no significant effect on PAF substitution.

This is likely due to Minister of Finance Regulation No. 17/PMK.01/ 2008 concerning "Public Accountant Services" article 3 concerning the services of public accountants regarding the limitation of the period of providing audit services by PAF for a maximum of 6 consecutive financial years and auditors for a maximum of 3 consecutive years, this is mandatory so the company does not make changes to PAF.

Limitation

Adjusted *R* square value or determinant coefficient showed the number 0.107 or 10.7% of the PAF size, management change, audit opinion, leverage, percentage of change in ROA, client size, company growth, and institutional ownership that can explain the factors that influence the change of PAF.

Researchers still make companies that do not replace PAF as a sample in 2010-2014.

This study focuses on Property and Real Estate Companies listed on the IDX.

Suggestion

It is better to do research on other factors that have a greater influence on PAF substitution so that the factors that most influence the changes of PAFare known, and can increase the adjusted *R* square value or determinant coefficient.

Research needs to be done on other types of companies and longer time series. Use the latest Minister of Finance Regulation (PMK) 4. It is necessary to add criteria to the purposive sampling, which is the company that performs PAF changes in the time series studied.

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