

CHAPTER IV

DATA ANALYSIS AND DISCUSSION

This chapter consists of the data analysis and research findings. It explains the results of influence audit fee, public accounting firm reputation, company size, and company financial distress toward auditor switching of State-Owned Enterprises in Indonesia that listed on IDX within the period 2013 to 2017.

4.1. Research Object Description

The object of this research is State-Owned Enterprises companies listed on IDX website (www.idx.co.id) from the year of 2013 to 2017. The research is aimed to determine the influence of audit fee, public accounting firm reputation, company size, and company financial distress toward auditor switching. Purposive sampling technique is used to choose the sample. According to the specified criteria, the sample selection is obtained as follows:

Table 4.1 Sample Selection Result

Description	Total
SOEs listed on IDX website from 2013-2017	22 companies
SOEs who did not publish the annual report from 2013-2017	0 company
SOEs who did not provide complete information (audit fee, public accounting firm, total equity, total asset, and total debt)	1 company
Total companies	21 companies
Years of observation	5 years
Total sample of research	105

4.2. Descriptive Statistics

Descriptive statistic analysis is used to describe the sample data used in this research. The formula in the descriptive analysis includes mean, median, maximum, minimum, and standard deviation. Descriptive statistics of each variable are explained below:

Table 4.2 Descriptive Statistic Result

	N	Minimum	Maximum	Mean	Std. Deviation
SWITCH	105	.00	1.00	.4762	.50183
FEE	105	18.52	24.32	21.2589	1.20947
KAP	105	.00	1.00	.6286	.48550
SIZE	105	25.57	37.01	31.0962	2.43178
FINDIS	105	.00	1.00	.6000	.49225
Valid N (listwise)	105				

(Source: Secondary Data Processed, 2019)

From the descriptive statistic analysis result in Table 4.2, it can be concluded that:

1. SWITCH or auditor switching is stated in the dummy variable, which has a minimum value of 0 and maximum value is 1. Value of 1 means the companies performed auditor switching while 0 means the companies did not perform auditor switching in the observing period. The mean of auditor switching variable is 0.4762. This implies that 47.62% of SOEs did auditor switching. A standard deviation of this variable is 0.50183.
2. FEE or audit fee has a minimum value of 18.52, which means the lowest natural logarithm of audit fee in SOEs from year 2013 to 2017 is 18.52,

while the highest value is 24.32. Audit fee variable yielded a mean of 21.2589 and standard deviation of 1.20947.

3. KAP or public accounting firm reputation yielded a mean of 0.6286. The standard deviation is 0.48550, which shows the measurement of the spread of public accounting firm reputation variable in the sample. The maximum value of 1 implies that the companies were audited by big four accounting firms while minimum value shows that they were audited by non-big four audit firms.
4. SIZE or company size variable mean in SOEs from 2013 to 2017 is 31.0962, while the standard deviation is 2.43178. The maximum value is 37.01 that indicates the natural logarithm of total asset in SOEs reaches the highest number at 37.01. On the other hand, the minimum value of company size variable is 25.57.
5. For FINDIS or company financial distress, which includes dummy variables, its maximum value is 1, which indicates that the companies have a debt to equity ratio more than 100%. The value of 0 as the minimum value implies that the companies had a debt ratio of 100% or less. This variable yielded a mean of 0.6. The standard deviation is 0.49225.

4.3. Logistic Regression Analysis

4.3.1. Hosmer and Lemeshow's Goodness of Fit Test

Goodness of fit test is a test to determine whether the regression model is feasible (decent) or not. The model is right when there is no significant difference between the models and the observation value. If the significant value of *Hosmer and Lemeshow's Goodness of fit test* > 0.05 , this indicates that the model of logistic regression is decent to be used or the observation value can be predicted by the observation model. Hosmer and Lemeshow test is presented by chi-square, Table 4.3 shows the chi-square value is 4.532 with a significant level of 0.806. According to the result, it can be concluded that the significant value is more than 0.05, which means the feasibility of a model is achieved and the regression model can predict the observation value.

Table 4.3 Hosmer and Lemeshow Test result

Chi-square	df	Sig.
4.532	8	.806

4.3.2. Overall Model Fit Test

Overall model fit is the test to examine if the hypothesized models are fit or not with the data. The analysis is comparing the first value of -2 log likelihood (block number = 0) with the last value -2 log likelihood (block number = 1). The result revealed the value of -2LL (block = 0) is 145.323, while -2LL (block = 1)

value is 138.151. The decreasing value of -2LL shows the hypothesized model is fit with the data.

Table 4.4 Overall Model Fit Test Result

<i>-2 Log Likelihood Block Number = 0</i>	<i>-2 Log Likelihood Block Number = 1</i>
145.323	138.151

4.3.3. Nagelkerke's R Square Test

This analysis is to show the extent to which the ability of independent variables explains the variation of independent variable. The value of Nagelkarke's R Square varies from 0 to 1. Table 4.5 shows that the result of Nagelkerke's R Square test is 0.089. It means that the variability of dependent variable that can be explained by independent variable is 8.9%. Meanwhile, the rest 91.1% is explained by other variables that were not used in this observation model. This result considered weak since the variability of auditor switching that can be explain by audit fee, public accounting firm reputation, company size, and company financial distress is only 8.9%. This result has similarity with Sugiarti and Pramono (2016); Djamalilleil (2015); Sari and Puspaningsih (2018); that each of them resulted 9.2%, 12.3% and 12.5%.

Table 4.5 Nagelkerke's R Square Test Result

-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
138.106 ^a	.066	.089

4.3.4. Classification Table

Classification table of classification matrix indicates the prediction strength of the regression model to predict the possibility of auditor switching done by SOEs. Table 4.6 shows that the prediction of regression model to predict the possibility of SOEs to do auditor switching is 50%. Meanwhile, the prediction strength model from the companies that did not do auditor switching is 72.7%. From the result, it can be concluded that the prediction strength from regression model is 61.9%.

Table 4.6 Classification Table Test Result

Observed		Predicted		
		Auditor switching		Percentage Correct
		No Auditor Switching	Auditor Switching	
SWITCH	No Auditor Switching	40	15	72.7
	Auditor Switching	25	25	50.0
	Overall Percentage			61.9

4.4. Regression Analysis

Logistic regression analysis is used to find out the influence of the independent variables, which are audit fee, public accounting firm reputation, company size, and company financial distress toward the dependent variable (auditor switching) by examining or testing the level of regression coefficient in each independent variable.

Table 4.7 Logistic Regression Test Result

Variables	B	Sig.	Exp(B)
FEE	.472	.023	1.604
KAP	.205	.700	1.228
SIZE	-.083	.443	.920
FINDIS	.215	.629	1.239
Constant	-7.797	.086	.000

Based on the test of regression coefficient, the following model is obtained:

$$\text{Ln} \frac{\text{SWITCH}}{1-\text{SWITCH}} = -7.797 + 0.472\text{FEE} + 0.205\text{KAP} - 0.083\text{SIZE} + 0.215\text{FINDIS} + e$$

From the model above, the interpretation of each regression coefficient is explained as follows:

- 1) Table 4.7 displays that the constant of regression model is -7.797. The negative value means a high possibility of not performing auditor switching.
- 2) Audit fee variable has a positive coefficient, which is 0.472. It shows that if the companies raised their audit fee, their decision to switch auditor increased by 0.472 times compared to those who did not increase their audit charge, assuming other independent variables were constant.
- 3) The second variable is public accounting firm reputation. This variable resulted in a positive coefficient of 0.205. It implies that if the companies were audited by big four-audit firms, so the opportunity of the companies to do auditor switching increased by 0.205 times compared to those audited by non-big four audit firms.

- 4) Company size variable resulted in a coefficient regression of -0.083 . It indicates if the company size increased, so the opportunity of the companies to switch their auditor decreased by 0.083 . It is assumed all independent variables were constant.
- 5) Financial distress yielded a regression coefficient of 0.125 . This means if the companies raised their financial distress level, so the opportunity of the companies to perform auditor switching increased by 0.125 , assuming other variables were constant

4.5.Hypothesis Testing

Hypothesis testing aims to find out whether the variables of audit fee, public accounting firm reputation, company size, and company financial distress influence auditor switching of SOEs listed on IDX website period year 2013 to 2017. In accordance with Table 4.7, the result are interpreted as follows:

- 1) First hypothesis testing

Audit fee variable yielded a coefficient of regression 0.472 with the significant value of 0.023 . The significant value which is less than 0.05 means audit fee has a significant influence toward auditor switching. This implies that the first hypothesis, “Audit fee has a positive influence toward auditor switching”, is accepted.

2) Second hypothesis testing

Public accounting firm reputation variable resulted in a coefficient regression of 0.205 and significant value of 0.7. The significant value which is more than 0.05 indicates that public accounting firm reputation has no influence on auditor switching. Thus, the second hypothesis that states, “Public accounting firm reputation has a negative influence toward auditor switching” is rejected.

3) Third hypothesis testing

Company size variable resulted in a coefficient regression of -0.083. Its significant value is 0.443, which is more than 0.05 means that company size has no influence toward auditor switching. It also implies that third hypothesis; “Company size has a positive influence toward auditor switching” is rejected.

4) Fourth hypothesis testing

Company financial distress variable yielded a coefficient regression of 0.215 with a significant level of 0.629. The significant value that is more than 0.05 indicates company financial distress has no influence toward auditor switching. This means that last hypothesis stating “Company financial distress has a positive influence toward auditor switching” is rejected.

4.6. Analysis and Discussion

Table 4.8 Hypothesis Resting Result

No.	Hypothesis	β	Sig.	Result
1.	Audit fee has a positive influence on auditor switching	0.472	0.023	Accepted
2.	Public accounting firm reputation has a negative influence on auditor switching	0.205	0.700	Rejected
3.	Company size has a positive influence on auditor switching	-0.083	0.443	Rejected
4.	Company financial distress has a positive influence on auditor switching	0.215	0.629	Rejected

1. The influence of audit fee on auditor switching

The result reveals that audit fee has a positive influence on auditor switching. It means that audit fee variable influenced auditor switching of State-Owned Enterprises listed on IDX. This finding corroborates Astuti & Ramantha (2014); Damayanti & Sudarma (2008); Wijaya & Rasmini (2015); Chadegani, Mohamed & Jari (2011); Yendrawati (2011). This variable seems to influence auditor switching decision since too low or too high auditor charge will determine whether a company keeps using the same auditor or not. According to Schwartz and Menon (1985), the conflict of audit fee between a company and audit firm is one of the reasons for the company to do auditor switching. SOEs that had high audit fee were inclined to change their audit firm, since they had to minimize their expenses. Another reason is high audit fee could burden the companies in certain circumstances, thus lowering the charge of auditor or audit firm is the best

decision. This means that SOEs perform auditor switching if they believe the audit fee is too high. The issue usually happens especially from big four audit firm to non-big four-audit firm. From the explanation above, it can be concluded that audit fee is one of the reasons for SOEs to switch their auditor or audit firm. The implication is this result can be one of the considerations for public accounting firm in determining its audit charge. So that company will not feel burdened of specified fee by big four audit firms or non-big four audit firms.

2. The influence of public accounting firm reputation on auditor switching

The research finding reveals that public accounting firm reputation has no influence on auditor switching. It means that public accounting firm variable did not affect SOEs' decision to do auditor switching. This result supports Sugiarti & Pramono (2016); Budisantoso, Bandi & Probohudono (2018). This result proves that company audited by big four-audit firm or non-big four audit firms no has tendency to change its public accounting firm. SOEs audited by E&Y, Deloitte, PwC, and KPMG will continue to use their services since those accounting firms have good reputation. Accordingly, investors still perceive the financial statements audited by reputable audit firms are free from material misstatement (Aprianty & Hartanty, 2016). From explanation above, it can be concluded that public accounting firm reputation is not one of the reasons for SOEs to switch their audit firm. The implication is this result can broaden auditor insight that audit firm reputation does not affect company decision to change its auditor or audit firm.

3. The influence of company size on auditor switching

The result proves that company size has no influence on auditor switching. It means that company size variable did not influence the auditor switching of the State-Owned Enterprises listed on IDX. This result supports Kurniaty (2014); Schwartz & Menon 1985; Aprianti & Hartaty (2016); Sugiarti & Pramono (2016); Chadegani, Mohamed & Jari, (2011); Wijaya & Rasmini (2015).

The companies with a large amount of total asset audited by big four audit firms do not have tendency to do auditor switching, rather they are getting bigger (Wijaya & Rasmini, 2015). If the big SOEs easily change their auditor or audit firm, the shareholders will probably raise doubts. Small audit firms will face difficulties if they audit too big companies, while big four audit firms will lose their good reputation if they audit small clients (Aprianty & Hartanty, 2016). However, in this case, company size did not influence auditor switching. This fact might be caused by large companies who used big four-audit firm and smaller companies who used non-big four audit firms. From the explanation above, it can be concluded that company size is not one of the reasons for the SOEs to switch their auditor or audit firm. The implication is this result can be consideration for company to take an action. The result implies that whether company has many or few total asset, it does not affect auditor switching.

4. The influence of company financial distress on auditor switching

The result reveals that company financial distress has no influence on auditor switching. It means that company financial distress variable did not

influence State-Owned Enterprises in IDX to do auditor switching. This result strengthens Wijaya & Rasmini (2015); Astuti & Ramantha (2014); Trisnawati & Wijaya (2009); Sugiarti & Pramono (2016); Faradila & Yahya (2016); Yendrawati (2011). Financial distress indicates that a company is experiencing unwanted financial condition. This condition usually leads to possible bankruptcy. Since the company has a tendency to bankrupt, it will improve objectivity and carefulness of an auditor (Gunady & Mangoting, 2013).

According to this research finding, the companies having financial difficulty have no tendency to do auditor switching. If they switch auditors, it will raise some speculation. This may lead to worsening condition. It is in line with Suparlan and Andayani (2010) who stated that if a company that most likely to bankrupt change its auditor will lead to negative assumption and cost more. From the explanation above, it can be concluded that company financial distress is not one of the reasons for SOEs to switch their auditors or audit firm. The implication is company can considered to takes action relating to this result. Company that has financial difficulty does not influence its decision to do auditor switching.