DETERMINANTS OF DOWNWARD AUDITOR SWITCHING

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Abstrak: Determinan Pengalihan Auditor. Penelitian ini menguji faktor-faktor yang memengaruhi *downward auditor switching* di lima Negara ASEAN. Metode analisis yang digunakan adalah *fixed effect logistic regression.* Penelitian ini menemukan bahwa opinion shopping terjadi di ASEAN, terutama pada perusahaan yang mengalami kesulitan keuangan. Perusahaan dengan bisnis yang kompleks akan mempertahankan auditor Big Four untuk mengurangi kompleksitas dan biaya audit. Komite audit dan publik berperan sebagai penjaga kualitas auditor. Di sisi lain, pemegang saham gagal menjalankan peran sebagai penjaga kualitas audit. Ini mengindikasikan bahwa terdapat pengaruh kubu dalam pemegang saham.

Abstract: Determinant of Downward Auditor Switching. *This study examines the factors that influence downward auditor switching in five ASEAN countries. Fixed effect logistic regression was used as analytical method. This study found that opinion shopping occurred in ASEAN, especially in distress companies. Companies with complex businesses will retain the Big Four auditors to reduce complexity and audit costs. Audit and public committees serve as guardians of auditor quality. On the other hand, shareholders failed to maintain audit quality. It indicates that there is entrenchment effect in auditor switching*

Keywords: downward auditor, financial distress, audit commitee

External auditor provides value added to financial reporting process by improving the reliability and credibility of financial information. In order to maintain quality of services, external auditor should be independent and proceed with objective opinion (Junaidi *et al.*, 2016; Junaidi, Miharjo, & Hartadi, 2012). Auditor deals with many pressures in the audit process that may affect to auditor switching. It can be internal pressure in the form of self-interest threat (Hudaib & Cooke, 2005). This pressure, potentially, reduces the independence of auditor because client can switch to another audit firm. Other pressures come from management. Management expects the best opinion in any actual conditions faced by the company. To oversee and ensure thus opinion, management may provide intimidation. The concrete act of intimidation is threat of auditor switching (Chow & Rice, 1982).

Enron case was a picture that auditor switching is important. Accounting scandal of Enron happened because of ethics problem between management and auditor. Arthur Andersen acted with no independence to let earnings manipulation, and led to auditor switching (Srinidhi, Hossain, & Lim, 2012). This case led to formulation of corporate governance guidelines (Willits & Nicholls, 2014); called as Sarbanes Oxley Act (SOX) (Mitra, Jaggi, & Al-Hayale, 2016). In terms of financial reporting, SOX consists of transparency of financial statement (Willits & Nicholls, 2014) and audit rotation (Srinidhi, Hossain, & Lim, 2012). Some countries refers, but not fully implemented, SOX as guideline to make regulation of mandatory audit firm switching with adjustment of each country's condition; such as Indonesia have 6 years of audit rotation, Singapore, Thailand, Laos have regulated 5 years of audit rotation; Cambodia have regulated 3 years of audit rotation (ASEAN Federation of Accountant, 2014). In Indonesia, auditor rotation is regulated in *Peraturan Menteri Keuangan* [Finance Minister Regulation] no.17/PMK.01/2008. It limits audit service in a firm not more than 3 years for audit partner and not more than 6 years for audit firm. It is updated by *Peraturan Pemerintah* [Government Regulation] no.20/2015 that limits auditor service in a firm not more than 5 years for audit partner and omits tenure limitation for audit firm. Audit rotation leads to auditor switching.

Generally, there are two kinds of audit firm switching which are mandatory and voluntary switching (Tanyi, Raghunandan, & Barua, 2010). Mandatory switching is audit firm switching in a specified period based on government regulation, while voluntary switching based on initiative of client. Audit tenure regulated to prevents deep relationship, loyalty and emotional with client, so that can threatens independence, competences in evaluating audit evidences (Junaidi *et al.*, 2016; Junaidi, Miharjo, & Hartadi, 2012). Tenure regulation depends on condition of each country, such as macroeconomics factor (financial deepening).

In terms of switching direction, there are two kinds of audit firm switching, which are upward switching (e.g. switch from non Big Four to Big Four auditor) and downward switching (e.g. switch from non Big Four to Big Four auditor) (Mitra, Jaggi, & Al-Hayale, 2016). The focus of this research project is on downward switching. Prior literature in assuming that Big Four audit firms provide higher quality audits, while upward switches should generate positive changes in audit quality and, thus, should be of less concern (Cassell, Giroux, Myers, & Omer, 2012). Moreover, upward switches are relatively rare events that represent less than 5 percent of the total number of auditor switching in Audit Analytics, while downward switches represent about 19 percent of the total number of auditor switching. This research will examine Big Four audited companies only. Downward switching (e.g. switch from Big Four to non Big Four auditor) happens only when previous auditor is Big Four auditor. In addition, mostly participants of stock market is more aware on auditor switching from Big Four auditor, means that they worry whether there are audit quality problems by Big Four auditor, like Arthur Andersen (big five auditor) have done in Enron case, so Big Four auditor have to be switched (Chang, Cheng, & Reichelt, 2010).

There are some factors that affect auditor switching which are auditee-related factors and environment and regulation factors. Auditee-related factors lead to audit opinion of financial statement, financial distress, ownership, and company's size. Environment and regulation factors lead to audit committee and financial deepening of country as public monitoring by stock market. Consideration to choose those factors because auditee is party that uses audit services; so auditee have to see their needs related to management condition (financial distress), financial statement condition (audit opinion), owner (ownership), and industry and business position (company's size). Auditee needs are limited by environment and regulation factors, such as role of audit committee (key party that recommends and evaluates auditor as regulation ordered) and role of capital market (financial deepening). ASEAN Economics Community (AEC) is just fully performed in 2015 (Nikomborirak, 2015; Yean & Das, 2015), and yet, there are researches studying macro economics level factors as one region (e.g. Lee & Jeong, 2016; Niblock, Heng, & Sloan, 2014; Nikomborirak, 2015; Yean & Das, 2015) in order to keep up the development of AEC. Different to previous research; such Hudaib & Cooke (2005) or Chow & Rice (1982); that uses only micro economics factors to explain auditor switching, novelty of this research is the use combination of micro and macro economics level factors that affect decision making in downward auditor switching. It is important to analyze downward auditor switching in ASEAN as one integrated business activities because of needs of high quality financial statement information across countries. There is no specific a regulation that regulates ideal audit engagement period as well as audit rotation for all ASEAN countries as an integrated open market. ASEAN countries still stand for own regulation that occurs only in each country. An integrated open market needs a single regulation for all countries member in order to supports market activities. This research is important to capture factors that be consi dered to make a single regulation of audit rotation that stands for all ASEAN countries.

METHOD

Association of Southeast Asian Nations (ASEAN) economic community increasingly leads to the establishment at the end of 2015 (ASEAN Federation of Accountant, 2014). ASEAN countries are working on improving integration through harmonization of regulations, reduction of trade barriers and the promotion of labour mobility between countries (Nikomborirak, 2015; Yean & Das, 2015), including requirement of accounting and auditing. Accounting and auditing profession is an essential component in the development of private sector, boost domestic investor confidence and the ability to attract foreign direct investment. It is important to increase public sector in achieving sustainable management of public finance and promoting of governance, accountability and transparency (ASEAN Federation of Accountant, 2014). These explanations show that role of the auditor is very important for development of ASEAN countries, including audit tenure, auditor quality as well as downward auditor switching. Generally, Indonesia as ASEAN country has a different cultural environment that affects different behaviors including in the context of business. Market discipline as the main economic models does not necessarily produce the same output with implementation in the western region. Behavior that is likely to be communal and close relation between persons affects business activities as well. Data between countries used in this study provide an opportunity to analyzes the relationship of a country's financial characteristics (financial deepening) related to downward auditor switching. This research captures the phenomenon of downward auditor switching from aspects of corporate governance implementation. Relationship between corporate governance and external audit is a central issue in agency relationship, especially in ASEAN region as the backbone of economic growth in the world.

This research is a quantitative research based on secondary data collected from various available sources and databases (OSIRIS, Thomson Reuters, Beuro Van Dijk) in year 2012-2014. Research periods are 2012-2014, which shows whether factors in 2012 (and 2013) affect company to switch Big Four auditor in 2012 (and 2013) to non Big Four auditor in 2013 (and 2014). Consideration of research period between 2012-2014 is integration of stock exchange, includes of development of stock exchange parties networking, of five ASEAN countries (Indonesia, Malaysia, Singapore, Thailand, Philippines) have just been established in 2012 (United States Agency for International Development, 2013). In addition, Tyasari, Yusof, & Bahador (2017) stated that ASEAN have established AARG (ASEAN Audit Regulation Group) in 2011 to increases audit quality and it is followed by increasing of accountant numbers in Thailand, Malaysia, Singapore, Indonesia from 2012-2014. This research is important to ensure increasing of accountant numbers followed by increasing of audit quality in 2012-2014, in this case, audit quality seen by downward auditor switching. Data collection starts from 2015 until 2016, while complete data of financial statement for five ASEAN countries are available until 2014, hence research period is limited to 2014. Research sample are manufacturing companies listed in stock exchange in ASEAN region audited by Big Four auditor. This research used manufacturing companies that perform auditor switching with non auditor switching manufacture companies as control group (Cassell, Giroux, Myers, & Omer, 2012). The reason for the use of manufacturing companies as research sample is because ASEAN has been accelerating manufacturing business since AEC is developed (Tonby, Ng, & Mancini, 2014), so it will need high financial information quality to run better manufacturing business. Liu (2016) infers that the firms in ASEAN have operated in environments where government policies were lacking and the market structure was underdeveloped with low quality of financial statement information; but at the same time ASEAN will be a powerful competitive regional economic force with an aggregated Gross Domestic Product (GDP) of 2.5 trillion USD, as year of 2014, representing the third largest economic cooperation following the North American Free Trade Agreement (NAFTA) and the European Union (EU) (Lee & Jeong, 2016). ASEAN countries are working on improving integration through harmonization of regulations, reduction of trade barriers and the promotion of labor mobility between countries (ASEAN Federation of Accountant, 2014), including requirement of accounting and auditing. There are five ASEAN countries used in this research, which are Indonesia, Malaysia Philippine,

Table 1. Sample

	Auditor Switching Group	Non Auditor Switching Group	Total
Indonesia	20	166	186
Malaysia	53	369	422
Singapore	9	231	240
Thailand	9	133	142
Philippines	2	38	40
Total of manufacture companies listed 2012-2014 in five ASEAN	93	937	1030
Less: Incomplete Data	-	20	20
Less: Annual Report in Local	-	10	10
Less: Non Big Four Audited	59	378	437
Total Sample	34	529	563

Source: Website of Stock Exchange in Indonesia, Malaysia, Singapore, Thailand, Philippine

Singapore and Thailand. These five ASEAN countries are pioneers to start networking development of integrated stock market participant in 2012 (United States Agency for International Development, 2013) and have better access of completed annual report and stock price than other ASEAN countries.

This research performed country fixed-effect logistic regression test as main analysis. This research use of country fixed-effect logistic regression to explains dependent variable as categorical (dummy) variable. In order to determine effect of independent variables on downward switching as one region of ASEAN, country fixed-effect will be applied because each effect of independent variables will be related to condition of each country. Model of logistic regression is as followed.

DOWNt+1 = β0 + β1Fdt + β2Aot + β3Fot + β4Mot + β5Iot + β6Sizet + β7Comt + β8Fdpt + β9Levt + ∑country fixed-effect + e

DOWNt+1 is voluntary downward audit firm switching period t+1, as dummy variable (1 if switch audit firm to non Big Four auditor, 0 otherwise) (Chow & Rice, 1982). *Fdt* is financial distress in period, shows a condition where companies face finance difficulties (Hudaib & Cooke, 2005), measured by Altman Z-Score (Z= 1.2[Working Capital to Total Assets] + 1.4[Retained Earnings to Total Assets] + 3.3[Earnings Before Interest and Tax to Total Assets] + 0.6[Market Value of Equity to Book Value of Liabilities] + 0,999[Sales to Total Assets]). *Aot* is audit opinion provided by auditor in audit report period t, measured as dummy variable (1 if unqualified opinion, 0 if qualified opinion). Fot is foreign ownership in period t. *Mot* is managerial ownership in period t. *Iot* is Institutional ownership in period t. Ownership seen by significant intervention (above 5 percent ownership) (Hudaib & Cooke, 2005), measured by percentage of foreign/managerial/institutional ownership. In this research, size of company is seen by its asset, measured by logarithm of total assets. Sizet is size of company period t, measured by logarithm of total assets period t. *Comt* is proportion of audit committee member who have competences in accounting, finance, and auditing period t, measured by number of personnel of audit committee who have competences in accounting, finance, and auditing divided by total personnel of audit committee. *Fdpt* is financial deepening that shows public access of financial instrument or literacy, measured by percentage of market capitalization to gross domestic products period t (Kargbo, Ding, & Kabia, 2015). This research performed test of goodness-fit as well to ensure that logistic regression model is not bias.

RESULTS AND DISCUSSION

Based on table 2, mean value of variables shows that non downward auditor switching sample are less distress, have more foreign ownership, have less managerial ownership, have more institutional ownership, have bigger size, have more effective audit committee; than downward auditor switching sample. Non downward auditor switching sample consist of 28 samples that receive qualified opinion and 518 samples that receive unqualified opinion. Downward auditor switching sample consist of 4 samples that receive qualified opinion and 13 samples that receive unqualified opinion. Non downward auditor switching sample consist of 546 samples, while downward auditor switching sample consist of 17 samples.

Based on table 3, value of -2Log Likelihood and H-L shows that test of goodness-fit has been fulfilled, while level of correct prediction is 97.34 percent with power of independent variables explanation to dependent variable is 27.5379 percent. Financial distress has coefficient value -0.329563 (significant in 5 percent), means that financial distress (z score) affect downward auditor switching positively (negatively). Audit opinion have coefficient value -1.427043 (significant in 10 percent), means that audit opinion affects downward auditor switching negatively. Foreign ownership has coefficient value 0.413694 (insignificant), means that foreign ownership does not affect downward auditor switching. Managerial ownership has coefficient value -0.406626 (insignificant), means that managerial ownership does not affect downward auditor switching. Institutional ownership has coefficient value -0.073732 (insignificant), means that managerial ownership does not affect downward auditor switching. Size have coefficient value -0.954922 (significant in 5 percent), means that size affect downward auditor switching negatively. Audit committee have coefficient value -2.284680 (significant in 10 percent), means that audit committee affect downward auditor switching negatively. Financial deepening has coefficient value -1.917790 (significant in 5 percent), means that audit committee affect downward auditor switching negatively.

In this research, non downward auditor switching sample divided into two groups; which are sample that does not switch and remains the previous Big Four auditor, and sample that switches to another Big Four auditor. This research performs alternative measurement for non auditor switching sample. Alternative measurement is necessary to captures possibility that non downward auditor switching sample that does not switch and remains the Big Four auditor have lower audit quality than sample that switches to another Big Four auditor. Junaidi *et al.* (2016) states that auditor switching increases audit quality by improvement of auditor independent. It shows that non downward auditor switching sample that does not switch and keep the Big Four auditor have lower audit quality than sample that switches to another Big Four auditor. Alternative measurement for dependent variable; which is becoming ratio variable; is value 1 (one) for downward auditor switching (means that there is decreasing of high auditor quality), value 0 (zero) for non downward auditor switching sample that switches to another Big Four auditor (means that there is improvement of auditor independent by auditor switching and keeping of high auditor quality by remains to choose another Big Four auditor), value

Table 2. Descriptive Statistics

		Fd	Ao	Fo	Mo	Io	Size	Com	Fdp
ND	N	546	546	546	546	546	546	546	546
	Mean	4.5548		0.1745	0.1213	0.4921	9.3992	0.5372	1.4222
	QO		28						
	UO		518						
D	N	17	17	17	17	17	17	17	17
	Mean	-0.5389		0.1353	0.1373	0.4171	8.2933	0.3529	1.4633
	QO		4						
	UO		13						
Total	N	563	563	563	563	563	563	563	563
	Mean	4.4010		0.1733	0.1218	0.4898	9.3658	0.5316	1.4234
	QO		32						
	UO		531						

ND = Non Downward Switching
D = Downward Switching
QO = Number of sample which received Qualified Opinion
UO = Number of sample which received Unqualified Opinion
N = Number of Sample

Table 3. Country Fixed-Effect Logistic Regression

	Coefficient	Z-Statistics
Fd	-0.329563	-2.079458**
Ao	-1.427043	-1.785044***
Fo	0.413694	0.297938
Mo	-0.406626	-0.203725
Io	-0.073732	-0.050509
Size	-0.954922	-2.577509**
Com	-2.284680	-1.924269***
Fdp	-1.917790	-2.049950**
Lev	-2.635226	-1.438959
Constant	11.89362	3.061870*
-2Log Likelihood	41.99082*	
H-L Statistics	2.0263 (insignificant)	
Correct Prediction	97.34 percent	
McFadden R-squared	0.275379	
*Significant in 1 percent		
**Significant in 5 percent		
***Significant in 10 percent		

0.5 for non auditor switching sample that does not switch and keep the previous Big Four auditor (means that there is decreasing of auditor independent by does not perform auditor switching, but keeping of high auditor quality by remains its Big Four auditor). Consideration to use value 0.5 (between 1 and 0) for non auditor switching sample that does not switch and remains the previous Big Four auditor because it have higher quality compares to downward auditor switching (have value 1), at the same time, have lower quality compares to sample that switches to another Big Four auditor (have value 0).

Robustness test is to ensure whether result of logistic regression is consistent if tested by other analytical tools. Robustness test will be applied by country fixed-effect multiple regression test, in order to use alternative measurement of dependent variable. Comparison between multiple and logistic regression tests are as follows.

Robustness test shows consistency results between logistic and multiple regressions, except for variable leverage as control variable. It shows that leverage is sensitive to non downward auditor switching, which is switches to another new Big Four auditor or do not switches auditor by maintaining old Big Four auditor. In general, test of logistic regression has consistent result compared to multiple regression.

Jensen & Meckling (1976) define agency theory as a contract between one or more parties (principal) that bind the other party (the agent) to carry out management of company based on interests of principal, including the delegation of decision-making authority to the agent. Principal will provide incentives for agent and pay monitoring cost (Jensen & Meckling, 1976). The concern of agency theory is the problem of agency conflict between agent and principal as a result of interest differences. Accounting and auditing are one of the medium for addressing the agency problem.

Accounting has an important role in minimizing the agency cost as a result of a conflict of interest between principal and agent. The financial statements, as a result of the accounting process, which has been audited would be useful for reducing agency cost (Francis & Wilson, 1988). This argument provides an explanation that financial auditing can reduce agency cost as well. Auditing is one of assurance services that aims to improve the quality of information produced by the management. Value given by the audit is expected to moderate the potential conflicts of interest. In order to maintain auditor quality, especially in independence aspect, auditor switching is needed.

Auditor switching is an audit firm switching by client-company. It can be caused by some factors arising from both client and auditor. Focus of auditor switching is change of audit quality. Auditor switching increases auditor independence (Elder, Lowensohn, & Reck, 2015; Junaidi *et al.*, 2016). Increasing of auditor independence is important to provide high audit quality (Tepalagul & Lin, 2015). It is proved that by increasing audit tenure (low auditor switching), auditors are more likely to act not independently, because of strong personal relationship between auditor and management, resulting in the loss of auditor assessment objectivity (Junaidi, Miharjo, & Hartadi, 2012).

Table 4. Multiple and Logistic Regression

	Multiple Regression		Logistic Regression		Notes
	Coefficient	t-Statistics	Coefficient	z-Statistics	
Fd	-0.001726	-2.254192**	-0.329563	-2.079458**	Consistent
Ao	-0.041533	-1.808790***	-1.427043	-1.785044***	Consistent
Fo	0.014695	0.614983	0.413694	0.297938	Consistent
Mo	-0.001001	-0.025192	-0.406626	-0.203725	Consistent
Io	-0.008838	-0.328301	-0.073732	-0.050509	Consistent
Size	-0.017779	-3.565441*	-0.954922	-2.577509**	Consistent
Com	-0.068194	-3.265549*	-2.284680	-1.924269***	Consistent
Fdp	-0.053621	-3.900008*	-1.917790	-2.049950**	Consistent
Lev	-0.025643	-4.426105*	-2.635226	-1.438959	Inconsistent
Constant	0.836991	12.86058*	11.89362	3.061870*	Consistent
Dependent Variable	DOWNt+1 (ratio)		DOWNt+1 (dummy)		
Country Fixed-Effect	Yes		Yes		
F-Statistics	6.284941				
Adjusted R-Squared	0.078030				

*Significant in 1 percent
**Significant in 5 percent
***Significant in 10 percent

In this research, financial distress is a condition where companies face finance difficulties (Hudaib & Cooke, 2005), measured by Altman Z-Score (Z= 1.2[Working Capital to Total Assets] + 1.4[Retained Earnings to Total Assets] + 3.3[Earnings Before Interest and Tax to Total Assets] + 0.6[Market Value of Equity to Book Value of Liabilities] + 0,999[Sales to Total Assets]). Altman Z-score has the power to predict one year ahead bankruptcy of manufacturing companies as much as 87.8 percent (includes in good category) in Indonesia (Matturungan, Purwanto, & Irwanto, 2017), 86 percent (includes in great fit category) in Malaysia (Odibi, Basit, & Hassan, 2015), 86.1 percent in Thailand (Meeampol et al., 2014). Altman Z score is used to predict performance of manufacturing companies in Singapore as well (Foo, 2015). It shows that Altman Z-Score is relevant for financial distress measurement in ASEAN countries of this research. The higher Z-Score, the less distress company is. Result shows that variable Z-Score (fd) has negative significant effect on downward auditor switching. It indicates that the more distress company, the more possibility for the company to exercise downward auditor switching. Company tends to switch auditor in financial distress condition (Hudaib & Cooke, 2005; Satyawan & Khusna, 2017), especially switches to non Big Four auditor. Companies with difficulties of generating cash will not be able to pay high audit fee for high audit quality. High audit quality that is followed by increasing audit fee makes a distress company to switch to non Big Four auditor. It is consistent with Elliott, Ghosh, & Peltier (2013) who stated that a distress company will refuse to be audited by high quality auditor (e.g. Big Four), because auditor fee will increase in future. Auditor with distress client will have shorter tenure than non-distress client as well. Financial distress gives tension to relationship between auditor and management as well. This tension caused by differences related to methods of accounting, dissatisfaction with the audit opinion, or dissatisfaction with performance of auditor (Chen, Yen, & Chang, 2009). Hudaib & Cooke (2005) found that companies which changed CEO and have had distress may receive qualified opinion, and affect them to switch auditor. Cassell, Giroux, Myers, & Omer (2012) found that financial risk of companies also become one of considerations by Big Four auditor to make portfolio of clients, and Big Four auditor tends to keep healthy client.

In this research, audit opinion is opinion provides by auditor in audit report, measured as dummy variable (1 if unqualified opinion, 0 if qualified opinion). Audit opinion has negative significant effect on downward auditor switching. This result is consistent with previous research (e.g. Chow & Rice, 1982; Hudaib & Cooke, 2005). Findings of Chow & Rice (1982) as well as Hudaib & Cooke (2005) explain that there is opinion shopping when company switches auditor. Since opinion shopping shows picture of decreasing audit quality, this research explicitly shows that opinion shopping occur when company switches auditor from Big Four to non Big Four auditor. If company gets qualified opinion, companies will be affected in terms of their share price and decreasing of management compensation (Chow & Rice, 1982). Management expects the best opinion in any actual conditions faced by the company. Dissatisfaction with another opinion received, beside unmodified or unqualified opinion, will stimulate company to switch to low quality auditor. To oversee and ensure opinion, management may provide intimidation through auditor switching (Chow & Rice, 1982).

In the ASEAN region, businesses started from family businesses and this is still being the core basic of business development. The consequence is that owners have big interventions to company's activities. Agency theory stated that the bigger the interventions of the owners (or shareholders in public companies), the bigger performance of the company (Jensen & Meckling, 1976). However, even legally there is separation between owners and management, but practically both parties can affect each other. Intervention of owners can be exercised in auditor selection as well (Lodge, 2008). Observation of capital market practitioners shows that shareholders switching affect to auditor switching (Lodge, 2008). Previous research has proven that share ownership factors could decrease agency conflict by information asymmetric minimizing (Shiri, Salehi, & Radbon, 2016). In this research, ownership seen by significant intervention (above 5 percent ownership) (Hudaib & Cooke, 2005), measured by percentage of foreign/managerial/institutional ownership. Even though ownership in ASEAN is dominated by family, family shareholders maximize their wealth by focusing more on "tunneling" it out from other investments than by monitoring of company performance (Juliarto, Tower, Zhan, & Rusmin, 2013; Manurung & Kusumah, 2016). On the other hand, managerial ownership is an effective mechanism to align shareholders and managers interests in ASEAN (Juliarto, Tower, Zhan, & Rusmin, 2013), including in increasing financial reporting. Results show that institutional ownership, managerial ownership and foreign ownership have no effect on downward auditor switching. It shows foreign and managerial shareholders have no much ownership to give any significant effect on decision making of auditor selection. The result is not in line with Man & Wong (2013) that state institutional shareholders are more sophisticate because they spend more time to do research related to company and its industry, compared to individual shareholders spend less time to monitoring related to company. Some arguments show that institutional shareholders do not play active monitoring on management activities (Alves, 2012). It is because institutional shareholders are passive shareholders who are more likely to sell their ownership when company has poor performance (Duggal & Millar, 1999). In addition, institutional shareholders are incapable to vote against manager policy because they are worry about business relationship between institutional shareholders and company's management (Alves, 2012). It shows that monitoring failure by institutional shareholders lead to insignificant effect to maintain audit quality.

In this research, logarithm of total asset is used as proxy for size of the sample companies. Size has negative significant effect on downward auditor switching. Size of company shows how big company is (Hudaib & Cooke, 2005), industry domination and business complexity. It shows that big company needs high quality auditor that can catch up condition of company's business and industry, such as Big Four auditor. Company's need of Big Four auditor reduces downward auditor switching. Big company shows more complex business and usually is company group consists of some linear or not linear companies (Chang & Chen, 2015). In such condition, company needs auditor who can follow company's business complexity, such as Big Four auditor. Big Four auditor is reputed auditor with high investment in recruitment, training, as well as information and audit technology (Andayani & Warsono, 2013). By having high investment in recruitment, training, as well as information and audit technology; Big Four auditor have competitive advantages to provide high quality audit service. In addition, there is evidence that companies in merger and acquisition event tends to switch to Big Four auditor, because Big Four auditor have large number of auditor, to reduce audit complexity and fees (Chang & Chen, 2015). Beside business complexity, the need of Big Four auditor by big company is based on high information asymmetric as well. Big company have big gap between management and owner. Company group that has many companies member of group, leads to having many agent. Because of large number of agents in company group, big gap between owner and many agents exists (Chang & Chen, 2015; Reskino & Anshori, 2016), further, it increases information asymmetric. In such condition, companies will need high quality auditor to reduce these agency gaps. Previous research finds that Big Four auditor is high quality auditor that can reduces information asymmetric by detecting financial statement manipulation and earnings management (Andayani & Warsono, 2013; Kanagaretnam, Lim, & Lobo, 2010; Memiş & Çetenak, 2012). It shows that big company with big agency gaps will remains to Big Four auditor. The bigger company, the lower downward auditor switching (Nazri, Smith, & Ismail, 2012).

In this research, audit committee is personnel of audit committee who have competences in accounting, finance, and auditing (Yanan, Cheng, & Ren, 2013), measured by number of personnel of audit committee who have competences in accounting, finance, and auditing divided by total personnel of audit committee. Competences in accounting, finance, and auditing that are possessed by audit committee members shows effectiveness of audit committee on financial report monitoring by assessing effective internal control; risk management of financial, operating, assets fraud, and department function deviating (Deloitte, 2015). Audit committee is one of committees made by board of commissioners as a practice of corporate governance. Based on regulation, audit committee have responsibility to ensure high quality of financial reporting (Deloitte, 2015). In order to fulfill this responsibility, audit committee will assess and recommend external auditor, based on condition of company. To keep or switch auditor depend on audit committee effectiveness to assess and recommend external auditor. In order to ensure high quality of financial reporting, committee audit will recommend high quality auditor, such as Big Four auditor. Big Four auditor is reputed auditor with high investment in recruitment, training, as well as information and audit technology (Andayani & Warsono, 2013). By having high investment in recruitment, training, as well as information and audit technology, Big Four auditor helps audit committee to detects manipulation and increases reporting quality. High quality auditor will support audit committee in financial reporting process. By selecting Big Four auditor as high quality auditor, audit committee is supported to ensure financial report monitoring, reducing risk of financial, operating and assets fraud. The higher audit committee effectiveness, the lower downward auditor switching will be (Lin & Liu, 2009). This research shows that audit committee has negative significant effect on downward auditor switching. The more effective audit committee, the more likely that it will recommend board of commissioner to continue to work with the same Big Four auditor. Audit committee with high financial and accounting competences tends to keep company's auditor (Cassell, Giroux, Myers, & Omer, 2012; Mitra, Jaggi, & Al-Hayale, 2016). Audit committee has more concern about legal responsibility and reputation, so they will support current auditor instead of recommend auditor switching to board of commissioner, to accomplishing their assurance duties (Lee, Mande, & Ortman, 2004). The higher audit committee expertise, the lower downward auditor switching will be (Cassell, Giroux, Myers, & Omer, 2012; Mitra, Jaggi, & Al-Hayale, 2016). This result shows that main role of audit committee to provide high quality financial reporting process. This function is applied by provide high audit quality. Recommendation of auditor selection by audit committee is clearly choose Big Four auditor with high audit quality. It is confirmed by regulation (e.g. regulation of stock market [peraturan pasar modal] or limited companies [undang-undang perseroan terbatas] in Indonesia) that stated about role and responsibility of audit committee.

In this research, financial deepening is public access of financial instrument or literacy, measured by percentage of market capitalization to gross domestic products period t (Kargbo, Ding, & Kabia, 2015). Economic growth of countries is affected by financial sector (Johansson, 2012; Kargbo, Ding, & Kabia, 2015; Yao, Wu, & Kinugasa, 2015). Financial sector mediates all parties that have interest in business process (Hwang & Lee, 2013). In dynamics of the relationship of various stakeholders in the business, there is a phenomenon of information asymmetry. Asymmetry of information risen up with high transactional and informational costs. Phenomenon of information asymmetry can be minimized by efficiency of financial markets (Khan, Ahmad, & Gee, 2016).

Financial deepening is a picture of the enhancement of the role and activities of financial services to the economy (Shimada & Yang, 2011; Tan, Cheah, Johnson, Sung, & Chuah, 2012). The higher financial deepening showed that a growing number of financial facilities particularly access to capital market which is owned by the public, thus the greater individual access to finance and investment facilities. The greater public access to a wide range of financial instruments and investments can reduce the risk and vulnerability of one of the financial sub-sector by government regulation framework to ensure public interests. This explanation is in line with policy of privatization that monitoring of market will be able to improve companies' performance (Megginson, Nash, & Randenborgh, 1994). Companies can improve efficiency because of market pressures supervisions by public/investors/creditors. Public supervisions will stimulate company to make best policies for stakeholders. External parties tend to affect policy formulation of the company.

In terms of deepening in stock market sector, financial deepening can be seen as stock market development as well. As a core component of the modern economy, finance, such as stock market, is attracting increasingly more attention and given its influence on economic growth (Baranidharan & Vanitha, 2016; Niblock, Heng, & Sloan, 2014; Otisitswe & Moffat, 2015; Yao, Wu, & Kinugasa, 2015), and an indicator of an economy financial health (Tachiwou, 2010). As intermediaries industry, financial development, includes stock market development (Kargbo, Ding, & Kabia, 2015), have effect on business cycle (Hwang & Lee, 2013) and support allocation of resources for productive opportunities (Forti, Tsang, & Peixoto, 2011). It shows that stock market is one of important sector to improve business activities. Based on above explanation, financial deepening shows how active financial market participant, in the other word, it can be governance mechanism by market participant as public monitoring. The deeper acceses to financial market, the more effective monitoring on company. Monitoring role by market participants reduce downward auditor switching in order to maintain auditor quality.

Several contributions can be associated with developed stock markets such as (Forti, Tsang, & Peixoto, 2011): (1) investment in stocks is a form of long-term saving that is invested directly in production activity; (2) developed markets reward investors by returns maximization and the efficient use of resources, which are the seeds to begin a cycle of development and competitiveness; (3) developed markets with liquidity, volume and regulation stimulate businesses at a firm-level; (4) shareholder activity reflects the expectations of the main market players, as well as their opinions about both domestic and international states of economic affairs; (5) an efficient stock market has a fundamental role in attracting, maximizing, consolidating and retaining external capital. It indicates the mood of investors (Tachiwou, 2010) as well as corporate governance mechanism by political and legal structure, public monitoring (Forti, Tsang, & Peixoto, 2011), investor protections and public policy making (Guillen & Capron, 2016). These five points of developed stock markets by Forti, Tsang, & Peixoto (2011) lead to governance mechanism that reduce information assymmetric, one of ways is provide high quality auditor. By reducing downward auditor switching, high quality auditor will be maintained as well as maintain condition of developed stock market. Stock market development shows the openness of a country and its stock market, stock market efficiency (investor protection and financial structure), and management practices (adaptability of a firm to market change, health, safety and environment concerns, and entrepreneurship) (Forti, Tsang, & Peixoto, 2011). In ASEAN countries; such as Indonesia, Malaysia, Philippines, Thailand; stock market development decreasing caused by dominance of family ownership (Noordin & Law, 2008). Indicators of stock market development are measured by stock market liquidity (Tachiwou, 2010), domestic investment, macroeconomic stability, volatility and financial intermediary development (Otisitswe & Moffat, 2015), and capitalization as percentage of gross domestic products (Guillen & Capron, 2016; Srinidhi, Hossain, & Lim, 2012). Stock market capitalization of a country, defined as the aggregated market value equity of firms in the respective equity market, is commonly used to measure the widening and deepening of stock market activity (Tan et al., 2012).

Yao, Wu, & Kinugasa (2015) show that financial deepening would increase economic growth. Economic growth can run faster for more effective if allocation of funds goes to potential sector. Company will respond to this phenomenon by making optimal policy so that the performance of the company will obtain an optimal response from the market.

One of policy must be made by the company is to determined audit firm. Economic growth of countries is affected by financial sector. Financial sector mediates all parties that have interest in business process. Financial deepening as the picture supervisions of the public will encourage companies to make the best policy for the various parties related to company's business, including policy of auditor switching. Existence of well public supervisions will make high demand of high audit quality. This result illustrates that financial deepening affects on downward auditor switching negatively.

Since ASEAN have been integrated as open market, this research contributes to provide important factor that can affect decision making of auditor switching, which is macroeconomics factor of each ASEAN country. Macroeconomics factor of a country is important when there is open market which consists of some countries. This research clearly shows that capital market, as macroeconomics factor, play role of monitoring on downward auditor switching. ASEAN economics community does not make any specific regulation of audit services yet. Research finding could be used to make a specific regulation of audit service, such as audit rotation, for ASEAN countries by considering condition of each country.

CONCLUSION

This research shed a light on factors that affect downward auditor switching in Indonesia, Malaysia, Singapore, Thailand and Philippine of Association of Southeast Asian Nations (ASEAN). Financial distress have positive effect on downward auditor switching, indicates that high quality auditor leads to higher fee. Audit opinion have negative effect on downward auditor switching, indicates that management expects the best opinion in any actual conditions faced by switch to low quality auditor. Negative effect of size on downward auditor switching indicates companies with complex business and big gap between owner and agents need high quality auditor to reduce audit complexity and fee. Audit committee have negative effect on downward auditor switching, indicates that role of audit committee is providing high quality financial reporting process, by recommendation of high quality auditor selection. Financial deepening have negative effect on downward auditor switching, indicates that existence of well public supervisions will make high demand audit quality. In the other hand, ownership does not affect auditor switching, indicates that there is entrenchment effect in auditor switching.

Limitation of this research is the absence of auditor-related factors, such as audit fee and tenure, as main independent or control variables. It is because there is limited access for older historical annual report to measure auditor tenure, and mostly annual report does not disclose about audit fee. Since auditor-related factors are important variables to explain why auditor is switched, future research can involves auditor-related factors, such as audit fee and tenure to explain auditor switching.

This research has implication on the provision of insight to the public accountant profession, regulators and scholars about downward auditor switching practices by companies, to draw up rules and ethical framework to prevent auditor quality. In term of finding of financial distress and audit fee; companies need to improve financial ability in order to increases ability to pay fee of higher quality auditor. In term of audit opinion shopping in downward auditor switching; profession and regulators need to develop regulation and code of ethic to increase auditor independence, such as auditor rotation in ASEAN region scope, to maximize audit quality service between countries in ASEAN. In terms of business complexity, profession needs to plan certain program to increases auditor knowledge in business and industry. In terms of role of audit committee in maintain auditor quality; companies need to support role of audit committee in auditor quality assessment. In terms of public monitoring, especially role of capital market; profession, regulator, scholars need to support role of capital market in monitoring function on auditor quality.

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