The Effect Of Managerial Ownership, Board Of Commissioners Size, Effectiveness Of The Audit Committee, Company Size And Profitability On The Selection Of Qualified External Auditors

Mustika Savitri, Rindang Widuri, Duwi Prastyo Mulyo

Abstract : This study aims to analyze the effect of selecting a qualified external auditor on managerial ownership, board size, effectiveness of the audit committee, company size and profitability in the 2015-2017 period. The number of sample companies is 65 companies using purposive sampling. Total observational data were 195 observational data. The results showed that the size of the board of commissioners, the effectiveness of the audit committee, and profitability affected the selection of qualified external auditors. Whereas managerial ownership and company size do not influence the selection of qualified external auditors.

Keywords : Selection of qualified external auditors, managerial ownership, board size, effectiveness of the audit committee, company size, profitability, audit quality.

1 INTRODUCTION

Financial statements are basically the results of the accounting process that can be used as a tool to communicate financial data or company activities to interested parties (Hery, 2017: 6). Statement of Financial Accounting Standards (PSAK) No. 1 explains that the purpose of financial statements is to provide information regarding the financial position, performance, and changes in the financial position of a company that is beneficial to a large number of users in making economic decisions. The financial statements will also show the results of management's accountability for the results of their work whether they have done a good job or vice versa. Agency theory by Jensen and Meckling (1976) states that the agency relationship is a contract between the principal and the agent. Managers as agents tend to act opportunistically against the wishes of the owner of the company (the principal), thereby triggering the emergence of agency problems. Agency theory implies that there is information asymmetry between agents and principals, where management knows more information about the company and future prospects compared to principals. Providing information on the company's performance to all stakeholders in the form of reliable and trusted annual reports is one way to overcome agency issues. External auditors or independent auditors are auditors who come from outside the company who carry out checks to provide opinions regarding the reasonableness of the financial statements that have been prepared by company management (Hery, 2019: 5). An audit by an external auditor can be used as a mechanism to deal with agency issues. A company is said to be reliable and a high level of trust in the financial statements can be obtained by the audit activities carried out by high quality external auditors because the results of the audit produced can guarantee the information contained in the financial statements is right. Examination of financial statements requires professional personnel where the company uses the services provided by the public accounting firm or auditor as an external firm to provide an assessment through the examination of financial statements (Wiratama and Budiartha, 2015). The case of accounting scandals involving big four auditors on an international scale is the case that occurred in 2017 where British Telecom was exposed to fraud scandals that befall British Telecom companies in Italy. British Telecom has been inflating (increasing) corporate profits for several years since 2013, in an unnatural way through corrupt cooperation with corporate clients and financial services. The method is to increase the company's income through the extension of fake contracts and invoices and fake transactions with vendors. In this case the PwC KAP failed to detect any fraud committed by British Telecom, but this fraud was successfully detected based on information from the whistleblower. With these findings the company conducted a forensic audit with the KPMG public accountant office and replaced PwC with KPMG as the public accounting firm (Warta Ekonomi, 2017). The existence of accounting scandals that occurred has affected the trust of users of financial statements. This makes the role of an auditor much criticized and causes the quality of an auditor to be questioned, so that the reasons for requests for high-quality auditors arise. Therefore, the company chooses external auditors. The selection of external auditors is the selection process for selecting public accounting firms among the large number of public accountants in Indonesia with the variety of resources they have, enabling them to provide diverse audit quality. According to the Indonesian Financial Professional Development Center (PPPK) data there are 470 lists of Public Accounting Firms (KAP) that have obtained permission from the finance minister as of January 31, 2019. According to DeAngelo (1981), the size of the public accounting firm is one measure of audit quality in which the possibility of auditors to find violations or errors in the client's accounting system and report these violations. According to DeAngelo (1981) audit quality is a very difficult factor to measure directly, where one of the proxies commonly used to measure audit quality is the size of a
public accounting firm. In this study the selection of external auditors is distinguished by the KAP size, namely the KAP big four and non-big four. The greater the size of a public accounting firm, the more qualified audit opinion provided by the public accounting firm will be compared to the smaller public accounting firm. There are several factors that are suspected to influence in the selection of external auditors by the company, some of these factors include the company's ownership structure where in this study uses factors on managerial ownership. Then the factors that can influence based on corporate governance mechanisms in which in this study through the role carried out by the size of the board of commissioners and the effectiveness of the audit committee. As well as factors that can influence based on company characteristics such as company size and profitability. Managerial ownership structure as an instrument or tool that can be used to reduce agency issues. Managerial ownership is an investment into the company by the company management, company directors, or parties who have the authority to run the company's operations. The information imbalance approach views the mechanism of managerial ownership structure as a way to reduce information imbalances between internal parties and external parties through disclosure of information within the company (Subagyo, Masruroh, and Bastian, 2018: 47). According to Anggraeini and Ghofar (2016) managerial share ownership can align between the interests of shareholders and managers, because managers directly feel the benefits of decisions taken and managers who bear the risk if there are losses that arise as a consequence of wrong decision making. Management will strive more actively and improve performance in managing the company and not only prioritize their own interests, thereby increasing company performance and company value. Then the agency problem will be reduced if the manager is both the owner and ultimately can improve overall company performance. Thus, with the company's improved performance management will be motivated to prepare quality financial reports by using qualified external auditors in conducting audit activities. Agency issues can cause information asymmetry between management and shareholders are addressed by the shareholders by choosing a board of commissioners whose job is to oversee the performance of the company's management. According to Law No. 40 of 2007 Article 1 Paragraph 6 states that the board of commissioners is the organ of the company that is tasked with carrying out general or special supervision in accordance with the articles of association and giving advice to directors. The board of commissioners has the duty to supervise and provide direction or advice to the board of directors. With the large size the board of commissioners, the supervisory function can be carried out more effectively where the board of commissioners will provide input and advice and perform tasks better for the company, so companies tend to choose qualified auditors. Related to the supervisory and advisory functions, the larger board of commissioners will be able to carry out their functions better. Based on this, if the supervisory function is more effective then the board of commissioners also wants better supervision of the company's financial statements, the board of commissioners will choose a qualified external auditor to be able to present high-quality financial statements (Maharani and Pinasti, 2018).
the public in the form of finished goods. The manufacturing process will certainly very often intersect with the environment and parties outside the company. This broad involvement causes manufacturing companies to get more public scrutiny and allows companies to make wider disclosure of information to meet the interests of users. Manufacturing requires supervision in the preparation of financial statements, where financial statements are a source of information on the company which can be used as a basis for decision making for interested parties in the company.

2. METHOD OF RESEARCH

2.1 Type of Research
This type of research uses a quantitative approach in the form of statistical processing numbers. This study aimed to examine whether the independent variables affect the dependent variable. The dependent variable used in this study is the selection of qualified external auditors. While the independent variables in this study are managerial ownership, board size, effectiveness of the audit committee, company size and profitability.

2.2 Data Types and Sources
The type of data in this research is secondary data. Secondary data is information data that is obtained indirectly and data obtained in the form that has been finished, has been processed, and has been published. The data source needed for this research is the financial statements of manufacturing companies listed on the Indonesia Stock Exchange in 2015-2017, the data was obtained from the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id. In addition, the data used in this study were obtained from journals, books, internet sites, company websites, and information related to this research.

2.3 Research Population and Samples
Manufacturing companies listed on the Indonesia Stock Exchange in 2015-2017 totaled 144 companies. Sampling uses a purposive sampling technique, which is sampling based on certain criteria or goals. Based on the criteria, there were 9 companies that were delisted and unlisted from the IDX, 48 manufacturing companies that did not publish financial reports in a row during the study period, and 22 companies did not use the Rupiah in the financial statements. So that the total company obtained as a sample of 65 companies with a research period of 3 years, the total data in this study amounted to 195 observational data.

2.4 Indicators for Measurement of Dependent and Independent Variables
In this study to measure the dependent variable, namely the selection of qualified external auditors where the measurement of quality auditors is proxied by audit quality and in this study auditor quality is measured based on KAP size. Election of external auditors separates between companies that use big four KAP and non-big four KAP. Data of public accounting firms in Indonesia affiliated with The Big Four, namely: 1) Osman, Bing, Satrio and Eny are affiliated with Deloitte Touch Tohmatsu (Deloitte); 2) Tanudiredja, Wibisana, Rintls and Partners are affiliated with Pricewaterhouse Coopers (PWC); 3) Purwantono, Sungkoro and Surja affiliated with Ernst & Young (EY); 4) Siddharta, Widjaja and Partners are affiliated with Klynveld Peat Marwick Goerdele (KPMG).

The selection of qualified external auditors is a dummy variable by categorizing into 2 categories, based on the audit quality proxy for big four and non-big four KAP audit. If a company chooses an auditor from a big four public accounting firm as described above, it is given code 1 (one) whereas if the company chooses an auditor from a non-big four public accounting firm, it is given a code of 0 (zero). The measurement of the independent variables in this study as below:

Managerial ownership: $\frac{\text{total shares owned by management}}{\text{total outstanding shares of the company}}$

\[ L_n \left[ \frac{1}{1+x} \right] = \text{AUDIt} + \beta_1 \text{MOWN} + \beta_2 \text{UDK} + \beta_3 \text{AUDCOM} + \beta_4 \text{SIZE} + \beta_5 \text{PROF} + e \]

Board of Commissioners Size: $\Sigma$ Member of the Board of Commissioners

Audit committee effectiveness: Using the Checklist (Hermawan 2009)

11 question indicators covering activity factors, number of members, and audit committee competency.

a. Score 3: meet all criteria (Good)
b. Score 2: only partially meets the criteria (Fair)
c. Score 1: does not meet the criteria or there is no information (Poor)

Company Size: Natural Logarithms (Total Assets)

Profitability: $\frac{\text{net profit after tax}}{\text{total assets}}$

2.5 Data Analysis Methods
The method of data analysis is done using the Microsoft Excel program and processed using SPSS software version 25. Data analysis begins by calculating each independent and dependent variable. After the required data is collected then the data analysis is performed by using descriptive statistics, multicollinearity testing, and logistic regression analysis. Logistic regression analysis is performed by the feasibility of the regression model, the overall model test, the coefficient of determination test, the classification matrix test, and the regression coefficient test aimed at testing the hypothesis. This study uses a binary logistic regression model. In binary logistic regression it does not require data normality test and classical assumption test because logistic regression does not require normality assumptions on the independent variables. The logistic regression model used to test the hypothesis is as follows:
Information:
AUD: Selection of auditors by the company; 1 if the auditor used is the big four auditor, and 0 for the non-big four auditor
B0: Constant value
B1-B5: Regression coefficients of MOWN, UDK, AUDCOM, SIZE, and PROF
MOWN: Managerial Ownership
UDK: Size of the Board of Commissioners
AUDCOM: Effectiveness of the Audit Committee
SIZE: Company Scales
PROF: Profitability
ε: Standard Error

3. RESULT AND DISCUSSION
General description of the sample of companies are divided into companies that use the services of big four KAP and non-big four KAP can be seen in Table 1 below:

<table>
<thead>
<tr>
<th>TABLE 1 DESKRIPSI DATA SAMPLE</th>
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<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>------------</td>
</tr>
<tr>
<td>Valid Non-big four</td>
</tr>
<tr>
<td>Big four</td>
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<tr>
<td>Total</td>
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</table>

The table above shows the results of sample frequency calculation where the number of samples used in the study is 195 sample data. From a total of 195 sample data studied, there were 69 sample data audited by the big four KAP or 35.4% of the total sample of the study and 126 sample data audited by the non-big four KAP or 64.6% of the total study sample.

3.1 Descriptive Statistics
Descriptive analysis provides a description or description of a data that is seen by the average value (mean), maximum value, minimum value, and standard deviation (Ghozali 2016: 19). The descriptive table explains the dependent variable, namely the selection of qualified external auditors and the independent variable, which is managerial ownership, board size, effectiveness of the audit committee, company size and profitability.

Descriptive statistical results on managerial ownership independent variables show that the lowest value is 0.0000 or 0% and the highest value is 0.6828 or 68.2% with an average of 0.051623 or 5.2% and a standard deviation of 0.1053108 or 10.5%. This indicates that managerial ownership is still low in manufacturing companies listed on the Indonesia Stock Exchange in the 2015-2017 period. The independent variable size of the board of commissioners shows that the lowest value is 2 and the highest value is 12, which explains that there are at least 2 members of the board of commissioners and at most 12 people. With an average of 4.18. This shows that manufacturing companies listed on the IDX have an average board of commissioners of 4 people. The audit committee effectiveness variable gets an average result of 25.05, it states that the average effectiveness of the audit committee of the company has a score of 25. The lowest value is 11 and the highest value is 31 with a standard deviation of 3.459. There are companies that have the highest value of 31 points can be said to have a good level of effectiveness of the audit committee. The independent variable of company size shows the lowest value of 18.7117, the highest value of 26.4124, with an average of 21.498769 and a standard deviation value of 1.6320758. It can be seen that most of the sample companies used in this study are companies that have relatively high total assets. The independent variable profitability shows the lowest value of -0.2099, the highest value of 0.5267 with an average of 0.062139 and a standard deviation of 0.0938269. The existence of statistical results that show a negative sign at the lowest value of profitability, then there are still companies that experience losses. Descriptive statistical results on the dependent variable selection of external auditors have an average value of 0.35 from a total of 195 observational data. This shows that 35% of the study sample chose KAP big four. From these results, it can be seen that manufacturing companies listed on the Indonesia Stock Exchange in the period of 2015-2017 used non-big four KAPs compared to big four KAPs.

Multicollinearity Test
Multicollinearity test analysis aims to test whether the regression model found a correlation between independent variables (independent). According to Ghozali (2016: 103) a good regression model should not occur correlation between independent variables. To detect whether there is multicollinearity between variables can be seen from the Tolerance and Variance Inflation Factor (VIF) values.
1. If the Tolerance value > 0.1 and VIF < 10 then there is no multicollinearity between variables.
2. If the Tolerance value < 0.1 and VIF > 10 then there is multicollinearity between variables.

From the results above it shows that all the independent variables that exist have a Tolerance value > 0.1 and have a VIF value < 10. Then, it can be concluded that there is no multicollinearity between the independent variables in the regression model.

Feasibility Test Regression Model
The feasibility of the regression model was assessed using the Hosmer and Lemeshows Goodness of Fit Test. The feasibility test aims to see the suitability or suitability of empirical data with the model so that it is said to be fit. If the Hosmer and Lemeshows Goodness of Fit test value is more than 0.05 then the null hypothesis is accepted 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 has a match with the observational data. The results of the feasibility test of the research regression model can be seen in the following table:

<table>
<thead>
<tr>
<th>Table 3 MULTIKOLINIERATAS</th>
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<tbody>
<tr>
<td>Model</td>
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<tr>
<td>-------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>MOWN</td>
</tr>
<tr>
<td>UDK</td>
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<tr>
<td>AUDCOM</td>
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<td>SIZE</td>
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<td>PROF</td>
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From the tests showed a Chi-square value of 12.847 with a significance (p) of 0.117. Based on these results, because the significance value is greater than 0.05, the logistic regression model is accepted because it is able to predict the value of observations and match the observational data. It is said to be fit because there is no difference between the estimated classification and the observed classification. The regression model is suitable for further analysis.

Determination Coefficient Test
Nagelkerke R Square value is used to see the size of the coefficient of determination in the logistic regression analysis. This value shows how much the independent variable is able to explain the variability of the independent variable. Based on the test results of the coefficient of determination in the above table, the value of Nagelkerke R Square is 0.636, which means that 63.6% of the selection of external auditors can be explained by the independent variables namely managerial ownership, board size, audit committee effectiveness, company size, and profitability, while the remaining 36.4% is explained by other variables outside the research model.

Classification Matrix
The classification matrix shows the predictive power of the regression model to predict the possibility of selecting a qualified external auditor by a manufacturing industry company. The results of the classification matrix are presented in the following table:
Based on the results of the classification matrix test above the table predicts the probability of the company choosing a qualified external auditor is 72.5%. This shows that by using the regression model used, there are as many as 50 sample data (72.5%) which are predicted to choose qualified auditors (big four) from a total of 69 sample data. The predictive power of the company model that does not choose a quality auditor (non-big four) is 90.5%, which means that with the regression model used as many as 114 sample data (90.9%) that is predicted not to choose a quality external auditor (non-bigfour) out of a total of 126 sample data. It can be concluded that the results described have shown that overall 84.1% of the sample can be predicted accurately by this logistic regression model.

**Hypothesis testing**

The regression coefficients of each variable indicate the direction of the relationship of these variables. The results of the logistic regression analysis can be seen in the following Table 9:

<table>
<thead>
<tr>
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<th>B</th>
<th>S.E</th>
<th>Wald</th>
<th>df</th>
<th>Sig</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>MOWN</td>
<td>-0.929</td>
<td>2.299</td>
<td>1.64</td>
<td>0.68</td>
<td>0.435</td>
</tr>
<tr>
<td></td>
<td>UDK</td>
<td>0.872</td>
<td>0.186</td>
<td>21.990</td>
<td>0.00</td>
<td>2.392</td>
</tr>
<tr>
<td></td>
<td>AUDCOM</td>
<td>0.222</td>
<td>0.070</td>
<td>10.020</td>
<td>0.00</td>
<td>1.249</td>
</tr>
<tr>
<td></td>
<td>SIZE</td>
<td>0.214</td>
<td>0.196</td>
<td>1.1960</td>
<td>0.27</td>
<td>1.238</td>
</tr>
<tr>
<td></td>
<td>PROF</td>
<td>15.23</td>
<td>4.255</td>
<td>12.811</td>
<td>0.00</td>
<td>4114482.33</td>
</tr>
<tr>
<td></td>
<td>Constant</td>
<td>15.47</td>
<td>4.522</td>
<td>11.717</td>
<td>0.00</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Based on the results of the logistic regression analysis in the table above, we can get the following regression equation:

\[
\ln \left( \frac{\text{P}}{1-\text{P}} \right) = -15.47 + 0.872 \text{UDK} + 0.222 \text{AUDCOM} + 0.214 \text{SIZE} + 15.230 \text{PROF} + e
\]

If the significance number (Sig.) is greater than 0.05, then the independent variable individually has no effect on the dependent variable or in other words if Sig. > α 0.05 then it is rejected. Conversely, if the significance number (Sig.) is smaller than 0.05 then the independent variable has an influence on the dependent variable or in other words if Sig. <0.05 then it is accepted. Managerial ownership variable shows the significance value of 0.685. This value is greater than 0.05, so it is rejected. So it can be concluded that the results of the first hypothesis (H1) study stated that managerial ownership had no effect on the selection of qualified external auditors. Sig. Value 0.685> 0.05. When management dominates the company, managerial ownership cannot overcome agency problems. If management ownership is high, management has a strong position to control and hold the company's control so that the company's external parties will find it difficult to control the company, and make it easier for management to commit fraud in order to achieve its interests. This makes companies tend to choose non-big four external auditors to be able to achieve their own interests and maintain their wealth. The variable scales of the board of commissioners shows a significance value of 0.000. This value is less than 0.05, so it is accepted. So it was concluded that the results of the second hypothesis (H2) study stated that the size of the board of commissioners had an effect on the selection of qualified external auditors. Sig. Value 0.000 <0.05. The more members of the board of commissioners, the supervisory function will be carried out more effectively, and the board of commissioners will also want good supervision from independent parties, in this case realized by selecting a qualified external auditor to get good quality financial statements. The audit committee effectiveness variable shows a significance value of 0.002. This value is less than 0.05, so it is accepted. So it can be concluded that the results of the third hypothesis research (H3) states the effectiveness of the audit committee influences the selection of qualified external auditors. Sig. Value 0.002 <0.05. When the company has a high audit committee effectiveness score, the company should present a high quality audit financial report with the audit committee suggesting to the board of commissioners to use the services of a qualified external auditor in the big four category. Because the big four auditor can be interpreted as a quality audit, where audit quality depends on professional competence and auditor independence. Choosing a big four auditor will provide assurance that the audit of the company's financial statements is carried out properly. Company size variable shows a significance value of 0.274. This value is greater than 0.05, so it is rejected. So it can be concluded that the results of the fourth hypothesis research (H4) states the size of the company has no effect on the selection of qualified external auditors. Sig. Value 0.274> 0.05. This is likely due to large companies in general have good internal controls and internal auditors, and can solve the complexity problems experienced by the company. Large companies with good internal control can provide company information by providing high quality financial statement presentation, so that the selection of external auditors does not focus on the big four KAP or external auditors who have a high reputation. The profitability variable shows the significance value of 0.000. This value is less than 0.05, so it is accepted. So it can be concluded that the results of the third hypothesis research (H3) states profitability affects the selection of qualified external auditors. Sig value. 0.000 <0.05. The results of this study indicate that the higher the company's ability to generate profits, the opportunity for companies to choose the big four auditor is higher. Companies that have a high ability in generating profits are willing to pay high quality auditors so that they have the ability to use the services of a big four KAP auditor,
because they want to show their good performance by providing high quality financial statement results.

4. CONCLUSION

Based on the results of testing in this study, it can be concluded as follows:

1. Managerial ownership does not affect the selection of qualified external auditors.
2. The size of the board of commissioners influences the selection of qualified external auditors.
3. The effectiveness of the audit committee influences the selection of qualified external auditors.
4. Size does not affect the selection of qualified external auditors.
5. Profitability affects the selection of qualified external auditors.

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