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# Audit Opinion Accuracy, Corporate Governance and Downward Auditor Switching: A Study of Association of Southeast Asian Nations Economics Community

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**ABSTRACT**

Objective of this research is to examine moderating effect of audit opinion accuracy on relationship between corporate governance and downward auditor switching in five countries of Association of Southeast Asian Nations region. Sample of this research is manufacture companies listed in stock exchange of Indonesia, Malaysia, Singapore, Thailand and Philippine. Based on country fixed effect logistic regression, results show that audit committee, independent commissioner and financial deepening have negative effect on downward auditor switching, if opinion accuracy is high. It indicates that monitoring role of audit committee, independent commissioner and public will increases audit quality by prevent high quality auditor, especially when opinion accuracy is high. In the other hand, opinion accuracy does not moderate effect of ownership on downward auditor switching, indicates that there is entrenchment effect of controlling shareholder in auditor switching decision.

**Keywords:** Audit Opinion Accuracy, Corporate Governance, Downward Auditor Switching, Association of Southeast Asian Nations
**JEL Classifications:** M42, G32, G34

## 1. INTRODUCTION

Core objective of financial statement auditing to assure if financial statement reported by following accounting standards (Ikatan-Akuntan-Publik-Indonesia, 2015a; International-Auditing-and-Assurance-Standards-Board, 2009b) with consideration of going concern assumption (Ikatan-Akuntan-Publik-Indonesia, 2015b; International-Auditing-and-Assurance-Standards-Board, 2009a). Based on objective of financial report auditing, important task of auditor is not only about assurance of financial statement, but also to communicate company's going concern to financial statement users by audit opinion (Menon and Williams, 2008; Chen and Church, 1996; Blay et al., 2011), as early warning signal of company bankruptcy. Early warning signal of company bankruptcy can be seen by financial distress (Altman, 1968). Auditor have to disclose condition of company weather company can follow business activities in the future. Going concern related to condition of financial distress. Financially distressed company tends to get going concern opinion by auditor, while survive company tends to get non-going concern opinion (Mutchler et al., 1997; Geiger and Raghunandan, 2001; Geiger et al., 2005; Carey et al., 2012).

External auditor provides value added in financial reporting process by improving the reliability and credibility and improve the quality of financial information. The role of auditor is prevention, detection and reporting (Hudaib and Cooke, 2005). In order to maintain optimal service, external auditor should be independent, so he/she can provides objective opinion (Nasser et al., 2006).

It is important to determine if company in financial distress condition will get going concern opinion. Enron case shows that big company can fall down as well. Enron have been bankrupt in 2002 for covering financial problems and losses (Shirur, 2011). Arthur Andersen, as Enron's auditor, have contribution of it. Arthur Andersen have failed to detect or reported going concern problem of Enron. Arthur Andersen is an example of audit failure for not issue going concern opinion according to Enron's problem (Srinidhi et al., 2012; Krishnan et al., 2007; Shirur, 2011).

Enron case is a picture that auditor switching is important as well. Accounting scandal of Enron happened because of ethics problem between management and auditor. Arthur Andersen act with no independence to let earnings manipulation, and affect on auditor switching as well (Dunne et al., 2008). It is proved by increasing of audit risk on ex-client of Arthur Andersen, not only client in US but client around the world as well (Cahan and Zhang, 2006; Kealey et al., 2007; Srinidhi et al., 2012). This case lead to formulation of business ethics standard; which are transparency of financial statement (Willits and Nicholls, 2014) and audit rotation (Nagy, 2005); as Sarbanes Oxley Act (SOX). Some countries use audit rotation of SOX as well as regulation of mandatory switching; such as Indonesia, Singapore, Thailand, Laos have regulated 5 years of audit rotation; Cambodia have regulated 3 years of audit rotation Association of Southeast Asian Nations (ASEAN) (ASEAN-Federation-of-Accountant, 2014). Audit rotation leads to auditor switching.

Generally, there are two kinds of audit firm switching which are mandatory switching and voluntary switching (Hoyle, 1978). Mandatory switching is audit firm switching in a specified period based on government regulation, while voluntary switching based on initiative of client (Lin et al., 2009). Audit tenure regulated to prevents deep relationship, loyalty and emotional with client, so that can threatens independence, competences in evaluating audit evidences (Nasser et al., 2006). Tenure regulation depends on condition of each country such as macroeconomics factor (financial deepening).

Focus of auditor switching is increasing of audit quality. Auditor switching will increases auditor quality (Elder et al., 2015; Junaidi et al., 2012), by increasing of audit opinion accuracy (Junaidi et al., 2016). Increasing of auditor independence is important to provides high audit quality (Tepalagul and Lin, 2015). It is proved by increasing of audit tenure (low auditor switching) more likely to act not independently, because of strong personal relationship between auditor and management, so objectivity of auditor assessment will be lost (Junaidi et al., 2012). In the other hand, auditor switching can be seen as decreasing of audit quality as well, such as auditor switching related to opinion shopping (Chow and Rice, 1982; Hudaib and Cooke, 2005). Auditor switching is done by company because company dissatisfied of qualified opinion gave by auditor, then it will be affected on share price and decreasing of management compensation (Chow and Rice, 1982). In order to see if auditor switching done for audit quality increasing or for audit opinion shopping, this research uses audit opinion accuracy as consideration of auditor switching.

In terms of auditor switching direction, there are two kinds of audit firm switching, which are upward switching (e.g., switch from non-big four auditor to big four auditor) and downward switching (e.g., switch from non-big four auditor to big four auditor) (Lin and Liu, 2009; Cassell et al., 2012). This research will focus on downward switching only. This research does not examine upward switching auditor switches because of 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 et al., 2012). Moreover, upward switches are relatively rare events that represent <5% of the total number of auditor switching in Audit Analytics, while downward switches represent about 19% of the total number of auditor switching (Cassell et al., 2012).

This research will examine big four audited companies only. Downward switching (e.g., switch from non-big four auditor to big four auditor) happens only when previous auditor is big four auditor. In addition, mostly participant of stock market is more aware on auditor switching from big four to non-big four auditor because of involvement of big N auditor, which is Arthur Andersen, in Enron case (Chang et al., 2010).

Corporate governance is one of important factors that affect auditor switching. Corporate governance is indicator of agency cost. Company with good corporate governance have low agency cost. DeFond (1992) found that high agency cost will make company to switch auditor to increases audit quality. Audit quality is important issue to make decision about auditor switching. Company with low auditor quality is more likely to switch auditor (Robertson et al., 2014; Boswell, 2015), with consideration of agency cost (DeFond, 1992). One of audit quality is related to opinion accuracy. The higher opinion accuracy, the higher audit quality will be. It shows that corporate governance will focus on auditor switching with low auditor quality.

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 labor mobility between countries (ASEAN-Federation-of-Accountant, 2014), 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, quality as well as downward auditor switching.

Generally, Indonesia and ASEAN region have 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 analyze the relationship of a country's financial characteristics (financial deepening) related to downward auditor switching.

Objective of this study is to examine effect of corporate governance on downward auditor switching as consequences of audit opinion accuracy decreasing. This study will capture 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 will become information and extra literature to public accountant profession, regulators and scholars about auditor switching practices by companies, to draw up rules and ethical framework and clarify the literature on agency theory and professional ethics of auditors. The phenomenon of auditor switching can be captured more integrated and can be interpreted appropriately so investors, potential investors and creditors can make the best economic decision.

## 2. LITERATURE REVIEW

### 2.1. Agency Theory

Agency theory is 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 (Jensen and Meckling, 1976). Principal will provide incentives for agent and pay monitoring cost (Jensen and Meckling, 1976).

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 useful for reducing agency cost (Francis and Wilson, 1988). This argument provides an explanation of financial auditing can reduce agency cost as well. Auditing is one of assurance service 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.

### 2.2. Auditor Switching

Auditor switching is an audit firm switching by client-company. It can be caused by some factors which are both of client and auditor factors. Auditor switching can be carried out due to take over as well (Anderson et al., 1993). Based on Enron case, ex-clients of Arthur Anderson had to perform switching. They have higher skepticism in the process (Nagy, 2005). In the non-profit corporation context, consideration to switch auditor is affected by the operating structure, reputation management, and audit fees (Tate, 2007).

Mandatory and voluntary auditor switching can be distinguished based on which party become concern from the issue. If auditor switching is done as voluntary, then main concern is on client side. If the auditor switching is done as mandatory, then main concern is on auditor side (Hudaib and Cooke, 2005). When client switch its auditors, and there is no switching rules, there will be auditor resignation or dismissal by the client. Indonesia, Singapore, Thailand, Laos have regulation of auditor switching in every 5 years; Cambodia in every 3 years; Philippine, Malaysia, Vietnam have no particular auditor switching regulation (ASEAN-Federation-of-Accountant, 2014).

In terms of auditor switching direction, there are two kinds of audit firm switching, which are upward switching (e.g., switch from non-big four auditor to big four auditor) and downward switching (e.g., switch from non-big four auditor to big four auditor) (Lin and Liu, 2009; Cassell et al., 2012). This research will focus on downward switching only. This research does not examine upward switching auditor switches because of 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 et al., 2012). Moreover, upward switches are relatively rare events that represent <5% of the total number of auditor switching in Audit Analytics, while downward switches represent about 19% of the total number of audito0r switching (Cassell et al., 2012).

### 2.3. Audit Opinion Accuracy

Financial statements are prepared under the assumption that company will continue as a going concern (Ikatan-Akuntan-Publik-Indonesia, 2015b; International-Auditing-and-Assurance-Standards-Board, 2009a). Where there is significant uncertainty regarding the going concern assumption, auditor will issue a going concern opinion. A going concern opinion may be an emphasis of matter to an unqualified audit report, where the client adequately discloses going concern issue in the notes to the financial statements, or a qualification, where the issue is not disclosed or the auditor believes the issue is so serious as to warrant a qualification (Carey et al., 2012). Guidance to auditors, regarding the impact of the ability of the business unit to continue to function in the auditor's opinion as follows (Ikatan-Akuntan-Publik-Indonesia, 2015b; International-Auditing-and-Assurance-Standards-Board, 2009a; Junaidi et al., 2016):

(a) If the auditor believes that there are doubts about the ability of the business unit to survive for a reasonable period of time, the auditor should: (1) Obtain information about the management's plans to reduce the impact of conditions and events, (2) establish the possibility that such a plan is effectively implemented; (b) If the management does not have a plan to reduce the impact of conditions and events on the ability of the business unit to survive, the auditor should consider making a statement of intent to not give any opinion; (c) if the management has a plan, the next step is for the auditor to consider the effectiveness of the plan, as follows: (1) If the auditor finds no effective plan, the auditor must express no opinion, (2) if the auditor finds the plan is effective and the client expresses these circumstances in the notes of the financial statements, the auditor expresses an unqualified opinion, (3) if the auditor finds the plan is effective but the client does not disclose the circumstances in the notes of the financial statements, the auditor expresses an unfair opinion.

Going concern opinion is early warning signal of company bankruptcy, can be seen by financial distress. Company in financial distress tends to get going concern opinion (Hudaib and Cooke, 2005). Financial distress is a condition where company having losses (Ryan, 2016), could not generating cash of business operations and having debt payment failure (Muller et al., 2009), and having negative book value of equity (Ang, 2015). Financial distress can be measured by financial ratios (Altman, 1968). In capital market context, financial distress company is not only have risk of bankruptcy, but also can be delisted by regulation from capital market (Carey et al., 2008). Financial distress can be prevented by evaluation of loans, internal controls and investment criteria (Altman, 1968). Financially distressed company tends to get going concern opinion (Mutchler et al., 1997; Geiger and Raghunandan, 2001; Geiger et al., 2005; Carey et al., 2012).

Financial distress and going concern are important issues. Big company such Enron Corp. have been fell down. Enron have been bankrupt in 2002 for covering financial problems and losses (Shirur, 2011). One of important factor that have caused bankruptcy of Enron is audit failure. Arthur Andersen have failed to detect or reported going concern problem of Enron. Arthur Andersen is an example of audit failure for not issue going concern opinion according to Enron's problem (Krishnan et al., 2007; Shirur, 2011; Srinidhi et al., 2012). Bankruptcy of Enron is followed by fall down of Arthur Andersen because of client losing.

If there are financial distress companies do not get going concern opinion, or healthy companies get going concern opinion, then there are errors or misclassifications of audit opinions. There are 2 types of error. Type 1 error is error made by auditor, when auditor was giving going concern opinion to healthy or survive company. Type 2 error is error made by auditor when auditor is giving non-going concern opinion to financial distress company. These errors reflect opinion accuracy.

There are costs related to these errors. Type 1 error would result in the loss of the complete value of the investment in, or loan to the company in question (Muller et al., 2009). Conversely, a Type 2 error could potentially be the loss of the profit associated with the investment or loan made to the company (Muller et al., 2009). When auditor makes no error, audit failure is low and opinion accuracy is high. When auditor makes error, either Type 1 error or Type 2 error, audit failure is high and opinion accuracy is low. Relationship between going concern opinion and financial distress describes financial statement quality as well (Krishnan and Krishnan, 1997). When auditor makes no error, financial statement quality is high. When auditor makes error, either Type 1 error or Type 2 error, financial statement quality is low. Possibility of making of error shows that uncertainty of going concern opinion accuracy exists. Uncertainty of going concern opinion accuracy can leads to higher agency cost and tends to switch auditor.

### 2.4. Audit Opinion Accuracy and Opinion Shopping

One of factors that affect auditor switching, related to decreasing of audit quality, is opinion shopping. Auditor switching is driven by the opinion given by the auditor (Chow and Rice, 1982). Company expects to get unmodified or unqualified opinion. Dissatisfaction with another opinion received, beside unmodified or unqualified opinion, will stimulate company to switch auditor. Qualified opinion explains that company have weak corporate governance. This explanation is in line with research related to qualified opinion with implementation of corporate governance (Lin and Liu, 2009). Companies with weak corporate governance and get qualified opinion tends to switch auditor.

Opinion shopping is more likely happens when there is decreasing of audit quality, such as downward auditor switching. Companies that received qualified opinion from high quality auditor tends to do downward auditor switching. Companies could get unqualified opinion, while companies in bad corporate governance and going concern condition, if it audited by low quality auditor.

Downward auditor switching happened when previous auditor is high quality auditor, such as auditor with accurate opinion, switched by low quality auditor. In terms of opinion shopping, the more accurate audit opinion, the more company switches auditor with low quality audit. If company gets going concern opinion in distress condition, and followed by switching the auditor, then auditor switching leads to opinion shopping. Company dissatisfaction comes from company's condition itself and needs auditor that can cover distress condition. In the other hand, if company gets going concern opinion in healthy condition, and followed by switching the auditor, then auditor switching leads to increasing of audit quality. Company dissatisfaction comes from low audit quality and needs higher quality auditor that can give opinion suitable for company's condition. Corporate governance will take action related to switch auditor if financial reporting quality is low (Mande and Son, 2013) since low accuracy of audit opinion shows low financial reporting quality (Geiger and Rama, 2006)

### 2.5. Hypotheses

Corporate governance is one of important factors that affect auditor switching, related to increasing of audit quality. Company with good corporate governance have low agency cost. DeFond (1992) found that high agency cost will make company to switch auditor to increases audit quality. Audit quality is important issue to make decision about auditor switching. Company with low auditor quality is more likely to switch auditor (Robertson et al., 2014; Boswell, 2015), with consideration of agency cost (DeFond, 1992). One of audit quality, related to auditor switching, is opinion shopping. The higher opinion shopping, the lower audit quality will be. It shows that corporate governance will focus on auditor switching with low auditor quality. In this research, corporate governance is measured by effectiveness of audit committee and independent commissioner, role of shareholders, and governance in country level (financial deepening). Audit quality will be seen by audit opinion accuracy.

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). To fulfil 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. High quality auditor will support audit committee in financial reporting process. The higher audit committee effectiveness, the lower downward auditor switching will be (Lin and Liu, 2009). In terms of remains auditor quality, audit committee will not recommend downward auditor, especially when current auditor gives audit opinion with high audit opinion accuracy.

$H_1$: Audit committee have negative effect on low auditor switching, if audit opinion accuracy is high.

Board of commissioners can be used as a measure of the implementation of corporate governance (Talley, 2009). Effectiveness of commissioners depend on independent commissioner composition. Independent commissioners are personnel of board of commissioners who does not have significant relationship with company (including subsidiary, affiliate, and associate company), shareholders; they are not audit firm staff that do auditing process in the company as well (Man and Wong, 2013). Independent commissioner will give recommendation to shareholders related to selection of auditor based on public interest. In terms of remains auditor independence, independent commissioner will recommend auditor switching.

In order to ensure high quality of financial reporting, independent commissioner will recommend high quality auditor, such as big four auditor. High quality auditor will support independent commissioner in financial reporting process. The higher independent commissioner effectiveness, the lower downward auditor switching will be (Lin and Liu, 2009). In terms of remains auditor quality, audit committee will not recommend downward auditor, especially when current auditor gives audit opinion with high audit opinion accuracy.

$H_2$: Independent commissioner have negative effect on downward auditor switching, if audit opinion accuracy is high.

Generally, businesses started from family businesses and still being core basic of business development. The consequence is owners have big interventions to company's activities. Agency theory stated that the bigger interventions of the owners (or shareholders in public companies), the bigger performance of company (Jensen and 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 happened in auditor selection as well (Lodge, 2008). Observation of capital market practitioners shows that shareholders switching affect to auditor switching (Lodge, 2008).

Institutional shareholders spend more time to do research related to company and its industry, compared to individual shareholders spend less time to monitoring related to company (Man and Wong, 2013). Institutional shareholders give more direct monitoring, as one of corporate governance mechanisms, in disciplining manager (Talley, 2009). Supervision of institutional shareholders can reduce agency problems, including decision of auditor switching. Institutional shareholders determine increasing demand of high audit quality (Chan et al., 2007).

Managerial ownership is one of mechanisms to reduce agency problem. Managerial ownership makes interest of manager (agent) and shareholders (principal) can be aligned. Manager will do direct monitoring on internal performance of company. Interest alignment stimulates manager to make decision aligned with shareholders interest, including auditor switching decision making. Owner-manager will remains auditor with high quality and reduces downward auditor switching, as one of mechanisms to reduce agency problem. In order to maximize firm value, owner-manager will choose high quality auditor in monitoring financial reporting.

Foreign ownership is one of corporate governance mechanisms as well that can reduce agency problem. Foreign shareholders from countries with good corporate governance implementation will implement good corporate governance implementation as well in countries with developed corporate governance (Klapper et al., 2006). Foreign shareholders will implement better oversight than local shareholders as well, because foreign shareholders will face risk of reputation and legal if it does not implement good corporate governance (Klapper et al., 2006). One of good corporate governance implementation is selection of auditor. High corporate governance implemented by foreign ownership will choose high quality auditor and reduces downward auditor switching.

Monitoring role of shareholders (foreign/institutional/managerial) will focus on downward auditor switching based on auditor quality. To keep auditor quality, shareholders tends to make company to not switch auditor downward, especially with high audit opinion accuracy.

$H_{3a}$: Institutional ownership have negative effect on auditor switching, if audit opinion accuracy is high.

$H_{3b}$: Managerial ownership have negative effect on auditor switching, if audit opinion accuracy is high.

$H_{3c}$: Foreign ownership have negative effect on auditor switching, if audit opinion accuracy is high.

The penetration of financial instruments indicates the level of public awareness of any existing financial instruments. Mechanism of financial instruments is strongly influenced by the available information, including financial information. The deeper penetration of financial instruments, the more sensitive position of public companies information will be.

De (1999) shows 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.

This explanation is in line with policy of privatization that monitoring of market will be able to improve companies' performance (Megginson et al., 1994). Companies can improve efficiency because of market pressures supervisions by public/investors/creditors. Public supervisions will stimulate company

**Table 1: Research sample**

| Sample criteria | Firm-year | | |
|---|---|---|---|
| | Auditor switching group | Non auditor switching group (as control group) | Total |
| Manufacture companies listed in stock exchange of Indonesia, Malaysia, Philippines, Singapore, Thailand 2012-2013 | 93 | 937 | 1030 |
| Less: Incomplete Data | - | 20 | 20 |
| Less: Annual Report in Local Language | - | 10 | 10 |
| Less: Non Big Four Audited Companies | 59 | 378 | 437 |
| Total Sample | 34 | 529 | 563 |

**Table 2: Audit opinion accuracy**

| Firm's condition | Going concern opinion | Non-going concern opinion |
|---|---|---|
| Distress | High opinion accuracy | Low opinion accuracy |
| Grey area | High opinion accuracy | High opinion accuracy |
| Non distress (save) | Low opinion accuracy | High opinion accuracy |

to make best policies for stakeholders. External parties tend to affect policy formulation of the company (Megginson et al., 1994).

Economic growth of countries is affected by financial sector. 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 auditor switching policy. Existence of well public supervisions will make high audit quality demand, so company will switch auditor with more qualified auditor.

Public monitoring have focus more on lower audit quality (Cassell et al., 2012). Public will have greater effect on auditor switching in downward auditor switching, especially in high audit opinion accuracy.

$H_4$: Financial deepening have negative effect on auditor switching, if audit opinion accuracy is high.

## 3. RESEARCH METHOD

### 3.1. Source of Data

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. Consideration of research period between 2012 and 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). Research sample are manufacture companies listed in stock exchange in ASEAN region. There are five ASEAN countries used in this research, which are Indonesia, Malaysia Philippine, Singapore and Thailand. Based on Table 1, total sample is 563 firm-year, it consists of 34 firm-year of auditor switching group and 529 firm-year of non auditor switching group (as control group).

### 3.2. Variables and Operational Definitions

Downward auditor switching, as dummy variable (1 if switch auditor to non-big four auditor, 0 otherwise), is voluntary audit firm switch (Chow and Rice, 1982). Audit committee is personnel of audit committee who have competences in accounting, finance, and auditing (Yanan et al., 2013), measured by personnel of audit committee who have competences in accounting, finance, and auditing divided by total personnel of audit committee. Independent commissioner is composition of independent commissioner, measured by number of independent commissioner divided by total board of commissioner. Ownership is shareholders with significant intervention (Hudaib and Cooke, 2005; Lodge, 2008), measured by percentage of foreign, institutional, managerial. Country (financial deepening) is public access of financial instrument or literacy (Di, 2005), measured by percentage of stock market capitalization to gross domestic products. Audit opinion accuracy can be seen in Table 2 (Junaidi et al., 2016).

Moderating variable is audit opinion accuracy. Audit opinion accuracy can be seen as follow (Junaidi et al., 2016):

Audit opinion is divided into two, they are the going concern opinion and the non-going concern opinion. The probability of a company facing financial problem(s) is measured by using financial distress. Financial distress is a condition where companies face finance difficulties (Hudaib and Cooke, 2005), measured by Altman (1968) 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]). If Z-Score is below 1.81, then company is distress. If Z-Score is above 2.99, then company is save. If Z-Score is between 1.81 and 2.99, then company is in grey area (Altman, 1968).

When the condition of a company is in distress, it supposes that their auditor gives them a going concern opinion. If the auditor does not give a going concern opinion, it is called as a low opinion accuracy as a picture of low auditor quality (Junaidi et al., 2016). Another chance for low opinion accuracy as a picture of low auditor quality, is that when the condition of a company is not in distress, the auditor gives a going concern opinion (Junaidi et al., 2016). On the other hand, if a company is in a distress condition and the auditor gives it a going concern opinion, or when a company is not in a distress condition and the auditor gives a non going concern opinion, it is called as a high opinion accuracy as a picture of high auditor quality (Junaidi et al., 2016). If a company is in a grey area condition and the auditor gives either a going concern opinion or non-going concern opinion, it can be concluded that the auditor is independent, it is called as a high opinion accuracy as a picture of high auditor quality (Junaidi et al., 2016). Opinion accuracy will be measured as dummy variable, value 1 if high opinion accuracy, 0 otherwise.

Control variables that will be used are related to opinion accuracy and company's characteristics. Variables related to opinion accuracy are audit opinion and financial distress. Audit opinion and financial distress are used because of relationship of audit opinion accuracy measurement. Audit opinion is opinion provides by auditor in audit report, measured as dummy variable (1 if unqualified opinion, 0 if qualified opinion). Financial distress is measured by Altman Z-Score (1968).

Variables related to company's characteristics are leverage and size. Leverage is indicator of financial health and have positive effect on auditor switching (Hudaib and Cooke, 2005). Leverage measured by total liabilities divided by total assets. Big company will remains big four auditor, because big four auditor have large number of auditor, to reduce audit complexity and fees (Anderson et al., 1993; Firth, 1999), and big gap between owner and many agents (Willenborg, 1999). The bigger company is, the lower auditor switching to non-big four auditor. Size of company measured by logarithm of total assets.

### 3.3. Regression Model

$$DOWNt{+}1 = \beta_0+\beta_1 AC_t+\beta_2 IC_t+\beta_3 FO_t+\beta_4 IO_t+\beta_5 MO_t+\beta_6 FDP_t+\beta_7 ACCURATE_t\_AC_t+\beta_8 ACCURATE_t\_IC_t+\beta_9 ACCURATE_t\_FO_t+\beta_{10} ACCURATE_t\_IO_t+\beta_{11} ACCURATE_t\_MO_t+\beta_{12} ACCURATE_t\_FDP_t+\beta_{13} ACCURATE_t+\beta_{14} FD_t+\beta_{15} AO_t+\beta_{16} LEV_t+\beta_{17} SIZE_t+e$$

Where:
- $ASW_{t+1}$: Auditor switching period t+1 (ratio)
- $AC_t$: Audit committee period t
- $IC_t$: Independent commissioner period t
- $FO_t$: Foreign ownership period t
- $IO_t$: Institutional ownership period t
- $Mo_t$: Managerial ownership period t
- $FDP_t$: Financial deepening period t
- $ACCURATE_t$: Opinion accuracy period t
- $FD_t$: Financial distress period t
- $AO_t$: Audit opinion period t
- $LEV_t$: Leverage of company period t
- $SIZE_t$: Size of company period t.

Hypotheses test will be run by country fixed-effect logistic regression.

## 4. RESULTS AND DISCUSSION

Based on Table 3, in five countries of ASEAN (Indonesia, Malaysia, Philippines, Singapore, Thailand), mean value of variables shows that non downward auditor switching sample have less effective audit committee, less effective independent commissioner, more institutional ownership, less managerial ownership, more foreign ownership, less financial deepening, less distress, lower leverage, smaller size; than downward auditor switching sample.

Table 4 shows high opinion accuracy consists of 7 distress observations that get going concern opinion, 15 observations in grey area that get going concern opinion, 155 observations in grey area that get non-going concern opinion, and 254 non distress observations that get non-going concern opinion. Low opinion accuracy consists of 122 distress observations that get non-going concern opinion and 10 non distress observations that get going concern opinion.

Table 5 shows that value of Pearson Chi-square of comparison test is 3.070 (significant in 10 percent. It indicates that there is difference of downward auditor switching between low opinion accuracy and high opinion accuracy.

Based on Table 6, opinion accuracy have coefficient value 98.396 (significant in 5%). Opinion accuracy have positive effect on downward auditor switching. Audit opinion that coefficient value −1.615 (significant in 10%). Audit opinion have negative effect on downward auditor switching. It shows the opinion shopping evidence in manufacture companies in ASEAN, when there is downward auditor switching.

Opinion accuracy; as one of definition of auditor quality; moderates effect of audit committee, independent commissioner, and financial deepening on downward auditor switching. Audit committee (significant in 5%), independent commissioner (significance value 0.0752, significant in 10%), foreign ownership (significant in 5%), and financial deepening (significant in 10%) have negative effect on downward auditor switching when audit opinion is high. On the other hand, opinion accuracy does not moderate effect of institutional, managerial and foreign ownership on downward auditor switching.

**Table 3: Descriptive statistics**

| Auditor switching group | AC | IC | IO | MO | FO | FDP | FD | LEV | SIZE |
|---|---|---|---|---|---|---|---|---|---|
| Non downward auditor switching | | | | | | | | | |
| N | 546 | 546 | 546 | 546 | 546 | 546 | 546 | 546 | 546 |
| Mean | 0.5377 | 0.4375 | 0.4941 | 0.1224 | 0.1741 | 1.4300 | 4.4573 | 0.4188 | 9.1777 |
| Downward auditor switching | | | | | | | | | |
| N | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 17 |
| Mean | 0.5980 | 0.4631 | 0.4171 | 0.1373 | 0.1353 | 1.5367 | 2.5934 | 0.8431 | 9.9151 |
| Total | | | | | | | | | |
| N | 563 | 563 | 563 | 563 | 563 | 563 | 563 | 563 | 563 |
| Mean | 0.5395 | 0.4383 | 0.4918 | 0.1228 | 0.1729 | 1.4332 | 4.4010 | 0.4316 | 9.1999 |

### 4.1. Robustness Test

This result use non auditor switching sample as control group classified as non-downward auditor switching because they still remains big four auditor and keep high audit quality. This research will perform alternative measurement for non-auditor switching sample. Since auditor switching increases audit quality by improvement of auditor independent, then non auditor switching sample is not fully keeping high audit quality. Alternative measurement for dependent variable; which is becoming ratio variable; is value 1 for downward auditor switching (means that there is decreasing of high auditor quality), value 0 for auditor switching from big four auditor 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 0.5 for non-auditor switching (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).

Robustness test to testing weather result of logistic regression is consistent if tested by other analytical tools. Robustness test will be applied by country fixed-effect multiple regression, alternative measurement of dependent variable. Comparison between multiple regression and logistic regression is as followed.

Based on Table 7, variables of interaction between opinion accuracy and audit committee, interaction between opinion accuracy and institutional ownership, interaction between opinion accuracy and managerial ownership, interaction between opinion accuracy and foreign ownership have consistent results between logistic and multiple regression. Meanwhile, variables of interaction between opinion accuracy and independent commissioner, interaction between opinion accuracy and financial deepening have inconsistent results between logistic and multiple regression. It shows that independent commissioner and financial deepening are sensitive when does not do downward auditor switching by prevents same big four auditor and switches to another big four auditor.

### 4.2. Audit Committee, Opinion Accuracy and Downward Auditor Switching

Audit committee have negative effect on downward auditor switching, if opinion accuracy is high. The more effective audit committee, they will recommend board of commissioner to keep company's auditor. Audit committee with high financial and accounting competences tends to keep company's auditor (Lee et al., 2004). In order to ensure high quality of financial reporting, committee audit will not recommend auditor switching and

**Table 4: Audit opinion and financial distress**

| Firm's condition | Going concern opinion | Non-going concern opinion |
|---|---|---|
| Distress | 7 observations | 122 observations |
| Grey area | 15 observations | 155 observations |
| Non distress (save) | 10 observations | 254 observations |
| Total | 32 observations | 531 observations |

**Table 5: Opinion accuracy and downward auditor switching**

| Auditor switching group | Low opinion accuracy | High opinion accuracy | Total |
|---|---|---|---|
| Non downward auditor switching | 125 | 421 | 546 |
| Non downward auditor switching | 7 | 10 | 17 |
| Total | 132 | 431 | 563 |
| Person Chi-square | 3.070*** | | |

*Significant in 1%, **significant in 5%, ***significant in 10%

**Table 6: Logistics regression**

| Independent variable | Coefficient | z-Statistics |
|---|---|---|
| ACCURATE | 98.396 | 5.092** |
| ACCURATE_AC | −7.932 | 4.191** |
| ACCURATE_IC | −22.545 | 6.708** |
| ACCURATE_IO | −3.859 | 1.354 |
| ACCURATE_MO | −2.548 | 0.359 |
| ACCURATE_FO | −1.696 | 0.181 |
| ACCURATE_FDP | −50.913 | 3.542*** |
| AC | 4.971 | 2.181 |
| IC | 14.216 | 3.949** |
| IO | 2.219 | 0.991 |
| MO | 1.246 | 0.185 |
| FO | 0.012 | 0.000 |
| FDP | 17.871 | 2.865*** |
| AO | −1.615 | 3.446*** |
| FD | −0.116 | 0.718 |
| LEV | 1.510 | 5.699** |
| SIZE | 0.259 | 1.854 |
| Constant | −100.141 | 0.001 |
| −2Log likelihood | 63.307* | |
| Chi-square of H-L statistics | 4.282 (insignificant) | |
| Correct prediction | 97.9% | |
| Nagelkerke $R^2$ | 0.448 | |

*Significant in 1%, **significant in 5%, ***significant in 10%

**Table 7: Comparison between logistic and multiple regression**

| Independent variable | Coefficient | | Notes |
|---|---|---|---|
| | Logistic regression | Multiple regression | |
| ACCURATE | 98.396** | 0.080 | |
| ACCURATE_AC | −7.932** | −0.124** | Consistent |
| ACCURATE_IC | −22.545** | 0.024 | Inconsistent |
| ACCURATE_IO | −3.859 | 0.032 | Consistent |
| ACCURATE_MO | −2.548 | −0.060 | Consistent |
| ACCURATE_FO | −1.696 | 0.019 | Consistent |
| ACCURATE_FDP | −50.913*** | −0.019 | Inconsistent |
| AC | 4.971 | 0.085** | |
| IC | 14.216** | −0.061 | |
| IO | 2.219 | −0.061 | |
| MO | 1.246 | 0.019 | |
| FO | 0.012 | −0.001 | |
| FDP | 17.871*** | −0.010 | |
| AO | −1.615*** | −0.030 | |
| FD | −0.116 | 0.001 | |
| LEV | 1.510*** | 0.009 | |
| SIZE | 0.259 | 0.011* | |
| Constant | −100.141 | 0.449 | |
| −2Log likelihood | 63.307* | | |
| Nagelkerke $R^2$ | 0.448 | | |
| F-statistics | | 1.618** | |
| Adjusted $R^2$ | | 0.023 | |

*Significant in 1%, **significant in 5%, ***significant in 10%

remains current big four auditor. High quality auditor will support audit committee in financial reporting process. The higher audit committee expertise, the lower downward auditor switching will be (Lin and Liu, 2009; Cassell et al., 2012). In terms of remains auditor quality, audit committee will not recommend downward auditor, especially when current auditor gives audit opinion with high audit opinion accuracy.

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.

### 4.3. Independent Commissioner, Opinion Accuracy and Downward Auditor Switching

Independent commissioner have negative effect on downward auditor switching, if opinion accuracy is high. Board of commissioners can be used as a measure of the implementation of corporate governance (Talley, 2009). Effectiveness of commissioners depends on independent commissioner composition. Independent commissioners are personnel of board of commissioners who does not have significant relationship with company (including subsidiary, affiliate, and associate company), shareholders; they are not audit firm staff that do auditing process in the company as well (Man and Wong, 2013). Independent commissioner will give recommendation to shareholders related to selection of auditor based on public interest. In terms of remains auditor independence, independent commissioner will recommend auditor switching.

In order to ensure high quality of financial reporting, independent commissioner will recommend high quality auditor, such as big four auditor. High quality auditor will support independent commissioner in financial reporting process. The higher independent commissioner effectiveness, the lower downward auditor switching will be (Lin and Liu, 2009). In terms of remains auditor quality, audit committee will not recommend downward auditor, especially when current auditor gives audit opinion with high audit opinion accuracy.

### 4.4. Ownership, Opinion Accuracy and Downward Auditor Switching

Opinion accuracy does not moderate effect of institutional ownership, managerial ownership and foreign ownership on downward auditor switching. In ownership structure, there is problem called entrenchment effect. Entrenchment is the act of controlling shareholder protected by their control right to perform abuse of power (Fan and Wong, 2002). The higher ownership (institutional/managerial/foreign ownership) does not always followed by good performance, including financial reporting performance because of abuse of control right to meet self-interests instead of public interests.

Abuse of control right includes auditor switching as well. High control right may ignore demand of high audit quality, so it is not affect to auditor switching. Credibility of accounting information will be decreased when controlling shareholders are protected by their control right (Fan and Wong, 2002). Decision making of auditor switching based on self-interest, not based on opinion accuracy.

### 4.5. Financial Deepening and Auditor Switching

Financial deepening has negative effect on downward auditor switching, if opinion accuracy is high. The penetration of financial instruments indicates the level of public awareness of any existing financial instruments. Mechanism of financial instruments is strongly influenced by the available information, including financial information. The deeper penetration of financial instruments, the more sensitive position of public companies information will be.

De (1999) shows 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.

This explanation is in line with policy of privatization that monitoring of market will be able to improve companies' performance (Megginson et al., 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 (Megginson et al., 1994).

Economic growth of countries is affected by financial sector. 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 auditor switching policy. Existence of well public supervisions will make high audit quality demand, so company will switch auditor with more qualified auditor.

Public monitoring have focus more on lower audit quality (Cassell et al., 2012). Public will have greater effect on auditor switching in downward auditor switching, especially in high audit opinion accuracy.

## 5. CONCLUSION

Objective of this research is to examine moderating effect of audit opinion accuracy on relationship between corporate governance and downward auditor switching in Indonesia, Malaysia, Singapore, Thailand and Philippine. Audit committee, independent commissioner and financial deepening have negative effect on downward auditor switching, if opinion accuracy is high. It indicates that monitoring role of audit committee, independent commissioner and public will increases audit quality by decreases downward auditor switching, especially when opinion accuracy is high. In the other hand, ownership have no effect on downward auditor switching. It indicates that there is entrenchment effect in downward auditor switching.

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