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Ownership Structure and Auditor Choice: Evidence in State-Owned Enterprises in Indonesia

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Abstract

This study was conducted to examine whether the ownership structure, namely large shareholders and multiple shareholders in SOE, has an influence on the selection of external auditors through the approach to ownership structure and board characteristics. This test is carried out on SOEs listed on the Indonesia Stock Exchange (IDX). The sample in this study is as many as 20 SOEs have been listed on the IDX, with a total 120 samples of SOEs from 2016 to 2021. The test results show that the ownership structure consisting of multiple large stakeholders and large stakeholders has no effect on auditors' choice. This can happen because the ownership structure of all SOEs is still dominated by ownership from the government. In addition, independent commissioners also have no influence on auditors' choice. An independent commissioner in a SOE is a matter that must be fulfilled based on the laws and regulations. Other findings in the form of firm size and audit committee have a positive effect on auditor choice. This shows that the larger a SOE and the more audit committees, the greater the need for a better audit than the big four auditors.

Keywords
auditor choice; board characteristics; ownership structure; state-owned enterprises

I. Introduction

There are so many reasons why a company has an external auditor at a Public Accounting Firm (PAF) to audit the company's financial statements where these factors are very complex and varied (Knechel, Niemi, & Sundgren, 2008). These varying determinations are in line with the multi-dimensional and different benefits across stakeholders and organizations (Knechel et al., 2008). Research on the selection of PAF auditors is mostly carried out on public companies with variables of firm-level ownership, corporate governance and economic determinants driven by the risk of information asymmetry (Habib, Wu, Bhuiyan, & Sun, 2019). The existence of different benefits and values from the audit results, the selection of the PAF auditor will depend on the client's factors. Furthermore, there is interesting research regarding the determination of PAF auditors in non-public companies because non-public companies have little separation between ownership and management (Chaney, Jeter, & Shivakumar, 2004; Knechel et al., 2008; Zhang & Cang, 2021). The economic condition of the population is a condition that describes human life that has economic score (Shah et al, 2020). Economic growth is still an important goal in a country's economy, especially for developing countries like Indonesia (Magdalena and Suhatman, 2020).

This study focuses on the literature on the selection of PAF auditors by focusing on the slight separation between ownership and management with companies that have go public. The characteristics of these companies are found in State-Owned Enterprises (SOE) in Indonesia that have been listed on the Indonesia Stock Exchange (IDX). This happens

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because all SOEs in Indonesia, both listed and not yet, must be at least 51% of the shares owned by the Government of Indonesia (RI, 2003).

The selection of an external PAF as an auditor in the external audit of financial statements requires considerations and mechanisms that have been regulated in corporate mechanisms such as through the General Meeting of Shareholders (GMS). The selection of auditors in SOEs is done selectively because the auditors who audit SOEs must understand the audit standards as regulated in the state financial audit standards related to the management of state finances by a SOE. The external auditor selection process for SOEs is through the General Meeting of Shareholders (GMS) proposed by the Board of Commissioners and Independent Commissioners.

Research on the selection of PAF auditors in SOEs carrying out ownership reforms between SOE and non-SOE shareholders in China shows that the higher the level of reform of state-owned companies' mixed ownership, the more likely they are to choose the 'big four' international accounting firms as auditors (Chen, Huang, & Chen, 2020). These results indicate that the greater the share ownership, which is only owned by one person or organization, the more likely it is to choose a PAF auditor with low quality.

Unlike the shareholders of private companies, the government (as a shareholder) also has agency problems that cause multiple agency problems between the government and SOEs. it is difficult to achieve monitoring and there is a clear problem of owner absenteeism in SOEs (Chen et al., 2020). Therefore, due to 'insider control' problems caused by dominant shareholding and absence of owners, SOEs have a low demand for high-quality auditors. On the other hand, non-SOE shareholders can participate in corporate governance and influence corporate decision making (Hao & Wang, 2015). In the end, this article examines how the ownership structure of SOEs that have go public affects the selection of KAP auditors based on data from SOEs that have been listed on the IDX from 2016 to 2021.

II. Review of Literature

2.1 Auditor Choice

Public Accounting Firm Auditors Choice is the process of selecting independent parties in auditing the company's financial statements in order to produce quality independent auditor reports and provide independent auditor reports that can provide information for stakeholders and company management (Hendi & Desiana, 2019). PAF choice is carried out with a strict selection according to the standards of experience, knowledge and skills to select an external auditor. External auditors are performed to ensure that an entity's financial statements are properly presented.

2.2 Ownership Structure

Ownership structure is a term that refers to the percentage of ownership by managers and institutions (Jensen & Meckling, 2019) as well as the separation between company owners and managers (Edison, 2017). The ownership structure explains that someone has responsibility and is committed to managing and saving the company (Annisa & Nazar, 2015). The ownership structure in a company that goes public is called a shareholder. The proportion of shareholders in a company differs from one another. A company that has a large share of shareholders can be referred to as a large shareholder, whereas if a company has more than one large shareholder, it is referred to as a multiple large shareholder.

Multiple large shareholders can also be interpreted as ownership of company shares by more than one large shareholder who owns at least 10% of shares in a company (Attig, El Ghoul, & Guedhami, 2009; Attig, El Ghoul, Guedhami, & Rizeanu, 2013; Attig, Guedhami, & Mishra, 2008; Jiang, Cai, Wang, & Zhu, 2018). Fewer family shareholdings in a company will increase the selection of a more qualified auditor (Ho & Kang, 2013). Companies that have large shareholders will tend to have decisions that are in the hands of the largest shareholders, but it will be different if the company has multiple large shareholders where decisions will be made based on discussions of many shareholders. In China, the ownership structure of SOEs is undergoing reform with a mix of SOE ownership.

The reform of the mixed ownership of SOEs ultimately has many impacts where one of the studies shows that the reform of the mixed ownership of SOEs has a positive influence on the selection of quality accounting firms or is more likely to choose the big four auditors.

H1= Large shareholder has an effect on auditor choice
H2= Multiple large shareholders have an effect on auditor choice

2.3 Independent Commissioner

Independent commissioners are members of the board of commissioners who come from outside issuer or public company and fulfill the requirements as independent commissioners (OJK, 2014). The number of independent commissioners must be at least 30% (thirty percent) of the total members of the board of commissioners (OJK, 2014). The increasing number of independent commissioners can be useful for increasing oversight of financial statements. In the end, increased oversight from the board of commissioners will increase the tendency in selecting high-quality PAF auditors (Forker, 1992; Kim, Nofsinger, & Mohr, 2010). The appointment of a high-quality PAF also tends to occur when there are complex agency problems (Bedard, Johnstone, & Smith, 2010) in order to improve corporate governance (Fan & Wong, 2005; Hartanto & Purnamasari, 2019; Hay & Davis, 2004). Therefore, it can be concluded that the size of the board of commissioners, especially independent commissioners, will have a tendency to influence in determining the determination of PAF auditors (Alfraih, 2017; Dwekat, Mardawi, & Abdeljawad, 2018; Indudewi, 2015; Lin & Liu, 2009; D. Maharani, 2012; D. A. Maharani & Pinasti, 2018).

H3: The proportion of Independent Commissioners has an effect on auditor choice

2.4 Audit Committee

The audit committee is a committee that is formed and is responsible to the Board of Commissioners in helping carry out the duties and functions of the Board of Commissioners with at least 3 members (OJK, 2015). The audit committee is formed by the board of commissioners so that the audit committee is responsible to the board of commissioners. The audit committee is also described as a monitoring mechanism that can improve the audit function for the company's external reporting. The Audit Committee who works well and wants to increase the status of the organization will certainly determine the Public Accountant who has a high level of independence. The main task of the audit committee is to provide recommendations to the Board of Commissioners regarding the appointment of a Public Accountant.

The audit committee serves as a bridge between the company and the external auditor (Balafif, 2010) which can potentially improve the quality of information for stakeholders. The more the number of audit committee members, the higher the demand for good audit quality (Balafif, 2010; Dwekat et al., 2018; Lai, Srinidhi, Gul, & Tsui, 2017). The more members of the audit committee, the more experience and knowledge regarding the selection of various public accounting firms (Kristanti & Syafrudin, 2012)

H3: The Audit Committee has an effect on auditor choice

2.5 Firm Size

The size of the company, the capabilities that the company has and the variety and number of production capabilities or the quantity and variety of services that the company can offer simultaneously to its customers (Sritharan, 2015). Company size can be classified from the size of the company by using total assets, total sales, share value and so on (Widiastari & Yasa, 2018). The bigger the company, the higher the interest of investors to invest their shares compared to small companies. Company size can also be described through total assets, total sales, average sales of assets and average total assets of the company.

The larger the size and level of complexity of the company, the greater the risk of moral hazard in the company. Therefore, companies with large sizes really need a monitoring function through external auditors or qualified Public Accounting Firms to reduce the risk of fraud as well as in terms of financial statement presentation. Companies that have large total assets show that the company's cash flow is positive and is considered to have good prospects in a relatively long period of time, but it also reflects that the company is relatively more stable and more able to generate profits than companies with small total assets (Nugrahani & Sabeni, 2013).

Firm size has a positive effect on auditor choice (Alfraih, 2017; Markali & Rudiawarni, 2013; Nurhandika & Manalu, 2021; Setiawan, Karsana, Budi, & Armon, 2015; Yuliana & Trisnawati, 2015). This happens to the average government company with large assets so that they are able to use a quality external auditor because the source of funding is excessive. Therefore, when the company gets bigger, the owner of the company will find it increasingly difficult to control the company, so the company will need a supervisory function through an external auditor who has high expertise to reduce the risk of fraud in terms of presenting financial statements by the company (Yuliana & Trisnawati, 2015).

H4: Firm size has an effect on the qualified external auditor choice

III. Research Method

3.1 Population and Sample

The population in this study is SOE that has been listed on the Indonesia Stock Exchange (IDX) in 2016-2021. From the total of 107 SOEs in Indonesia, only 22 SOEs have go public. The data used in this study is secondary data in the form of an annual report of SOEs obtained from the website of each SOE. The completeness of data in the annual reports obtained during 2016-2021 is 120 reports. Therefore, the total sample is 20 SOEs listed on the Indonesia Stock Exchange during the 2016 to 2021, so the total sample is 20 companies x 6 years = 120 research samples.

3.2 Definition of Operational Variable

The independent variable in this study is based on many former studies that calculate the auditor's choice (aud_chc) using the category of Public Accounting Firms (PAF) where 0 if the company chooses an auditor who is not affiliated with the Big Four PAF and 1 if the company chooses an auditor affiliated with the Big Four PAF. Based on former studies (Attig et al., 2009; Attig et al., 2013; Attig et al., 2008; Chen et al., 2020; Jiang et al., 2018), this study uses the dependent variable of ownership structure which is divided into 2 ownership, namely large shareholder (lg_shr) and multiple shareholder (mt_shr). Large shareholders are calculated from the size of the largest shareholding and multiple shareholders are seen from the number of shareholders who have an ownership portion of more than 5%. In addition, this study uses firm size (size), proportion of independent commissioners (ind_com), and audit committee size (au_com). Firm size is measured by the indicator of the firm's total assets. The proportion of independent commissioners is measured by the number of members of the Board of Commissioners and members of the Independent Commissioners who are responsible for supervising internal and external companies, while the audit committee is measured by the number of audit committees in the company.

3.3 Technique of Analysis

The analytical method used in this study is logistic regression. Logistic regression is used to analyze quantitative data that reflects two choices or commonly called binary logistic regression (Ghozali, 2018). Logistic regression analysis was performed with the help of the SPSS program. The logistic regression model is:

$$aud\_chc = \alpha + \beta 1 lg\_shr + \beta 2 mt\_shr + \beta 3 ind\_com + \beta 4 au\_com + \beta 5 size + e$$

Information:

aud_chc = Auditor Choice

α = Constant Number

$\beta 1$, $\beta 2$, $\beta 3$, $\beta 4$ = Regression Coefficient

lg_shr= large shareholder

mt_shr= multiple large shareholder

ind_com = Proportion of Independent Commissioners

au_com = Audit Committee Size

size = Firm Size

e = error

IV. Result and Discussion

4.1 Descriptive Analysis

Descriptive statistics provide an overview of the research data statistically by showing the average (mean), maximum, minimum, and standard deviation. The results of the descriptive analysis in this study can be seen in table 1 below.

Table 1. The Results of Descriptive Statistics Analysis

Variable	N	Minimum	Maximum	Mean	Std. Dev.
aud_chc	120	0,00	1,0	0,667	0,4734
lg_shr	120	51	90	64,19	11,1216
mt_shr	103	1	2	1,175	0,3816
ind_com	120	0,14	0,75	0,4165	0,11394
au_com	120	2	8	4,167	1,2856
size (jutaan)	120	1.173.623	1.725.611.128	235.595.328	418.376.945
Valid N	120				

Source: Processed Data, 2022

The results of the statistics description test in table 1 show that large ownership (lg_sh) obtained a minimum score of 51% and a maximum of 90% with an average ownership of 64.19%. The proportion of SOE independent commissioners shows a minimum of 14% and a maximum of 75%. While the audit committee has a minimum of 2 people and a maximum of 8 audit committees. The firm size measured by total assets shows that the minimum assets owned by SOEs is 1.173 trillion and the maximum total assets owned is 1.725.61 trillion.

4.2 Model Fit Test

Test The overall test results for the fit test model are presented in table 3. Testing the research model using logistic regression analysis is done by looking at the distribution value of the chi square from the Hosmer and Lemeshow Test (Ghozali, 2018). An insignificant chi square value can be said to have a model that is in accordance with the observed or fit. The result of sig. from Hosmer and Lemeshow Test shows the value of sig. of 0.891 (> 0.05) which indicates that there is no difference between the model and the observations, and the model is declared fit.

A good regression model can be seen from the likelihood in the form of a comparison between the initial -2 Log Likelihood Block Number and the final -2 Log Likelihood Block Number. The results show that the comparison between the initial -2 Log Likelihood Block values is 114,392 and after the five independents are entered, the final -2 Log Likelihood Block value has decreased by 40,554. This decrease in Likelihood indicates a better regression model or it can be said that the hypothesized model fits the data. Furthermore, the comparison in the Omnibus test table follows the chi square distribution. The test results show that the distribution of the model is 0.00 (<0.05) which means that all independent variables simultaneously have an effect on the PAF auditors' choice.

Table 2. Model Fit Test

Omnibus Tests of Model Coefficients				
		Chi-square	df	Sig.
Step 1	Step	73.610	5	.000
	Block	73.610	5	.000
	Model	73.610	5	.000
Hosmer and Lemeshow Test: sig. 0,891				
Value -2 Log Likelihood (-2LL Initial):114.392				
Value -2 Log Likelihood (-2LL Final):40.554				

Source: Processed Data, 2022

4.3 Logistics Regression Analysis Results

The results of the logistic regression analysis in this study are presented in table 3 below. The magnitude of the test value of the coefficient of determination in the logistic regression model is indicated by the value of R Square. R Square in this study shows a value of 0.762 or 76.2%. This shows that the four independent variables explain the variable of PAF auditor choice by 76.2%, while the remaining 23.8% is explained by other factors outside the testing of this study.

The test results on the first and second hypotheses on the ownership structure classified as large shareholder (lg_sh) show the coefficient value is negative with a significance value of 0.185 (> 0.05). This indicates that the large shareholder (lg_sh) has no significant effect on auditor choice. Furthermore, the ownership structure as multiple large shareholder (mt_shr) has a positive coefficient value with a significance value of 0.855 (> 0.05). This shows the meaning that multiple large shareholders (mt_shr) have no significant effect on auditor choice. The same test results also occur in the third hypothesis, namely the proportion of independent commissioners (ind_com) which shows the coefficient value is negative with a significance value of 0.302 (> 0.05). This indicates that the proportion of independent commissioners (ind_com) has no significant effect on auditor choice.

Tests on the size of the audit committee (au_com) and the firm size(size) both show a positive coefficient value with a significance value of the audit committee (au_com) of 0.002 (<0.05) and a significant value of firm size (size) of 0.007 (<0 ,05). This shows that the size of the audit committee (au_com) and the firm size (size) have a significant positive effect on auditor choice.

Table 3. Logistics Regression Analysis Results

Variable	B	S.E.	Wald	Df	Sig.	Exp(B)
lg_sh	-0,046	0,034	1,758	1	0,185	0,955
mt_shr	0,223	1,215	0,034	1	0,855	1,249
ind_com	-6,499	6,293	1,067	1	0,302	0,002
au_com	4,192	1,324	10,028	1	0,002	66,165
size (millions)	0,000	0,000	5,713	1	0,007	1,000
R Square: 0,762						

Source: Processed Data, 2022

4.4 Result

The results of testing the first hypothesis can be seen that the ownership structure based on large shareholders (lg_sh) has no effect on auditors choice. This shows that the large ownership owned by the government over SOEs has no influence on the PAF auditor choice. This is not in line with some former studies (Chen et al., 2020; Citron & Manalis, 2001; Karim & van Zijl, 2013). Testing on the multiple large shareholder hypothesis (mt_shr) shows a non-significant effect on the PAF auditor choice on the PAF auditor choice. Furthermore, the results of the average selection of auditors can be seen that the number is 0.66. This means that most auditors prefer a qualified PAF auditor. This may happen because the performance of SOEs is in the spotlight and the ownership is at least 50% owned by the government, so they will almost often choose a qualified PAF auditor in order to maintain public trust in the government.

The results of testing the second hypothesis can be seen that the proportion of independent commissioners (ind_com) has no effect on the PAF auditor choice. The results of this study provide evidence that the size of the proportion of independent commissioners cannot measure how effective the supervisory function of independent commissioners is on the PAF auditor choice, namely to involve auditors who have expertise and high audit quality, namely big-4 PAF as company auditors. The test results on the proportion of independent commissioners are in line with several previous studies (Indudewi, 2015; Markali & Rudiawarni, 2013). However, these results also differ from several other studies (Alfraih, 2017; Dwekat et al., 2018; Indudewi, 2015; Lin & Liu, 2009; D. Maharani, 2012; D. A. Maharani & Pinasti, 2018).

The test hypothesis on the size of the audit committee (au_com) shows a positive effect on the PAF auditor choice. This shows that the more audit committees there are, the more secure the selection of a qualified PAF auditor will be. These results are in accordance with these studies (Dwekat et al., 2018; D. A. Maharani & Pinasti, 2018) which shows that the greater the number of audit committee members, the higher the demand for good audit quality. More audit committees can also be associated with more board supervision over the selection of PAF (Quick, Schenk, Schmidt, & Towara, 2018).

In testing the firm size hypothesis, it can be seen that firm size has a positive on the PAF auditor choice. Large companies will usually have more complicated and complex operations, so companies need auditors with a high level of expertise, where this expertise is usually provided by large public accounting firms such as big four PAF. The bigger the company, the greater the assets owned, so that the company's ability to pay for services at the big four PAFs will be fulfilled (Indudewi, 2015). The results of this study are in line with previous studies which showed that firm size had a positive effect on the auditor choice (Alfraih, 2017; Markali & Rudiawarni, 2013; Nurhandika & Manalu, 2021; Setiawan et al., 2015; Yuliana & Trisnawati, 2015), because large companies find it difficult to control their companies, so companies will need a supervisory function through external auditors who have high expertise to reduce the risk of fraud in terms of presenting financial statements by the company (Yuliana & Trisnawati, 2015).

V. Conclusion

Based on research data on testing from 2016 to 2021 on auditor choice in Indonesian SOEs listed on IDX, we collect research data to examine the dependent and independent variables consisting of the auditor choice as the dependent variable, and ownership structure, proportion of independent commissioners, committees audit and firm size as independent variables. The results of the description analysis show that most of the SOEs have used qualified PAF auditors. In addition, the ownership structure, board of commissioners and audit committee in SOEs are in line with related regulations, both in terms of quantity and quality.

This study also shows the results that the ownership structure consisting of large and multiple large shareholders and the proportion of independent commissioners have no effect on the PAF auditor choice. This indicates that SOE as a state company and the spearhead of the economy always gets the spotlight from the public and the public as independent supervisors when shareholders or owners and the board of commissioners do not carry out their duties properly. This may be the driving force behind the ownership structure and independent commissioners not influencing the PAF auditor choice.

In addition, the audit committee and firm size have a positive effect on auditor choice. This finding can occur due to the task of the audit committee which has a lot of supervision over the board on the selection of PAF. While for the company size, the greater the assets owned, the company's ability to pay for services at the big four PAF will be fulfilled. This study was conducted with several limitations that may affect the results of the study. The limitation of this study is the measurement of ownership structure which is limited to the measurement of the largest ownership, both in terms of number and percentage. Next research can use the measurement of ownership structure used by Chen et al. (2020).

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