

Auditor Specialization and Accounting Accrual Shopping in Indonesia

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Abstract

This research is aimed to examine the effect of auditors switching to the non-specialist auditor on accrual earnings management. This research uses industry and year fixed-effect regression. The research sample consists of 456 manufacture firms-years on Indonesian Stock Exchange listed 2013 to 2016. Based on industry and year fixed-effect regression, when the firm switches auditor to a non-specialist auditor, accrual earnings management will be increased. It is caused by the unfamiliarity of new auditor with the firm's business activities and operations cannot be minimized because new auditor has low knowledge of firm industry and it leads to the inability of new auditor to detects accrual earnings management. This result confirms that accounting accrual shopping happens in Indonesian Stock Exchange, especially in manufacturing firms.

Keywords:

Accounting Accrual Shopping, Auditor Switching, Auditor Specialization, Accrual Earnings Management, Indonesia.

Abstrak

Penelitian ini bertujuan untuk menguji pengaruh auditor switching ke auditor non-spesialis terhadap manajemen laba akrual. Penelitian ini menggunakan regresi fixed-effect industri dan tahun. Sampel penelitian terdiri dari 456 perusahaan manufaktur-tahun di Bursa Efek Indonesia yang terdaftar tahun 2013 sampai 2016. Berdasarkan regresi fixed-effect industri dan tahun, ketika perusahaan beralih auditor ke auditor non-spesialis, manajemen laba akrual akan meningkat. Hal ini disebabkan oleh ketidaktahuan auditor baru dengan kegiatan bisnis dan operasi perusahaan tidak dapat diminimalkan karena auditor baru memiliki pengetahuan yang rendah tentang industri perusahaan dan menyebabkan ketidakmampuan auditor baru untuk mendeteksi manajemen laba akrual. Hasil ini menegaskan bahwa belanja akrual akuntansi terjadi di Bursa Efek Indonesia, terutama di perusahaan manufaktur.

Kata Kunci:

Akuntansi Belanja Akrual, Auditor Switching, Spesialisasi Auditor, Manajemen Laba Akrual, Indonesia.

PENDAHULUAN

Financial report is medium that provides financial information, position and performance as communication between internal and external parties. External parties need high quality financial reporting, while internal parties need to fulfill their own interests. External parties need third party in order to moderate conflict of interests, which is auditor.

Auditor is party that has certain qualification in financial report auditing process. Main objective of financial report auditing is to ensure whether financial reporting follows accounting standard (Ikatan Akuntan Publik Indonesia, 2015; International-Auditing-and-Assurance-Standards-Board, 2009). Auditor expected to increase reliability and credibility of financial statements (Hudaib dan Cooke, 2005).

Benefit of auditing process is to detect and disclose manipulation (Z Jun Lin, Liu, & Wang, 2009). One of manipulation that can be prevented by auditor is accrual earnings management. Accrual earnings management is earnings manipulation by using weaknesses of accounting standard (Roychowdhury, 2006). As main objective of financial statement auditing, which is to ensure whether financial reporting follows accounting standard, then auditor is able to detect and decrease accrual earnings management.

Importance of auditor role can be challenging. It can lead to auditor switching. Firm switches auditor to increase freedom of accrual earnings management practices. In this case, previous auditor with well knowledge of firm's activities replaced by new auditor with less knowledge of firm's activities, so new auditor cannot detect earnings management (Chang & Chen,

2017). By switching auditor, firm's management can optimize their utilities. Auditor switching can be as intimidation by management (Hudaib & Cooke, 2005). Based on knowledge and competence of auditor, auditor switching can increase accrual earnings management. It is called accounting accrual shopping (Chang & Chen, 2017).

On the other side, auditor switching can increase audit quality. Auditor switching increases auditor independence (Elder, Lowensohn, & Reck, 2015; Junaidi, Hartono, Suwardi, Miharjo, & Hartadi, 2016), further, it can increase audit quality (Tepalagul & Lin, 2015). Threat of independence came from long tenure because of low auditor switching. Long auditor tenure leads to high possibility of close personal relationship between auditor and management, and auditor lost his/her objectivity (Junaidi, Miharjo, & Hartadi, 2012).

Enron case can describe why auditor switching is an important issue. Accounting scandal by Enron happens because auditor independence is decreased. It shows audit failure by Arthur Andersen that lost quality and independence (B Srinidhi, Hossain, & Lim, 2012). Securities and Exchange Commission (SEC) states that Enron case happens because there is conflict between management and other stakeholders (Shirur, 2011). Enron case has impact to point of view about audit quality (Dunne, Falk, Forker, & Powell, 2008). After auditor switching, new auditor finds higher risk for ex-client of Arthur Andersen, not only in America but as well as global (B Srinidhi et al., 2012). Nagy (2005) shows importance of auditor switching, proved by decreasing of earnings manipulation after auditor switching by ex-client of Arthur Andersen. Based on

Enron case, Sarbanes Oxley Act is made. Sarbanes Oxley Act regulates the ways on how to keep auditor independence, one of them is auditor rotation (Nagy, 2005; Willits & Nicholls, 2014). Auditor rotation leads to higher skepticism by new auditor, than previous auditor, so audit quality can be increased (Nagy, 2005).

Inconsistence of effect of auditor switching on earnings manipulation depends on concern of audit quality aspect. In case of accrual accounting shopping, concern of audit quality aspect is auditor competences. Higher auditor expertise and knowledge leads to lower accrual earnings management. Auditor expertise can be seen by industry specialization (Andayani & Warsono, 2013). Auditor that has high industry specialization knows better about firm industry and its activities. It leads to lower earnings management (Christiani & Nugrahanti, 2014; Krishnan, 2003; Pujilestari & Herusetya, 2013). This research focuses on decreasing of auditor knowledge through auditor switching to non specialist auditor and its effect on accrual earnings management.

Downward auditor switching (auditor switching that can decrease auditor quality) is important to be studied. In terms of corporate governance, upward auditor switching (auditor switching that can increase auditor quality) should generate positive changes in audit quality and, thus, should be of less concern (Cassell, Giroux, Myers, & Omer, 2012). Auditor switching to non specialist is downward switching. It is important to be examined because there is possibility that it can increase accrual earnings management. Since previous research (eg. Chang & Chen, 2017) argues accounting accrual shopping

caused by auditor knowledge decreasing, at the same time it does not involve auditor switching related to auditor specialization, this research involves auditor specialization to accounting accrual shopping. This research examines accounting accrual shopping deeper than previous research, especially in emerging market such Indonesian Stock Exchange.

LITERATURE REVIEW

Agency Theory

Agency theory defines agency relationship between principal and agent (Jensen & Meckling, 1976). Main point of the theory is conflict of interest between principal and agent. Information asymmetric raises this conflict. One of ways to decrease information asymmetric as well as conflict of interest is auditing process by independent auditor. Auditor is as well as agent for principal to monitor another agent (management), because agency theory explains that principal does not fully believe on management (The-Institute-of-Chartered-Accountants-in-England-and-Wales, 2005). Auditor increases information quality and decreases information asymmetric by evaluating financial reporting and providing audit opinion.

Auditor Switching

Auditor switching triggered Enron case that involves big auditor, which is Arthur Andersen. Based on the case, American regulator make set of standard of business ethics in order to make financial statement is more transparent (Willits & Nicholls, 2014). One of standard of Sarbanes Oxley Act is auditor rotation (Nagy, 2005; Willits & Nicholls, 2014). Auditor rotation is expected to answer demand of high audit quality. Auditor rotation of

Sarbanes Oxley Act has big impact for auditors, firms, shareholders, and other financial users in global. Every country implements auditor rotation based on Sarbanes Oxley Act. It is implemented with adjustment of condition of each country as mandatory auditor switching.

In Indonesia, auditor rotation regulated in *Peraturan Menteri Keuangan* [Finance Minister Regulation] no.17/PMK.01/2008. It limits audit service in a firm not more than three years for auditor and not more than six years for audit firm. It is updated by *Peraturan Pemerintah* [Government Regulation] no.20/2015 that limits auditor service in a firm not more than five years for auditor and omits tenure limitation for audit firm.

In terms of auditor switching direction, there are two kinds of audit firm switching, which are upward switching (switch from low quality auditor to high quality auditor) and downward switching (switch from high quality auditor to low quality auditor) (Cassell et al., 2012; Z J Lin & Liu, 2009). This research will focus on downward switching only, which is auditor switching to non specialist auditor. This research does not examine upward switching auditor switches because of prior literature in assuming that upward switches should generate positive changes in audit quality and, thus, should be of less concern (Cassell et al., 2012). Moreover, upward switching are relatively rare events that represent less than 5 percent of the total number of auditor switching in Audit Analytics, while downward switching represent about 19 percent of the total number of auditor switching (Cassell et al., 2012).

Downward auditor switching can leads to accounting accrual shopping. It happens when firms switch

its auditor to shop for accounting accruals (Chang & Chen, 2017). By switching its auditor, firms expect that new auditor have less knowledge of firms' business activities than previous auditor.

Hypothesis Development

Earnings are important information for decision making, so it will be object for manipulations. One of manipulations is accrual earnings management. Existence of information asymmetric allows management to do accrual earnings management. In order to decreases information asymmetric as well as accrual earnings management, it needs auditor.

Role of auditor is as monitoring function on financial reporting whether it follows accounting standard. In order to detect accrual earnings management, auditor has to understand firm's business activities. Firm's specifics factor understanding by auditor leads to high audit service quality (Bin Srinidhi & Gul, 2007). Auditor has to knows firm's specific factor; such as accounting system and internal control; to creates significant learning curve (Johnson, Khurana, & Reynolds, 2002). In order to get deep knowledge of firm's specific factors, auditor needs longer tenure in providing audit service for same firm. Auditor with long tenure has better knowledge of firm than auditor with short tenure (Chen, Dhaliwal, & Trombley, 2008; Bin Srinidhi & Gul, 2007). Auditor with long tenure increases earnings quality and detects earnings management (Chen *et al.*, 2008), while short tenure auditor generates low quality earnings (Gul, Fung, & Jaggi, 2009).

Management, as financial statement information provider, has interests in financial statement manipulation. Auditor is obstacle to

management for earnings management. Management needs auditor with short tenure, so auditor cannot detect earnings management. Management will switch auditor to cut previous auditor tenure period off and replaces to new auditor with short tenure. Management will switch auditor for accounting accrual shopping purpose.

For example, previous auditor knows well about bad debt expense estimation that suitable for customer condition and firm's receivables collection ability compares to new auditor. Previous auditor can determine whether bad debt expense estimation is lower or higher than it should be. New auditor cannot determine it yet, because new auditor still has low learning curve. Chang & Chen (2017) finds that accrual earnings management before auditor switching is lower than after auditor switching.

Since auditor switching can increase audit quality (Junaidi et al., 2016), accounting accrual shopping is not happened in auditor switching to new auditor with high knowledge of firm's business activities. Understanding of business activities can be seen by auditor industry specialization. Firm industry is important dimension to evaluate whether auditor can bring firm's specific characteristics in line with needs of audit service (Mayhew & Wilkins, 2003). Auditor specialization can be measured by how far auditor has done auditing process in one certain industry. Specialist auditor is auditor that gets training and experience mostly focus on certain industry and has comprehensive understanding of firm's characteristics (Bae, Choi, & Rho, 2016). Industry specialization is needed in providing of high quality audit service for firm, especially firm in linear industry with auditor

competence (Minutti-Meza, 2013). Reichelt and Wang (2010) finds that specialist auditor decreases discretionary accrual level and increases audit quality. In Indonesia, auditor with industry specialization can decrease earnings management (Christiani & Nugrahanti, 2014; Pujilestari & Herusetya, 2013). Based on above explanation, accounting accrual shopping happens when firm switches auditor to non specialist auditor.

Ha: Auditor switching to non specialist auditor has positive effect on accrual earnings management.

RESEARCH DESIGN

Sample

Research sample is manufacture firms listed in Indonesia Stock Exchange (IDX) 2013-2016. All of sample data will be accessed from www.idx.co.id. Consideration of using manufacture firms as research sample is bigger likelihood of accrual earnings management for manufacture firms. Manufacture firms have higher level of accrual than other sectors. Manufacture firms experience high revenue and earnings volatility, so it will lead to earnings manipulation (Ahmed & Azim, 2015). Rasmussen (2013) states that firms sell products to distributor with continuous price adjustment, so firms will experience products obsolescence before it arrives to customer and higher sales return. Consideration of research period is corporate governance evaluation by ASEAN Capital Market Forum. Indonesia has low disclosures of right of shareholders and other stakeholders as well as lack of transparency between six countries of ASEAN Capital Market Forum (Asian-Development-Bank, 2016). It means that Indonesia still has lack of corporate governance

in business practices and high asymmetric information and will leads to accrual earnings management practices.

Criteria	Firm	Firm-Year
Manufacture Firms Listed in Indonesian Stock Exchange 2013-2016	120	480
Less: Change Financial Reporting Period	4	16
Less: Incomplete Data	2	8
Total	114	456

Source: www.idx.co.id

Research Variables

Dependent variable is accrual earnings management. It will measured by absolute discretionary accrual of Jones Modified. Jones Modified have biggest explanatory power and lowest error of other discretionary accrual model (eg. Healy, DeAngelo, Jones and Industry models) in detection of accrual earnings management (Dechow, Sloan, & Sweeney, 1995). Three steps of Jones Modified is as followed (Dechow *et al.*, 1995).

1. Runs regression for equation 1.

$$MS_{ik} = \frac{\sum_{j=1}^{j_{ik}} SALES_{ijk}}{\sum_{i=1}^{i_k} \sum_{j=1}^{j_{ik}} SALES_{ijk}}$$

2. Calculates non discretionary accrual by using parameter of equation 1 result.

$$NDA_t = b_0 \frac{1}{TA_{t-1}} + b_1 \frac{(\Delta SALES_t - \Delta AR_t)}{TA_{t-1}} + b_2 \frac{PPE_t}{TA_{t-1}}$$

3. Calculates discretionary accrual.

$$DA_t = \frac{TAC_t}{TA_{t-1}} + NDA_t \dots\dots$$

where:

- TAC_t = Total accrual period t (ε minus operation cash flow)
- TA_{t-1} = Total assets period t-1
- ΔSALE = Change of sales period t
- S_t
- ΔAR_t = Change of account receivable minus account receivable
- PPE_t = Gross value of plant, property and equipment
- NDA_t = Non discretionary accrual

- DA_t = Discretionary accrual period t
- b₀, b₁, b₂ = Coefficient of equation 1

Accrual earnings management is measured by absolute value of discretionary accrual. This research occurs level of earnings management instead of increasing or decreasing earnings.

Independent variable is auditor switching to non specialist auditor. It measured by dummy variable (1 if firm switches auditor to non specialist auditor, 0 otherwise). Auditor specialization is seen by industry specialization. Industry specialization measured by auditor market share auditor in firm industry. Auditor market share shows how deep auditor has done auditing processes in industry that linear to firm. Market share is calculated as followed (Audousset-Coulier, Jeny, & Jiang, 2016; Bae et al., 2016).

where:

- MS_{ik} = Market share of auditor i in industry k
- SAL = Firm-client sales of auditor i in industry k
- ES = Auditor market share
- i = Auditor
- k = Industry
- j = Firm-client

Auditor market share calculated by firm-client sales based on IDX three digits classification of industry group auditor. If auditor market share auditor is 20 percent or more, then auditor is industry specialist auditor; while it below 20 percent, then auditor is non industry specialization (Bae et al., 2016).

Control variables are auditor and firm factors. Auditor factors are auditor switching to specialist auditor, auditor specialization and auditor reputation. Auditor switching to specialist auditor as well as auditor specialization shows high auditor

quality and will reduce accrual earnings management (Christiani & Nugrahanti, 2014; Pujilestari & Herusetya, 2013; Reichelt & Wang, 2010). Auditor with high reputation shows high auditor quality and will reduce accrual earnings management (Andayani & Warsono, 2013). Auditor switching to specialist auditor is measured by dummy variable (1 if firm switches auditor to specialist auditor, 0 otherwise). Auditor specialization is measured by dummy variable (1 if auditor is specialist auditor, 0 otherwise). Auditor reputation is measured by dummy variable (1 if auditor is big four auditor, 0 otherwise).

Firm factors are leverage, size and profitability. Higher leverage will leads to higher earnings management for debt covenant purpose (Watts & Zimmerman, 1990). Bigger size of firm will leads to higher public focuses and higher earnings management for political cost purpose (Charfeddine, Riahi, & Omri, 2013; Watts & Zimmerman, 1990). Profitable firm will leads to higher public focuses and higher earnings management for political cost purpose (Watts & Zimmerman, 1990). Leverage is measured by total liabilities divided by total assets. Size measured by logarithm natural of total assets. Measured is by return on assets (earnings before extraordinary items divided by total assets) and change of return on assets (change of earnings before extraordinary items divided by total assets).

Analysis Model

This research performs multiple regression with industry effect and year effect. This research considers industry effect in order to controls auditor competence because it measured by auditor specialization in certain

industry, while year effect in order to controls year with change of auditor rotation regulation. Regression model is as followed.

$$AEM = \alpha + \beta_1 NS + \beta_2 S + \beta_3 AS + \beta_4 BIG + \beta_6 SIZE + \beta_7 ROA + \beta_8 DROA + \sum Industry + \sum Year + \epsilon$$

where:

- AEM: Accrual Earnings Management
- NS: Auditor Switching to Non Specialist Auditor
- S: Auditor Switching to Specialist Auditor
- AS: Big Four Specialization
- BIG: Auditor Reputation
- SIZE: Firm's Leverage
- ROA: Firm's Size
- DROA: Return on Assets

RESULTS AND DISCUSSION
Descriptive Statistics

Variab les	Observ ations	Minim um	Maxim um	Mean	Standard Deviation
AEM	456	0.00	2.55	0.0696	0.14125
LEV	456	0.04	3.03	0.5261	0.38892
SIZE	456	24.3 2	33.2 0	28.3058	1.64974
ROA	456	0.01	8.43	1.0883	0.75656
DRO A	456	1.34	3.25	-0.0379	0.27673

Source: Statistics Output

Based on table 2, average level of accrual earnings management in every Indonesian manufacture firms 2013-2016 is 0.0696 with its deviation 0.14125. The lowest level of accrual earnings management is 0.00; while the highest is 2.55.

	Observations	Percentages (%)
Panel 1. Auditor Switching		
Does Not Switch Auditor	394	86.4
Switches Auditor	62	13.6
Total	456	100.0
Panel 2. Auditor Switching to Non Specialist Auditor		
Does Not Switch to Non Specialist Auditor	408	89.5
Switches to Non Specialist Auditor	48	10.5
Total	456	100.0
Panel 3. Auditor Switching to Specialist Auditor		
Does Not Switch to Specialist Auditor	442	96.9
Switches to Specialist Auditor	14	3.1
Total	456	100.0
Panel 4. Auditor Specialization		
Non Specialist Auditor	267	58.6
Specialist Auditor	189	41.4
Total	456	100.0
Panel 5. Auditor Reputation		
Non Big Four Auditor	258	56.6
Big Four Auditor	198	43.4
Total	456	100.0

Source: Statistics Output

Based on table 3, there are 394 observations or 86.4 percent of all 456 observations that do not switch auditor, while 62 observations or 13.6 percent of all 456 observations switch auditor. Among 62 observations that switch auditor, 48 observations switch to non specialist auditor, while 14 observations switch to specialist auditor. There are 267 non specialist auditors or 58.6 percent of all auditors and 189 specialist auditors or 41.4 percent of all auditors. Non big four auditor is 258 observations or 56.6 percent of all 456 observations; while big four auditor is 198 observations or 43.4 percent of all 456 observations.

Correlation Test

Coefficient	AEM	NS	S	AS	BIG	LEV	SIZE	ROA
NS	0.141**							
S	-0.021	-0.061						
AS	-0.115*	-0.289**	0.212**					
BIG	-0.103*	-0.286**	-0.0020	0.529**				
LEV	0.124**	0.127**	-0.021	-0.054	-0.093*			
SIZE	-0.064	-0.235**	0.0850	0.471**	0.467**	-0.109*		
ROA	0.037	-0.067	-0.016	0.110*	0.023	0.046	-0.124**	
DROA	-0.016	0.026	-0.019	0.018	0.020	0.076	-0.0440	0.334**

**Significant in 1 percent
*Significant in 5 percent

Source: Statistics Output

Based on table 4, as expected, there is positive significant relationship (in level of 5 percent) between auditor switching to non specialist auditor and accrual earnings management. Further, other three of four control variables have significant relationship on accrual earnings management as well.

Regression Test and Discussion

Variables	Coefficient	Significance
Constant	0.111	
NS	0.051**	0.027
S	0.021	0.599
AS	-0.024	0.228
BIG	0.004	0.835
LEV	0.035*	0.071
SIZE	-0.002	0.700
ROA	0.003	0.757
DROA	-0.011	0.662
F-Statistics	2.107***	
Adjusted R ²	0.064	
Industry Effect	Yes	
Year Effect	Yes	

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

Source: Statistics Output

Based on table 5, coefficient regression of auditor switching to non specialist is 0.051 (significant in 5 percent). It shows that auditor switching to non specialist auditor has positive effect on accrual earning management. The result confirms phenomenon of accounting accrual shopping in Indonesia. Management is assumed as party that have opportunist motivation (Watts & Zimmerman, 1990), especially when management engaged in earnings management to achieves favorable financial reported number (Chang & Chen, 2017). Earnings management by management need to be unqualified by auditor (Chang & Chen, 2017), because auditor roles as financial statement monitoring function. In order to minimize auditor role when management engaged in earnings management, they tend to switches auditor. At first time of audit engagement, auditor is unfamiliar with firm's business, operations, systems, control mechanisms, and accounting policies (Chang & Chen, 2017). New auditor is less able to detect earnings management. Moreover, to saves audit costs as economic rents, auditor has incentive to retain new clients and yield to the earnings management engaged by the new client (Geiger & Raghunandan, 2002).

Increasing of earnings management after auditor switching is linear to accounting accrual shopping concept. Focus of accounting accrual shopping concept is decreasing of auditor competence and knowledge about firm's condition and activities. Accounting accrual shopping happens when new auditor is non specialist auditor. If new auditor has specialization of firm industry, then unfamiliarity of firm's business operation and activities can be minimized. In the other hand, if auditor

has no specialization of firm industry, then auditor have no any knowledge of firm's business and operations. It indicates that auditor switching to non specialist auditor will increases accrual earnings management.

Alternative Test

This research uses other alternative measurement of auditor specialization. It is used to test results consistence between alternatives. First alternative measurement of auditor specialization is auditor reputation. Based on deep pocket theory, higher auditor reputation and size show higher audit accuracy and credibility (Lennox, 1999). Danayani & Warsono (2013) states that specialist auditor is auditor that have high reputation, recruitment and training investment, information and audit technology, manipulation detection ability. Auditor reputation can be seen whether auditor affiliated with big four. Big four auditor have the biggest number and size of firms-clients in global. By having the biggest number and size of firms-clients in global, big four auditor have higher possibility to get more revenues than non big four auditor, further, big four auditor have more resource fund in human resources and technology investments. Big four auditor have high reputation in front of financial statement users. It shows that big four have high audit quality as well. In such high reputation and investment, big four auditor have higher chance to detect earnings management. Previous research states that high reputation auditor can detect earnings management in 29 countries (Kanagaretnam, Lim, & Lobo, 2010), while in Turkey, big four auditor big four auditor reduces earnings management more than non big four auditor (Memiş dan Çetenak, 2012;

Yaşar, 2013). Big four auditor is specialist auditor, while non big four auditor is non specialist auditor.

Second alternative measurement of auditor specialization is average of auditor market share. Bae *et al.* (2016) states that 20 percent cut-off of auditor specialization is determined when average market share about 23.35 to 26.81 percent in year 2002-2005. It shows that determination of auditor specialization cut-off is based on auditor market share average. In order to adjusts auditor specialization with condition of audit market share in Indonesian manufacture sector, this research determines auditor specialization by cut-off based on average of auditor market share in IDX manufacture sector year 2013-2016. Specialist auditor is auditor with market share on average of auditor market share or more, while non specialist auditor is auditor with market share less than average of auditor market share. Comparison between alternatives is in table 6.

Variables	Coefficient		
	Main Test	Alternative 1	Alternative 2
NS (switching to auditor with market share less than 20 percent)	0.051**		
NS (switching to non big four auditor)		0.051**	
NS (switching to auditor with market share less than average)			0.054**
S (switching to auditor with market share on 20 percent or more)	0.021		
S (auditor switching to big four auditor)		-0.008	
S (auditor switching to auditor with market share on average or more)			0.017
AS (20 percent cut-off)	-0.024	-0.026	
AS (average cut-off)			-0.016
BIG	0.004	0.006	-0.005
LEV	0.035*	0.035*	0.041**
SIZE	-0.002	-0.002	-0.005
ROA	0.003	0.003	0.002
DROA	-0.011	-0.012	-0.015
F-Statistics	2.107**	2.131***	2.089***
Adjusted R ²	0.064	0.065	0.063
Industry Effect	Yes	Yes	Yes
Year Effect	Yes	Yes	Yes
***Significant in 1 percent			

**Significant in 5 percent			
*Significant in 10 percent			

Source: Statistics Output

Based on table 6, coefficient regression of auditor switching to non specialist auditor for alternative 1 is 0.051 (significant in 5 percent). Coefficient regression of auditor switching to non specialist auditor for alternative 2 is 0.054 (significant in 5 percent). It shows consistence results between main test and alternatives if auditor specialization determined by 20 percent auditor market share cut-off, by auditor reputation, or by average auditor market share cut-off.

CONCLUSION

This research is aimed to examine effect of auditor switching to non specialist auditor on accrual earnings management. Based on analysis, auditor switching to non specialist auditor has positive effect on accrual earnings management. It confirms existence of accounting accrual shopping, especially when there is auditor competence decreasing. In case of accounting accrual shopping, objective of auditor switching is to replaces previous auditor with longer tenure and wider knowledge of firm business activities to new auditor with shorter tenure and lower knowledge of firm business activities, so management will more likely to engaged in accrual earnings management.

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