How Do Indonesian Companies Select Their External Auditors? Exploratory Analysis of Company Characteristics, Corporate Governance, and Organisational Complexity

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ABSTRACT

There are a large number of public accounting firms around the world. The research literature usually divides the public accounting firms into two categories: the Big 4 and the Non Big 4. This study investigated several factors that may motivate companies to choose their public accounting firms. The research employed several variables: (1) related party transactions; (2) tax avoidance; (3) corporate governance, proxied by independent commissioner and institutional ownership; and (4) company characteristics, proxied by debt, profit, age, and size. This research was done by analysing 151 companies listed on the Indonesia Stock Exchange over the years 2011 to 2015. To analyse the data, we used a binary logistic regression model. The results indicate that companies with strong corporate governance and higher related party transaction value tend to choose Big 4 audit firms; companies that conduct aggressive tax avoidance tend not to choose Big 4 audit firms; and companies that have higher profit, higher size, and older age tend to choose Big 4 audit firms.

Keywords: Audit Firms, Related Party Transaction, Corporate Governance, Tax Avoidance

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1. INTRODUCTION AND RESEARCH BACKGROUND

Investors and creditors rely heavily on financial statements for making decisions. As stated in International Accounting Standard (IAS) No. 1, the objective of a financial statement is: 'To provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making economic decisions'. Good decision making must be supported by good information, and good information supported by good data sources (Arens et al., 2016). If the data contain a misstatement, or if there is any intention from management to falsify the information, the financial statement can lead to wrong decision making. Audit plays a significant role in mitigating this risk. Audits need to be done to evaluate whether the information in the financial statement contains a risk of misstatement and noncompliance to accounting standards (Piyawiboon, 2015; Arens et al., 2016; Messier et al., 2016).

The demand for audit and assurance services in Indonesia has risen during the last five years. This has not been limited to publicly listed companies on the Indonesia Stock Exchange; all state and local government-owned enterprises, the financial

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services sector, and even government entities have a need to be audited. Based on data provided by the Ministry of Finance, in 2015, there were 405 public accounting firms established in Indonesia, including 64 public accounting firms that affiliate with international public accounting firms, including the Big 4. These 405 firms contain 1,239 public accountants (CPAs) registered by the Ministry of Finance.

The auditing and assurance market usually divides into two distinct classifications: the Big 4 and the Non Big 4. The difference usually comes in terms of firms' revenue or income, assets, or staffing (Arens et al., 2016). Several studies in the literature have also shown that Big 4 companies usually prefer comparison to the Non Big 4 (Mautz et al., 1974; DeAngelo, 1981; Piyawiboon, 2015). The main differences usually lie in audit quality. De Angelo (1981) stated that large audit firms have more access to qualified resources and technology capability, which lead to a faster and more efficient audit process. Zhou and Elder (2003) and Chen et al. (2005) found that the Big 4 auditors were associated with a smaller amount of earnings management in the auditee. Domenico (2013) also stated that Big 4 firms usually have expertise in specific fields, such as oil and gas, banking, or mining, which makes them more valuable in clients' decision to choose audit firms. Based on data obtained from the Indonesian Stock Exchange, during the last five years, 46% of publicly listed companies' financial statements were audited by the Big 4, while 53% were audited by the Non Big 4. Unfortunately, there are no data available to present the current audit firm market in Indonesia, but Big 4 and Non Big 4 firms still share an equal market in the country.

The decision to choose an audit firm is based on several factors. Aksu et al. (2013) analysed the influence of client characteristics and corporate governance to auditor selection in Turkey. They found that client firm size and market-to-book ratio are positively associated with the choice of a Big 4 auditor, while public shareholdings have a negative effect. Research conducted by Carey et al. (2000) found that proportion of independent commissioner associated with demand of external audit firms. Similar results were found by Citron and Manalis (2001). They found that foreign institutional ownership is positively associated with large audit firms. Firth and Smith (1992) found that age and debt influenced the firms' auditor selection. However, to the author's knowledge, there has been no similar research in Indonesia. Therefore, this research is an exploratory study with the purpose of investigating several factors that affect auditor selection in Indonesia. The research can provide several contributions: (1) It is among the first studies that have investigated this issue in the Indonesian context. (2) The research not only investigated company characteristics and corporate governance, as in previous research, but also added several variables with the theme of 'complexity'. Research by Liu and Lai (2012) showed that there is a positive association between auditor quality and various proxies for organisational complexity. In this research, we proxied organisational complexity by adding related party transaction and tax avoidance. (3) The research also contributes several suggestions for the Ministry of Finance and the Indonesian Institute of Public Accountants for the development of public accountant professions.

The remainder of this paper is organised as follows: In Section 2, we will discuss theory and relevant literature for constructing the research hypothesis. In Section 3, we will describe the population and sample, data collection, and the data analysis method. In Section 4, we will present the data description and analysis, and in Section 5, we will conclude this research and provide several suggestions for relevant institutions and future researchers.

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2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Agency Theory and Audit Service

Jensen and Meckling (1976) stated that the agency problem is a conflict of interest inherent in any relationship in which one party is expected to act in another's best interests. In corporate finance, the agency problem usually refers to a conflict of interest between a company's management and its stockholders (Jensen and Meckling (1976). The manager, acting as the agent for the shareholders, or principals, is supposed to make decisions that will maximize the shareholders' wealth, even though it is in the manager's best interest to maximize his or her own wealth. Managers possess a greater quantity of information and sometimes conceal bad information to achieve personal gain (Godfrey et al., 2013). Liu and Lai (2012) stated that agency theory indicates a link between audit quality and information asymmetry reduction. Information asymmetry can lead to the problem of moral hazard in regard to the managers. Investors and creditors can make wrong decisions because of insufficient and/or fraudulent information. This then becomes an information risk.

Arens et al. (2016) stated that information risk reflects the possibility that the information upon which the business risk decision was made was inaccurate. Auditing can have a significant effect on reducing the information risk. (Rezaei & Shabani, 2014). Auditing is conducted by certified public accountants who work in the public accounting firm. It has become common knowledge that the four largest CPA firms in the United States are called the Big 4 CPA firms. These four CPA firms also have offices or affiliations around the world. Besides the Big 4 CPA firms, there are also national or local CPA firms across the country.

The Big 4 are usually associated with better audit quality (Dopuch & Simunic, 1982). Since the Big 4 have large resources and networks, the belief is that these firms will perform better audit planning, do field work more efficiently, and report more robust results of financial performance and compliance (Craswell et al., 1995). However, the better image of the Big 4 also translates into premium audit fees. Research results by Domenico (2013) show that audit fees are positively associated with audit firm size. Many clients also seek Non Big 4 audit firms, since they offer more reasonable fees and provide similar quality and audit work (Lawrence et.al, 2011).

2.2 Company Characteristics and Auditor Selection

Demand for audits varies across organisations. Mautz et al. (1974) stated that not all auditees/clients can afford the services of the larger audit firms, since these firms are usually able to charge higher audit fees. Higher fees can be afforded by companies that have higher levels of profit, or a higher amount of total assets. Research conducted by Abbott and Susan (2000) and Aksu et al. (2013) found that companies with higher return on assets (ROA) tend to choose Big 4 audit companies. They argue that more profitable firms are more likely to pay the fee premium demanded by a specialist. But previous research also showed that profitability is not a significant factor in auditor selection. Citron and Manalis (2001) found that companies with high profitability in Greece tended to choose Non Big 4 audit firms. The consideration in that case was not related to quality but to cost efficiency. Due to still-conflicting research results, we can't yet determine the direction of the hypothesis.

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H_1: There is an influence of profitability toward auditor selection

Size is also considered as a sign of more 'capable' companies to demand larger audit firms. Several previous studies found a positive relationship between company size and larger audit firms (Firth & Smith, 1992; Abbott & Susan, 2000; Citron & Manalis, 2001). Aksu et al. (2013) argue that client size is a crucial indicator of the extent of clients' agency costs. Aksu et al. (2013) also argue that larger clients may have received superior services from professional advisors, and bigger clients may require additional professional services such as consultation, tax and legal services, etc., which are more likely to be supplied by larger audit firms. Therefore, we can make an additional hypothesis as follows:

H_2: There is a positive influence of company size toward auditor selection

However, selection of an auditor is not always related to the audit fee. Aksu et al. (2013) relate the auditor selection to agency cost. In companies that have higher agency cost, demand for a better audit firm also increases. Agency cost can be higher due to several factors. Research by Chow (1982) showed that agency cost increases with the percentage of debt in the capital structure. Findings that relate debt to auditor selection are still inconsistent. Healy and Lys (1986) and Johnson and Lys (1990) found that firms with higher debt levels are more likely to switch to a lower-quality auditor, since firms will try to conceal their debt from the balance sheet, and small audit firms usually cannot detect the concealed debt. Aksu et al. (2013) also argue that firms with high leverage are considered to have more risk compared to firms with lower leverage. Audit firms with higher reputations tend not to accept risky clients, so the client will end up with a small audit firm. Since there are inconsistencies, we cannot determine the direction of a hypothesis, so it can be stated as follows:

H_3: There is an influence of leverage toward auditor selection

Indication of company risk also can be seen in company age. Firth and Smith (1992) found that recently established companies are still considerably risky, since according to the life cycle theory companies still in the introduction stage have questionable growth prospects and no market share (Wild and Subramanyam, 2011). Firth and Smith also argue that new companies usually have higher information asymmetry between the managers and principals, so the agency problem is still visible in such new companies. Therefore, we can make the following hypothesis:

H_4 :There is a positive influence of company age toward auditor selection

2.3 Corporate Governance and Auditor Selection

The effective way to reduce the agency problem in companies is through a strong monitoring mechanism (Jensen & Meckling, 1976). Such a monitoring mechanism usually lies within the organisation structure. In the research concerning corporate governance, there are several proxies being used, most commonly the size of an independent commissioner role or the size of the board (Nekhili & Cherif, 2011; Srinivasan, 2013; Liew et al., 2015). Pratama (2017) stated that the presence of an

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independent director will provide a good 'check and balance' system in the organisation, since an independent director has no relation with the owner at all. A larger role for an independent commissioner is usually a sign of a high monitoring level. Higher monitoring in the company usually demands a more sophisticated audit firm. Carey et al. (2000) found that in non-family firms, where separation of ownership and management is high, the more likely these firms employed Big 4 audit firms. Therefore, we can make a hypothesis as follows:

H_5: There is a positive influence of independent commissioner toward auditor selection

Another proxy that can be used to measure good governance is the ownership structure. Chow (1982) suggested that ownership represents the owner's control over the company. Institutional investors have become increasingly willing to use their ownership rights to pressure managers to act in the best interest of the shareholders. Maug (1998) noted that if institutional investor shareholdings are high, shares are less marketable and are thus held for longer periods. In this case, there is greater incentive to monitor a firm's management. The monitoring of management requires high-quality oversight from audit firms. Previous research about the relationship of ownership to auditor selection has only analysed managerial ownership. Chow (1982) found that companies with high managerial ownership tend not to choose Big 4 audit firms. There is no previous research that includes institutional ownership as a proxy; however, based on the research described above, the effect of institutional ownership is higher monitoring, which would lead to a better auditor selection. Therefore, we can make the following hypothesis:

H_6: There is a positive influence of institutional ownership toward auditor selection

2.4 Organisational Complexity and Auditor Selection

Keskinen et al. (2003) explained that organisational complexity provides an explanatory framework for how organisations behave—how individuals and organisations interact, relate, and evolve within a larger social ecosystem. Liu and Lai (2012) stated that organisational complexity limits the transparency of a firm's operations and information to investors, which leads to substantial information asymmetries between complex firms and outside investors. Different entities may have different potentialities for developing higher complexity. This research will at look the complexity perspectives based on two transactions: related party transactions (RPT) and tax avoidance (TA).

Pratama (2017) stated that RPT may occur when a shareholder tries to maximize the return of his or her investments by instructing companies to do transactions with related parties; sometimes this results in a favourable outcome for one party and an unfavourable outcome for another party. Related party transactions can be defined by two effects: abusive and efficient (Gordon et al., 2004; Utama et al., 2010). Efficient RPTs will occur if RPTs rationally fulfil the economic demands of a company. RPTs may also be abusive if controlling shareholders' wealth is maximized at the expense of minority shareholders (Utama et al., 2010). This complex nature of the RPT will surely

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prompt companies to be audited by large audit firms, rather than small ones. Therefore, we can make the following hypothesis:

H_7: There is a positive influence of RPT toward auditor selection

One of the complex company considerations is its tax aspect (Griffin & Pustay, 2013; Hill & Hult, 2016). Griffin and Pustay (2013) stated that a company may (1) raise transfer prices paid by subsidiaries in high-tax countries and/or lower transfer prices charged lower (2) transfer prices paid by subsidiaries in low-tax countries and/or raise transfer prices charged. Tax avoidance can be conducted because of economies of scale and complexity issues, e.g., if the company has more business units, the tax charged might be increased (Mills et al., 1998; Rego, 2003; Chen et al., 2005). Desai and Dharmapala (2006) also stated that investors will view aggressive tax avoidance as a reduction in firm value, especially in a company that lacks good corporate governance. Desai and Dharmapala (2006) also stated that tax avoidance is a result of information asymmetry that exists between managers and shareholders. Tax avoidance can facilitate managers in acting in their own interests. Research by McGuire et al. (2013) in the USA argued that external audit firms might include additional tax expertise. Lestari and Wardhani (2015) found that Indonesian companies usually tend to avoid negative publicity of tax avoidance, so it makes sense that they choose small audit firms. Since there is still a lack of previous research regarding this topic, we cannot determine the direction of the hypothesis, and we state it as follows:

H_8: There is an influence of TA toward auditor selection

3. RESEARCH METHODOLOGY

This descriptive explanatory research uses a quantitative approach. The population for this study is 514 companies, excluding 62 finance-sector companies listed on the Indonesian Stock Exchange, making a total of 452 companies. The exclusion of finance-sector companies is because this sector has different performance indicators and abnormal financial measures. We selected 2011–2015 as the years of the study because 2011 was the year when Law No 5 concerning public accountants was effectively enacted in Indonesia. To select the sample, we used purposive sampling with several criteria. We describe the criteria and the sample number in Tables 1 and 2:

Table 1
Sample Selection Criteria

Number of companies listed on the IDX in the year 2015	452
Number of companies listed on the IDX after 31 December 2011	(85)
Number of companies that have negative equity	(19)
Number of companies that do not have a complete financial statement published on the IDX or company website	(30)
Number of companies that have negative ETR or ETR value > 1	(60)

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Number of companies with incomplete information in their financial statements	(42)
Total number of companies	216
Observation year	5
Total sample (46 x 4)	1080

Before further analysis, a preliminary analysis was conducted to see if there were outliers in the data. An outlier test was conducted by converting the variables data into a standard z score. Any z score above +2.5 and below -2.5 was considered to be an outlier and then eliminated from the sample. Outlier analysis showed that 65 companies were deemed as outliers, and deleted. Subsequently, 151 companies were entered into the model, and the final sample entered into the equation comprised 775 companies.

Variable measurement for this research can be seen in Table 2.

Table 2
Variable Measurement

Variable	Symbol	Measurement
Auditor Selection	AUDIT	Dummy variables: 1: Audited by Big 4 audit firms 0: Audited by Non Big 4 audit firms
Related-party transaction	RPT	Natural logarithm (Ln) of the RPT value in financial statements
Tax avoidance	TAX	Effective tax rate (income tax expense/pre-tax income)
Profitability	PROFIT	ROA (net income: total assets)
Company size	SIZE	Natural logarithm (Ln) of total assets
Leverage	DEBT	DER (total debt /total equity)
Age	AGE	Year 2015 – year of company established
Institutional Ownership	INST	Percentage of share owned by institutional investors
Independent Commissioner	IND	Total number of independent directors/commissioners: total number of members on board of directors

To test the hypotheses, we used the regression analysis model below:

$$AUDIT=\alpha_{0+}\alpha_1 RPT+\alpha_2 TAX+\alpha_3 DEBT+\alpha_4 SIZE+\alpha_5 PROFIT+\alpha_6 AGE+\alpha_7 INST+\alpha_8 IND+\varepsilon \quad (1)$$

To test all the hypotheses, we used binary logistic regressions, since the dependent variable (AUDIT) is nominal. There was no need to conduct normality, multicollinearity, or heteroscedasticity tests, since logistic regressions rely on the maximum likelihood test.

4. RESULTS AND DISCUSSION

4.1 Descriptives

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From the 755 samples, we can see that over the 2011–2016 period there were 54.4% financial statements audited by the Big 4 firms. This data showed that Indonesian companies were mostly audited by Big 4 firms. Only 45.6% were audited by Non Big 4 firms. We see that the data is not too different with the population data. The data obtained from the population showed that the ratio of companies audited by Big 4 and Non Big 4 firms was 46:53. The ratio in the sample is quite different from the population, since this research excluded companies in the finance sector, for which most companies are audited by Non Big 4 firms.

From the variable organisational complexity, we can see that most of the companies on average conducted RPTs with a value of Rp. 315.190.861.823 ($2,7128^{26,53}$). The minimum RPT value recorded was Rp. 568.904.135 ($2,7128^{20,20}$), and the maximum RPT value recorded was Rp. 324.210.567.411.103 ($2,7128^{33,48}$). We can see that the dispersion of the data was quite high. This phenomenon can be explained in research by Pratama (2017), showing that there are significant differences in the RPT values across different industries. Manufacturing firms tend to have a higher mean RPT value than non-manufacturing companies. Since this research did not separate manufacturing and non-manufacturing companies, the data dispersion was quite high. TAX has a mean score of .2456. This score showed that on average, companies in the sample only slightly avoided paying tax. If the companies avoid paying taxes, the effective tax rate should be below 25% (the tax rate enacted for corporate taxpayers in Indonesia). The minimum TAX score is .00 while the maximum amount is 1.00. In our sample, we also found that 353 out of 755 (46.75%) firms had a TAX mean value less than 0.25, and 402 out of 755 (52.75%) had a TAX mean value equal or higher than 0.25. This could occur because in the years 2011–2015 the Directorate General of Tax in Indonesia was intensifying tax audits and monitoring, so taxpayers couldn't achieve too many tax savings.

The corporate governance variable indicates that the majority of companies in Indonesia have higher institutional ownership; the mean shows that the majority ownership is 52.05%. The minimum is 7% and the maximum is 99%. We also found that 419 out of 755 companies (55.5%) had an institutional ownership level of 50% or more. Regarding the boards, we can see that on average 40% were dominated by independent board members. The Financial Service Authority in Indonesia obliges the companies listed on the IDX to have at least 30% independent commissioners, and this result shows that nearly all the companies achieved the minimum requirement; however, there were also companies that had no independent commissioners. The maximum percentage of independent commissioner was .79.

From the company characteristics variables, we can see that the profit of companies, proxied by the ROA, achieved the level of 8.27%. The profit level ranges between 0% and 104%. The companies on the IDX were on average 37 years old, while the oldest company in the sample was 156 years old and the youngest company was 2 years old. The size of the company, measured by the natural logarithm of assets, shows that on average companies' assets were around Rp. 4.306.537.099.142 ($2,7128^{29,15}$); the highest asset total was Rp. 845.100.253.463.969 ($2,7128^{34,44}$) and the lowest was Rp. 5.481.475.080 ($2,7128^{22,47}$). The debt ratio was on average 2.295, while the minimum ratio was 0 and the maximum ratio was 15.62. The summary of variables descriptive statistics can be seen in Table 3.

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Table 3
Variables Description

	Minimum	Maximum	Mean	Std. Deviation
RPT	20,20	33,48	26,5273	2,69241
OWNER	,07	,99	,5205	,21094
IND_BRD	,00	,79	,4017	,15307
DEBT	,00	15,62	2,2925	2,88354
TAX	,00	1,00	,2456	,11282
PROFIT	,00	1,04	,0827	,09485
AGE	2,00	156,00	37,0861	19,85389
SIZE	22,47	34,44	29,1531	2,02425

Notes:
1. *AUDIT cannot be interpreted since its dummy variables. From 755 observations, 411 observations (54,40%) were audited by Big 4 audit firms, while 344 observations (45,60%) were audited by Non Big 4 audit firms.*

4.2 Logistic Regressions Analysis and Discussion

To test the hypotheses, we used a binary logistic regression model. Before checking and interpreting the model, we tested whether it was fit and could be interpreted. Accordingly, we performed the Hosmer-Lemenshow test. Models are considered to be fit if the significance value exceeds $\alpha = 5\%$. As shown in Table 4, the Hosmer-Lemenshow test produced a chi-square value of 11.2194 and a significance value of 0.1896. Since the significance value exceeds α, we can conclude that the model is fit and ready to be interpreted. The pseudo R-squared of McFadden and Nagelkerke showed 23% and 36%, respectively.

From organisational complexity variables, we can see that RPT and TAX affect the auditor selection process. RPT has a positive sign, meaning that companies with higher RPT tend to choose Big 4 audit firms. These results proved that RPT is complex and required auditor expertise. As stated in the objective part of IAS 24, this standard's objective is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties. This objective gives us the insight that related-party transactions sometimes contain specific information regarding the fairness of the cost and activity, so they need to be disclosed well. TAX has a positive sign, meaning that companies that had higher effective tax rates (not conducting tax avoidance) tended to choose Big 4 audit firms. These results proved that in the Indonesian context, companies tried to conceal a negative activity by hiring small audit firms (Lestari, 2015). Pratama (2017) stated that in Indonesia, Big 4 audit firms are more conservative in doing an audit, so the Big 4 audit will advise the client to strictly follow tax rules, rather than to undertake tax avoidance activities.

From corporate governance, this research showed that institutional ownership affects auditor selection. The sign is positive, meaning that companies with higher institutional ownership tended to choose Big 4 audit firms. This research is consistent with previous research by Chow (1982) and Maug (1998). This research also proves

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that the institutional ownership concept is not just about obtaining short-term gain, but to achieve sustainability by increasing the value of the investee (Godfrey et al., 2013). However, the independent commissioner here is not affecting the auditor selection process. The explanation is provided by Minnick and Noga (2010), in that one of the possibilities of results is due to the ineffectiveness of board structure**.** Hermawan (2011) stated that independent commissioners, although having no relations with shareholders or the company, are still a minority. This situation make an independent commissioner can't make proper control of the company.

From the company characteristics variable, all the variables significantly affect auditor selection. Profit has a positive sign, showing that companies with higher profit rates will choose Big 4 audit firms. This research result confirms previous research by Abbott and Susan (2000) and Aksu et al. (2013). The size of the company is also positive, meaning that the higher the total assets of the company, the greater the tendency to choose Big 4 audit firms. This research result also showed similarity with previous research by Firth and Smith (1992), Abbott and Susan (2000), and Citron and Manalis (2001). The results of PROFIT and SIZE showed us that in Indonesia, Big 4 audit firms are still viewed as a premium service, which requires higher audit fees. The variable age showed that the older the age of company, the greater the likelihood to choose Big 4 audit firms. This research proved the theory of Firth and Smith (1992) that older companies have bigger assets and higher levels of profit, which supports the previous results found in PROFIT and SIZE. DEBT, however, was not significant. This is not in accordance with previous research. The explanation of this result is in research by Pratama (2017), showing that Indonesian companies that have more debt are usually governed by strict debt covenants, so the previous theory by Chow (1982) stating that higher debt creates higher agency cost is not supported here, since the Indonesian context implies that debt will be strictly monitored by the company, regardless of the level of the debt.

The summary of logistic regressions, the pseudo R square, and the goodness of fit test of the model is presented in Table 4.

Table 4
Logistic Regression Results

Variable	Expected Sign	Coefficient	Std. Error	z-Statistic	Prob.
C	(?)	-10.36538	0.933824	-11.09993	0.0000***
RPT	(+)	0.084291	0.027922	3.018756	0.0025***
TAX	(?)	1.158224	0.469223	2.468389	0.0136**
PROFIT	(?)	3.451809	0.856162	4.031726	0.0001***
DEBT	(?)	0.009060	0.022914	0.395393	0.6926
SIZE	(+)	0.229636	0.039863	5.760705	0.0000***
AGE	(+)	0.009976	0.003745	2.663661	0.0077***
IND	(+)	0.607025	0.355430	1.707863	0.0877*
INST	(+)	0.803089	0.253880	3.163262	0.0016***
McFadden R-squared		0.230343			
Nagelkerke R-squared		0.363000			
Hosmer Lemenshow Stat		11.2194			
Prob (HL statistic)		0.1896			

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Notes:
***: significant at α = 1%
**: significant at α = 5%
*: significant at α = 10%

5. CONCLUSIONS

This research provides new analysis about the auditor selection process in Indonesia. First, the research proved that organisational complexity played a significant role in auditor selection. We can see that companies that conducted RPT will need more expertise to audit the company financial statement, since the fairness and objectivity of the transaction must be evaluated carefully. Complexity about tax avoidance was also explicitly showed in this research. Companies that commit tax avoidance tend to avoid negative publicity and face the risk of adjusting their financial statement or tax return because of the tax avoidance. This research also proved that Big 4 audit firms are more capable of conducting audits and also tax checking simultaneously. Second, although the result is not decisive, we can see that institutional stockholders play a significant monitoring role in companies, and demand a better quality of audit, while this research also showed that the role of the independent commissioner as a part of corporate governance needs to be strengthened, since this result also failed to prove that independent commissioners play a significant role in auditor selection. Third, this research also showed that the theory about premium audit fees charged by Big 4 audit firms occurs in the Indonesian context. Companies that choose Big 4 audit firms have a higher level of profit, older age, and higher total assets. However, this research also showed that in Indonesia, debt level is not affecting auditor selection, since debt, regardless of the total, will be closely monitored, and all the audit firms will pay close attention to the debt level, since debt is related to the company's going concern, and evaluation of debt is also an important part in evaluating the company’s financial statement opinion.

This research is exploratory in nature, so there is still a lack of previous research, especially that studying the Indonesian context. Future researchers hopefully can add several more proxies to better represent the variables. The organisational complexity can be explored in company business processes or risk, and corporate governance also could be represented by other proxies.

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