

The impact of public accountant firm size, audit opinion, audit delay, and financial distress on audit switching

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Abstract

The issue of independence is a major focus in the auditing literature. This is what led to the birth of audit rotation regulations. However, it turns out that there are several companies in the insurance and bank sectors carrying out auditor switching outside the regulations regarding this rotation. Voluntary auditor switching has an impact on market and shareholder perceptions of firm stability. It may also entail substantial transition costs. For this reason, researchers want to examine further what factors cause auditor switching. The research results show that the dimension of the firm of public accountants and audit opinion negatively impact auditor switching. Meanwhile, audit delay and financial distress positively impact auditor switching. Thus, clients are more likely to stick with auditors who have a good reputation and perform thorough audits. To keep clients, accounting firms, especially smaller ones, should focus on providing high-quality audits and building a strong reputation.

Keywords: *auditor switching; size of public accounting firm; audit opinion; audit delay; financial distress*

Abstrak

Isu independensi merupakan sorotan utama dalam literatur pengauditan. Hal tersebut yang membuat lahirnya peraturan rotasi audit. Namun ternyata, terdapat beberapa perusahaan pada sektor asuransi dan bank melakukan auditor switching diluar peraturan terkait rotasi tersebut. Pergantian auditor secara sukarela berdampak pada persepsi pasar dan pemegang saham terhadap stabilitas perusahaan. Hal ini mungkin juga memerlukan biaya transisi yang besar. Untuk itu, peneliti berharap dapat melakukan penelitian lebih lanjut mengenai factor apa yang menyebabkan auditor switching. Hasil penelitian menunjukkan bahwa ukuran kantor akuntan public dan opini audit berpengaruh secara negative terhadap auditor switching. Sedangkan audit delay dan financial distress berpengaruh secara positif terhadap auditor switching. Oleh karenanya, klien cenderung bertahan dengan auditor yang memiliki reputasi baik dan melakukan audit secara menyeluruh. Untuk mempertahankan klien, terutama kantor akuntan publik yang lebih kecil, sebaiknya lebih fokus pada penyediaan audit berkualitas tinggi dan membangun reputasi yang kuat.

Kata Kunci: *pergantian auditor; ukuran kantor akuntan; opini audit; audit delay; financial distress*

INTRODUCTION

Every company must have financial reports that will be reported annually to stakeholders. This financial report aims to be able to compare the financial statements of previous periods and the financial reports of other entities (Kieso et al., 2018). Presented to interested parties, both internal and external. Such as management, creditors, investors, potential investors, government, and other institutions, as well as the public who need these financial reports. Healthy financial reports will be a reference for investors to invest in the company. Thus, every company wants to present good financial reports. However, apart from being good financial reports, they must also be trustworthy to the public. This is where the auditor's role is as an intermediary between the company investors and other external parties. An independent auditor of monetary statements goal is to provide a viewpoint on the objectivity of what they present (Carcello et al., 2020) as well as ensure whether any material issues, financial situation, operating results, and cash flows are likewise with accounting standards.

In this modern and highly developed era, the business world is also developing more. The large number of new start-up companies and course intense competition means that companies must be wiser in choosing their auditors, especially for companies that have just gone public or conducted an Initial Public Offering (IPO) (Wea & Murdiawati, 2015). This makes public accounting firms experience competition among themselves in getting clients. Moreover, because the number of companies is greater than the number of public accounting firms themselves. The number of companies listed in IDX is 890 companies (IDX, 2023), while several certified public accountants listed in OJK are 393 public accountant firms (OJK, 2023). Therefore, auditors compete to provide the best audit results so that clients are satisfied with their performance. Consequently, it is not uncommon for auditors and clients to end up having a special relationship so that clients do not carry out auditor switching (AS) (Wea & Murdiawati, 2015). The auditor's independence can be threatened, which will have an impact on the audit's overall quality (Safrihana & Muawanah, 2019). Meanwhile, auditor independence is one of the most crucial fundamentals that an auditor must possess.

The more independent an auditor is, the more likely it is to produce good and trustworthy financial reports (Kuzaemah et al., 2021). Therefore, attention is focused on steps that can be taken to ensure that auditors can maintain the required level of independence. In this case, the committee has considered proposals regarding independence which are divided into three categories, the first is limiting services provided by public accounting firms that may not be consistent with the audit function. Second, protect auditors from management influence. Third, ensure that the accounting firm is managed in a way that provides the internal support necessary for the independence of each partner and staff (Carcello et al., 2020). This is important to assess the relevance and fairness of a financial report so that it can produce good audit quality.

Investors in assessing financial reports certainly look at many aspects. One thing that will strengthen investor confidence is the size of the Public Accounting Firms (PAF) (Vivi et al., 2023). It is not uncommon for companies to choose large PAFs such as the Big 4 to audit their company so that the company's reputation increases in the eyes of investors (Huda et al., 2021). Investors tend to assess that Big 4 PAFs have more professionalism and high quality, so the quality of audited financial reports will also be more accurate. The software that big 4 PAFs use is more sophisticated than non-big 4 PAFs. Apart from that, auditors at big 4 PAFs are also considered to be more experienced in various sectors and industries. Therefore, they are considered better at handling their clients' problems and complexities.

One of the most important things in a financial report is the opinion on the financial report itself (Alisa et al., 2019). The opinion in the financial report briefly describes the fairness of the condition of the client company. Every client wants an unqualified opinion on their financial reports because this can attract the attention of investors to provide capital to the firms

(Darmayanti et al., 2021). If the auditor provides an opinion other than an unqualified opinion, the client will feel less satisfied and will tend to switch auditors.

The very long period between the book closing date (December 31) and the financial reporting date can cause the firm's standing to decline in the opinion of stakeholders. The reason is, that their investment decision strategy depends on the analysis of the company's financial reports (Tanulia & Osesoga, 2022). However, if the financial report is late in reporting, it automatically prevents investors from making decisions as well. This can make stakeholders suspect that there are internal problems or a lack of transparency within the company. The losses that companies incur, both reputationally and financially, from continuous audit delays (AD) can cause companies to switch auditors (Harianja & Sinaga, 2022).

The poor financial condition of the company will make auditors more alert and subjective in assessing financial statements. In this case, companies tend to change their auditors, because the auditor's confidence in assessing clean financial statements tends to decrease. Replacing an auditor in a situation of financial distress (FD) is a serious decision and should be made carefully. New auditors must have an adequate understanding of complex financial situations and be ready to provide appropriate advice to resolve existing problems. In addition, communication with the initial auditor and changes made must be carried out in conformity with the rules and regulations and audit standards.

The United States enacted the Sarbanes-Oxley Act (SOX) to safeguard investors and the public who have lost confidence in the accuracy of the presentation of financial reports. This spurs other countries to join in strengthening policies in implementing good governance. The Indonesian government itself has made a policy regarding the replacement of public accounting firms in *Peraturan Pemerintah RI (2015) No. 20 pasal 11 ayat 1*, which states that the limit for a Public Accountant to audit a client's financial report is for five consecutive years. A Public Accountant can carry out an audit again at the same company if it has been cooling off for two consecutive years. Then POJK tightened supervision by making *Peraturan Otoritas Jasa Keuangan (2017) Number 13* regarding restrictions on the utilization of services for auditing through serving as auditor for a maximum of three consecutive fiscal years.

However, it turns out that outside of these regulations, there are still companies that carry out voluntary AS where voluntary auditor changes can have an impact on market and shareholder perceptions of company stability (Safrihana & Muawanah, 2019). Based on IDX data for the last 5 years, there have been 35 insurance companies and banks that have carried out voluntary AS from 63 insurance companies and banks registered on IDX. This means that more than 50% of insurance companies and banks experience voluntary AS. Previous research has shown that the size of PAF, audit opinion (AO), audit delay (AD) and financial distress (FD) have a correlation with changing PAF (Darmayanti et al., 2021; Kuzaemah et al., 2021; Ruroh & Rahmawati, 2016). Meanwhile, it contradicts research from (Alisa et al., 2019; Nursiam et al., 2022; Wea & Murdiawati, 2015) which declare that the size of PAF, audit opinion (AO), audit delay (AD) and financial distress (FD) has no correlation with changing PAF.

The significant number of companies that carry out AS and the inconsistencies in the results of previous research make researchers want to know more about what factors cause AS. The focus of this research is only on PAF size, AO, AD, and FD because these are the main highlights that investors will look at in financial reports when making stock decisions. Thus, it turns out that there are still many companies that carry out AS outside of government regulations, where voluntary auditor changes can have an impact on market and shareholder perceptions of company stability.

LITERATURE REVIEW

Auditor independence

It is mandatory to know that auditor independence is one of the basics of trust in the financial and business system. Loss of independence can damage a company's reputation and lead to public distrust. According to the International Federation of Accountants (IFAC), an independent auditor is someone who conducts audits objectively, competently, and professionally while maintaining independence in thought and appearance. Porter et al. (2003) classify auditor independence into two forms, the first is independence in fact, where in making an audit opinion, auditors are required to be professional and impartial. The second is independence in appearance, where auditors are required to avoid situations that could make other people think that the auditor cannot think fairly.

Carcello et al. (2020) suggest looking at factors that can influence the independence of an auditor, such as certain financial relationships involving the auditor and the client, or the public accountant being under the control of the client's management. According to Merino et al. (2020), 5 main power sources can shake auditor independence, namely authoritative power, expertise power, control over rewards, coercive power, and personal power. The Securities Exchange Commission (SEC) considers that independence can also be disturbed if cases such as; 1) Ex-partners became a member of the audited entity's board of directors within two years of resignation or retirement; 2) Ex-partners who played a significant role in the firm became a director of the accountancy firm's client within five years; and 3) Ex-partners become senior executives of corporate clients without complete separation from the company, including settlement of pension benefits.

Maintaining auditor independence is a shared responsibility of auditors, accounting firms, companies, and regulators. To maintain audit quality, transparency, and stakeholder trust in the financial information presented in company reports. One of the government's efforts to maintain the independence of public accountants is to create strict regulations regarding auditor rotation.

Audit quality

Financial reports prepared by quality auditors will provide confidence to stakeholders that the information presented is accurate and trustworthy. Therefore, audit quality is very important to ensure integrity, transparency, and trust in a company's financial reports. The definition of audit quality in financial reports can be interpreted as a way of presenting information to the public so that they have a sufficient understanding of the business's performance. The breadth of knowledge, experience, and expertise of the auditor can also be defined as audit quality (Salehi et al., 2016).

Harianja and Sinaga (2022), define audit quality as the probability that financial reports do not contain major misstatements. However, Salehi et al. (2016) argue that the audit quality can be shown in the auditor's ability to reveal misstatements and manipulation of reported net income. The most general definition of audit quality states that there are two important dimensions in audit quality, namely the market which assesses auditors in terms of (a) finding and (b) reporting violations in the accounting program of the client (Kamil, 2021). Some factors influence the auditor's ability which of course also influences audit quality, including the auditor's experience, lawsuits against the auditor, the size of the KAP, reputation, and specialization (Salehi et al., 2016).

Indonesian government regulations regarding auditor rotation

Since the Enron Corp scandal. and WorldCom Inc., issues related to audit quality and audit independence have become widely discussed. Auditors who are required to spot fraud in

financial statements conspire to carry out unhealthy business practices. Therefore, in 2002, the United States government enacted the Sarbanes-Oxley Act (SOX) to safeguard investors.

The steps taken by the United States government also encouraged the Indonesian government to issue government regulations governing auditor rotation. The first regulation regarding auditor rotation was issued in Article 6 No 423/KMK.06/2002 claim that PAFs are permitted to provide audit services for a maximum of five consecutive financial years by a Public Accountant for a maximum of three years. books in a row. Then the government updated the regulations regarding auditor rotation in Minister of Finance Regulation (PMK) No. 17/PMK.01/2008 article 3 paragraph 1 which states that the longest KAP is allowed to provide audit services is 6th year successive. For a Public Accountant, the upper limit is 3rd year successive. Then in the year 2015, the ministry again updated the rules regulating auditor replacement in government regulation No. 20/2015, paragraph 1 of article 11, which states that public accounting firm is not limited anymore in conducting company audits. However, for Public Accountants there is still a limit of 5 consecutive years. A Public Accountant can carry out an audit again at the same company if it has been cooling off for 2 consecutive years.

Because the period of this research is 2017-2021, the basis for this research uses government regulation No. 20/2015 paragraph 1 of article 11. Apart from that, to tighten supervision, POJK also made POJK regulation Number 13 of 2017 regarding restrictions on the utilization of audit services through Public Accountants for an upper limit of three fiscal years in a row. The KAP restrictions depend on the results of the Audit Committee evaluation. POJK regulations also require the use of KAP that has been registered with the OJK.

Auditor switching

The issues related to audit independence and audit quality above are one of the factors causing AS. AS itself is a process where a company replaces its independent auditor with a new one to carry out auditing of financial reports (Harianja & Sinaga, 2022). AS can occur for various reasons, whether mandatory or voluntary (Aprillia, 2013). Companies that change their auditors because the audit period has reached the maximum limit are classified as mandatory AS or by applicable government regulations. Meanwhile, voluntary AS can occur because the auditor resigns or the client fires the auditor. According to Chadegani et al. (2011), 2 factors cause voluntary AS, the first is factors related to the client, namely the size of the client company, management changes, and debt default. Meanwhile, the second factor is factors related to the auditor, such as audit fees, audit opinions, and PAF size.

Auditors who resign usually occur when a company experiences a decline in financial performance or the company continues to face internal or financial reporting problems (Beasley et al., 2000). Meanwhile, if a company fires an auditor, it is usually because the company is avoiding a strict or more critical auditor's opinion due to financial distress or reputation risk that may occur (Oktaviana et al., 2017). Another opinion found that companies experiencing management or CEO changes were more likely to change auditors. This could happen because new management wants auditors who are more in line with their vision and mission (Carcello & Nagy, 2004).

Previous researches

Huda et al. (2021) conducted a study regarding auditor modifications brought about by AO and PFA and moderated by FD. However, there is no evidence that AO and PFA are related to auditor changes. It has not been demonstrated that the FD, which moderates the AO and PFA, influences auditor change. The corporation is considered to be satisfied and does not wish to change auditors, despite the clean opinion and considerable size of the PFA.

Surtikanti et al. (2023) generated research that indicates that profitability has a beneficial influence on auditor turnover. Meanwhile, FD has no association with the change of auditor,

therefore the company's state is unknown to many parties. By not changing its auditors, the corporation retains its outstanding reputation. Besides, Darmayanti et al. (2021) state that FD, AD, and Management changes correlate with changing PAF. Meanwhile, AO does not correlate with changes in PAF. Manufacturing companies were used as the population, with research years ranging from 2011 to 2018. Safriliana and Muawanah (2019) used the variables AO, PAF size, FD, and audit committee as influencing auditor changes. The results prove that PAF size and audit committee correlate with PAF turnover, while AO and FD do not correlate with PAF turnover. Wea & Murdiawati (2015) investigated the impact of management turnover, FD, PAF size, and client size that impact on PAF turnover. Meanwhile, AO and changes in Return on Assets (ROA) have no association with PAF turnover. This study was undertaken at manufacturing companies from 2009 to 2014.

Abdul Nasser et al. (2006). The primary goal of this study is to investigate one aspect of the relationship between auditors and clients, namely audit tenure and AS. The population is made up of 297 firms that are on the list Kuala Lumpur Stock Exchange for the time being 1990-2000. Researchers use the variables that are independent, there are dimensions of PAF, client firms, client expansion, and financial distress towards auditor switching. According to the findings of this study, the size of clients and enterprises in a financial crisis impacts AS. Chadegani et al. (2011) conducted a study to determine the main factors for changing auditors in firms that are listed on the Tehran Stock Exchange. The results of this research show that among the 6 other factors that have been tested, only PAF size influences AS. Meanwhile, opinion has no substantial link with AS.

Factors Affecting Auditor Switching

Public accounting firm size

PAF sizes can vary greatly, from small accounting firms with a few staff members to large accounting firms with thousands of employees who have offices in various regions. Selecting a PAF that suits the needs and scale of your company or organization is an important step in maintaining the quality of accounting and audit services. However, size is not the only factor that determines the quality or capability of a PAF, other factors such as reputation, service quality, and commitment to ethics must also be considered.

Audit opinion

An audit opinion (AO) as from the American Institute of Certified Public Accountants (AICPA) conveys a written assessment by an auditor if the under-reviewed financial statements have been prepared in all important aspects and in accordance with the appropriate financial reporting framework. According to Darmayanti et al. (2021), an AO is to ensure that a written statement by an auditor independent regarding the financial situation of the entity being audited has been prepared, in all material aspects, and in accordance with the applicable financial reporting framework. An AO can also be interpreted as a written statement that the financial accounts audit is fair, correct, and contains all disclosures necessary under applicable accounting principles (Alisa et al., 2019). Meanwhile, according to Arens et al. (2023), an AO is a written statement regarding whether the financial statements have been audited correctly and in accordance with applicable accounting principles.

Audit delay

Harianja and Sinaga (2022) state that if there is a delay in financial reporting, the information produced will lose its relevance. This is known as audit delay (AD) or audit report lag. According to Prasetyo et al. (2021), AD is the time that passes between the end of the fiscal year and the signature of the opinion on the audited financial accounts. One element that can contribute to ADs is the size of the company itself (Breivik, 2019). The type of delay is divided

into three, the first is preliminary lag, which refers to the period between the fiscal year's end and the day the stock market receives the initial financial report. The second is the auditor's signature lag, namely the distance between the end of the fiscal year and the date stated in the audit report. The third is the total lag, which is the amount of the period elapsed between the the end of the fiscal year and the date of capital market receives the published annual financial report (Gaol & Duha, 2021).

In Indonesia itself, there are regulations regarding financial reporting deadlines. This is regulated in the Republic of Indonesia OJK Regulation No. 29/POJK.04 (2016) article 7 paragraph 1, requires public firms' financial reporting to the OJK must be submitted within limited time of four months after the fiscal year ends. The sanctions that will be imposed if there is a delay in financial reporting as referred to in article 19 paragraph 1 can be in the form of a written warning or administrative measures such as fines, limits on business activity, business freeze, revocation of business permits, cancellation of approvals, and cancellation of registration.

Financial distress

According to Houston and Brigham (2019), financial distress (FD) is a situation where a company has difficulty raising funds in monetary or working capital terms. There are many methods that can predict or calculate the FD of a company, but one of the methods that is best known and considered quite accurate is the Multiple Discriminant Analysis commonly called the Altman Z Score method which was developed by business professor Edward Altman. The aim of predicting or analyzing FD is so that the company can be more controlled in terms of finances so that it can reduce the risk of bankruptcy. Wheelen et al. (2018) categorize the factors causing bankruptcy into general factors including economic and social factors as well as governmental ones that are part of external factors including the customer, and suppliers factors. The last one is the company's internal factors.

Altman classifies company bankruptcy conditions into 3 parts. The first part is the healthy zone, if the z-score value is greater than 2.60, it denotes that the company is safe and avoids the risk of bankruptcy. The second is the danger zone, where the z-score value between 1.10 - 2.60 means the company has a chance of going bankrupt and requires special attention. Third, namely the failing zone, where the z-score value is lower than 1.10, which means the company is in a state of great financial difficulty, making bankruptcy possible. FD can be caused by several factors, including reduced income, expenses that exceed income, high debt, or poor economic conditions. Such situations can have serious implications for a company's survival, affecting stock performance, investor confidence, and relationships with creditors.

Hypothesis

PAF size and auditor switching

Companies audited by Big 4 PAFs are frequently thought to have greater audit quality rather than companies non-Big 4 audited, due to the larger size of the PAF and better auditor training (Huda et al., 2021). According to Vivi et al. (2023), big 4 PAFs are more often chosen by large companies in auditing their financial reports because large companies tend to have more complex matters, and large companies tend to choose larger PAFs. Therefore, H1 is stated the following:

H₁: KAP size hurts auditor switching.

Audit opinion and auditor switching

Business firms tend to expect to get an unqualified opinion from their independent auditors (Darmayanti et al., 2021). Thus, if the company cannot provide a clean opinion, there is a

possibility that the company will change PAF. AO is critical for increasing client trust in the company (Safriliana & Muawanah, 2019). Management will replace the previous auditor if the issuance of an audit opinion is not in accordance with management's interests (Huda et al., 2021). Thus, H2 is stated the following:

H₂: Audit opinion has a negative impact on auditor switching.

Audit delay and auditor switching

Businesses that experience excessive AD will cause delays in financial reporting that make the relevance and quality of financial reports decrease so that investor confidence in the market will decrease (Harianja & Sinaga, 2022). Therefore, companies tend to carry out new audits with the goal that there will be no ongoing delays thereby strengthening the company's reputation. Thus, H3 is stated the following:

H₃: Audit delay has a positive impact on auditor switching.

Financial distress and auditor switching

If an FD business changes auditors, it may create a negative image in the eyes of the market and investors (Darmayanti et al., 2021). Changing auditors implies additional transition costs that may be undesirable for a company facing an FD, given its limited conditions (Ruroh & Rahmawati, 2016). This means that firms undergoing FD are more likely to retain their existing auditors (Safriliana & Muawanah, 2019). Thus, H4 is stated the following:

H₄: Financial distress has a negative impact on auditor switching.

Research framework

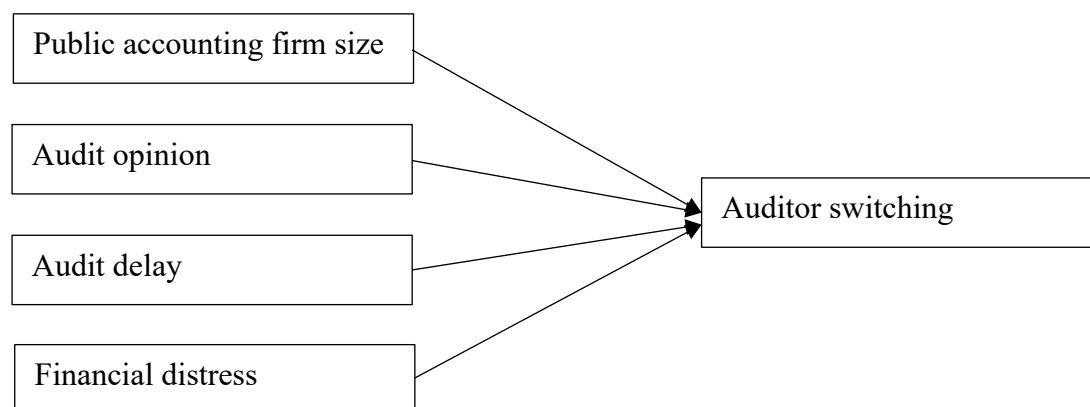


Figure 1. Research framework

The goal of this research is to identify factors such as PAF size, audit opinion, audit delay, and financial difficulty that influences auditor switching. As shown in Figure 2.1 as a framework for developing hypotheses in this research. Where PAF size, AO, AD, and FD are influencing variables and AS is the influenced variables variable.

RESEARCH METHOD

This study's population consists of insurance companies and banks that are registered on IDX between 2017 and 2021. The purposive sampling strategy was utilized in this study, which involves selecting samples non-randomly so that the selected data meets preset criteria

(Campbell et al., 2020). The following are the sample selection criteria used in this study; 1) Insurance Companies and Banks registered on IDX during the 2017-2021 period. 2) Insurance Companies and Banks that publish financial reports consecutively during the 2017-2021 period. 3) Insurance Companies and Banks whose financial year ends on December 31. 4) Insurance companies and banks that have complete company data, namely regarding total assets, net sales, current assets, current liabilities, retained earnings, earnings before interest and tax, total liabilities, total equity, audit opinion, information on the name of the PAF, and date of issue audit report.

In 2017-2021 there were 63 insurance companies and banks registered on IDX. Of the 63 companies during the 2017-2021 period, there were 27 companies that did not change their PAF so they were eliminated from the sample. There was also 1 company whose financial reports were incomplete during the research period. Based on predetermined criteria, the final sample size was 35 insurance companies and banks.

Research variables and operational definitions of variables

Dependent variable

Auditor switching

Audit switching is the influenced variable in this study. Auditor changes are the process of changing KAP performed by the client company for certain reasons or purposes. In this research, auditor switching uses dummy variables. Where if the client company's auditor changes, it will be assigned a value of 1. It will be distributed 0 if the client firms do not change auditors (Nursiam et al., 2022).

Independent variables

PAF size

One of the independent variables in this research is PAF size. The size of PAF is determined based on affiliated companies in the Big 4 and Non-Big 4. Companies classified as Big 4 are: 1) PricewaterhouseCoopers (PwC), 2) Deloitte, 3) Ernst & Young (EY), and 4) KPMG. In this research, PAF Size uses a dummy variable. Where the number 1 will be given if the PAF is associated with the Big 4. It will be given the number 0 if the PAF is not associated with the Big 4 (Nursiam et al., 2022).

Audit opinion

An audit opinion is a declaration provided to a client firm by an auditor regarding the fairness of its yearly financial accounts. In this study, the audit opinion variable is represented by a dummy variable. Where the number 1 will be given if the auditor gives an opinion other than unqualified. And the number 0 will be given if the auditor gives an unqualified opinion (Damayanti & Sudarma, 2008).

Audit delay

The amount of time that elapses between the financial year's end and the audit report's date is referred to as audit delay. In this research, the audit delay variable is calculated quantitatively in number of days with the formula:

$$\text{Audit delay} = \text{Audit report date} - \text{financial report book closing date}$$

Financial distress

Financial difficulty is a state of affairs where a business or individual has serious financial difficulties and may no longer be able to fulfill its financial obligations. This allows the company to go bankrupt if it is not handled properly. The Altman Z Score method is used in this study to determine the financial difficulty with the formula:

$$Z = 6,56 \frac{WC}{TA} + 3,26 \frac{RE}{TA} + 6,72 \frac{EBIT}{TA} + 1,05 \frac{MVE}{TL}$$

Where;

WC = Working capital (Current asset – current liabilities)

TA = Total asset

RE = Retained earning

EBIT = Earning before interest and tax

MVE = Market value of equity

TL = Total liability

Score:

Safe zone = $Z > 2,60$

Mid zone = $1,10 < Z < 2,60$

Distress zone = $Z < 1,10$

Analysis method

Logistic regression model analysis

The logistic regression method is used by researchers because the influenced variable (auditor switching) is bifurcated (did or did not undertake auditor switching) and is also a categorical (non-metric) variable. Meanwhile, independent variables are mixed variables between continuous variables and categorical variables (metric and non-metric). The following are the stages in the logistic regression test (Ghozali, 2018):

Assessing the overall model (Overall model fit)

Evaluating the entire model can be based on the likelihood function calculated by comparing the value of -2 Log likelihood (-2LL) before entering the independent variable (block number = 0) with -2 Log likelihood after entering the independent variable (block number = 1). A reduction in probability (-2LL) indicates that a stronger regression model is needed, or that the hypothesis model fits the data better.

Coefficient of determination (Nagelkerke R square)

Nagelkerke R-squared, also known as Nagelkerke's R^2 , is used in logistic regression analysis to measure how well a logistic regression model is appropriate for the data. Cox and Snell are measures that try to resemble R^2 measure in several instances of regression-based estimation techniques. It is difficult to interpret because the greatest potential value is less than 1 (one). Nagelkerke's R^2 measures how well a logistic regression model explains variation in observed data. The Nagelkerke R^2 value ranges from 0 to 1. The higher the Nagelkerke R^2 value the greater the influence variable's ability to describe fluctuations in the influenced variable.

Assessing the feasibility of regression models (Hosmer & Lemeshow)

The Goodness of Fit Test developed by Hosmer and Lemeshow determines if the model formed is valid or not. If there is no substantial difference between the model and the observed values, it is said to be correct. The results of the Hosmer-Lemeshow test are the null hypothesis (H_0) if there is no significant difference between prediction and classification, and the Alternative Hypothesis (H_1) if there is a significant difference between prediction and classification. If the Hosmer-Lemeshow significance value is ≤ 0.05 then H_0 is rejected, this implies that statistical model data does not match the data. Meanwhile, if the Hosmer-Lemeshow significance value is > 0.05 then H_0 is accepted, it means the model is appropriate or fits the data. If H_0 is accepted then the regression model can be used for further analysis.

Hypothesis test

The logistic regression analysis approach was utilized to test the hypothesis proposed in this study. An analytical approach is used to find out how the influenced variable (auditor replacement) is predicted by the influencing variables (PAF size, AO, AD, FD). The reason for using this approach is that the dependent variable used is dichotomous (with or without auditor switching).

Partial test (T-test)

Partial hypothesis testing is a type of hypothesis testing carried out on certain parameters or features in a model or statistical analysis. H_0 is allowed if the significant value is ≤ 0.05 , which indicates that the influence variable has a marginal impact on the influenced variable that is significant. In contrast, if the important value is ≥ 0.05 then H_0 is ruled out. It indicates that the influence variable has a limited impact on the influenced variable.

Simultaneous test (F-test)

Simultaneous hypothesis testing is hypothesis testing carried out on several parameters or features in the model simultaneously. If the significant value is ≤ 0.05 then H_0 is acceptable, which indicates that the influencing variable has a considerable impact on the influenced variable. In contrast, if the important value is ≥ 0.05 H_0 is then rejected. It denotes the fact that the independent variable has no influence the dependent variable at the same time.

RESULT ANALYSIS, DISCUSSION AND IMPLICATION

Description of research objects

The research objects used in this research are insurance companies and banks registered on IDX during the 2017-2021 period. The reason insurance companies and banks were chosen is because this sector requires a special and strict focus of attention. Because it is very risky due to dependence on economic performance. For industrial sectors experiencing a credibility crisis, auditor independence is very necessary. Therefore, special and strict attention is needed for insurance companies and banks. The research year chosen in this research is 2017-2021 because 2017-2021 is the latest company data that can provide complete information regarding financial reports.

This study aims to analyze how KAP size, audit opinion, audit delay, and financial difficulty affect auditor switching. Based on the previous sample criteria of this research, a sample size of 35 insurance companies and banks registered on IDX in the 2017-2021 period can be obtained. Meanwhile, the total observations used as a sample for this research were 172 observations. Sample selection used the purposive sampling method. A summary of the procedures for selecting samples can be seen as follows:

Table 1. Research sample selection list

Items	Value
Total of insurance companies and banks on IDX listings for the 2017-2021 period	63
Companies that do not transfer public accounting firm	-27
Companies that do not have complete data required for research	-1
Total company	35
Research year (2017-2021)	5
Total sample	175
Outlier	3

Total sample

172

Source: Data processed

The list of sample companies used in the research is as follows:

Table 2. List of research samples

No	Code	Type of Company
1	AGRS	Bank
2	AHAP	Insurance
3	AMAG	Insurance
4	ARTO	Bank
5	ASJT	Insurance
6	ASMI	Insurance
7	BABP	Bank
8	BACA	Bank
9	BBHI	Bank
10	BBKP	Bank
11	BBMD	Bank
12	BBNI	Bank
13	BBYB	Bank
14	BDMN	Bank
15	BGTG	Bank
16	BJBR	Bank
17	BJTM	Bank
18	BKSW	Bank
19	BMAS	Bank
20	BMRI	Bank
21	BNBA	Bank
22	BSWD	Bank
23	BTPN	Bank
24	BVIC	Bank
25	MAYA	Bank
26	MCOR	Bank
27	MEGA	Bank
28	SDRA	Bank
29	VINS	Insurance
30	BRIS	Bank
31	JMAS	Insurance
32	BTPS	Bank
33	AMAR	Bank
34	BBSI	Bank
35	MASB	Bank

Source: Processed IDX site

Data analysis

Descriptive analysis

Based on the results of descriptive statistics, 175 data were obtained which came from multiplying the number of 35 sample companies by the research period (five years from 2017-2021). Then when the data was tested, three outlier data were removed from the table so that 172 data remained.

Table 3. Descriptive statistics

	N	Maximum	Minimum	Mean	Std. deviation
PAF	172	1	0	0.43	0.50
AO	172	1	0	0.11	0.31
AD	172	198	15	70.99	31.53
Z	172	10.83	-4.21	2.51	2.69
AS	172	1	0	0.35	0.48

Source: processed data, SPSS output

Based on Table 3 above, the PAF size (X1) variable has a maximum value of 1 which means companies were affiliated with big 4, and a minimum value of 0 which means companies were affiliated with non big 4. The standard deviation value of 0.497 is greater than the average value of 0.43 of which 74 companies are using PAF big 4. The remaining 98 companies use non-big 4 PAF.

The AO variable (X2) has a maximum value of 1 which means the firms get an opinion other than unqualified and a minimum value of 0 means the firms get an opinion of unqualified. The standard deviation value of 0.314 is greater than the average value of 0.11 of which 153 companies received clean opinions with the remaining opinions other than clean being 19 companies.

The AD variable (X3) has a minimum value of 15 days at Bank Negara Indonesia by KAP Purwantono, Sungkoro & Surja in 2017 and at the East Java Regional Development Bank by KAP Paul Hadiwinata, Hidajat, Arsono, Retno, Palilingan & Rekan in 2017. Maximum value amounting to 198 days on Krom Bank Indonesia by KAP Doli, Bambang, Sulistiyanto, Dadang & Ali in 2019. The standard deviation value of 31.545 is smaller than the average value of 71.27.

The FD variable (X4) has a minimum value of -4.21 at Bank KB Bukopin in 2019. The maximum value is 10.83 at Krom Bank Indonesia in 2021. The standard deviation value of 2.5839 is greater than the average value of 2.4053 which 45 companies experienced FD and the remaining 127 companies did not experience FD.

The AS (Y) variable has a maximum value of 1 means the firms change the auditors and a minimum value of 0 means that the firms did not replace the auditor. The standard deviation value of 0.474 is greater than the average value of 0.34 which there are 58 companies do AS with the remaining 114 companies not doing AS.

Logistic regression analysis

Overall model fit

Table 4. Block 0: Beginning block iteration History^{a,b,c} (Step 0)

Iteration	-2 Log likelihood	Coefficients/Constant
1	219.897	-0.651
2	219.873	-0.676
3	219.873	-0.676

Source: processed data, SPSS output

Table 5. Block 1: method = enter, iteration history^{a,b,c,d}

Iteration	-2 Log likelihood	Constant	KAP	Opinion	Delay	Z
1	200.681	-0.855	-0.385	0.559	0.009	-0.140
2	199.591	-0.981	-0.482	0.553	0.011	-0.186
3	199.582	-0.992	-0.491	0.551	0.012	-0.191
4	199.582	-0.992	-0.491	0.551	0.012	-0.192

Source: processed data, SPSS output

Tables 4 and 5 show a comparison between the -2LL values before the inclusion of the independent variable and after the inclusion of the independent variable. It can be seen that the -2LL value in the initial stage is 219.873 while the -2LL value in the final stage is 199.582. The decrease in value between the initial stage and the final stage shows that the regression model used fits the data.

Coefficient of determination (Nagelkerke's R square)

Table 6. Coefficient of determination

Step	-2 Log likelihood	Cox & Snell R square	Nagelkerke R square
1	199.582 ^a	0.111	0.154

Data source: processed data, SPSS output

This test determines how well the independent variables (PAF size, AO, AD, and FD) explain the influenced variable, AS. Based on table 4.6, the Nagelkerke R Square value is 0.154, this suggests that the influenced variable's variability can be explained by the influencing variable is 15.4%, while the others 84.6% is explained by circumstances outside of this study.

Assessing the feasibility of regression models (Hosmer & Lemeshow)

Table 7. Assessing the feasibility of egression models

Step	Chi-square	df	Sig.
1	13.733	8	0.089

Source: processed data, SPSS output

It can be seen in table 4.7, that there is a significance value of 0.089. Because the significance value is greater than 0.05, we may conclude that the model can predict the observed value.

Results of logistic regression analysis

The logistic regression test results to determine the coefficients for each variable, which can be seen in the following table:

Table 8 Logistic regression results variables in the equation (Step 1)

Items	B	S.E.	Wald	df	Sig.	Exp(B)
KAP	-0.491	0.369	1.766	1	0.184	0.612
AO	0.551	0.530	1.082	1	0.298	1.736

AD	0.012	0.006	3.863	1	0.049	1.012
Z	-0.192	0.077	6.206	1	0.013	0.826
Constant	-0.992	0.553	3.218	1	0.073	0.371

Source: processed data, SPSS output

Based on the results of logistic regression processing in the table above, the following equation is obtained:

$$Y = -0,992 - 0,491KAP + 0,551OPINION + 0,012DELAY - 0,192Z$$

The constant value is -0.992, meaning that if the coefficient of the independent variable is ignored, the profitability of the company carrying out auditor switching will decrease by 0.992. KAP has an odds ratio of 0.612 and a negative regression coefficient of -0.491, showing that a bigger KAP predicts a 0.612 decrease in auditor switching. AO has an odds ratio value of 1.736 with a positive regression coefficient value of 0.551, showing that the better AO predicts a 1.736 increase in auditor switching. AD has an odds ratio value of 1.012 with a positive regression coefficient value of 0.012, showing that the longer AD predicts a 1.012 increase in auditor switching. Finally, FD has an odds ratio value of 0.826 with a negative regression coefficient value of 0.192, showing that the higher FD predicts a 0.826 decrease in auditor switching.

Hypothesis testing

Partial test

This test is carried out to see whether each variable is independent of the dependent variable. If the significance value is <0.05, it can be concluded that the independent variable affects the dependent variable partially. Conversely, if the significance value is > 0.05 then the independent variable partially does not affect the dependent variable. The Wald test results obtained can be seen in the following table:

Table 9. Partial test variables in the equation

Items	B	S.E.	Wald	df	Sig.	Exp(B)
KAP	-0.491	0.369	1.766	1	0.184	0.612
AO	0.551	0.530	1.082	1	0.298	1.736
AD	0.012	0.006	3.863	1	0.049	1.012
Z	-0.192	0.077	6.206	1	0.013	0.826
Constant	-0.992	0.553	3.218	1	0.073	0.371

Source: processed data, SPSS output

Based on Table 9 it can be explained as follows; the significance value for KAP size is 0.184, which is greater than 0.05. The results of the partial KAP size hypothesis have no correlation on auditor switching. Besides, the significance value in the audit opinion was found to be 0.298, greater than 0.05. The results of the partial audit opinion hypothesis have no correlation on auditor switching. Then, the significance value for audit delay was found to be 0.049, which is smaller than 0.05. The results of the audit delay hypothesis partially have a positive correlation on auditor switching. Finally, the significance value for financial distress was found to be 0.013, which is smaller than 0.05. The results of the audit delay hypothesis partially have a positive correlation on auditor switching.

Simultaneous Test

This test is used to determine whether the independent variable effects the dependent variable at the same time. The results of the Omnibus Test of Model Coefficient can be seen in the following table:

Table 10. Simultaneous test (Likelihood) Omnibus tests of model coefficients

Items	Chi-square	df	Sig.
Step	20.292	4	0.000
Block	20.292	4	0.000
Model	20.292	4	0.000

Source: processed data, SPSS output

Based on table 10, it can be seen that the Chi-square value is 20.292 with a DF of 4 and a significance of 0.000, which means it is smaller than 0.05. This shows that the independent variables PAF size, AO, AD, and FD simultaneously influence the dependent variable auditor switching.

Discussion

The influence of KAP size on auditor switching

According to the results of logistic regression testing, the size of PAF had no correlation on AS. This is shown by PAF has an odds ratio of 0.612 and a negative regression coefficient of -0.491, showing that a bigger PAF predicts a 0.612 decrease in auditor switching. The significance value for the PAF size is 0.184, which is greater than 0.05, which means (H1) was not supported because it has no impact on auditor switching.

This study's unsupported findings that PAF size has no correlation on AS are confirmed by research by Kuzaemah et al. (2021) which declares regardless of PAF size, both Big Four and non-Big Four will provide audit quality in accordance with existing professional standards, thus PAF size is not a justification for a corporation to replace the PAF. However, these results contradict the findings of Wea & Murdiawati (2015) and Nursiam et al. (2022) who believe that organizations with a large PAF have a low likelihood of changing their PAF because they wish to stay with a large PAF.

It can conclude that basically, public accounting firms, whether big 4 or non-big 4, will continue to carry out their obligations independently and in accordance with applicable audit standards. Auditors will still uphold to maintain their independence because it has become the audit profession's standard in auditing financial reports and is not reliant on the size of the PAF. It can be inferred that the size of the PAF is not what inspires clients to voluntarily change their PAF.

The impact of audit opinion on auditor switching

Based on the results of logistic regression testing, it was found that AO did not have a significant effect on auditor switching. This is shown by AO has an odds ratio value of 1.736 with a positive regression coefficient value of 0.551, showing that the better AO predicts a 1.736 increase in auditor switching. The significance value in the AO was found to be 0.298, greater than 0.05, which means (H2) was not supported because it has no impact on auditor switching.

This study's unsupported findings that AO has no effect on auditor switching are confirmed by research by Darmayanti et al. (2021), declares that moving auditors would actually make things more difficult for the clients themselves because they would need to adapt to new guidelines and procedures which of course the auditors would also need time to adapt to the

company's way of working. Huda et al. (2021) obtaining an opinion other than unqualified implies that the company's accounting reporting system has to be improved to ensure there are no major misstatements. Changing auditors is not a solution to this problem since if difficulties with financial reporting develop, it is not certain that the next auditor will also provide a clean opinion. However, these results contradict the findings of Alisa et al. (2019) who believe that opinions are very influential on changing auditors because management's goal is to acquire a clean opinion. Management will usually alter their auditor if they do not acquire a clean evaluation.

It can conclude that if a company that gets an opinion other than unqualified conducts auditor switching, it will not necessarily get a clean opinion from the next auditor. Essentially, the AO explains the true truth of the business financial statements. To avoid misstatements, the company's reporting system must be improved. The reason could also be that practically all samples received a clean opinion, with only 19 samples receiving other than a clean opinion. If a corporation is satisfied with the opinion received, it does not need to change auditors (Wea & Murdiawati, 2015). Apart from that, you will also receive negative allegations from market players towards the company. However, if a company uses non-big 4 and wants to change to big 4, it is also feared that it will get an unqualified opinion because big 4 considerations are stricter.

The impact of audit delay on auditor switching

Based on the results of logistic regression testing, it was found that AD had a significant effect on AS. This is shown by AD has an odds ratio value of 1.012 with a positive regression coefficient value of 0.012, showing that the longer AD predicts a 1.012 increase in auditor switching. The significance value of the audit opinion was found to be 0.298, greater than 0.05, which means (H3) was supported.

This study's supported findings that AD has positive impact on auditor switching are confirmed by research by Darmayanti et al. (2021) and Ruroh and Rahmawati (2016) claims that sluggish financial report publishing will create a negative market connotation for the company and cause investors to distrust the company. As a result, businesses anticipate the next auditor not to have prolonged delays. Not similar to findings from research Kuzaemah et al. (2021) who believes that changing auditors will waste time because the new auditor will need to adjust and grasp the new business environment, causing the company to keep the existing auditor.

It can conclude that companies that experience delays in financial reporting tend to receive negative responses from market players, especially investors. Because it will hinder investors in making stock investment decisions. Apart from that, it will make stakeholders suspect that there are internal problems or lack of transparency within the company. The company will suffer a lot of losses both reputationally and financially. So, continuous AD can cause companies to carry out AS.

The impact of financial distress on auditor

Based on the results of logistic regression testing, it was found that financial distress had a significant effect on auditor switching. This is shown by FD has an odds ratio value of 0.826 with a negative regression coefficient value of 0.192, showing that the higher FD predicts a 0.826 decrease in auditor switching. The significance value for financial distress was also found to be 0.013, which is smaller than 0.05, which means (H4) was supported.

This study's supported findings that FD has negative impact on auditor switching are confirmed by research by Ruroh and Rahmawati (2016) who believes that corporations in FD condition will almost certainly prefer to keep their current auditors. For a variety of reasons, such as the significant expense of change, the need to keep existing knowledge about the

company's state, and concerns about stakeholder reactions, FD tend to lower the chance of auditor change. Contrary to Nursiam et al. (2022) and Wea and Murdiawati (2015) who believe that the company will replace the auditor in the FD condition because it cannot afford the existing auditor and will replace it with a lower-cost auditor.

It can conclude that the cost of replacing an auditor when a company is in FD condition is actually an additional burden for the company because it involves quite large costs, such as training costs for a new auditor who needs to understand the company's situation and consultation costs with the new auditor. A change in auditor during a period of FD condition may also be interpreted negatively by stakeholders such as investors or creditors. This can raise suspicion and harm the company's reputation.

CONCLUSION, LIMITATIONS AND SUGGESTIONS

This research examines the influence of PAF size, AO, AD, and FD on AS in insurance companies and banks listed on IDX for the 2017-2021 period. Analysis was carried out using logistic regression which was processed using SPSS software. Found that the size of the public accounting firm does not significantly influence auditor switching in insurance companies and banks listed on IDX for the 2017-2021 period. Besides, audit opinion does not significantly influence auditor switching in insurance companies and banks listed on IDX for the 2017-2021 period. Audit delay has a positive correlation with auditor switching in insurance companies and banks registered on IDX for the 2017-2021 period. And, financial distress has a negative correlation on auditor switching in insurance companies and banks listed on IDX for the 2017-2021 period. Auditor selection seems driven more by practicality. The size of the accounting firm and the audit opinion insignificantly affect who they choose. However, companies prioritize timely audits and are more likely to switch if the process is significantly delayed. Interestingly, financial distress seems to solidify the auditor relationship, with financially distressed companies less likely to make a change.

Limitations and suggestions

The research object only uses insurance companies and banks registered with IDX so the research results cannot be generalized to similar research. Besides, the observation year only covers the 2017-2021 period so it does not depict maximum results and can be generalized. The variables used in this research only include KAP size, audit opinion, audit delay, and financial distress regarding auditor switching. Other variables such as professional skepticism which might influence auditor switching were not tested in this study. Thus, for future research, is expected to further expand the sample used to include all companies listed on IDX, as well as the period of analysis. Seeking other interesting variables is also important.

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