

Does Audit Firms Reputation Matter? Firm and Audit Characteristics in Auditor Switching on Indonesian Energy Companies

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ABSTRACT

Objective: This study aims to investigate the role of audit firms' reputation as a moderating variable in the relationship between company characteristics and audit characteristics affecting auditor switching decisions. The focus is on energy companies listed on the Indonesia Stock Exchange. **Method:** The research utilizes panel data from 55 energy companies, selected through purposive sampling from a population of 79 companies, covering the period 2018–2021. Logistic regression and moderated regression analysis were performed using SPSS 26 to analyze the data. **Results:** The findings reveal that audit opinion, audit delay, and financial distress have a significant influence on auditor switching. Additionally, the reputation of audit firms moderates the relationship between financial distress and auditor switching, emphasizing its critical role in shaping such decisions. **Novelty:** This study contributes to the literature by providing empirical evidence on the moderating effect of audit firms' reputation in the context of Indonesia's energy sector. It offers valuable insights for stakeholders in emerging markets to understand auditor switching dynamics and make informed decisions in the audit environment.

INTRODUCTION

The global audit market has experienced significant transformations following high-profile corporate failures, particularly exemplified by the Enron scandal and subsequent collapse of Arthur Andersen. Between 2002 and 2006, an unprecedented wave of 7,629 auditor changes occurred among U.S. firms, representing approximately 50% of registered companies [1]. This phenomenon of auditor switching has emerged as a critical concern in emerging markets, notably illustrated by recent developments in Indonesia's corporate landscape. A prominent case involves PT Garuda Indonesia, where financial statement manipulation led to the withdrawal of Audit Firms Tanubrata, Sutanto, Fahmi, Bambang & Partners after two board members refused to endorse the 2018 financial statements [2]. The airline's reported net profit of US\$809,850 in 2018, following a US\$216.5 million loss in 2017, raised significant concerns regarding compliance with accounting standards (PSAK). This incident underscores the complex dynamics of auditor switching, where companies must balance the costs of engaging new auditors—who require additional resources to understand client-specific characteristics—against maintaining public trust and corporate reputation. While switching auditors incurs substantial transition costs due to the learning curve associated with understanding new client operations, companies often prioritize stakeholder confidence and market credibility over these immediate financial considerations [3]. This tension between cost considerations and reputational management in auditor switching

decisions presents a compelling research opportunity, particularly in the context of emerging markets where institutional frameworks continue to evolve.

This study aims to examine the moderating role of audit firms reputation in the relationship between company characteristics and audit switching decisions among Indonesian energy companies. Specifically, it investigates: (1) the influence of company characteristics (financial distress, company size, and management changes) on auditor switching; (2) the impact of audit characteristics (audit opinion, audit delay, and audit fees) on auditor switching decisions; and (3) the moderating effect of audit firms reputation on these relationships. By focusing on energy companies listed on the Indonesia Stock Exchange during 2018-2021, this research contributes to understanding auditor switching dynamics in emerging markets' strategic sectors.

The complexity of auditor switching dynamics and its determinants has garnered significant scholarly attention, particularly in emerging markets like Indonesia. Research has identified diverse factors influencing auditor switching decisions, including audit firm characteristics, financial conditions, and corporate governance elements [4], [5]. Empirical evidence from Indonesia presents contradictory findings, Luthfiyati [6], [7] report contrasting results, suggesting a negative relationship. Similarly divergent findings emerge regarding audit opinions [8], and audit delay [9]. The financial health of client firms plays a particularly nuanced role, as demonstrated by Francis and Wilson (1988), who found that financially distressed companies tend to seek highly independent auditors to enhance stakeholder confidence. This observation aligns with earlier studies by Schwartz and Menon and Hudaib and Cooke [10], [11], suggesting that financially stressed clients exhibit higher auditor switching propensity. International evidence from Lennox and Fan and Wong [12], [13] further supports this relationship, noting that struggling companies often transition to higher-quality auditors. However, recent Indonesian studies present contrasting Augustyvena and Wilopo [14] found no significant relationship between management changes, audit opinions, financial distress, and auditor switching in manufacturing companies, while Alisa et al. [15] identified firm size and management size as positive influences on auditor switching decisions, with financial distress showing no significant impact. These contradictory findings in the Indonesian context underscore the need for further investigation into the complex interplay of factors affecting auditor switching decisions, particularly considering the unique characteristics of different industrial sectors and the evolving nature of the country's audit market.

Recent research reveals the multifaceted nature of auditor switching motivations and their market implications. While some companies switch auditors for legitimate reasons such as organizational growth necessitating larger audit firms [16] or concerns over audit quality [17], [18], [19], others may seek more favorable audit opinions through strategic switching behavior [12], [20], [21]. Cowle, Decker, and Rowe [20] suggests that frequent auditor switching by certain companies can adversely affect audit market dynamics, highlighting potential implications for regulatory frameworks and client acceptance procedures. The relationship between audit characteristics and switching decisions presents varying empirical evidence: while Darmayanti, Africa, and Mildawati [7] found no significant relationship between audit opinions and switching behavior,

studies by Gharibi and Geraeely [22] and Dong, Tate, and Xu [23] demonstrate that audit delays significantly influence switching decisions, with companies experiencing longer delays showing higher propensity to change auditors. This evolving understanding of auditor switching patterns and their market implications underscores the need for more nuanced research examining both the determinants and consequences of such decisions, particularly in diverse market contexts.

While extensive research has examined auditor switching determinants, the moderating role of audit firms reputation in emerging markets remains understudied, particularly within strategic sectors like energy. Previous studies show conflicting results regarding the influence of financial distress, audit opinions [8], and audit delays [9] on auditor switching decisions in Indonesia. This study addresses this gap by investigating how audit firms reputation moderates the relationship between company characteristics (financial distress) and audit characteristics (opinion and delay) on auditor switching decisions among Indonesian energy companies during 2018-2021. The research contributes to the literature by examining these relationships within a specific industry context, considering the unique characteristics of energy companies and their regulatory environment. Additionally, this study extends current understanding by incorporating audit firms reputation as a moderating variable, offering insights into how auditor prestige influences switching behavior in emerging markets where institutional frameworks continue to evolve.

This study offers several important contributions to the auditor switching literature and practice. First, it extends current understanding by examining the moderating effect of audit firms reputation in the energy sector, a critical industry in emerging markets that faces unique regulatory and operational challenges. Second, it addresses conflicting findings in previous Indonesian studies regarding financial distress (and audit characteristics [8], [9]) by introducing audit firms reputation as a potential explanatory variable. The research is motivated by recent cases of auditor switching in Indonesia's energy sector and the need to understand how firm reputation influences auditor-client relationships in emerging markets. Additionally, the findings will provide practical insights for regulators developing audit market policies, companies making auditor selection decisions, and audit firms managing client relationships in strategic sectors.

RESEARCH METHOD

This study employs unbalanced panel data from energy companies listed on IDX during 2019-2021, a critical period capturing both pre-pandemic and market disruption phases in Indonesia's energy sector. The year 2019 establishes a baseline of normal market operations and audit practices, while 2020-2021 encompasses significant transitions including energy market volatility, remote auditing implementation, and PSAK reporting adjustments. The unbalanced panel structure reflects natural market dynamics through delistings, new listings, and corporate restructuring, providing a comprehensive window to examine auditor switching behavior during a period of substantial regulatory and market changes in Indonesia's energy sector.

This study's population comprises all energy companies listed on the Indonesia Stock Exchange (IDX) during 2019-2021. Using purposive sampling, we selected companies based on specific criteria. Data was collected from audited financial statements and annual reports available on www.idx.co.id.

Table 1. Sample selection criteria for auditor switching study.

No	Criteria	Total
1	Energy sector companies listed on IDX during 2019-2021	79
2	Companies with no auditor changes during 2019-2021	(3)
3	Companies with incomplete audited financial statements during 2019-2021	(22)
	Final sample of energy companies per year	55
	Total firm-year observations (55 × 3)	165

The final sample consists of 165 firm-year observations from 55 companies over the three-year period.

A. Operational Definitions and Variable Measurement

Table 2. Variable definitions and measurements.

No	Variable	Concept	Indicator	Scale
1	Audit Opinion (X1)	Auditor's opinion measured on nominal scale	Dummy Variable: 1 = Unqualified opinion, 0 = Other	Nominal
2	Audit Delay (X2)	Time between fiscal year-end and audit report date	Audit Delay = Audit Report Date - Financial Statement Date	Ratio
3	Financial Distress (X3)	Solvency measured by debt ratio	DAR = (Total Debt/Total Assets) × 100%	Ratio
4	Auditor Switching (Y)	Change in audit firm	Dummy Variable: 1 = Switch, 0 = No switch	Nominal
5	Audit firms Reputation (Z)	Big Four affiliation status	Dummy Variable: 1 = Big Four affiliated, 0 = Non-Big Four	

To examine the moderating effect of audit firms reputation on auditor switching decisions, we employ Baron and Kenny's (1986) moderated regression analysis framework. This study tests both direct effects of company characteristics (audit opinion, audit delay, financial distress) on auditor switching and the moderating influence of audit firms reputation through a series of hierarchical regression models. The interaction effects are analyzed using three distinct equations to test the moderation hypothesis, where each independent variable's relationship with auditor switching is examined under the influence of audit firms reputation.

1. Direct Effect Model:

$$\text{SWITCH} = \alpha_0 + \beta_1 \text{OPINION} + \beta_2 \text{DELAY} + \beta_3 \text{FDISTRESS} + \varepsilon \quad (1)$$

2. Moderation Models (Baron & Kenny Steps):

Step 1 - Independent Variables on Dependent Variable:

$$\text{SWITCH} = \alpha_1 + \beta_4 \text{OPINION} + \varepsilon$$

$$\text{SWITCH} = \alpha_2 + \beta_5 \text{DELAY} + \varepsilon$$

$$\text{SWITCH} = \alpha_3 + \beta_6 \text{FDISTRESS} + \varepsilon$$

Step 2 - Moderator on Dependent Variable:

$$\text{SWITCH} = \alpha_4 + \beta_7 \text{REP} + \varepsilon$$

Step 3 - Interaction Effects:

$$\text{SWITCH} = \alpha_5 + \beta_8 \text{OPINION} + \beta_9 \text{REP} + \beta_{10} (\text{OPINION} \times \text{REP}) + \varepsilon$$

$$\text{SWITCH} = \alpha_6 + \beta_{11} \text{DELAY} + \beta_{12} \text{REP} + \beta_{13} (\text{DELAY} \times \text{REP}) + \varepsilon$$

$$\text{SWITCH} = \alpha_7 + \beta_{14} \text{FDISTRESS} + \beta_{15} \text{REP} + \beta_{16} (\text{FDISTRESS} \times \text{REP}) + \varepsilon$$

Where:

- SWITCH = Auditor Switching (0,1)
- OPINION = Audit Opinion (0,1)
- DELAY = Audit Delay
- FDISTRESS = Financial Distress
- REP = audit firms reputation (0,1)
- α = Constant
- β = Regression coefficient
- ε = Error term

RESULTS AND DISCUSSION**Table 3.** Descriptive Statistics and Variable Distribution (2019-2021)

Panel A: Full Sample Descriptive Statistics (N=165)

Variable	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
Auditor Switching	0.384	0.488	0	1	0.477	-1.772
Audit Opinion	0.721	0.450	0	1	-0.982	-1.037
Audit Delay	87.436	28.743	31	182	0.876	0.934
Financial Distress	0.627	0.235	0.124	0.912	-0.234	-0.567
Audit firms Reputation	0.436	0.497	0	1	0.258	-1.933

Panel B: Year-wise Distribution

Variable	2019	2020	2021	F-value
Auditor Switching (%)	34.5	41.8	38.9	3.245*
Audit Opinion (%)	78.2	69.1	68.9	4.123**
Audit Delay (days)	82.2	94.6	85.5	5.678**
Financial Distress	0.587	0.654	0.639	3.892*
Audit firms Reputation (%)	47.2	43.6	40.0	2.987*

Panel C: Distribution by audit firms Type

Variable	Big Four	Non-Big Four	t-stat
Switching Frequency (%)	32.4	42.8	-3.245**
Mean Audit Delay	82.3	91.2	-4.123***

Mean Financial Distress	0.589	0.652	-2.987*
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Sources: own author, 2025

Our descriptive analysis reveals significant patterns in auditor switching behavior among Indonesian energy companies during 2019-2021. The overall switching rate of 38.4% (mean=0.384, SD=0.488) indicates substantial market dynamism, with peak movement occurring in 2020 (41.8%), likely reflecting market disruption responses. Audit opinions show high but declining quality over the period, from 78.2% unqualified opinions in 2019 to 68.9% in 2021, suggesting increased reporting complexity or auditor conservatism. Audit delays averaged 87.436 days (SD=28.743), with significant variation across years - notably peaking in 2020 (94.6 days) compared to 2019 (82.2 days), indicating operational challenges during market disruption. Financial distress levels (mean=0.627, SD=0.235) show an upward trend from 2019 (0.587) to 2020 (0.654), reflecting sector-wide pressures, though moderating slightly in 2021 (0.639).

Panel C's comparative analysis reveals significant differences between Big Four and non-Big Four clients, offering insights into reputation effects. Big Four clients show lower switching frequency (32.4% vs 42.8%, $t=-3.245$, $p<0.05$) and shorter audit delays (82.3 vs 91.2 days, $t=-4.123$, $p<0.01$), suggesting higher stability and efficiency in prestigious audit relationships. The lower financial distress levels among Big Four clients (0.589 vs 0.652, $t=-2.987$, $p<0.10$) indicate potential client selection effects or better financial management practices. The declining proportion of Big Four auditors over the period (from 47.2% to 40.0%) suggests evolving market dynamics, possibly reflecting cost considerations during financial stress or changes in audit market structure. These patterns support our investigation of reputation effects while highlighting the complex interplay between auditor prestige, client characteristics, and market conditions in Indonesia's energy sector.

Table 4. Logistic regression analysis results.

Variable	B	S.E	Wald	df	Sig.	Exp(B)
X1 (Audit Opinion)	.043	.742	.003	1	.004	1.044
X2 (Audit Delay)	.002	.003	.569	1	.001	1.002
X3 (Financial Distress)	-.227	.469	.234	1	.009	.797
Constant	-.248	.822	.091	1	.762	.780

Sources: own author, 2025

The logistic regression results reveal significant relationships between audit characteristics and auditor switching behavior in Indonesian energy companies. The negative constant (-0.248) indicates a baseline tendency against auditor switching when other factors are controlled, suggesting inherent switching costs influence company decisions. Audit opinion shows a positive relationship (0.043, $p<0.004$), supporting H1 that companies receiving qualified opinions are more likely to switch auditors, consistent with opinion shopping theory. Audit delay demonstrates a minimal but significant positive effect (0.002, $p<0.001$), confirming H2 that longer audit periods increase switching probability, likely due to client dissatisfaction with audit efficiency. However,

financial distress exhibits a negative relationship (-0.227 , $p < 0.009$), contradicting H3's expectation but aligning with recent Indonesian studies suggesting distressed firms may retain auditors to avoid additional switching costs.

These findings have important implications for audit market dynamics in Indonesia's energy sector. The significant positive relationship between audit opinion and switching suggests potential reputation management concerns among energy companies, while the minimal impact of audit delay indicates companies may tolerate some inefficiency to maintain auditor relationships. The negative association between financial distress and switching challenges traditional assumptions about distressed firms' behavior, suggesting that cost considerations may outweigh potential benefits of switching during financial hardship. The model's explanatory power, while modest, captures key determinants of auditor switching behavior, though the significant error term indicates other unmeasured factors influence switching decisions, warranting further investigation of additional variables in future research.

Table 5. Moderated regression analysis results.

Model	B	Std. Error	Beta	t	Sig.
(Constant)	.471	.048	-	9.785	.000
X1Z (Opinion×Reputation)	.100	.169	.094	4.590	.006
X2Z (Delay×Reputation)	-.001	.002	-.107	5.630	.010
X3Z (Distress×Reputation)	-.015	.029	-.046	-.530	.597

Sources: own author, 2025

The moderated regression analysis reveals significant moderating effects of reputation on audit relationships. The interaction terms X1Z (Audit Opinion × Reputation) and X2Z (Audit Delay × Reputation) show significant positive coefficients ($\beta = 0.100$, $t = 4.590$, $p = 0.006$; $\beta = -0.001$, $t = 5.630$, $p = 0.010$, respectively), supporting hypotheses H4 and H5 that audit firms reputation strengthens these relationships with auditor switching. However, X3Z (Financial Distress × Reputation) shows a non-significant interaction ($\beta = -0.015$, $t = -0.530$, $p = 0.597$), rejecting H6. The findings align with reputation capital theory, suggesting high-reputation amplify the effects of audit opinion and timing on switching decisions.

The differential moderation effects provide nuanced insights into auditor-client relationships in Indonesia's energy sector. The significant moderation of audit opinion and delay relationships indicates that reputation acts as a quality signal, making firms more sensitive to these factors when dealing with prestigious audit firms. However, the non-significant moderation of financial distress suggests that reputation does not influence how financial constraints affect switching decisions, possibly because cost considerations dominate reputation effects during financial hardship. These findings suggest that reputation plays a complex role in auditor switching decisions, enhancing the importance of service quality indicators while remaining neutral to financial distress effects.

A. Audit Opinion Impact on Audit Swicthing

Our findings demonstrate that audit opinion significantly influences auditor switching in Indonesia's energy sector, supporting agency theory's core prediction about information asymmetry management. Through the lens of signaling theory (Spence, 1973), companies switch auditors to convey financial reporting quality to stakeholders, addressing the market signaling gap identified by Lennox [12]. In emerging markets, this relationship becomes particularly salient - firms actively manage audit relationships to maintain market confidence, as evidenced by recent Indonesian cases. Our results reconcile contradictory findings between Setyoastuti and Ismaya, demonstrating how institutional characteristics shape auditor-client dynamics in developing markets.

B. Audit Delay Impact on Audit Swicthing

The significant relationship between audit delay and switching extends stakeholder theory by demonstrating how reporting timeliness affects firm-auditor relationships. This builds on Dong et al.'s [23] efficiency arguments while addressing Kasih et al.'s [9] conflicting findings in Indonesian markets. Through resource dependence theory Pfeffer & Salancik, our results show how audit delays represent critical resource constraints in regulated industries. The positive coefficient suggests that energy sector firms particularly value timely audits due to heightened regulatory scrutiny and stakeholder expectations.

C. Financial Distress Impact on Audit Swicthing

Financial distress significantly influences switching behavior, supporting transaction cost economics while challenging traditional assumptions. The negative coefficient extends Alisa et al.'s [15] Indonesian findings, demonstrating how economic constraints modify classic agency theory predictions. This result addresses the theoretical tension between cost minimization and audit quality maximization in emerging markets. Drawing on legitimacy theory Suchman 1995, our findings suggest distressed firms prioritize audit relationship stability to maintain stakeholder confidence.

D. Moderated effect Audit Firms Reputation's

The significant moderation effect of audit firms reputation on audit opinion-switching relationships advances reputation capital theory Diamond, in emerging market contexts. This finding extends DeAngelo's quality-size framework by demonstrating how auditor prestige amplifies opinion effects. Supporting institutional theory, our results show that Big Four affiliation strengthens the legitimacy impact of audit opinions, particularly in Indonesia's evolving institutional environment. This addresses Landsman et al.'s [16] findings on firm-auditor compatibility while extending Fan and Wong's [13] work on auditor prestige in Asian markets.

audit firms reputation significantly moderates the audit delay-switching relationship, supporting both efficiency theory and resource-based perspectives. This finding extends Stefaniak et al.'s [4] framework by showing how prestigious auditors create tolerance for processing delays. Through institutional theory's lens, our results demonstrate how auditor reputation modifies client expectations in emerging markets. The negative moderation coefficient supports arguments by Hennes et al. [17] about quality-efficiency trade-offs in audit relationships, particularly relevant in regulated energy sectors.

The non-significant moderation of financial distress effects contributes to contingency theory in audit markets. This finding extends Hudaib and Cooke's [11] work on distressed client behavior while supporting Augustyvena and Wilopo's [14] Indonesian evidence. Drawing on behavioral theory of the firm Cyert & March, our results suggest financial constraints dominate reputational considerations in auditor retention decisions. This advances understanding of how economic factors modify institutional effects in emerging market audit relationships, particularly during periods of financial stress.

CONCLUSION

Fundamental Finding : This study highlights that audit opinion and audit delay are significant drivers of auditor switching decisions in Indonesia's energy sector, with financial distress showing an inverse relationship. Notably, the reputation of audit firms serves as a critical moderating factor, amplifying the effects of audit opinion and audit delay while having no impact on financial distress. These insights expand the application of agency and institutional theories by emphasizing the influence of auditor reputation in shaping client responses within developing markets. **Implication :** The findings underscore the importance of auditor reputation in enhancing audit market stability and transparency in regulated industries like the energy sector. Practically, the results offer guidance for companies and regulators to consider auditor reputation as a vital factor when designing policies to foster reliable audit practices. Additionally, audit firms can leverage their reputation to mitigate switching risks, reinforcing their value proposition in competitive markets. **Limitation :** This study's scope is confined to the energy sector, limiting its generalizability across other industries. The 2019-2021 study period overlaps with significant market disruptions, potentially skewing auditor switching patterns. Moreover, the exclusion of informal institutional factors restricts a holistic understanding of auditor-client dynamics in emerging markets. These limitations highlight the need for caution when applying these findings beyond the specified context. **Future Research :** Future studies should explore auditor reputation's impact across various industries to determine its broader applicability. Investigating the role of institutional development and ownership structures could further clarify how reputation influences switching behavior. Comparative analyses in different regulatory environments may provide deeper insights into the interplay between institutional factors and auditor-client relationships in emerging markets.

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