

## Does Leadership Shake-Up and Financial Struggles Drive Auditor Changes?

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### **Abstract**

*This study investigates the influence of management turnover and financial distress on auditor changes. The research employs a purposive sampling method and utilizes secondary data, specifically financial statements and annual reports of companies listed on the Indonesia Stock Exchange from 2018 to 2021. The sample comprises 324 observations from 81 companies in the non-cyclical consumer goods sector. Logistic regression analysis is applied, as the dependent variable is a binary (dummy) variable. The results indicate that neither management turnover nor financial distress significantly affect auditor changes, suggesting that a company's decision to switch auditors is independent of changes in its board of directors or financial condition. The findings of this study highlight the complexity of auditor change decisions, suggesting that factors beyond management turnover and financial distress may play a more significant role. These results provide valuable insights for regulators, investors, and policymakers in understanding the stability of auditor-client relationships.*

**Keywords:** Auditor Change, Financial Distress, Management Turnover

### **Abstrak**

Penelitian ini mengkaji pengaruh pergantian manajemen dan kesulitan keuangan terhadap pergantian auditor. Metode penelitian yang digunakan adalah purposive sampling dan memanfaatkan data sekunder berupa laporan keuangan dan laporan tahunan perusahaan yang terdaftar di Bursa Efek Indonesia dari tahun 2018 hingga 2021. Sampel penelitian terdiri dari 324 observasi dari 81 perusahaan pada sektor barang konsumsi non-siklikal. Analisis regresi logistik digunakan karena variabel dependen berbentuk biner (dummy). Hasil penelitian menunjukkan bahwa pergantian manajemen maupun kesulitan keuangan tidak berpengaruh signifikan terhadap pergantian auditor. Temuan ini mengindikasikan bahwa keputusan perusahaan untuk mengganti auditor tidak bergantung pada perubahan dalam dewan direksi maupun kondisi keuangannya. Studi ini menyoroti kompleksitas dalam pengambilan keputusan terkait pergantian auditor, dan menunjukkan bahwa terdapat faktor-faktor lain di luar pergantian manajemen dan kesulitan keuangan yang mungkin memiliki peran lebih

besar. Hasil penelitian ini memberikan wawasan berharga bagi regulator, investor, dan pembuat kebijakan dalam memahami stabilitas hubungan antara auditor dan klien.

**Kata kunci:** Pergantian Auditor, Kesulitan Keuangan, Pergantian Manajemen

## I. INTRODUCTION

An audit is a structured and systematic process designed to collect and evaluate evidence related to economic transactions and activities that impact the preparation of financial statements (Zdravkoski et al., 2016). The primary objective is to assess whether the reported financial information accurately reflects the entity's actual financial condition. The audit findings are then communicated to relevant stakeholders, enabling informed decision-making (Lessambo, 2018). A key principle of auditing is independence, which ensures that financial statements provide a transparent and reliable representation of an entity's financial position. To maintain this independence, audits are conducted by external auditors who operate without bias or conflicts of interest (Njagi, 2023).

In practice, companies engage the services of an external auditor from a Public Accounting Firm (KAP). Each company has the right to determine or select the external auditor who will conduct the audit of its financial statements, while considering specific criteria such as the audit firms reputation, audit fees, and the rotation of auditors within the audit process, commonly referred to as auditor change. There are two types of auditor changes or rotations within a corporation: mandatory and voluntary. Mandatory auditor rotation is regulated under the Government Regulation (PP) Number 20 of 2015 on Public Accountant Practices, specifically Article 11, which states that a public accountant may provide audit services to an entity for a maximum of five consecutive financial years. Voluntary auditor changes can be categorized into two types: auditor withdrawal and auditor dismissal. According to ISA 705, auditor withdrawal occurs when an auditor identifies a potential increase in risk associated with the client, such as undetected material misstatements. In such cases, the auditor may withdraw from the audit process in accordance with applicable regulations and standards. On the other hand, auditor dismissal results from a decision made by the company's management. This decision may be influenced by various factors, such as changes in management or the company's deteriorating financial condition, including financial distress.

A notable real-world case of auditor change occurred with PT Garuda Indonesia (Persero) Tbk in 2019. The company replaced its auditor following a controversy regarding financial statement misrepresentation. The previous auditor, KAP Tanubrata Sutanto Fahmi Bambang & Rekan, issued an unqualified opinion on Garuda's 2018 financial statements. However, Indonesia's Financial Services Authority (OJK) and the Supreme Audit Agency (BPK) later found irregularities related to premature revenue recognition from a cooperation agreement with Mahata Aero Teknologi, which significantly inflated profits. As a result, Garuda was required to

restate its financial statements, and the company subsequently changed its auditor to KAP Purwantono, Sungkoro & Surja (a member of Ernst & Young).

This case highlights the significant consequences of auditor changes. The replacement of Garuda Indonesia's auditor was not merely a procedural shift but a response to regulatory scrutiny and a strategic effort to restore trust. Auditor changes, whether mandatory or voluntary, can impact investor confidence, corporate governance, and the overall stability of financial markets. If an auditor change occurs due to financial distress or management turnover, it may signal underlying risks that require further investigation. Additionally, excessive auditor changes may disrupt the audit process, reduce the effectiveness of financial oversight, and raise concerns regarding audit quality. Therefore, studying the relationship between financial distress, management turnover, and auditor changes can provide valuable insights into corporate decision-making, regulatory compliance, and financial transparency.

In recent years, several studies have sought to determine whether management changes and financial distress influence auditor changes. Research conducted by Darmayanti et al. (2021) found that management turnover has a positive impact on auditor changes. Similar findings were reported by Izza et al. (2022), who demonstrated that management changes have a significantly positive effect on auditor changes. However, some previous studies have produced contradictory results. For instance, research by Azlin & Taqwa (2023) found that management changes do not influence auditor changes. Meanwhile, studies by Putri & Wulandari (2023) and Fenny et al. (2020) indicated that financial distress experienced by a corporation positively affects auditor changes. Conversely, findings from Darmayanti et al. (2021) and Wati (2020) revealed opposing results, suggesting that financial distress negatively impacts auditor turnover.

This study differs from prior research, as it focuses on companies in the consumer goods sector, whereas most previous studies have analyzed manufacturing firms when assessing these two factors. This sector was selected because it was among the few industries that were not significantly affected by the COVID-19 pandemic in 2020 and did not experience a major decline in investor interest. This study also incorporates firm size, firm age, Return on Asset (ROA), and leverage as control variables to ensure the robustness of the findings, which have not been widely explored in previous studies.

## **II. STUDY LITERATURE**

### **Agency Theory**

This research is grounded in agency theory, developed by Jensen & Meckling (1976), which examines the relationship between two key parties: the principal and the agent. This relationship emerges from a contractual arrangement in which the principal delegates authority to the agent to perform specific tasks in alignment with the principal's objectives. In a corporate context, the principal, such as shareholders or business owners, entrusts decision-making and operational responsibilities to the

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agent, typically executives or managers. The agent, in turn, is expected to act in the best interests of the principal while carrying out their assigned duties.

However, information asymmetry often arises due to the agent's superior access to internal corporate information compared to the principal. This imbalance creates the potential for agency problems, where agents may prioritize personal interests over those of the principal, leading to inefficiencies, opportunistic behavior, or even financial misrepresentation (Elder & Zhou, 2002). To mitigate these risks, auditors play a critical role as independent intermediaries between principals and agents. By verifying the accuracy and reliability of financial statements, auditors help reduce information asymmetry, enhance transparency, and reinforce corporate accountability. Their role ensures that financial reporting remains a trustworthy basis for decision-making by stakeholders, thereby safeguarding the integrity of corporate governance.

### **Auditor Change**

Auditor change refers to the replacement of a KAP by a company, either voluntarily or as mandated by regulations. Previously, Minister of Finance Regulation (PMK) Number 17/PMK.01/2008 stipulated that audit services by a KAP were limited to a maximum of six fiscal years, while individual public accountants were restricted to three years, with a one-year cooling-off period before they could be reappointed. In 2015, PP Number 20 of 2015 removed the limitation on KAP tenure but maintained a five-year cap for individual public accountants or audit partners. This regulation grants companies the flexibility to retain the same KAP or switch auditors as needed. Currently, auditor change is voluntary, as reinforced by Financial Services Authority Regulation (POJK) Number 13 of 2017, which stipulates that the decision to engage a KAP is subject to the evaluation and discretion of the company's audit committee.

### **The Impact of Management Turnover on Auditor Change**

Changes in a company's management can occur at any time due to various factors, such as shareholder decisions or the resignation of the management itself (Winata & Anisykurlillah, 2018). Newly appointed management typically implements new policies aimed at improving the company's quality and performance under its leadership (Adli & Suryani, 2019). One aspect that may be affected by these managerial policy changes is the preference for KAP conducting audits of the company. Dissatisfaction with the audit results from the previous period may prompt management to replace the auditor before the five-year engagement term expires (Wibowo & Rahmawati, 2019).

In this context, new management tends to select a KAP that aligns more closely with its policies and management systems. Auditor rotation thus becomes a natural consequence of managerial changes within a company (Augustyvena & Wilopo, 2017). Research conducted by (Baskara & Hermi, 2022) and (Pebriani et al., 2022) found that management turnover positively affect auditor switching. Based on these considerations, the researcher formulates the first hypothesis as follows:

H1: Management changes have a positive influence on auditor change.

## The Impact of Financial Distress on Auditor Change

Financial distress refers to a condition in which a company experiences financial strain, characterized by its inability to fulfill part or all of its liabilities, particularly short-term obligations. This situation may arise due to several factors, such as the unavailability of cash or bank balances, forcing the company to seek immediate funding solutions. Common measures to address this issue include liquidating assets or collecting outstanding receivables (Darmayanti et al., 2021).

Financial difficulties typically precede corporate bankruptcy. Therefore, it is crucial for companies to identify and develop early warning models for financial distress (Almilia & Kristijadi, 2003). Priambardi & Haryanto (2014) further assert that companies facing financial instability often resort to auditor changes. This measure is taken in the hope that a new auditor will provide a more objective evaluation of the company's financial condition, thereby mitigating the risk of financial deterioration and potential bankruptcy (Darmayanti, 2017).

Research conducted by Putri & Wulandari (2023) and Fenny et al. (2020) demonstrates a positive relationship between financial distress and auditor switching. Based on these findings, the researcher formulates the second hypothesis as follows:

H2: Financial distress has a positive influence on auditor change.

### III. RESEARCH METHODOLOGY

This research focuses on companies listed on the IDX, selected through purposive sampling. The criteria include public companies in the non-cyclical consumer goods sector listed between 2018 and 2021 and those that published audited financial statements during the same period. The datasets are sourced from company websites, the IDX website, S&P Capital IQ, and other credible platforms. The researcher employs a logistic regression method using STATA 17, considering that the dependent variable is dummy in nature, suggesting that the data in this research is assumed not to follow a normal distribution. The relationship among the variables is represented by the following equation:

$$AC_{i,t} = \alpha_{i,t} + \beta_1 PM_{i,t} + \beta_2 FD_{i,t} + \beta_3 SIZE_{i,t} + \beta_4 AGE_{i,t} + \beta_5 ROA_{i,t} + \beta_6 LEV_{i,t} + \beta_7 COV_{i,t} + e$$

Information:

- $\alpha$  : Constant Coefficient
- $\beta_1$ - $\beta_7$  : Regression Coefficient
- AC : Auditor Change
- PM : Management Turnover
- FD : Financial Distress
- SIZE : Firm Size
- AGE : Firm Age
- ROA : Return on Asset
- LEV : Leverage
- COV : COVID-19 Pandemic

e : Residual Errors  
 i : Firm i  
 t : Year t

**Table 1. Research Variables and the Measurements**

No	Variable	Proxy	Formula
1	Auditor Change	Dummy Variable	1: Auditor Change 0: No Auditor Change
2	Management Turnover	Dummy Variable	1: Management Turnover 0: No Management Turnover
3	Financial Distress	Debt-to-Equity Ratio (DER)	$\frac{\text{Total Debt}}{\text{Total Equity}}$
4	Firm Size	Natural Logarithm of Asset	$\ln(\text{Total Asset})$
5	Firm Age	Firm Age	Number of years since the company's establishment
6	Return on Asset	ROA	$\frac{\text{Net Income}}{\text{Total Asset}}$
7	Leverage	Debt-to-Asset Ratio (DAR)	$\frac{\text{Total Debt}}{\text{Total Asset}}$
8	COVID-19	Dummy Variable	1: Covid Year 0: Non-Covid Year

#### IV. RESULT AND DISCUSSION

##### Descriptive Statistical Analysis

**Table 2. Descriptive Statistical Analysis Result**

Variable	Mean	Std Dev	Min	Max
AC	0.091	0.288	0	1
PM	0.432	0.496	0	1
FD	1.432	2.136	0.007	23.41625
SIZE	14.902	1.597	11.415	19.004
AGE	3.561	0.588	1.386	4.744
ROA	0.047	0.129	-0.255	0.920
LEV	2.485	2.313	1.006	24.416
COV	0.503	0.500	0	1

Source: STATA 17 Output Results, 2025

Auditor Change (AC) is a binary variable (0 and 1) indicating whether a company changed its KAP during the study period, with a mean of 0.091 and a standard deviation of 0.288. Management Turnover (PM), the primary independent variable, also binary, reflects changes in the board of directors, with a mean of 0.432 and a standard deviation of 0.496. Financial Distress (FD), measured by the Debt-to-Equity Ratio (DER), ranges from 0.007 to 23.416, with a mean of 0.432 and a standard deviation of 0.496.

Firm Size (SIZE), converted using the natural logarithm, has values between 11.485 and 19.004, with a mean of 14.902 and a standard deviation of 1.597. Firm Age (AGE), measured in years since establishment, ranges from 1.386 to 4.744, with a mean of 3.561 and a standard deviation of 0.588. Return on Assets (ROA), a control variable assessing asset efficiency, varies from -0.255 to 0.920, with a mean of 0.047 and a standard deviation of 2.313. Leverage (LEV), measuring debt proportion, has a range of 1.006 to 24.416, with a mean of 2.313 and a standard deviation of 2.313. Covid-19 (COVID), a dummy variable indicating the pandemic's impact, has a mean of 0.503 and a standard deviation of 0.500.

### Goodness-of-Fit Test

The goodness-of-fit test evaluates how well a regression model represents the observed data by using the chi-square value as a measure. A p-value of  $\leq 0.05$  indicates a significant difference between the model and the observed data, suggesting the model may not be a good fit. Conversely, a p-value  $\geq 0.05$  implies no significant difference, indicating that the model adequately describes the data.

**Table 3. Goodness-of-Fit Result**

<b>Logistic Model for AC, Goodness-of-Fit Test</b>	
Number of Observations	324
Number of Covariate Patterns	312
Pearson chi2(304)	289.66
Prob > chi2	0.7136

Source: STATA 17 Output Results, 2025

The p-value of 0.7136 in Tabel 3 is well above the 0.05 threshold, indicating no significant difference between the model and the observed data. This suggests that the logistic model provides a good fit for the data.

### Log Likelihood

In statistical modeling, the log-likelihood quantifies how effectively a model fits the observed data. A strong model fit is reflected by a steady increase in the log-likelihood during optimization, signaling that the model is progressively aligning better with the data.

**Table 4. Log Likelihood Result**

Iteration	Value
Iteration 0: log likelihood	-96.987665
Iteration 1: log likelihood	-85.962121
Iteration 2: log likelihood	-83.755776
Iteration 3: log likelihood	-83.742460
Iteration 4: log likelihood	-83.742448
Iteration 5: log likelihood	-83.742448

Source: STATA 17 Output Results, 2025

Referring to Table 4, the results of the model evaluation in this study show a trend of increasing log-likelihood. At iteration 0, the log-likelihood value is -96.987665, while at iteration 5, it rises to -83.742448. This increase indicates that the model is progressively aligning better with the observed data, suggesting that the model is a good fit for the data.

**Coefficient of Determination (Pseudo R-squared)**

The coefficient of determination (Pseudo R-squared) indicates how effectively a regression model accounts for the variation in the dependent variable, with values ranging from 0 to 1. A value of 0 suggests no explanatory power, while a value close to 1 demonstrates a strong ability to predict the outcome.

**Table 5. Pseudo R-squared**

Logistic Regression	
Number of Observation	324
Pseudo R2	0.1366

Source: STATA 17 Output Results, 2025

Referring to Table 4.6, the Pseudo R<sup>2</sup> value in this study is 0.1366, or 13.66%. This indicates that the independent variables in the study explain 13.66% of the variation in the dependent variable, while the remaining 86.34% is explained by factors not included in this study.

**LR Chi2 Statistics**

This test assesses the overall impact of independent variables on a dependent variable. Statistical significance is determined when the p-value or Prob>F falls below 0.1, 0.05, or 0.01. A p-value within these thresholds suggests that at least one of the variables has a meaningful contribution to the outcome, and vice versa.

**Table 6. LR Chi2 Statistics**

Logistic Regression	
Number of Observation	324
LR Chi2(7)	26.49

Source: STATA 17 Output Results, 2025

In Table 6 above, the results of the model adequacy test show an LR Chi2 score of 26.49. Based on these results, it can be concluded that none of the independent variables in the model have a statistically significant impact on the dependent variable at the  $\alpha = 10\%$  significance level.

### Hypothesis Test

Hypothesis testing evaluates the impact of estimator variables on the dependent variable. T-tests are performed at 1%, 5%, and 10% significance levels, with the hypothesis accepted if the p-value is below 0.01, 0.05, or 0.1, respectively. Otherwise, it is rejected.

**Table 7. Hypothesis Test**

AC	Coef.	P> z	Sig
PM	0.518	0.266	
FD	0.066	0.879	
SIZE	-0.350	0.004	***
AGE	-0.593	0.082	**
ROA	-3.611	0.053	**
LEV	-0.065	0.877	
COV	0.773	0.057	**

\*\*\* p<.01, \*\* p<.05, \* p<.1

Source: STATA 17 Output Results, 2025

Based on the hypothesis testing results presented in Table 7 above, it can be concluded that the PM variable exhibits a coefficient of 0.518 with a P>|z| value of 0.266. This suggests that the PM variable does not exert a statistically significant influence on the AC variable, as the significance level exceeds the 10% threshold ( $\alpha = 10\%$ ). A similar outcome was observed for the other independent variable, FD, which recorded a coefficient of 0.066 and a P>|z| value of 0.879, further indicating that the FD variable does not have a statistically significant impact on the AC variable.

### Management Turnover does not affect Auditor Change

This study reveals that a company's policy regarding changes to its board of directors, particularly in firms operating in the non-cyclical consumer goods sector on the IDX, does not necessarily influence the new management's satisfaction with the audit results from the previous auditor. Although some companies in this research did undergo board of director changes that led to the replacement of the public accounting firm (KAP) or the previous auditor, the findings indicate that the new management tends to retain trust in the former auditor. This may be due to the fact that the policies adopted by the new management typically align with those implemented by the previous auditor.

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The findings of this study are consistent with research by Azlin & Taqwa (2023), which suggests that the lack of impact of management turnover on auditor changes indicates a potential alignment between the new management and the previous auditor, thus negating the need for auditor switching. Furthermore, research by Reschiwati & Syifa (2023) emphasizes that even if the opinion issued by the KAP does not meet the new management's expectations, as long as the KAP continues to act professionally and uphold its independence, management will likely consider maintaining its relationship with the same KAP.

### **Financial Distress does not affect Auditor Change**

This study found no evidence of a financial distress impact on the change of auditors. This may be attributed to the fact that switching audit firms would actually incur higher costs, especially in the initial stages, when the new audit firm needs to familiarize itself with, identify, and adapt to the client's business processes. Therefore, the company is unlikely to take the risk of further exacerbating its already unstable financial condition by appointing a new auditor that could add additional costs.

These findings are consistent with previous studies examining the correlation between the two variables, including research by Berliana et al (2023) and Tjahjono & Khairunissa (2021). The studies mention that a change in audit firms outside the timeframe specified in regulations can raise concerns for shareholders and investors, potentially triggering negative responses, especially when the company is experiencing financial distress. Under such conditions, companies tend to enhance their evaluation of auditor subjectivity in order to maintain trust with shareholders and creditors.

## **DISCUSSION**

The results of this study reveal that neither management turnover nor financial distress significantly influences auditor change among non-cyclical consumer goods companies in Indonesia. Although agency theory suggests that new management may prefer to align audit policies with their own strategic direction, the findings indicate that auditor–client relationships in this sector remain stable even when leadership changes occur. This stability may stem from the auditor's accumulated knowledge of the company, which new management perceives as valuable for maintaining continuity and minimizing operational risk. The results are consistent with previous studies that found management turnover does not necessarily trigger auditor switching when the existing auditor continues to demonstrate professionalism and independence.

Similarly, financial distress does not appear to motivate companies to change auditors. From an agency perspective, firms experiencing financial difficulties might be expected to seek more favourable audit outcomes or attempt to reset their reporting credibility through a new auditor. However, this study suggests that distressed firms prefer to avoid the additional transition costs and potential negative market perceptions associated with switching auditors. Changing auditors during financial instability may signal heightened risk to investors and creditors, making firms

more inclined to maintain existing audit relationships. These findings align with studies that argue auditor switching during distress can worsen uncertainty and may be interpreted as an attempt to influence audit outcomes.

The significance of several control variables provides further insight into auditor switching behaviour. Larger and more mature firms, as well as those with higher profitability, are less likely to change auditors, reflecting the role of organizational stability in maintaining long-term audit relationships. The positive association between auditor switching and the COVID-19 period suggests that external shocks and heightened uncertainty can influence audit decisions more strongly than internal managerial or financial factors. Overall, the findings highlight that auditor change is a multifaceted decision shaped more by firm characteristics and external conditions than by management turnover or financial distress, particularly within a stable and resilient industry such as consumer goods non-cyclical.

## **V. CONCLUSION AND RECOMMENDATION**

### **Conclusion**

This research investigates whether management turnover and financial distress influence auditor changes among the non-cyclical consumer goods companies on the IDX. The analysis reveals that neither management turnover nor financial distress significantly affects the decision to change auditors. Despite some companies experiencing changes in their management or facing financial distress, these factors did not notably drive auditor switches in the non-cyclical consumer goods sector.

The lack of significant influence from management turnover suggests that new management tends to align with the existing auditor, possibly due to trust in the auditor's professionalism and independence. Similarly, financial distress did not appear to trigger auditor changes, likely due to the additional costs and risks associated with switching auditors during financial instability.

These findings contribute to a broader understanding of the factors influencing auditor changes and highlight that, in this context, management changes and financial distress are not the primary drivers for switching auditors. The practical implications of these findings are significant for companies, auditors, and regulators. For companies, they may prefer to maintain existing auditor relationships due to the stability and cost-saving benefits, even during periods of management changes or financial difficulties. For auditors, they can focus on strengthening long-term relationships and ensuring high-quality service without the threat of client turnover in these situations. For regulators, this stability indicates a resilient market, though continued emphasis on transparency and auditor independence remains essential.

## Recommendation

In conducting this research, the author identified several limitations. First, the study focuses solely on companies in the consumer goods non-cyclical sector listed on the IDX from 2018 to 2021. As a result, the findings may not fully represent the influence of the variables involved, as similar research conducted in different sectors may yield different results. Second, the study is limited to the use of proxies related to management changes and financial distress, while other proxies may also impact the occurrence of auditor changes. Based on these limitations, the researcher recommends that future research expand its scope to include companies from other sectors to enhance comparative analysis and broaden the range of proxies used to better capture the factors influencing auditor changes.

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