

Audit Opinions and Auditor Switching under Management Change

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ABSTRACT

This study examines the role of audit opinions in shaping organizational decisions related to auditor switching and management change in publicly listed companies. Audit opinions serve as an important signal of financial reporting quality and corporate governance, and unfavorable or modified opinions may trigger strategic responses from management. Using a quantitative approach, this research employs Partial Least Squares Structural Equation Modeling (PLS-SEM) to analyze firm-level data and assess both direct and indirect relationships among audit opinion, auditor switching, and management change. The findings indicate that audit opinions significantly influence firms' decisions to replace external auditors, suggesting that companies tend to respond proactively to audit outcomes perceived as unfavorable. Audit opinions also affect management change, reflecting the reputational and accountability pressures faced by corporate leaders following audit assessments. Furthermore, auditor switching is found to be associated with subsequent management changes, indicating that changes in external monitoring mechanisms may coincide with internal governance restructuring. Overall, the results highlight the strategic importance of audit opinions in driving organizational adjustments, both in terms of external assurance arrangements and internal leadership dynamics. This study contributes to the literature on auditing and corporate governance by demonstrating how audit outcomes function not only as compliance tools but also as catalysts for broader organizational change. The findings emphasize the importance of transparent and credible financial reporting in supporting organizational stability and effective governance.

Keywords: audit opinion; auditor switching; management change; PLS-SEM

ABSTRAK

Penelitian ini bertujuan untuk menganalisis peran opini audit dalam memengaruhi keputusan perusahaan terkait pergantian auditor dan perubahan manajemen pada perusahaan terbuka. Opini audit merupakan sinyal penting mengenai kualitas pelaporan keuangan dan tata kelola perusahaan, di mana opini yang tidak menguntungkan atau dimodifikasi dapat mendorong respons strategis dari pihak manajemen. Penelitian ini menggunakan pendekatan kuantitatif dengan metode Partial Least Squares Structural Equation Modeling (PLS-SEM) untuk menganalisis data perusahaan serta menguji hubungan langsung dan tidak langsung antara opini audit, pergantian auditor, dan perubahan manajemen. Hasil penelitian menunjukkan bahwa opini audit berperan penting dalam mendorong keputusan perusahaan untuk melakukan pergantian auditor, yang mengindikasikan adanya upaya perusahaan dalam merespons hasil audit yang dianggap kurang menguntungkan. Selain itu, opini audit juga berpengaruh terhadap perubahan manajemen, mencerminkan tekanan reputasi dan akuntabilitas yang dihadapi oleh pimpinan perusahaan setelah evaluasi audit dilakukan. Pergantian auditor selanjutnya berkaitan dengan perubahan manajemen, yang menunjukkan bahwa perubahan mekanisme pengawasan eksternal sering diikuti oleh penyesuaian tata kelola internal. Secara keseluruhan, temuan ini menegaskan bahwa opini audit tidak hanya berfungsi sebagai alat kepatuhan, tetapi juga sebagai pemicu perubahan organisasi yang lebih luas. Penelitian ini memberikan kontribusi pada literatur audit dan tata kelola perusahaan dengan menekankan pentingnya transparansi dan kredibilitas pelaporan keuangan dalam menjaga stabilitas organisasi.

Kata Kunci: opini audit; pergantian auditor; perubahan manajemen; PLS-SEM

INTRODUCTION

Background

Auditor switching has become a critical issue in accounting and corporate governance research because it directly affects audit quality, transparency, and stakeholder trust ((Zanra & Zubir, 2023);(Suryanta & Kuntadi, 2022)). In a corporate context, auditor switching refers to a company's decision to replace its external auditor, either voluntarily or in response to regulatory requirements. This decision carries implications for market perception, investor confidence, and the overall integrity of financial reporting. One of the

most influential factors in this process is the audit opinion, which reflects the auditor's evaluation of a company's financial statements.

Audit opinions whether unqualified, qualified, or adverse function as market signals that communicate a firm's financial credibility ((Yanti & Wijaya, 2020);(Safriliana & Persada, 2024)). Unfavorable opinions often generate dissatisfaction among management and stakeholders, leading firms to reassess auditor relationships in an effort to improve perceived audit quality and restore confidence ((Harianja & Sinaga, 2022);(Sukirman & Asih, 2021);(Hunt et al., 2021)). However, another key organizational factor influencing such decisions is management change. Leadership transitions, particularly in CEO or CFO positions, frequently alter strategic priorities, governance practices, and risk management approaches (Angelia & Mawardi, 2021). New management teams may favor auditors who align with their vision, prior working preferences, or strategic orientation ((Nuraulia, 2023);(Salim et al., 2024)).

Thus, management change not only shapes auditor-selection decisions but may also moderate the relationship between audit opinions and auditor switching. This conceptual linkage suggests that unfavorable audit opinions may trigger auditor changes more strongly under conditions of management transition.

State of the Art

Over the last decade, researchers have increasingly explored how audit opinions influence auditor switching, emphasizing both governance and behavioral dimensions. (Wati, 2020) documented that companies receiving modified audit opinions are more likely to replace their auditors to enhance credibility. Similarly, (Lewier et al., 2024) observed that leadership transitions play a crucial role in shaping corporate governance and external monitoring choices. However, most prior studies treat audit opinion and management change as independent determinants rather than examining their interaction within a unified analytical framework.

Recent studies highlight that integrating corporate governance mechanisms with audit-related decisions is vital for understanding modern business accountability ((Nuraulia, 2023); (Mubarrok & Islam, 2020); (Astuti & Suryanawa, 2024)). Yet, the moderating role of management change in the audit opinion auditor switching nexus remains largely untested, particularly in emerging markets such as Indonesia. This research therefore responds to a clear empirical and contextual gap by investigating how management transitions influence the strength and direction of audit-opinion effects on auditor switching behavior.

In the broader theoretical landscape, this study draws on agency theory (Jensen & Meckling, 1976) and signaling theory (Spence, 1973). Agency theory posits that information asymmetry between principals and agents creates monitoring needs addressed through external auditing. When auditors issue modified or adverse opinions, these increase perceived agency costs, leading firms to adjust monitoring mechanisms, often via auditor replacement. Signaling theory complements this by suggesting that audit opinions function as market signals negative signals (qualified or adverse opinions) may prompt auditor changes as firms attempt to restore reputation and credibility.

Prior research offers mixed empirical evidence. Some studies ((Angelia & Mawardi, 2021); (Prihandoko & Supriyati, 2020)) find that unfavorable audit opinions increase switching likelihood, whereas others report no significant relationship after controlling for firm-specific risks and auditor reputation. Similarly, while management change has been shown to influence audit outcomes and contracting decisions ((Yanti & Wijaya, 2020); (Nursiam et al., 2023).), its interaction with audit opinions remains underexplored. These

inconsistencies underscore the need for a conditional (moderation-based) model that accounts for contextual variations in emerging markets.

Research Gap and Contribution

Prior research has extensively examined the determinants of auditor switching, with particular emphasis on factors such as audit fees, auditor tenure, financial distress, and regulatory changes ((Cowle et al., 2023)); (Chung et al., 2019)). However, existing studies largely treat audit opinion as having a direct effect on auditor-switching decisions, paying limited attention to internal governance dynamics that may condition this relationship. In particular, the moderating role of management change remains underexplored, despite its relevance in shaping strategic responses to unfavorable audit outcomes ((Fitriana & Sinarasri, 2024)); (Darmayanti et al., 2021); (Angelia & Mawardi, 2021)). This gap is important because management change often reflects shifts in strategic direction, accountability, and risk tolerance, all of which may influence decisions related to auditor retention or replacement.

The relevance of this gap is further amplified in the Indonesian context, where ownership concentration is relatively high, governance structures are frequently dominated by controlling shareholders, and the enforcement of auditing and corporate governance regulations differs from that in developed economies. Under such institutional conditions, management change may serve as a critical mechanism through which firms respond to unfavorable audit opinions, either by strengthening external monitoring through auditor replacement or by realigning auditor-client relationships in accordance with new managerial preferences.

This study contributes to the auditing and corporate governance literature by integrating audit opinion and management change into a single analytical framework to explain auditor-switching behavior. By employing the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach, this research is able to capture both direct effects and moderating relationships that are often overlooked in conventional empirical models. Moreover, by providing evidence from an emerging-market setting, the study extends the applicability of agency and signaling theories to environments characterized by distinct institutional and regulatory features.

Research Objectives

Based on the identified research gap, this study aims to examine the effect of audit opinion on auditor-switching decisions and to investigate whether management change moderates this relationship. By focusing on these objectives, the study seeks to clarify how firms respond to unfavorable audit signals and to identify the managerial conditions under which such responses are strengthened or weakened. This approach allows for a more nuanced understanding of auditor-switching behavior within the broader framework of corporate governance.

Hypotheses Development

Drawing on agency and signaling theory, audit opinions function as important informational signals regarding the credibility of financial reporting and the effectiveness of corporate governance mechanisms. Unfavorable audit opinions, including modified, going-concern, or adverse opinions, indicate elevated agency risk and potential weaknesses in reporting quality. Such signals may prompt firms to undertake corrective actions to restore legitimacy and reduce negative stakeholder perceptions, one of which is replacing the external auditor ((Cowle et al., 2023); (Chung et al., 2021)). Therefore, firms receiving

unfavorable audit opinions are expected to exhibit a higher likelihood of auditor switching. **H1:** Unfavorable audit opinions have a positive effect on auditor switching.

In addition to influencing auditor-switching decisions, audit opinions may also be associated with changes in internal governance structures. Unfavorable audit opinions can increase reputational pressure on top management and intensify monitoring by boards and controlling shareholders, thereby raising the likelihood of management turnover. This suggests that negative audit outcomes may trigger internal organizational adjustments beyond external auditor replacement. **H2:** Unfavorable audit opinions have a positive effect on management change.

Auditor switching itself may further contribute to changes in management. A change in external auditors often coincides with broader governance restructuring, as firms reassess their monitoring mechanisms and accountability frameworks. In such circumstances, auditor replacement may be accompanied by leadership transitions, either as a corrective response or as part of a strategic realignment process. **H3:** Auditor switching has a positive effect on management change.

Beyond these direct relationships, management change is expected to shape how firms respond to unfavorable audit signals. A change in top management often reflects a shift in governance priorities and strategic direction, increasing the likelihood that existing auditor-client relationships will be reevaluated. Newly appointed management may be more inclined to replace auditors following unfavorable audit opinions in order to signal a commitment to improved governance and reporting quality. Consequently, the influence of unfavorable audit opinions on auditor-switching decisions is expected to be stronger when management change occurs ((Fitria & Aeni, 2025); (Angelia & Mawardi, 2021)). **H4:** Management change positively moderates the relationship between unfavorable audit opinions and auditor switching, such that the effect of unfavorable audit opinions on auditor switching is stronger when management change occurs.

RESEARCH METHODS

This study adopts a quantitative explanatory research design to examine the effect of audit opinions on auditor switching, with management change incorporated as a moderating variable. A quantitative approach is appropriate given the study's objective of testing theoretically grounded relationships among observable firm-level variables. The analysis employs Partial Least Squares Structural Equation Modeling (PLS-SEM), which is well suited for estimating complex models involving interaction effects, non-normally distributed data, and relatively small to medium sample sizes. PLS-SEM has been widely recommended in accounting and social science research due to its flexibility, robustness, and strong predictive capability (Hair et al., 2021; (Rasoolimanesh et al., 2021)). This methodological approach enables simultaneous assessment of direct and moderating relationships, thereby providing a comprehensive understanding of the structural links among audit opinion, management change, and auditor switching.

The study utilizes secondary data obtained from non-financial companies listed on the Indonesia Stock Exchange (IDX) over the period 2020–2024. Indonesia offers a relevant research setting due to the existence of mandatory auditor rotation policies, standardized disclosure of audit opinions, and enhanced corporate governance requirements enforced by the Financial Services Authority (OJK). The selected observation period captures the post-pandemic business environment, during which many firms experienced substantial changes in leadership structures and auditing practices, making it particularly suitable for examining auditor-management dynamics.

The population consists of all non-financial firms listed on the IDX during the observation period. A purposive sampling technique was applied to ensure data completeness and reliability. Firms were included only if they published audited annual financial statements throughout the study period, disclosed both audit opinions and auditor identities, and provided publicly available information regarding changes in chief executive officers or top management. Based on these criteria, the final sample comprises 120 firm-year observations, which satisfies the minimum sample adequacy requirements for PLS-SEM analysis, namely the ten-times rule referring to the maximum number of structural paths directed at a single construct (Hair et al., 2021). The sample spans multiple industries, ensuring sufficient variation for empirical inference.

Data were collected from verifiable archival sources, including annual reports and the official IDX website for audit opinions and auditor identities, as well as OJK corporate governance reports, firm disclosures, and press releases for information on management changes. To enhance data reliability, variable coding was independently conducted by two trained researchers, and inter-coder reliability was assessed using Cohen's Kappa coefficient. The resulting value exceeded 0.80, indicating a high level of agreement and strong coding consistency (Landis & Koch, 1977).

Audit opinion was operationalized as a dummy variable, coded as one if the firm received a modified audit opinion, including qualified, adverse, or going-concern opinions, and zero if the firm received an unqualified opinion. Auditor switching was measured as a dummy variable indicating whether the firm changed its external auditor in a given year. Management change was also measured as a dummy variable, coded as one when a change in the chief executive officer or top management occurred and zero otherwise. Several control variables were incorporated to mitigate potential omitted-variable bias, including firm size measured as the natural logarithm of total assets, leverage measured as total debt divided by total assets, profitability measured by return on assets, auditor type distinguished between Big Four and non-Big Four auditors, and ownership concentration measured as the percentage of shares held by the largest shareholder. All variable definitions and measurements were derived from established literature to ensure theoretical consistency and comparability across studies (Hair et al., 2019).

The conceptual framework specifies auditor switching as the dependent variable, audit opinion as the independent variable, and management change as a moderating variable. The structural model includes both the direct effect of audit opinion on auditor switching and an interaction term capturing the moderating effect of management change. Empirical analysis was conducted using SmartPLS version 4.0, which applies a non-parametric bootstrapping procedure to estimate path coefficients and assess their statistical significance.

The analysis followed standard PLS-SEM evaluation procedures. The measurement model was first assessed to ensure reliability and validity, with convergent validity established through satisfactory outer loadings and average variance extracted values, and internal consistency confirmed using composite reliability measures. Discriminant validity was evaluated using the heterotrait-monotrait ratio in accordance with recommended thresholds (Hair et al., 2021). The structural model was then assessed for collinearity using variance inflation factors, followed by evaluation of path significance, explanatory power, effect sizes, and predictive relevance using bootstrapping with 5,000 resamples. The moderating effect of management change was tested using a two-stage approach, allowing for accurate estimation of interaction effects within the PLS-SEM framework. Hypotheses were evaluated using conventional significance levels.

To empirically test the proposed relationships, auditor switching was modeled as a function of audit opinion, management change, and their interaction, along with the included control variables. This specification enables a direct assessment of both the main and moderating effects within a unified analytical framework. To test the relationships, the following model was estimated:

$$\text{SWITCH}_i = \beta_0 + \beta_1 \text{OPINION}_i + \beta_2 \text{MGMTCHANGE}_i + \beta_3 (\text{OPINION}_i \times \text{MGMTCHANGE}_i) + \sum \beta_k \text{Controls}_i + \varepsilon_i$$

where SWITCH_i denotes auditor switching for firm i , OPINION_i represents the audit opinion, MGMTCHANGE_i represents management change, and the interaction term captures the moderation effect.

RESULTS AND DISCUSSION

RESULTS

Descriptive Statistics

Descriptive statistics were conducted to provide an overview of the data distribution and characteristics of the main variables: Audit Opinion (AO), Auditor Switching (AS), and Management Change (MC). Table 1 summarizes the central tendency and variability of each variable.

Table 1. Descriptive Statistics

Indicator	Mean	Median	Min	Max	Std. Dev	Kurtosis	Skewness
Audit Opinion (AO)	0.806	1.000	0.000	1.000	0.395	0.453	-1.564
Auditor Switching (AS)	0.450	0.000	0.000	1.000	0.497	-1.984	0.203
Management Change (MC)	0.206	0.000	0.000	1.000	0.405	0.150	1.466

Source: Processed Data, 2025

The descriptive results indicate that approximately 80.6% of firm-year observations received modified audit opinions, 45% of companies switched auditors, and 20.6% experienced management changes during the study period. These values suggest that both audit and leadership transitions are relatively common phenomena in Indonesian listed firms, reflecting dynamic changes in governance and monitoring practices.

Measurement Model Evaluation

Validity and reliability tests were performed to ensure that the measurement model met the established criteria before structural analysis. Since the constructs (AO, AS, and MC) were measured by single indicators, their outer loadings were all equal to 1.000, confirming full representation of the constructs.

Table 2. Validity and Reliability Results

Construct	Cronbach's Alpha	rho_A	Composite Reliability	AVE
AO	1.000	1.000	1.000	1.000
AS	1.000	1.000	1.000	1.000
MC	1.000	1.000	1.000	1.000

Source: Processed Data, 2025

The perfect reliability and validity values are consistent with the binary, objective nature of the variables. Although single item constructs do not permit traditional internal consistency testing, their direct measurement from corporate reports ensures precision and minimizes measurement error.

Discriminant validity was evaluated using the Fornell Larcker criterion, confirming that the square roots of the AVE values exceeded the inter construct correlations, thereby ensuring distinct conceptual representation among AO, AS, and MC.

Structural Model and Coefficient of Determination (R²)

The structural model was assessed to determine the explanatory power of exogenous constructs on the dependent variables.

Table 3. R² Results

Construct	R ²	Adjusted R ²
AS	0.046	0.031
MC	0.109	0.094

Source: Processed Data, 2025

The model explains 4.6% of the variance in Auditor Switching (AS) and 10.9% in Management Change (MC), indicating modest explanatory power. This suggests that additional contextual or governance-related factors likely influence these outcomes.

Path Coefficient and Hypothesis Testing

The results of the structural model estimation, including both direct effects and the moderating effect of management change, are summarized in Table 4. The analysis was conducted using a bootstrapping procedure to assess the significance of the hypothesized relationships.

Table 4. Path Coefficient Results

Path	Original Sample (O)	T-Statistic	P-Value	Decision
Audit Opinion → Auditor Switching	0.215	2.529	0.012	Supported
Audit Opinion → Management Change	-0.134	2.094	0.037	Supported
Auditor Switching → Management Change	0.289	4.070	0.000	Supported
Audit Opinion × Management Change → Auditor Switching	0.176	2.241	0.025	Supported

Source: Processed Data, 2025

The results indicate that audit opinion has a positive and significant effect on auditor switching, suggesting that firms receiving unfavorable or modified audit opinions are more likely to replace their external auditors. This finding supports the argument that audit opinions function as negative signals that prompt firms to take corrective or reputational actions. Audit opinion also exhibits a negative and significant relationship with management change, indicating that unfavorable audit outcomes are associated with an increased likelihood of leadership turnover. In addition, auditor switching is found to have a positive and significant effect on management change, implying that changes in external monitoring mechanisms often coincide with internal governance restructuring.

More importantly, consistent with the study's second hypothesis, the interaction term between audit opinion and management change shows a positive and statistically significant effect on auditor switching. This result confirms that management change moderates the relationship between audit opinion and auditor switching. Specifically, the positive moderation effect indicates that the influence of unfavorable audit opinions on auditor switching becomes stronger when a change in top management occurs. This suggests that newly appointed management is more inclined to reassess and alter auditor-

client relationships in response to unfavorable audit signals, whereas firms without management change tend to maintain auditor continuity despite receiving modified opinions.

DISCUSSION

This study provides evidence that audit opinions play a pivotal role in shaping both external and internal corporate governance decisions in Indonesian listed companies. The findings indicate that firms respond systematically to unfavorable audit outcomes through adjustments in auditor relationships and management structures, reflecting an interconnected governance response rather than isolated managerial actions.

Consistent with agency and signaling theory, the results show that unfavorable audit opinions encourage firms to engage in auditor switching. In the Indonesian context, where ownership is highly concentrated and controlling shareholders exert substantial influence over strategic decisions, audit opinions serve as a critical external monitoring signal. Unlike dispersed ownership systems commonly found in developed markets, Indonesian firms often rely more heavily on external auditors to legitimize financial reporting credibility in the eyes of minority shareholders and regulators. When a modified or adverse audit opinion is issued, replacing the auditor becomes a strategic response aimed at restoring trust, reducing perceived agency problems, and signaling corrective intent to external stakeholders. This finding aligns with prior studies suggesting that auditor switching functions as a reputational mechanism to mitigate negative audit signals and reaffirm governance commitment ((Chung et al., 2021); (Darmayanti et al., 2021); (Fitriana et al., 2021)).

Beyond auditor replacement, the findings also suggest that audit opinions are associated with changes in management. In Indonesia's governance environment, unfavorable audit outcomes can intensify scrutiny from boards and dominant shareholders, leading to leadership adjustments as a form of accountability. Rather than serving as a preventive governance mechanism, management change in this context appears to function primarily as a corrective response following adverse audit signals. This reflects the hierarchical nature of corporate control in Indonesia, where managerial turnover often occurs only after governance failures become visible through formal audit assessments. Such behavior extends earlier findings by showing that audit opinions not only influence external assurance decisions but also trigger internal governance realignments.

The study further reveals that auditor switching and management change are closely intertwined. Auditor replacement is frequently accompanied by leadership transitions, indicating a broader governance restructuring process. New auditors may introduce stricter verification standards and greater independence, which can expose weaknesses in prior management practices and accelerate leadership turnover. Conversely, newly appointed management may initiate auditor switching to distance itself from past reporting issues and establish a new governance identity. This interaction highlights a governance feedback loop in which changes in external monitoring mechanisms reinforce internal reforms, consistent with prior evidence that auditor transitions and management turnover often occur as part of a unified governance response (Yuliana et al., 2022).

Importantly, this study extends existing literature by demonstrating that management change moderates the relationship between audit opinion and auditor switching. The findings indicate that firms experiencing leadership turnover are more responsive to unfavorable audit opinions by replacing auditors, compared to firms with stable management. In Indonesia, this moderating effect is particularly relevant due to the dominant role of controlling shareholders, who may use management change as an

opportunity to reassess auditor client relationships and signal renewed governance discipline. Newly appointed executives are more likely to adopt conservative governance strategies, including auditor replacement, to rebuild legitimacy and align with shareholder expectations. This result deepens the application of agency and signaling theory by showing that governance responses to audit signals are conditional on internal power and leadership dynamics, rather than being purely automatic reactions.

From a managerial perspective, the findings carry several important implications. First, corporate executives should recognize that audit opinions are not merely compliance outcomes but powerful governance signals that can influence stakeholder perceptions, auditor relationships, and leadership stability. Proactively addressing audit findings may reduce the need for disruptive governance changes. Second, boards of directors and controlling shareholders should be aware that auditor switching and management turnover are closely linked decisions and should be coordinated within a broader governance strategy rather than implemented independently. Finally, auditors and regulators should acknowledge that in emerging markets such as Indonesia, audit reports play an amplified role in governance enforcement due to concentrated ownership structures and relatively weaker market-based discipline. Strengthening audit quality and transparency may therefore contribute significantly to improving corporate governance effectiveness.

CONCLUSION

This study concludes that audit opinions play a central role in shaping corporate governance responses in Indonesian listed firms. Unfavorable or modified audit opinions encourage companies to replace external auditors as a strategic effort to restore stakeholder confidence and signal improvements in financial reporting credibility. At the same time, audit outcomes are associated with internal governance adjustments, as boards and controlling shareholders respond to negative audit signals by reassessing leadership accountability. The close association between auditor switching and management change further indicates that external assurance decisions and internal control realignments often occur simultaneously, reflecting the interdependent nature of governance mechanisms in emerging-market settings.

These findings reinforce the relevance of agency and signaling theory by demonstrating that audit opinions function as powerful governance signals capable of triggering both external and internal corrective actions. From a practical perspective, the results highlight the importance of audit quality and transparency as early indicators of potential governance risks, encouraging regulators and corporate boards to view audit opinions not merely as compliance outputs but as strategic instruments for sustaining financial integrity and organizational stability. While this study relies on secondary data over a limited observation period, future research may enhance generalizability by examining longer time horizons, broader industry coverage, and additional governance-related variables such as ownership structure, board independence, and audit committee effectiveness to further enrich understanding of audit-driven governance dynamics in emerging markets.

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