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FACTORS AFFECTING AUDITOR SWITCHING WITH FINANCIAL DISTRESS AS A MODERATING VARIABLE IN JAKARTA ISLAMIC INDEX 70 COMPANIES FOR THE PERIOD 2019-2023

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Abstract

The purpose of this study is to determine and analyze the effect of management turnover, audit fees and company size on auditor switching in Jakarta Islamic Index 70 companies for the 2019-2023 period. In addition, this study also aims to analyze whether financial distress is able to moderate the relationship between management turnover, audit fees and company size on auditor switching. The type of research conducted is quantitative research. The population in this study were companies incorporated in the Jakarta Islamic Index for the period 2019-2023 totaling 135 companies. The sample in this study were 25 companies incorporated in the Jakarta Islamic Index in 2019-2023 which were obtained by purposive sampling technique. The data collection method used in this research is the literature study method and documentation. The data analysis method used in this research is Logistic Regression Analysis with the help of Eviews 13 software. The results obtained in this study indicate that management change is proven to have a positive and significant influence on auditor switching of the Jakarta Islamic Index 70 (JII70) company for the 2019-2023 period. Audit fees and company size proved to have no significant effect on auditor switching. Financial distress is proven to be able to strengthen the influence of management turnover and audit fees on auditor switching. While other results show that financial distress proved unable to strengthen the influence of company size on auditor switching of the Jakarta Islamic Index 70 (JII70) company for the period 2019-2023.

Keywords: ***management change, audit fee and company size on auditor switching and financial distress.***

1. INTRODUCTION

Financial statements describe information about the financial condition of a company. Every company that goes public must publish its financial statements in accordance with the actual situation. In order to produce reliable financial reports, the company requires audit services from auditors. The company's need for audit services causes competition between public accounting firms, companies can choose a public accounting firm using financial reports that are presented relevantly and reliably. Auditor rotation is carried out so that the reliability of the financial statements and auditor independence can be maintained.

Auditor switching in Indonesia is also strongly supported by the Indonesian government, namely in Government Regulation of the Republic of Indonesia Number 186/PMK.01/2021. In tightening guidance and supervision in the field of audit services, the Financial Services Authority also issued Financial Services Authority Regulation Number 13/POJK.03/2017 concerning the Use of Accountant Services and Public Accounting Firms in Financial Services Activities.

Auditor switching is one of the issues that is still a topic of discussion by accountants, academics, and other interested parties. Many parties are pros and cons of government policies that require companies to change auditors. Auditor changes can occur voluntarily or mandatorily. If the auditor change occurs voluntarily, then the causal factors can come from the client side (for example financial difficulties, failed management, ownership changes, Initial Public Offering, and so on) and from the auditor side (for example audit fees, audit quality, and so on). Conversely, if the change occurs on a mandatory basis, as happens in Indonesia, it happens because there are already regulations that require it (Mahariyani & Afrah, 2022).

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Table 1.
The Phenomenon of Public Accountant Firm Changes in JII70 Companies

No.	Company Code	Description
1	CTRA	From 2019 to 2022, CTRA used the services of Public Accounting Firm Purwantono, Sungkoro and Surja which is affiliated with Ernst & Young Global Limited. However, in 2023 the company changed its external auditor to use the services of Imelda & Rekan Public Accounting Firm affiliated with Deloitte Asia Pacific Limited.
2	MIKA	In 2019 and 2020 the company used the services of the Public Accounting Firm Tanubrata, Sutanto, Fahmi, Bambang and Partners. However, from 2021 to 2023 the company uses the services of the Public Accounting Firm Amir Abadi Jusuf, Aryanto, Mawar & Partners.
3	PTPP	In 2019 the company used the services of the Public Accounting Firm Hertanto, Grace, Karunawan. However, from 2020 to 2022 the company changed the services of the Public Accounting Firm to Kosasih, Nurdiyaman, Mulyadi, Tjahjo and Partners. While in 2023 the company returned to using the services of the Hertanto, Grace, Karunawan Public Accounting Firm.

Source: Data processed (2024)

The table above shows the phenomenon of changing the Public Accounting Firm (KAP) in companies listed on the Jakarta Islamic Index 70 (JII70). This auditor change occurred in three companies: CTRA, MIKA, and PTPP, with each having a different pattern of change. The phenomenon of auditor turnover is not only driven by regulations governing the period of use of certain auditors, but also influenced by various factors such as management changes, changes in audit fees, company size, and the company's financial condition which can cause financial distress. Financial distress itself can serve as a moderator in the relationship between management turnover, audit fees and company size, suggesting that a company's deteriorating financial condition could be a reason to switch to an auditor who may offer more competitive fees or services that better suit the needs of companies in difficult situations.

The change in the leadership of a company chosen by shareholders, because the company's leadership voluntarily resigns based on the results of the general meeting of shareholders (Setyoastuti, et al., 2020). With the new company leadership, it may be followed by changes in new policies in the accounting and finance sector, including changing KAP (Nainggolan, et al., 2022). Each leader certainly has a different philosophy, leadership style and operating style, including different strategies and goals in carrying out company operations. So, this change directly or indirectly causes the new leadership to make a change of KAP, because they prefer a KAP that can support the policies that will be taken (Setyoastuti, et al., 2020).

Audit fee is the amount of costs incurred by the company to the auditor as a form of payment for audit services that have been carried out by the auditor. Subiyanto, et al.'s research (2022) states that high audit fees will burden the company if the company is experiencing certain conditions. Nainggolan, et al., (2022) states that a high level of honorarium can encourage companies to change auditors to KAP with lower honorarium offers.

Company size is the total assets owned by the company. When the size of the company increases, it will cause the owner to experience difficulties in monitoring the actions of managers as principal and agent to be further away, as a result, the level of agency costs will also increase and the company is likely to need a new (high quality) auditor to provide better monitoring. So in this case, company size has a positive effect on auditor switching.

Financial distress or the level of financial difficulty of the company can be interpreted as an early symptom of bankruptcy due to a decrease in the financial condition experienced by the company. The condition of a company that is threatened with bankruptcy tends to increase the evaluation of the subjectivity and prudence of the auditor so that the company will tend to do Auditor Switching. Financial distrees is a term for financial difficulties experienced by a company where the company cannot fulfill its financial obligations or the company cannot pay the company's debts to debtors (Mahariyani & Afrah, 2022). The company's financial situation if it occurs continuously can result in the company experiencing bankruptcy. Based on this background, this study tries to find out what is the relationship between management change, audit fee and company size on auditor switching with

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financial distress variables as moderating variables in Jakarta Islamic Index 70 companies for the 2019-2023 period.

2. RESEARCH METHODS

2.1 Population and Sample

Population is a generalization area consisting of objects or subjects that have certain characteristics that are determined by the researcher to be studied and drawn conclusions (Sugiyono, 2019). In this study, researchers took objects on the Indonesia Stock Exchange, to be precise in the clustering of the Jakarta Islamic Index 70. This is because this index is used as an object because the indexed companies have their own characteristics compared to the companies in the Jakarta Islamic Index 70. This index is used as an object because the companies indexed have their own characteristics compared to companies that are included in other indices. The population of companies in this index are all classified as Sharia stocks, good financial performance, high liquidity and strong company fundamentals. strong company fundamentals. And on the other hand, this sampling is signaled by many millennials who invest in the stock market and are afraid of haram investments. haram investment. Therefore, researchers are interested in taking the object of the Jakarta Islamic Index 70 index.

The population in this study were companies incorporated in the Jakarta Islamic Index for the 2019-2023 period totaling 135 companies. This research was conducted on companies incorporated in the Jakarta Islamic Index because it is a benchmark for companies that issue sharia stocks. The selection of sample data required in this study is by purposive sampling technique. The purposive sampling technique is a technique of selecting or determining samples with certain criteria. Starting from the statement above, from 135 companies, a sample of 25 companies incorporated in the Jakarta Islamic Index 70 for the 2019-2023 period was obtained, not delisted during that period and which had complete audited financial reports.

2.2 Data Collection

The data collection method used in this research is the literature study method and documentation. The literature study method is a method of collecting data through reading books, scientific journals and articles related to research. While the documentation method is carried out by collecting existing documents, namely documents regarding research data. Namely the annual financial statements of the research sample. Data relating to the variables used in the study were obtained from the company's financial statements by downloading from the Indonesia Stock Exchange website.

2.3 Data Analysis

This study uses quantitative methods with the type of data used is secondary data, namely data obtained through intermediary media sources. The use of Logistic Regression Analysis was carried out because this study used non-metric dependent variables expressed in dummy variables 0 (zero) and 1 (one). Data analysis was carried out by conducting descriptive statistical analysis, hypothesis testing using the regression model feasibility test, determination coefficient test, t statistical test classification matrix (t test), model test (F test) and moderating testing (interaction test). The entire data analysis was carried out with the help of Eviews 13 software.

3. RESULT AND DISCUSSION

3.1 Descriptive Statistical Analysis

Descriptive statistical analysis in this study shows a description or description of each variable used in the study through Eviews software, while the results of data processing in the form of descriptive statistics will display the characteristics of the sample used which include: number of observations, average value (mean), minimum and maximum values for each variable.

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Table 2. Descriptive Statistics

	Y	X1	X2	X3	Z
Mean	0.056000	0.080000	8.115520	17.38682	3.107416
Median	0.000000	0.000000	8.220000	17.25500	2.949000
Maximum	1.000000	1.000000	11.14000	19.47400	8.885000
Minimum	0.000000	0.000000	5.520000	15.53400	-0.152000
Std. Dev.	0.230847	0.272385	1.145689	0.860880	1.961185
Observations	125	125	125	125	125

Source: Results of data processing with Eviews (2025)

Based on Table 2. above, it can be seen that the average auditor switching in companies in the Jakarta Islamic Index 70 (JII70) is 0.056, with a maximum value of 1 and a minimum of 0, indicating a low frequency of auditor switching and a small variation (standard deviation 0.230847). The average management change is 0.080, with a maximum value of 1 and a minimum of 0, also indicating low frequency and small variation (standard deviation 0.272385). Audit fees have an average of 8.115520, with a maximum value of 11,140 and a minimum of 5,520, indicating relatively high values with small variations (standard deviation 1.145689). Company size has an average of 17.38682, with a maximum value of 19,474 and a minimum of 15,534, indicating a company size that is in the middle of the range with small variations (standard deviation 0.860880). Meanwhile, financial distress has an average of 3.107416, with a maximum value of 8.885 and a minimum of -0.152, showing greater variation (standard deviation 1.961185). The total observations for all variables are 125 data.

3.2 Regression Model Feasibility Test

The Hosmer and Lemeshow test is used to test the feasibility of the regression model, by comparing the predicted value of the model and the actual data. If the p-value > 0.05, the model is considered feasible, because there is no significant difference. If the p-value <0.05, the model is considered unfit and needs to be corrected. The feasibility test of the regression model in this study can be seen in the following table:

Table 3. Regression Model Eligibility Results

H-L Statistic	10.0896	Prob. Chi-Sq(8)	0.2588
Andrews Statistic	92.8158	Prob. Chi-Sq(10)	0.0000

Source: Results of data processing with Eviews (2025)

Based on the table above, a significant value of 0.2588 can be obtained which is ≥ 0.05, which means that H0 is accepted, it can be concluded that the model used is appropriate and for further analysis this regression model is feasible to use. There is no difference between the observed and predicted classifications, and the model can estimate the observed value.

3.3 Determination Coefficient Test (McFadden R-squared)

The McFadden coefficient of determination (McFadden R-squared) test in logistic regression is used to measure how well the regression model explains data variation. The McFadden R-squared value ranges from 0 to 1, where the higher this value, the better the model is at predicting the dependent variable.

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Table 4. McFadden R-squared

McFadden R-squared	0.282742	Mean dependent var	0.056000
S.D. dependent var	0.230847	S.E. of regression	0.201352
Akaike info criterion	0.373592	Sum squared resid	4.905679
Schwarz criterion	0.464098	Log likelihood	-19.34951
Hannan-Quinn criter.	0.410360	Deviance	38.69902
Restr. deviance	53.95412	Restr. log likelihood	-26.97706
LR statistic	15.25510	Avg. log likelihood	-0.154796
Prob(LR statistic)	0.001611		

Source: Results of data processing with Eviews (2025)

It can be seen that the model in this study produces a McFadden R-squared value of 0.283. This indicates that the independent variables included in the model are able to explain 28.3% of the variability of auditor turnover in companies incorporated in the Jakarta Islamic Index 70 (JII70). In other words, factors such as management turnover, audit fees, company size, and difficult financial conditions have a significant contribution to the observed changes in auditor turnover. However, the other 71.7% of variability is explained by other factors not included in this research model. This indicates that, although the identified variables are important, there are additional factors that may also influence the decision to change auditors. Further research can explore these additional variables to provide a more comprehensive understanding of what drives auditor switching in JII70 companies.

3.4 Hypothesis Testing

The t statistical test basically shows how far the influence of one independent variable individually in explaining the dependent variable. A high t-value indicates a strong effect of the independent variable, while a low t-value suggests a weaker or negligible influence. This test helps in identifying which specific independent variables contribute significantly to the variability in the dependent variable, thereby providing insights into the relative importance of each factor within the model. Acceptance or rejection of the hypothesis in a study can be done with the following criteria:

1. If the significance value of t statistics> 0.05. This means that an independent variable individually has no effect on the dependent variable.
2. If the significance value of t statistics <0.05. This means that an independent variable individually affects the dependent variable.

Table 5. Partial Hypothesis Testing Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.683658	4.920881	0.951793	0.3412
X1	1.971546	0.534069	3.691554	0.0002
X2	-0.183851	0.209884	-0.875967	0.3810
X3	-0.302658	0.292016	-1.036444	0.3000

Source: Results of data processing with Eviews (2025)

Based on the table above, the t test results state that partial management change is proven to have a significant effect on auditor switching. While the audit fee variable and company size proved to have no significant effect on auditor switching. Further explanation of the table of t test results (partial) above is as follows:

1. Management change (X1) has a significance t value of 0.0002 <0.05, with a coefficient = 1.971. Coefficients value which is positive indicates that there is a positive relationship between management turnover (X1) with auditor switching (Y). So that the change of management is partially proven to have a positive and significant influence on auditor switching on the Jakarta Islamic Index 70 (JII70) company.

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2. Audit fee has a significance t value of 0.3810> 0.05, with a coefficient = -0.184. So it can be concluded that the audit fee is partially proven to have no significant effect on auditor switching in the Jakarta Islamic Index 70 (JII70) company.
3. Company size has a significance t value of 0.3000> 0.05, with a coefficient = -0.303. So it can be concluded that the size of the company is partially proven to have no effect on auditor switching in the Jakarta Islamic Index 70 (JII70) company.

The relationship between the independent variable and the dependent variable may be influenced by other variables that are not included in the statistical model, which is called the moderator or moderating variable. The moderating variable used in this study is financial distress. To see whether financial distress can be used as a moderating variable in this research model, it can be seen based on its interaction with the research model. In this study, the moderating test will be carried out with the interaction test which will be carried out with the help of Eviews software. The results of moderating tests in this study can be seen based on the table below.

Table 6. Moderating Hypothesis Testing Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Z	7.529622	4.307071	1.748200	0.0804
X1*Z	2.150634	0.851012	2.527150	0.0115
X2*Z	-0.451394	0.215451	-2.095116	0.0362
X3*Z	-0.285813	0.244688	-1.168074	0.2428

Source: Results of data processing with Eviews (2025)

Based on the table above, it can be seen the interaction between the moderating variable, namely financial distress with each independent variable, namely management change, audit fee and company size on auditor switching. These results explain that the interaction between moderating variables with management turnover and company size has a significant effect on auditor switching because the significance value is smaller than 0.05. The further explanation can be detailed as follows:

1. X1*Z which is the interaction between financial distress with management turnover has a significance value of 0.0115 which is smaller than 0.05. These results indicate that financial distress is proven to be able to moderate the influence of management turnover on auditor switching companies Jakarta Islamic Index 70 (JII70).
2. X2*Z which is the interaction between financial distress and audit fees has a significance value of 0.0362 which is smaller than 0.05. These results indicate that financial distress is proven to be able to moderate the effect of audit fees on auditor switching of Jakarta Islamic Index 70 (JII70) companies.
3. X3 * Z which is the interaction between financial distress and company size has a significance value of 0.2428 which is greater than 0.05. These results indicate that financial distress is proven unable to moderate the effect of company size on auditor switching companies Jakarta Islamic Index 70 (JII70).

4. DISCUSSION

4.1 Effect of Management Change on Auditor Switching

The first hypothesis in this study states that management turnover has a positive effect on auditor switching of Jakarta Islamic Index 70 (JII70) companies. The test results in this study indicate that partial management turnover has a positive and significant effect on auditor switching of Jakarta Islamic Index 70 (JII70) companies. With these results, H1 is accepted.

The change of leadership in a company carried out through a shareholder decision, generally occurs as a result of the voluntary resignation of the previous leadership. This process will certainly be carried out based on decisions agreed upon at the General Meeting of Shareholders (GMS). As part of the effort to implement a new policy, the new management may consider changing the Public Accounting Firm (KAP) that previously worked with the company. The main reason behind this decision is the need to get auditors who are more in line with the direction of the policies and strategies that the new leadership wants to carry out (Nainggolan, et al., 2022).

The results of this study are in line with Agency Theory, which illustrates that management changes in a company can influence the decision to conduct auditor switching as a form of managing the relationship between the principal (shareholders) and agent (management). New management, which brings new visions, strategies, and

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policies, tends to evaluate the relationship with the existing Public Accounting Firm (KAP). The old auditor is generally considered too close to the previous management or not in accordance with the direction of the new policies to be implemented. So a change of auditor can be a strategic move to ensure that the chosen auditor can support new policies that are more in line with shareholder goals. In addition, by changing auditors, new management is expected to reduce agency costs, such as the risk of manipulation of financial statements or lack of independent supervision, so that conflicts of interest can be minimized and the principal's trust in the agent can be increased.

The results of this study are in line with the results of previous studies conducted by Riansyah & Elvisa (2024); Liliana & Karina, (2024); Kristianto (2024); Manulang, et al., (2024); Pujiati & Rizkiyah (2024); Octarisa & Syamsuri (2024); Adityaningrum & Yendrawati (2024); and Fairus, et al., (2024) which in their research state that management turnover has a significant effect on auditor switching. The results of previous studies that also support these results are research conducted by Nainggolan, et al., (2022); Agiastuti & Suputra (2016); and Angsana (2019) which in their research also state that management turnover has a significant effect on auditor switching.

4.2 The Effect of Audit Fee on Auditor Switching

The second hypothesis in this study states that audit fees have a positive effect on auditor switching of Jakarta Islamic Index 70 (JII70) companies. The test results in this study indicate that the audit fee is partially proven to have no effect on auditor switching of the Jakarta Islamic Index 70 (JII70) companies. With these results, H2 is rejected. Theoretically, audit fees are fees paid by companies to auditors for audit services performed. This fee reflects the complexity of the audit process, audit risk, the scale of the company being audited, and the reputation of the public accounting firm (KAP). The results in this study indicate that audit fees have no effect on auditor switching. This means that the audit fee is not a factor that can significantly influence the company's decision to change auditors. The decision to conduct auditor switching is generally not solely influenced by the audit fee factor, but is more related to the company's need to maintain audit quality, the credibility of financial statements, and auditor independence. Although audit fees may be considered an additional burden by the company, from an agency theory perspective, company owners tend to prioritize the long-term benefits of a high-quality audit rather than only considering cost efficiency. The results obtained in this study are in line with the results of research conducted by Kristianto (2024); Taqiyyah (2024); Widyanti, et al., (2023); Aisyah, et al., (2023); Silaban (2022); Cahyono & Sari (2022); Akbar & Wijayanti (2020); and Milo & Muhammad (2022) which show that audit fees have no effect on auditor switching. Likewise, the results of research by Vidianti & Yohanes (2023); and Fauziah, et al., (2023) which in their research also state that audit fees have no effect on auditor switching.

4.3 The Effect of Company Size on Auditor Switching

The third hypothesis in this study states that company size has a positive effect on auditor switching of Jakarta Islamic Index 70 (JII70) companies. The test results in this study indicate that company size partially has no effect on auditor switching of the Jakarta Islamic Index 70 (JII70) companies. With these results, H3 is rejected. This is in line with the principles of Compliance Theory, which emphasizes the importance of companies in complying with applicable regulations, norms, and standards, including in terms of financial reporting and relationships with external auditors. Company size, while reflecting operational complexity, is not always a factor that influences a company's decision to change external auditors. Large companies, with greater resources and higher operational complexity, are likely to be perceived as requiring more reputable and competent auditors to handle more complicated audits.

However, from a compliance standpoint, the decision to change auditors is more often based on the need to meet regulations, maintain auditor independence, or respond to dissatisfaction with audit quality. Regulations such as mandatory auditor rotation (e.g., KAP rotation regulations in Indonesia) emphasize the need to maintain auditor independence, which is the main reason for auditor switching, regardless of the size of the firm. The results obtained in this study are in line with the results of previous studies conducted by Adityaningrum & Yendrawati (2024); Manulang, et al., (2024) Hidayatulloh, et al., (2022); Fauziyyah, et al., (2019); Permatasari & Ruswandi (2019); Hamdani & Hartati (2019); and Najwa & Syofyan (2020) which show that company size has no effect on auditor switching. Similarly, research by Yusuf, et al., (2023); Nuraulia & Indrati (2023); and Kuzaemah, et al., (2023) which states that company size has no effect on auditor switching.

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4.4 Financial Distress in Strengthening the Effect of Management Change on Auditor Switching

The fourth hypothesis in this study states that financial distress can moderate the effect of management turnover on auditor switching of Jakarta Islamic Index 70 (JII70) companies. The results in this study indicate that the interaction between financial distress and management turnover is proven to have a significant effect on auditor switching. With these results, it can be concluded that financial distress is proven to be able to moderate the influence of management turnover on auditor switching, so H4 is accepted. In financial distress, companies tend to face greater pressure in maintaining their operational continuity, and when the company decides to make a change of management to overcome this difficulty, the new management will generally change the external auditor to provide a better image or to ensure that the financial statements prepared actually reflect the company's actual financial condition. A change of auditor is considered a way to improve transparency and independence in the company's financial statements, which can increase the company's credibility in the eyes of shareholders and creditors.

In the perspective of Agency Theory, management turnover can be interpreted as a change in the ownership structure and management of the company motivated by the dissatisfaction of the owners or stakeholders with the performance of the managerial party. When there is a change in management, either for internal or external reasons, the company tends to face uncertainty in management and supervision. In this situation, the external auditor will be able to provide assurance on the fairness of the financial statements and ensure that the new management can manage the financial statements in a more transparent manner. Management changes that occur in financial distress generally aim to improve relationships with stakeholders and increase confidence in the company's ability to overcome the crisis. So that the new management will feel that by changing the external auditor, the independence of the auditor will be improved and eliminate the potential bias in the previous audit report.

The results of research conducted by Kristianti & Herawaty (2023); Hamdi (2022); and Pratiwi, et al., (2022) successfully showed the results that financial distress proved to be able to moderate the effect of management turnover on auditor switching generated by the company. These results are also consistent with research conducted by Kaamilah, et al., (2020); Nagari & Suhartini (2022) which shows the same results that financial distress can moderate the effect of management turnover on auditor switching.

4.5 Financial Distress in Strengthening the Effect of Audit Fee on Auditor Switching

The fifth hypothesis in this study states that financial distress can moderate the effect of audit fees on auditor switching of companies listed in the Jakarta Islamic Index 70 (JII70). The test results in this study indicate that the interaction between financial distress and audit fees has a significance value of 0.0362 which is smaller than 0.05. Thus, it can be concluded that financial distress is proven to be able to moderate the effect of audit fees on auditor switching, which means H5 is accepted. In the Agency Theory framework, the decision to change auditors is driven by the desire to ensure that the financial statements presented reflect the true condition of the company and can be trusted by shareholders and other stakeholders. despite pressure to reduce operating costs, companies still consider various factors, including auditor independence, audit quality, and integrity of financial statements in making decisions regarding auditor switching.

The decision to change auditors is not only driven by cost factors, but also by the desire to ensure that the financial statements presented reflect the true condition of the company and can be trusted by shareholders and interested parties. Financial distress can affect auditor switching decisions, but companies will not sacrifice audit quality just to reduce costs. The results obtained in this study are in line with the results of research conducted by Nagari & Suhartini (2022); Hamdi (2022); and Pratiwi, et al., (2022) which show that financial distress can be used as a moderating variable on auditor switching. These results are also consistent with research conducted by Kristianti & Herawaty (2023); and Kaamilah, et al., (2020) which show the same results.

4.6 Financial Distress in Strengthening the Effect of Company Size on Auditor Switching

The sixth hypothesis in this study states that financial distress can moderate the effect of company size on auditor switching in Jakarta Islamic Index 70 (JII70) companies. However, the test results in this study indicate that the interaction between financial distress and company size proves to have no significant effect on auditor switching, because the significance value is greater than 0.05. Thus, it can be concluded that financial distress is not able to moderate the effect of company size on auditor switching, so H6 is rejected. When companies face financial distress, both large and small companies tend to focus more on managing costs and efforts to maintain

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company survival. Large companies that generally have more resources, in financial distress, companies will not immediately change auditors just because of the financial distress. Because the decision to change auditors is not directly influenced by poor financial conditions.

This is in line with Compliance Theory which emphasizes the importance of compliance with rules and regulations that apply to companies, especially regarding the reliability of financial statements, also does not fully support the effect of financial distress in moderating auditor switching decisions. Companies experiencing financial distress will indeed be under close scrutiny from regulators and other stakeholders, but the results of this study indicate that financial distress conditions are not strong enough to change the company's decision to change auditors based on company size or pressure to comply with stricter regulations. The results of this study are in line with the results of research conducted by Ningtiyas & Hariyanto (2024); and Pitaloka & Guritno (2021) which successfully showed that financial distress proved unable to moderate the influence of independent variables on auditor switching. Likewise, research conducted by Apriwenni, et al., (2023); and Aziza & Herawaty (2020) which shows that financial distress is unable to moderate the effect of independent variables on auditor switching.

5. CONCLUSION

Based on the results of the research that has been conducted, it can be concluded that management change has a positive and significant effect on auditor switching in companies incorporated in the Jakarta Islamic Index 70 (JII70) during the 2019-2023 period. Management changes are often followed by auditor changes to create new working relationships that are more in line with the vision and strategy of the new management. In contrast, audit fees and company size did not show a significant effect on auditor switching during the same period, indicating that audit fees and company size are not the main factors driving auditor changes.

In addition, financial distress is proven to strengthen the influence of management change and audit fee on auditor switching. This indicates that companies experiencing financial distress are more likely to change auditors, this is done as an effort to obtain a more efficient audit or as part of a restructuring strategy. However, financial distress is unable to strengthen the effect of firm size on auditor switching, signaling that firm scale remains irrelevant in difficult financial conditions. These results confirm the importance of considering the financial condition of the company, especially financial distress, as a significant moderating factor in the dynamics of auditor switching in JII70 companies.

6. IMPLICATIONS

The implications of this study provide important insights for various stakeholders, including firm management, auditors, and regulators. For company management, the results of this study emphasize the need to consider factors such as management turnover and financial condition when making decisions about auditor changes. Auditor changes made due to management turnover and financial distress can be a strategy to strengthen the credibility of financial statements and increase investor and other stakeholder confidence.

For auditors, this finding illustrates that auditor changes are often influenced by changes at the management level and the company's financial condition. Auditors can utilize this information to better understand client needs and provide services that are appropriate to changes in management structure and financial conditions. For regulators, the implications of this study highlight the need for stricter supervision of companies experiencing financial distress, especially with regard to auditor switching practices. This is important to ensure that auditor switching is done transparently and is not used as a means to hide deep financial problems. Regulators may consider tightening the rules related to auditor switching, especially for companies in financial distress, to maintain the integrity of financial statements and protect the interests of investors and other stakeholders.

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