

Determinants of Accounting Firm Switching to Upgrade, Samegrade, and Downgrade

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Abstract

The auditor change issue is getting attention from scholarly. Nonetheless, the studies that analyzed the grade (size) change of accounting firms are still rare. This study analyzes the non-financial and financial factors that affect accounting firms switching, namely upgrade, samegrade, or downgrade. Non-financial factors are proxied by managerial ownership and management turnover, while financial factors are proxied by profitability and financial distress. The population was manufacturing companies on the Indonesia Stock Exchange in 2017-2019. The research sample was selected using the purposive sampling method, and the total sample was 93 company units. The analytical tool is multinomial logistic regression analysis. The results show that managerial ownership does not affect the three types of turnover. Meanwhile, the management turnover variable positively affects the upgrade, samegrade, and downgrade. In terms of financial factors, profitability does not affect upgrade and downgrade accounting firms of switching. Nevertheless, profitability has a positive effect on the samegrade type of switching. Hypotheses testing of financial distress revealed that this variable could not influence the three types of accounting firm switching. These results indicate that managerial ownership and financial distress variables do not affect any auditor turnover at all. However, the management turnover and profitability variables have a different effects for each type of turnover.

Keywords: Accounting Firm; Financial Distress; Ownership; Profitability

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INTRODUCTION

Financial reports are the primary source of information for stakeholder's decision-making. The report communicates company management's activities. The financial statements should not contain information that misleads the stakeholders. Therefore, a public accountant is an independent third party that has a role in testing the fairness of the financial statements. However, accounting scandals are frequently impairing auditors' independence (Donnelly, 2008). Thus, the regulator requires each company to rotate the accounting firm periodically.

Indonesia is one of the countries that require a rotation of accounting firms for a certain period. This provision is stated in the Minister of Finance Decree No. 17/PMK.01/2008 Concerning Public Accountant Services. Subsequently, this regulation was updated through Government Regulation No. 20 of 2015 concerning Public

Accountant Practices. This regulation is expected to reduce accounting scandals due to the long engagement period between an accounting firm and company management. Referring to the Enron case, the long audit engagement caused Arthur Andersen's accounting firm to be involved in fraudulent activities (Hung & Cheng, 2018; Nelson et al., 2008). As a result, this scandal initiated a draft provision regarding the mandatory rotation of accounting firms.

Referring to the Agency Theory, the agency relationship between the principal and agent is vulnerable to agency conflicts, particularly financial reporting. The external auditor has a role as an independent party to bridge the interests of the two parties (Jensen & Meckling, 1976). However, the change of auditor (accounting firm) frequently creates agency conflicts. Various factors influence the selection of accounting firms, either upgrade, downgrade, or samegrade types. This study examines the role of non-financial variables, namely managerial ownership and management turnover. Also, this study investigates two financial factors influencing auditor switching, namely profitability and financial distress.

This research is based on two research motivations. First, the company frequently does not convey the reasons for auditors' change. It is getting serious attention from stakeholders. There are concerns that the company has issues that are not willing to disclose to the public (Alles & Gray, 2019; Nazri et al., 2012). Thus, this study examines financial and non-financial factors that affect auditor's change, particularly in accounting firm-level change. Second, the auditor change issue is getting attention from scholarly. Nonetheless, the empirical findings only examine the obligatory and voluntary auditor's change. The studies that analyzed the grade (size) change of accounting firms are still rare. Previous studies has identified the financial factors, such as financial distress (Manto & Wanda, 2018; Setiawati et al., 2020), profitability (Diana, 2018; Hermawan & Fitriany, 2013; Setiami & Solikhah, 2017), company growth (Diana, 2018; Zikra & Syofyan, 2019). Other studies verify non-financial factors such as corporate governance (Aprilia & Effendi, 2019; Setiawati et al., 2020). Indeed, previous findings have inconsistent results. Therefore, this study examines the factors influencing accounting firm-level change, which is essential to upgrade, downgrade, or samegrade.

This study analyzes non-financial and financial factors influencing accounting firms' level changes, including upgrade, downgrade, or samegrade types. The non-financial variables, namely managerial ownership and management turnover. Two financial factors influence auditor switching, namely profitability and financial distress. This study uses three types of accounting firm switching: upgrade, downgrade, and the samegrade. The upgrade type occurs if the switching from a smaller accounting firm to a bigger one. For example, the switching from medium to big accounting firms, small to medium accounting firms, or small to big accounting firms. On the other hand, companies have a downgrade type if they switch to a smaller accounting firm. This condition occurs when a big (medium) accounting firm is replaced by a medium (small) accounting firm. Another option is the samegrade type. The company uses accounting firms that have similar sizes as a previous accounting firm. In this case, the accounting firm switches from small to small, medium to medium, and big to big accounting firms.

This research provides three contributions, both theoretically, practically, and policy. Based on theoretical contribution, the results support the Agency Theory regarding the role of auditors in corporate financial reporting. The study results also provide

empirical evidence regarding financial and non-financial factors that affect accounting firm turnover. Based on practical contribution, this finding proves the role of management change in selecting an accounting firm. These results indicate that management plays a role in maintaining reporting quality by changing the accounting firm, either upgrading, same-grade, and downgrade. The results also contribute to policymaking, particularly regarding audit engagement deadlines. In addition, regulators need to pay attention to the reasons behind the auditor change, significantly downgrade change.

The type of ownership is a factor that determines the auditors are switching. One type of company ownership is managerial ownership, a share owned by the company management. The more significant the proportion of managers' ownership in the company, the smaller potential for conflict of interest. High ownership is also seen as reducing managers' opportunistic behavior (Rustiarini et al., 2021; Susilowati, 2015). One of the managerial ownership benefits makes it easier for shareholders and management to unite their interests in selecting an accounting firm (Paek et al., 2013). The shareholders certainly want to hire a high-quality accounting firm to increase the financial statements' credibility and reputation (Boone et al., 2010). A high-quality audit reduces managers' opportunistic behavior (Trisanti, 2019). Also, a quality accounting firm increases stakeholder's trust and company value (Coram et al., 2011). The companies tend to hire high-quality accounting firms to maintain their reputation. Thus, the hypothesis is formulated:

H1a: Managerial ownership has a positive effect on upgrade switching.

H1b: Managerial ownership has a negative effect on downgrade switching.

H1c: Managerial ownership has a positive effect on samegrade switching.

Another factor that affects auditor switching is management turnover. Management turnover is a change of company managers or directors board. Managers turnover due to two factors, including manager resigning and shareholders general meeting (Gilson, 1989; Winata & Anisykurlillah, 2017). Management turnover leads to company strategy or policy change. This action impacts the company's accounting recording methods (Gao et al., 2018). Management turnover allows management to choose a new accounting firm that aligns with company accounting policies (Cenker & Nagy, 2008; Nagy, 2005). Therefore, management does not hesitate to terminate the audit engagement if they disagree with the auditor (Ruroh & Rahmawati, 2016). In the new manager's leadership, management uses a higher quality accounting firm to improve quality standards (Manto & Wanda, 2018). New management prefers a big accounting firm to help management control the company (Hermawan & Fitriany, 2013). Also, management tends to choose auditors that could cooperate with them. The management will hire an accounting firm that has a similar level as the previous. If management makes a downgrade, there is a concern that the accounting firm could not provide high-quality audits. Based on these arguments, companies tend to use a high-level accounting firm or have a similar quality as previous (Hermawan & Fitriany, 2013). Thus, the following hypothesis is:

H2a: Management turnover has a positive effect on upgrade switching.

H2b: Management turnover has a negative effect on downgrade switching.

H2c: Management turnover has a positive effect on samegrade switching.

This study uses profitability as one of the financial variables that affect auditor switching. Profitability is the company's ability to earn profits at the level of sales, assets, and share capital (Brigham & Houston, 2006:67). Profitability indicates the company's positive performance through product sales and investments. Companies need quality audit services in line with company growth (Diana, 2018; Hermawan & Fitriany, 2013). Management does not hesitate to replace auditors when they are deemed incapable of meeting the company's demands. Companies with high profitability tend to switch to big accounting firms than previous ones (Diana, 2018; Setiami & Solikhah, 2017). A company with good financial conditions prefers to hire a big accounting firm (Hermawan & Fitriany, 2013). Higher quality accounting firms increase financial reports' reliability (Elaoud & Jarboui, 2017; Houcine, 2017). Thus, the following hypothesis is:

H3a: Profitability turnover has a positive effect on upgrade switching.

H3b: Profitability turnover has a negative effect on downgrade switching.

H2c: Profitability turnover has a positive effect on samegrade switching.

Another financial variable that also affects auditor switching is financial distress, is a company condition that experiencing financial difficulties, even tends to go bankrupt. This condition occurs when a company cannot fulfill its obligations, particularly short-term obligations (Rustiarini, 2020). If the company experiences a loss, they likely switch to a smaller accounting firm than the previous one (Hogan & Martin, 2009). When the company is forced to switch its auditors, they will choose a smaller accounting firm (downgrade). This action makes cost savings or reduces audit engagement fees (Setiami & Solikhah, 2017). Other alternatives, companies with financial distress still use similar levels of accounting firms. It is due to similar audit fees and audit quality. This choice allows management to cost-efficiently and maintains stakeholder trust (Boone et al., 2010). Thus, the following hypothesis is:

H4a: Financial distress has a negative effect on upgrade switching.

H4b: Financial distress has a positive effect on downgrade switching.

H4c: Financial distress has a positive effect on samegrade switching.

RESEARCH METHOD

This study was conducted at manufacturing companies on Indonesia Stock Exchange in 2017-2019. The total population was 156 companies. This study using a purposive sampling method with criteria: 1) companies registered consecutively for three years of observation; 2) companies have switched the accounting firm during the observation period, at least once; 3) companies have all data needed in this study. They are 31 companies that meet these criteria.

This variable uses one dependent variable and four independent variables. The dependent variable is the accounting firms switching by company management. This variable is proxied by three types of substitution, namely upgrade, downgrade, and samegrade. The accounting firm switching is measured using a dummy variable. Companies that switch to the upgrade type are given code 3, the samegrade types are given code 2, and downgrade types are given code 1. Contrary, if the sample company does not switch the accounting firm, it is given code 0. A description of types of switching of accounting firms and accounting firm classification is presented in Tables 1 and 2.

Table 1. Types of Switching of Accounting Firms

Types of Switching	Information
Upgrade	Small accounting firm to medium Small accounting firm to big Medium accounting firm to big
Downgrade	Big accounting firm to medium Big accounting firm to small Medium accounting firm to small
Samegrade	Small accounting firm to small Medium accounting firm to medium Big accounting firm to big

Source: Hermawan & Fitriany (2013)

Table 2. Types of Accounting Firms

Types of Accounting Firms	Number of professional staff
Big	> 400 people
Medium	100 – 400 people
Small	< 100 people

Source: Hermawan & Fitriany (2013)

The managerial ownership variable shares the board of directors (manager) directly involved in making company decisions. The variable is measured using a dummy variable, given a value of 1 if there is management ownership and vice versa. Management turnover variable is a change of directors, either due to resignation or the general meeting of shareholders result. The variable is measured using a dummy variable, which is given a value of 1 if there is a change in management during the study period and vice versa. s

The profitability variable reflects the company's ability to earn a profit as measured using the Net Profit Margin. The last independent variable is financial distress. Financial distress is proxied using the Altman Z-score method, as follows:

$$Z\text{-score} = 1,2X_1 + 1,4X_2 + 3,3X_3 + 0,64X_4 + 1,0X_5 \dots\dots\dots(1)$$

Note:

X1 = Working capital to total asset

X2 = Retained earnings to total asset

X3 = Earning before interest and taxes to total asset

X4 = Market value of equity to book value of total liabilities

X5 = Sales to total asset

This study used multinomial logistic regression analysis. Multinomial logistic regression modeling analyzes response-predictor data with non-binary nominal categorical responses. If the predictor-response data with a non-binary nominal scale response has M categories, one category will be selected as the baseline. Each category will be compared with the baseline (M-1) to obtain a logistic regression model. If not specified, the category with the lowest response value.

RESULTS AND DISCUSSION

The results of descriptive statistical tests describe the maximum-minimum values, mean, and standard deviation, as shown in Table 3.

Table 3. Descriptive Statistical Test Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Accounting firm switching	93	0.00	3.00	0.94	1.11
Managerial ownership	93	0.00	1.00	0.48	0.50
Management turnover	93	0.00	1.00	0.96	0.20
Profitability	93	-18.35	33.66	-0.22	4.99
Financial distress	93	-2.79	6.80	1.45	1.66

Source: data processed (2021)

Table 3 shows that the average auditor switching rate is 0.94. This table shows that the 31 sample companies have performed auditor switching as much as 94.00% during the three years of observation. In terms of non-financial independent variables, managerial ownership and management turnover have an average value of 0.48 and 0.96. The mean value of 0.48 means that the level of managerial ownership in the company is on average 48.00%. Over three years, the average management turnover was 96.00%. Meanwhile, in terms of financial factors, the profitability and financial distress variables have an average value of -0.22 and 1.45. The mean profitability value of -0.22 implies that the sample average has a negative profitability value. While the mean value of financial distress of 1.45 indicates that the sample companies are in the gray area. This table also indicates that the company has financial difficulties, but the company's management policy determines the possibility of bankruptcy or not.

Next, the model feasibility test was conducted using Hosmer and Lemeshow's Goodness of Fit Test, shown in Table 4. Table 4 shows the goodness of fit test's statistical value is 276.660 with a significance value of 0.284. Thus, this research model can predict the value of the observations.

Table 4. The Goodness of Fit Test

	Chi-Square	df	Sig.
Pearson	276.660	264	0.284
Deviance	194.511	264	1.000

Source: data processed (2021)

Table 5. Overall Model Fit Test

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	213.713			
Final	194.511	49.202	12	0.000

Source: data processed (2021)

Table 5 shows comparing the value between -2 Log-Likelihood (-2LL) at the beginning (Intercept Only) and the value -2 Log-Likelihood (-2LL) at the end (Final). This reduction in Likelihood (-2LL) indicates that the regression model is good or fits the data.

The coefficient of determination (R²) or Nagelkerke R Square measures the model's ability to explain the dependent variable's variation. The coefficient of determination ranges between zero and one. A small value indicates that the independent variable's ability to explain the dependent variable is minimal. A value close to one means that the independent variable provides all the information needed to predict the dependent variable (Ghozali, 2018:333). The results of the Nagelkarke value are shown in Table 6.

Table 6. Nagelkerke R Square Test (Pseudo R-Square)

Cox and Snell	0.187
Negerlkerke	0.207
McFadden	0.090

Source: data processed (2021)

Table 6 shows that the Nagelkerke R Square value is 20.7 percent, which means that the independent variable explains 20.7 percent of the dependent variable's variability. Other variables outside the research model explain the remaining 79.3 percent.

The classification matrix table shows the regression model's predictive power to predict the possibility of auditor turnover by the company, which is presented in Table 7.

Table 7. Classification Matrix

Observed	Not change	Downgrade	Samegrade	Upgrade	Percent Correct
No change	49	0	1	0	98.0%
Downgrade	8	1	0	0	11.1%
Samegrade	16	0	8	0	33.3%
Upgrade	10	0	0	0	0.0%
Overall percentage	89.2%	1.1%	9.7%	0.0%	62.4%

Source: data processed (2021)

Table 7 shows that the regression model's predictive power to predict the overall model is 62.4 percent. This figure indicates that the accounting firm switching variables were explained by managerial ownership, management turnover, profitability, and financial distress by 62.4 percent. The rest, influenced by other variables by 37.6 percent.

Table 8. Likelihood Ratio Test

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	199.557	5.046	3	0.168
Managerial ownership	197.145	2.634	3	0.451
Management turnover	199.838	5.327	3	0.149
Profitability	205.845	11.335	3	0.010
Financial distress	195.185	.675	3	0.879

Source: data processed (2021)

Table 8 shows that the variables contributing to the model are significant profitability (p <0.05). Contrary, management turnover, managerial ownership, and financial distress do not contribute to the model that is not significant (p <0.05).

This research model using multinomial logistic regression. The results of hypothesis testing are shown in Table 9.

Table 9. Multinomial Logistic Regression Test Results

Accounting Firm ^a		B	Std. Error	Wald	df	Sig.	Exp (B)
Upgrade	Intercept	-16.669	0.600	771.157	1	0.000	
	Managerial ownership	-0.099	0.730	0.018	1	0.893	0.906
	Management turnover	15.061	1.220	7.800	1	0.000	3473824
	Profitability	0.012	0.083	0.020	1	0.888	1.012
	Financial distress	0.040	0.221	0.032	1	0.858	1.040
Downgrade	Intercept	-17.615	0.796	489.083	1	0.000	
	Managerial ownership	1.243	0.855	2.114	1	0.146	3.465
	Management turnover	15.196	1.001	7.784	1	0.000	3975225
	Profitability	0.092	0.060	2.366	1	0.124	1.097
	Financial distress	-0.061	0.252	0.059	1	0.808	0.941
Samegrade	Intercept	0.567	1.302	0.190	1	0.663	
	Managerial ownership	0.328	0.564	0.338	1	0.561	1.388
	Management turnover	2.002	1.204	7.766	1	0.000	0.135
	Profitability	0.248	0.116	4.624	1	0.032	780
	Financial distress	0.121	0.169	0.514	1	0.473	1.129

The reference category is: No change
 Source: data processed (2021)

Table 9 shows the multinomial logistic regression test result that described in the following three models:

The regression equation for the upgrade category:

$$\ln \frac{P(Y_i=Upgrade)}{P(Y_i=No\ Change)} = -16,669 - 0,099MO_{-1} + 15,061MT_{-2} + 0,012PF_{-3} + 0,040FD_{-4} \dots \dots \dots (2)$$

The regression equation for the downgrade category:

$$\ln \frac{P(Y_i=Downgrade)}{P(Y_i=No\ Change)} = -17,615 + 1,243 MO_{-1} + 15,196MT_{-2} + 0,092PF_{-3} - 0,061FD_{-4} \dots \dots \dots (3)$$

The regression equation for the samegrade category:

$$\ln \frac{P(Y_i = \text{Samegrade})}{P(Y_i = \text{No Change})} = 0,567 + 0,328 MO_{-1} - 2,002 MT_{-2} - 0,248 PF_{-3} + 0,121 \beta_4 FD_{-4} \dots \dots \dots (4)$$

Note:

Upgrade	=	upgrade switching
Downgrade	=	downgrade switching
Samegrade	=	samegrade switching
α	=	constant
MO	=	managerial ownership
MT	=	management turnover
PF	=	profitability
FD	=	financial distress
β_1	=	the regression coefficient of managerial ownership
β_2	=	the regression coefficient of management turnover
β_3	=	the regression coefficient of profitability
β_4	=	the regression coefficient of financial distress

The first hypothesis testing discusses managerial ownership's effect on accounting firm switching type: upgrade, downgrade, and samegrade. The testing hypotheses 1a, 1b, and 1c do not have a significant 0.893, 0.146, and 0.561. These results indicate that managerial ownership does not affect accounting firms' switching, upgrades, downgrades, and the samegrade. Thus, hypotheses 1a, 1b, and 1c are rejected.

Referring to the Agency Theory, the company has three costs in supporting the agency relationship. One of these costs is the bonding cost, which relates to the compensation received by management for their performance to increase its value. Management indeed chooses a reputable accounting firm to increase the value and credibility of the company (Jensen & Meckling, 1976; Kamardin, 2014). Based on an excellent corporate governance perspective, the shareholder also wants the audit process from a quality accounting firm. The use of a quality accounting firm increases the credibility of financial reports (Boone et al., 2010) and limits the opportunistic behavior of managers. Contrary, hypothesis testing results show that managerial ownership does not affect the accounting firm switching types of an upgrade, downgrade, or samegrade. These results do not support Agency Theory and the concept of corporate governance. It is due to the company's ownership structure including more parties, including managerial, institutional, and public. Thus, the company decision-making about auditor switching is not only determined by managerial shareholders. Nevertheless, the results support previous findings (Cenker & Nagy, 2008) that managerial ownership does not affect its decision to switch auditors (accounting firm).

The second hypothesis discusses the effect of management turnover on the type of accounting firm switching. The results of testing hypothesis 2a have a positive regression coefficient with a significant value of 0.000. This result shows that management turnover has a positive effect on upgrade switching. Thus, hypothesis 2a is accepted. The results of hypothesis 2b show a positive regression coefficient with a significance value of 0.000. Therefore, management turnover has a positive effect on downgrade switching. Even

though it has significant value, this result has the opposite direction to the formulated hypothesis. Thus, hypothesis 2b is rejected. Similar to hypothesis 2b, the hypothesis 2c test result also has a positive regression coefficient and a significance value of 0.000. These results indicate that management turnover has a positive effect on samegrade switching. Hypothesis 2c is accepted.

Referring to Agency Theory, one factor of management turnover is a conflict of interest between management and shareholders. Stakeholders assume that management is unable to manage the company well. This condition not only creates agency conflict but also affects the audit opinion of the company's financial statements (Putri et al., 2021). In the recent management period, management has had the opportunity to choose a high-quality accounting firm to improve quality standards and company value (Manto & Wanda, 2018). In this case, new management prefers a bigger accounting firm to help management control it (Hermawan & Fitriany, 2013). Thus, management turnover has a positive effect on the upgrade type of accounting firm switching.

The results also reveal that management turnover positively affects a downgrade and the samegrade switching. This condition is contrary to the hypothesis because the change of management impact accounting policies or standards implementation. This reform requires management to find an accounting firm aligned with its accounting policies (Nagy, 2005). This condition encourages management to choose an accounting firm that understands the company's financial reporting. Thus, companies tend to use accounting firms that have a smaller size (downgrade) or similar size (samegrade) as the previous accounting firm (Hermawan & Fitriany, 2013). These results do not support previous findings (Setiawati et al., 2020) that management (directors) turnover did not affect downgrade and samegrade switching types in the banking sector. Thus, these results support the Agency Theory that management turnover aims to align the interests of the principal and agent in the preparation of the company's financial statements.

The results of testing hypothesis 3 regarding the profitability of accounting firms' switching show that profitability only affects the samegrade switching but does not affect upgrade and downgrade type. The hypothesis testing results 3a and 3b do not have a significant value of 0.888 and 0.124. Contrary, the statistical test results for hypothesis 3c have a positive regression coefficient with a significance value of 0.032. Thus, the test results reject hypotheses 3a and 3b but accept hypothesis 3c. It concludes that profitability positively affects the samegrade type of accounting firms switching.

The company's profitability reflects the company's performance in generating profits. Companies that have high profitability need auditors who can meet the fast growth of the company. Therefore, companies tend to move to bigger accounting firms than previous ones (Hermawan & Fitriany, 2013). Nevertheless, the results indicate that profitability does not affect the upgrade and downgrade of accounting firm switching. It is possible the company does not allocate its profits to expensive audit engagement (upgrade type of switching) but is managed again to generate higher profits. The cost of an audit engagement with a big accounting firm requires more funding. On the other side, the company also avoids having a downgrade type that reduces the audit costs. The "moving down" switching frequently creates negative connotations and stakeholder suspicion regarding its financial condition (Hogan & Martin, 2009). Also, the movement of accounting firms to smaller audit firms often elicits investor reactions to share prices. Therefore, the company chose the samegrade of switching that was considered not to

interfere with its profitability level. The samegrade switching aimed to maintain investor trust in the company's financial statement's reliability. Thus, this evidence does not support previous findings (Hermawan & Fitriany, 2013; Setiami & Solikhah, 2017) research that profitability positively affects the upgrade of accounting firm switching.

The fourth hypothesis examines the effect of financial distress on the type of upgrade, downgrade, and the samegrade of switching. The statistical tests for hypotheses 4a, 4b, and 4c have a significance value greater than 0.05, equal 0.858, 0.808, and 0.473. Thus, financial distress does not affect the three types of accounting firm switching. Theoretically, companies experiencing financial distress tend to switch to lower-scale accounting firms, namely medium or small-scale accounting firms. This act aims to save costs by reducing the audit engagement cost. Nevertheless, the test results for the three hypotheses, namely H4a, H4b, and H4c, reveal that financial distress does not affect the accounting firm types of switching, such as upgrade, downgrade, and samegrade. There is no influence between financial distress and auditor switching because the company may not have the budget to hire a bigger accounting firm (upgrade). Thus, the company still uses the previous accounting firm. Auditor switching causes the substitute auditor to understand more about the client's business and control environment (Vanstraelen & Schelleman, 2017). This process certainly extends the audit engagement time and increases the audit fee charged to the company. Referring to the Agency Theory, audit fees are one element of monitoring costs. In a financial distress condition, management will be tried to make efficient decisions, including saving audit costs. Therefore, the company chose not to perform auditor switching to maintain financial stability. Starting from this condition, the company focuses more on efforts to recover its financial position. This evidence supports previous research from Setiawati et al. (2020) that financial distress does not affect switching auditors for downgrade, samegrade, or upgrade types.

CONCLUSION

This study examines the influence of non-financial factors (managerial ownership and management turnover) and financial factors (profitability and financial distress) on the accounting firm switching, namely upgrade, samegrade, and downgrade. This study using Agency Theory as a literature review that discusses auditor (accounting firm) switching. Hypothesis test results indicate that managerial ownership does not affect the three types of turnover. Meanwhile, the management turnover variable positively affects the upgrade, samegrade, and downgrade. In terms of financial factors, profitability does not affect upgrade and downgrade accounting firms of switching. Nevertheless, profitability has a positive effect on the samegrade type of switching. Hypotheses testing of financial distress revealed that this variable could not influence the three grades of accounting firm switching. This study's limitation is the coefficient of determination test results is 20.7 percent. These results reflect that other factors influence the research model. Researchers can use other variables predicted to influence accounting firm switchings in a further study, such as audit report lag, audit opinion, or corporate governance.

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