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The Role of Audit Report Lag in Mediating the Effect of Auditor Switching and Financial Distress on Financial Statement Fraud

Emma Rani Nuristya[1*], and **Dwi Ratmono[2]**
[1,2]Magister Akuntansi Universitas Diponegoro
[1]emmarawinner@gmail.com; [2]dwi.ratmono2@gmail.com

Abstract: This paper examines the effect of auditor switching and financial distress on financial statement fraud with audit report lag as the intervening variable. This research used 26 fraud companies and 45 non-fraud companies l[1]sted by Indonesia Stock Exchange that break the article VIII.G.7 and IX.E.2 issued by Financial Services Authority in 2020. This quantitative research used Partial Least Square (PLS) with WarpPLS 7.0 tools. We conclude that financial distress and audit report lag directly affect Financial Statement fraud. It also shows that audit report lag partially mediates the relationship between financial distress and financial statement fraud. The results of this study also imply that investors should understand the elements that might cause audit report lag and financial statement fraud, so that they can forecast the impact on possible profits or losses if they invest in a firm.

Keywords: Auditor Switching; Financial Distress; Audit Report Lag; Financial Statement Fraud

Introduction

Fraud is a growing phenomenon in some countries. It is an unlawful act committed by people from inside and/or from outside the organization. The largest anti-fraud organization in the world, namely ACFE, divides fraud into three categories, namely financial statement fraud, misappropriation of assets, and corruption. Based on the Report to The Nations (RTTN) in 2020, it is stated that when viewed from the magnitude of the losses incurred, financial statement fraud occupied the largest loss of $954,000, followed by the corruption of $200,000 and asset misappropriation of $100,000 (ACFE, 2020). This fact proves that financial statement fraud continues to increase, and financial statement fraud is the most

[*] Corresponding Author

detrimental type of fraud. Indonesia also ranks first out of 16 countries with the most fraud cases in the Asia Pacific region (Devi et al. 2021).

Financial statement fraud is a deliberate act of misstatement or omission of material facts or accounting data to mislead users (ACFE 2020). Rezaee, Z., & Riley (2010) states that financial statement fraud generally includes falsification or manipulation of financial records, supporting documents, or business transactions; willful misstatements, omissions, or misrepresentations of significant financial events, transactions, or other information from the financial statements presented. Financial statement fraud also includes intentional implementation of accounting standards, principles, policies, and methods used to measure, recognize and report economic activities and business transactions, to accounting manipulation practices by looking for loopholes that allow companies to hide their true performance.

Cases of financial statement fraud occur in various industrial sectors. In the mining industry, a fraud case occurred in PT Cakra Mineral Tbk (CKRA) in 2016. The company intentionally inflated the value of assets and overestimated capital inflows in its financial statements (Beritalima, 2016). Another case occurred in PT Timah Tbk in 2015. In this case, the company reported fictitious revenues to cover its deteriorating performance (Tambang.co.id 2016). Fraud cases in other sectors also occurred in Jiwasraya Assurance and Garuda Indonesia Persero. This phenomenon explains that there are still many cases of financial statement fraud that occur in Indonesia.

The agency theory explains the interaction between shareholders as principals and managers as agents. Agency theory, according to Jensen, M. C. (1976), is a contract between the principals and agents in which the agent are granted the ability to act or make choices on behalf of the principals. According to Wu, X., Lan, Y., & Liu (2014) this relationship allows agents to make strategic judgments about the company's operations. The principal, as the source of power, expects accountability reports from the agents. The presentment of financial statements is one type of agency obligation. The financial statements tell the principal about the company's financial situation, results of operations, capital changes, and cash flow over a specific time period. Fujianti and Satria (2020) stated that Audit Report Lag (ARL) will certainly cause problems in the relationship between principals and agents. It is because independent auditors are in responsibility of appraising financial statements, safeguarding shareholders' interests from management, and monitoring managers' activities (Jensen, M. C. 1976).

Following recent financial scandals and financial statement fraud, the function of independent auditors has grown in importance. Okolie (2014) stated that financial scandals in corporations bring about a serious threat to the truth, accuracy, reliability, and usability of financial statements. As a result, independent auditors are the most essential regulatory instrument for decreasing agency cost and avoiding conflicts of interest between owners and agents.

Research on the effect of auditor switching on the financial statement fraud has been conducted extensively. However, there are still inconsistencies among existing research results. Based on research by (Devi et al. 2021; Omukaga, 2020; Utomo et al. 2019) showed that auditor switching can be a signal to detect financial statement fraud. Nevertheless, research by (Pamungkas et al. 2018; Wijayani and Ratmono 2020) found empirical evidence that auditor switching has no effect on financial statement fraud.

Apart from the auditor's side, detecting financial statement fraud can be seen from company's financial condition. Financial distress is a condition faced by a company when it suffers from financial distress, such as poor performance, and loss of income for several periods, and the company must struggle to pay its debts (Handoko et al. 2020). According to Aviantara (2021) when the risk of financial distress is high, the potential for financial statements fraud increases.

In terms of the company's financial condition, a study that observed the financial difficulties or financial distress experienced by the company was conducted by (Adi, Baridwan, and Mardiati 2018; Aviantara 2021; Bakar and Yahya 2021; Handoko et al. 2020; Kanapickienė and Grundienė 2015; Zainudin and Hashim 2016). there is provided empirical evidence that the financial distress has a significant positive effect on financial statement fraud, while research by (Ozcelik 2020) found empirical evidence that financial distress has no effect on the financial statement fraud. The inconsistency of previous research results prompted the researcher to use another variable that could mediate the relationship between auditor switching and financial distress with the financial statement fraud. The authors are interested in re-examining the effect of auditor switching and financial distress on financial statement fraud by incorporating audit report lag as a mediation variable.

Ettredge and Sun (2006) defined Audit Report Lag as the time elapsed between the end of a company fiscal year and the date on which auditors sign their reports. Audit report lag can occur as a result of information asymmetry between management (agent) and owner (principal). This condition occurs when the manager gives a signal to the owner of the company's condition, but does not convey information according to the actual condition. Signaling theory evolves from information asymmetry theory. This theory explains how signaling decreases information asymmetry (Morris, 1987). Agency theory gives rise to information asymmetry. In this situation, a fraud detection mechanism is needed through a signal that is seen from the change of auditors and the financial distress experienced by the company. Studies conducted by (Habib et al. 2019; Putra and Wilopo 2018; Tanyi 2011) found that auditor switching can increase audit report lag. These results explain that the intensity of auditor switching by the company can increase the length of the audit report produced. Furthermore, a study conducted by (Abdillah et al. 2019) found that companies that are experiencing financial distress will produce longer audit reports.

Based on the description that has been disclosed, the authors are interested to examine the effect of Auditor Switching and Financial Distress on Financial Statement Fraud by incorporating audit report lag as a mediation variable. This research replication from Widharma and Susilowati (2020) research. A novelty from this reseach is alternative measures of financial statement fraud using OJK sanctions based on article VIII.G.7 and article no IX.E.2. This proxy is expected to be more able to measure financial statement fraud in the context of companies in Indonesia.
This paper will be followed by an overview of literature review, research methods, results and discussion and conclusions

Literature Review

Financial Statement Fraud

Financial statement fraud is defined by the Association of Certified Fraud Examiners (ACFE*)* as follows: The deliberate, intentional misstatement or omission of material facts or accounting data that is misleading and, when considered with all available information, causes the reader to change or alter his or her judgment or decision.

If it is related to the definition of ACFE, the regulations contained in the OJK rules in article VIII.G.7 and article IX.E.2 confirms that financial statement fraud consist of:

a. Misstatements in financial statement
b. Violation of account acknowledgment
c. Account errors and disclosures
d. No information disclosure on material transactions for loans and purchases, and there is no fairness opinion on these purchases.
e. Not yet obtained GMS approval for material purchase of bonds and shares

Companies that intentionally violate the rules contained in articles VIII.G.7 and IX.E.2, will be subject to sanctions from the OJK.

Based on the description that has been disclosed, Financial statement fraud is measured using a dummy variable, coded 1 if the company receives sanctions based on article VIII.G.7 and article IX.E.2 from OJK, and 0 if the company does not receive sanctions from OJK (Pamungkas et al. 2018). This proxy is considered better for detecting financial statement fraud of companies in Indonesia based on the OJK regulator.

Auditor Switching

Auditor switching is the change of auditors and Public Accounting Firms who conduct audits on a company (Widharma and Susilowati 2020). Companies that commit fraud will change auditors more frequently because management wants to reduce the chance of fraud being detected in their financial statements by auditors. It's possible that the new auditor will miss any fraud that the previous auditor missed (Widharma and Susilowati 2020). Furthermore, according to Schwartz and Menon (1985) companies that are more likely to commit fraud will have more auditor changes than companies that are healthier. Auditor switching is measured using a dummy variable, coded 1 if the company changes auditors/KAP, and 0 if the company does not change auditors (Ozcelik 2020).

Financial Distress

Financial distress is a situation in which a company is under financial stress due to factors such as poor performance, a lack of income for several periods, and the inability to pay its debts (Handoko et al. 2020). Companies are in financial trouble when they are unable to meet their debt obligations due to a lack of cash flow (Altman et al. 2017).

Financial distress is measured using a leverage ratio. Companies that engage in high-leverage transactions, according to Andrade and Kaplan (1998) will be depressed, demonstrating that leverage is the primary cause of financial distress. It is backed up by (Almamy, Aston, and Ngwa 2016) assertion that the leverage ratio is the most significant cause of financial distress. The formula for calculating the leverage ratio is:

Leverage = Total Debt / Total Asset
(Omukaga 2020)

Audit Report Lag

Owusu-Ansah (2000) defined audit report lag as the number of days between the end of the company fiscal year and the days of the corporation audited financial report public release. Audit report lag is classified into three forms by (Hilmi, U. and Ali 2008):

(1) Preliminary delay: the time between the date the financial statements are issuance and the receipt of the final report.
(2) Audit report lag: The time elapsed between the date of financial statements and the signature of the auditor's report.
(3) Total delay: The period of time between the date of the financial statements and the years of the legislature report issuance

Regulations regarding the obligation to publish financial statements were regulated in Law No. 8 of 1995 and Bapepam-LK Decree No. 36 PM 2003. These regulations were later updated by OJK and contained in Decree No. 29/POJK04/2016. This regulation states that the maximum limit for submitting audited reports by companies that go public is no later than the end of the fourth month after the company's closing year.

Khaksar et al. (2022) stated that audit report lag is measured using the number of days during the fiscal year-end date of the company's financial statements and the date of the auditor's report.

According to Lee et al. (2009) audit report lag, or the period between the end of the fiscal year and the audit completion date, is the best measurement for measuring risk indicators related to the quality of a client's financial reporting.

Hypothesis Development

1. Effect of Auditor Switching on Audit Report Lag (ARL)

Timeliness of financial statement is very important to minimize information asymmetry between management and financial statement users. It indicates an audit efficiency (Oradi, 2021). The longer the audit report lag time, the less relevant the information in the financial statements will be. It is because one of the things that can increase the relevance of a company's financial statements is timeliness.

The auditor is required to carry out the audit process in accordance with the relevant regulations to prevent the auditor from being sanctioned if the auditor commits a violation. This is in line with the compliance theory proposed by Tyler (1990) which states that organizations will comply with regulations because the organization considers that these regulations have the authority to regulate organizational behavior in this case, namely the behavior of auditors to comply with applicable audit standards.

Audit report lag is frequently caused by problems with the audit, arguments between the auditor and client on accounting issues, and/or a general decline in the quality of auditor-client contact. A lengthy delay may also occur if a client firm has a high inherent and/or control risk, necessitating additional work by the auditor (Ireland, 2003).

Schwartz and Soo (1996) discovered companies that switched auditors late in the fiscal year (late switchers) have more conflicts with the auditors than early switching businesses, resulting in longer audit delays.

Auditor switching, according to Schwartz and Menon (1985) is one of the drivers of audit report lag. Audit report lag is predicted to rise when the auditor changes since the new auditor is less familiar with the client's characteristics and financial situation. As a result, the auditor needs some time to become acquainted with the client's activities and examine the finances (Deangelo, 1981). Ng and Tai (1994) established a positive relationship between audit lag and auditor change, which supports this notion. As a result, we propose:
H_1: Auditor switching has positive effect on Audit Report Lag (ARL)

2. Effect of Financial Distress on Audit Report Lag (ARL)
Agency theory explains that the principal (company) has more information on the running of the company. When a company faces financial distress, the company will try to improve its financial statements in order to produce high-quality reports. Meanwhile, the auditor as an agent does not have full information on the financial statements presented by the company. The process of improving and perfecting these financial statements takes a long time. The audit process will take longer when the company is suffering a loss.

The audit process will take longer when companies try to improve their financial statements to show good performance, even when the company is really in bad condition. Therefore, when a company is in financial distress, the auditor must go through a lengthy auditing process(Khamisah, Listya, and Saputri 2021). The study (Abdillah et al. 2019) states that financial distress as measured using the leverage ratio has an influence on audit report lag. According to Andrade and Kaplan (1998), companies that participate in high-leverage transactions will be depressed, suggesting that leverage is the principal driver of financial distress. Thus, the hypothesis in this study is:
H_2: Financial distress has a positive effect on Audit Report Lag (ARL)

3. Effect of Audit Report lag (ARL) on Financial Statement Fraud
One of the most important aspects of financial reporting quality is the timeliness of financial statement (Kartika 2009). According to Halim (2000) timely financial statement and auditors's report are required to boost capital stock value. Because auditing is a lengthy process, it may occasionally cause a delay in disclosing earnings and presenting financial reports. The audit delay is the period of time between the date of audit report in financial statement and the date of financial statement indicating the audit process (Suryanto 2016).
Whitteres.G.P. (1980) discovered that firms with trained auditors examining their financial statements experienced a longer audit report lag. This is due to the enhanced procedure of issuing an audit opinion in the activities listed below. These operations include client discussions, engaging with senior audit partners/audit shareholders, and determining the audit scope.

A successful corporation does not put off releasing its financial statement or good news (Khaksar et al. 2022). Profitable firms file their financial statements earlier than loss-making enterprises. According to Suryanto (2016) loss-making enterprises are more prone to postpone reporting for two reasons. First, when a loss occurs, firms delay in revealing bad news, so they request that the financial statements be re-audited.

Second, if auditors feel the loss is the result of financial problems or managers' fraud (management misconduct) of business units, they will perform a more thorough audit. As a result, the audit report lag happens.

Financial statements fraud can also result from collusion between auditors and employers. The audit report period, or audit report lag, is positively related to audit quality (Khaksar et al. 2022). Auditors who spend more time evaluating financial statements identify fraud and managerial misconduct more effectively than auditors who spend less time auditing financial statements (Lambert, J. and Lambert 2003). Therefore, the hypothesis in this study is:
H_3: Audit Report Lag (ARL) has a positive effect on financial statement fraud

4. The Effect of Auditor Switching on Financial Statement Fraud
Financial Statement fraud can occur due to information asymmetry. The problem of information asymmetry is the foundation of every conflict of interest concern, which raises the danger of fraud. Managers have a duty to provide shareholders with information that is accurate and up to date about the company's current state, although this is not always the case. As a result, fraud is possible since it is equipped with more knowledge about the organization.

The company will make various efforts to cover up financial statement fraud committed by performing auditor switching. According to Lou, Y. I., & Wang, (2011) auditor switching is used as a weapon and a trick in reducing the risk of detecting financial statement fraud. When the company has indications of financial statement fraud, the company will try to replace the auditor so that the fraud is not detected. Furthermore, Chen, K. Y., Elder, R. J., & Hsieh (2007) stated that companies with high levels of auditor switching are associated with financial statement fraud. Devi et al. (2021) stated that auditor switching can be done to eliminate traces of fraud found by previous auditors. This tendency encourages companies to change auditors to cover up fraud in the company.

The results of the study Loebbecke, J. K., Eining, M. M. and Willingham (1989) found that the number of indications of financial statement fraud contained in the sample of auditors in the first two years of the auditor's tenure. This confirms that at the time of the initial auditor switching, many indications of financial statement fraud were detected. This condition is confirmed by Omukaga (2020) who finds that auditor switching has effect on financial statement fraud. Thus, the hypothesis in this study is:
H_4: Auditor Switching has a positive effect on financial statement fraud

5. Effect of Financial Distress on Financial Statement Fraud
Financial distress is a condition faced by companies when they suffer from financial pressures, such as poor performance, loss of income for several periods, and have to struggle to pay their debts (Handoko et al. 2020). Company management will feel pressured to commit fraud when they know that the entity, they manage is experiencing financial distress. For example, when a company wants to get external funding because it lacks funds to run its operations. To achieve the creditor's approval for financing, the company is likely to commit to financial statement fraud. This is because if the company's financial statements reflect poor conditions, it is likely that creditors will not approve the loan of funds, so that external pressure will make the company commit fraud on the financial statements.
The higher the financial difficulties, the more financial statement fraud will occur (Adi et al. 2018; Aviantara 2021; Mardiana 2015). Thus, the hypothesis in this study is:

H_5: Financial distress has a positive effect on financial statement fraud

6. Effect of Auditor Switching on Financial Statement Fraud through Audit Report Lag

Asymmetry information refers to the imbalanced information provided by management to investor. It is an ineffective contract between them. A company's aim is obstructed by agency conflict. Furthermore, asymmetry information may provide management with "opportunities" to commit accounting fraud (Ujiyantho, M. A., & Pramuka, 2007).
According to Chen, Elder, & Hsieh (2007), organizations with high switching rates of auditors are more likely to have financial statement fraud. Auditor switching, according to Lou, Y. I., & Wang, (2011) is a technique for decreasing the financial statements of dishonest auditors. The prior auditor can discover any risk of fraud done directly or indirectly by management. However, when auditors switch, the likelihood of financial statement fraud grows. According to Schwartz and Menon (1985), organizations that cheat will switch auditors more willingly than healthy companies.

Auditor switching can increase audit report lag. The audited financial statements are the result of the negotiation process between the company and the auditors. There is a tendency for companies to have opportunistic behavior in choosing auditors, making regulators pay special attention to the practice of auditor switching (Tanyi, 2011).

Auditor switching by the company will have an impact on a longer audit time, because new auditors must understand the characteristics of the company, and need to communicate with the previous auditors. Auditors who spend more time evaluating financial statements identify fraud and managerial misconduct more effectively than auditors who spend less time auditing financial statements (Lambert, J. and Lambert 2003).

Thus, changing auditors will increase audit report lag, the length of audit report lag will increase the potential for fraud to be detected. Therefore, the hypothesis in this study is:
H_6: Auditor switching has a positive effect on financial statement fraud through audit report lag

7. Effect of Financial Distress on Financial Statement Fraud through Audit Report Lag

Agency theory xplains the existence of agency problems that arise when each party has different goals, allowing it to take opportunistic actions that can lead to information asymmetry, which can have an impact on the company's good and bad. Financial statements that are fraudulent are one of the issues that can arise. False financial statements can harm not only stakeholders, but also the company itself, possibly leading to bankruptcy.
Timely submission of financial statements is very important to maintain the relevance of information in financial statements. information in financial statements will lose the ability to influence user decisions, when there is a delay in the audit report (ARL). ARL can occur due to various factor. One of them is that when a company is having financial difficulties, it takes longer to report its financial statements. When a company is in financial trouble, its desire to improve its financial statements (Khamisah et al. 2021) eventually leads to financial statement fraud (Widharma and Susilowati 2020). Thus, the hypothesis in this study is:
H_7: Financial distress has a positive effect on financial statement fraud through audit report lag

Methods

This type of research is quantitative with documentary data. The research data was taken from the Financial Services Authority (OJK) and www.idx.com as well as from the company's website to obtain the annual report for the 2020 period. The sampling method was purposive sampling.

In determining the sample of companies that were indicated as fraud was based on companies that violate OJK sanctions based on articles VIII.G.7 and IX.E.2. From a total population of 709, 32 companies violated OJK sanctions. There are 6 companies that do not present an annual report, so that the final sample is 26 companies.

In determining the sample of companies that are not indicated as fraud, based on a sample of companies that were indicated as fraud, there are 26 companies. Of the 26 companies, the type of industry of each company was determined based on the JASICA code. After that, the fraud company would see the value of its assets and income in 2020. This value was then compared with companies in the same sector/industry with a range of 5%. Of the total population of 709, there are 49 companies that have asset values and income comparable to 26 companies indicated as fraud. Based on a sample of 49 non-fraud companies, there were 4 annual reports that were not available, so the final sample were 45 companies.

The final sample was obtained based on the collected data, in which the details are presented in Table 1 and 2.

Table 1. **Samples of Fraud Company Group**

Criteria	Total Samples
Total listed firms on Indonesia Stock Exchange in 2020.	709
Firms that do not violate OJK sanctions	(677)
Firms violating article no VIII.G.7 and IXE.2 sanctions by the OJK in 2020	32
Financial report not available	(6)
Total Samples of Fraud Company Group	26

Table 2. **Samples of Non Fraud Company Group**

Criteria	Total Samples
Total listed firms on Indonesia Stock Exchange in 2020.	709
Firms listed in JASICA with company net sales and assets is not qual to samples of Fraud Company Group	(660)
Financial reports not available	(4)
Total samples of Non-Fraud Company Group	45

Findings

Statistic Descriptive

Table 3. **Statistic Descriptive**

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Distress	71	0.00	5.00	0.539	0.70939
Audit Report Lag	71	0.00	88.00	7.465	15.10329

Table 3 shows that from 71 observations, the financial distress variable has a minimum value of 0 and a maximum of 5.0 with an average mean of 0.5390. It shows that on mean the company has a leverage ratio of 0.53 times. The value of a good leverage ratio for the company is 0.6-0.7 times. This means that the company's financial condition in 71 observations in this study is in good condition and shows the company's ability to pay off its obligations by 53%.

Furthermore, table 1 explains that the audit report lag variable has a minimum value of 0 and a maximum of 88 with an average mean of 7.4648. These results indicate that on average the company experiences audit report lag for 7 days.

Table 4. **Frequency**

	Frequency	Percentage	Total
Auditor Switching	14	19.7 %	100%
Non-Auditor Switching	57	80.3%	
Fraud	26	36.6%	100%
Non-Fraud	45	63.4%	

Table 4 shows that there are 14 companies (19.7%) that have auditor switching and 57 companies have not changed their auditors in the observation year of this study. Table 4 also explains the number of companies that have indications of fraud as many as 26 companies (36.6%) and non-fraud companies as many as 45 companies (63.4%).

R Square Test Results

Table 5 shows that the audit report lag has an R-Square value of 0.159 and financial statement fraud has an R-Square value of 0.130. This can be explained by 15.9% (weak) by variables X1, X2, and 84.1% is explained by other variables. While financial statement fraud can be explained by 13.1% (weak) by variables X1, X2, and Z, and 86.9% is explained by variables not examined.

Table 5. **R Square**

	R Square
Audit Report Lag	0.159
Financial Statement Fraud	0.130

Predictive Relevance Test Results

Q-squared or Q2 (usually also called Stoner-Geisser coefficient) is a nonparametric measure obtained through a blindfolding algorithm. Q-squared is used to assess the predictive validity

or relevance of a set of exogenous variables to endogenous variables. Predictive relevance test (Q2) serves to validate the predictive ability of the model. This technique represents the synthesis of cross-validation and fitting functions to predict observed variables and estimate construct parameters. Models with predictive validity must have a Q-squared value greater than zero. The model estimation results in table 6 show good predictive validity (0.194 and 0.167) because they are above zero.
These results indicate that audit report lag and financial statement fraud have no predictive relevance because Q2 < 0.

Table 6. **Q square**

	Q2
Audit Report Lag	0.194
Financial Statement Fraud	0.167

Hypothesis Test Results

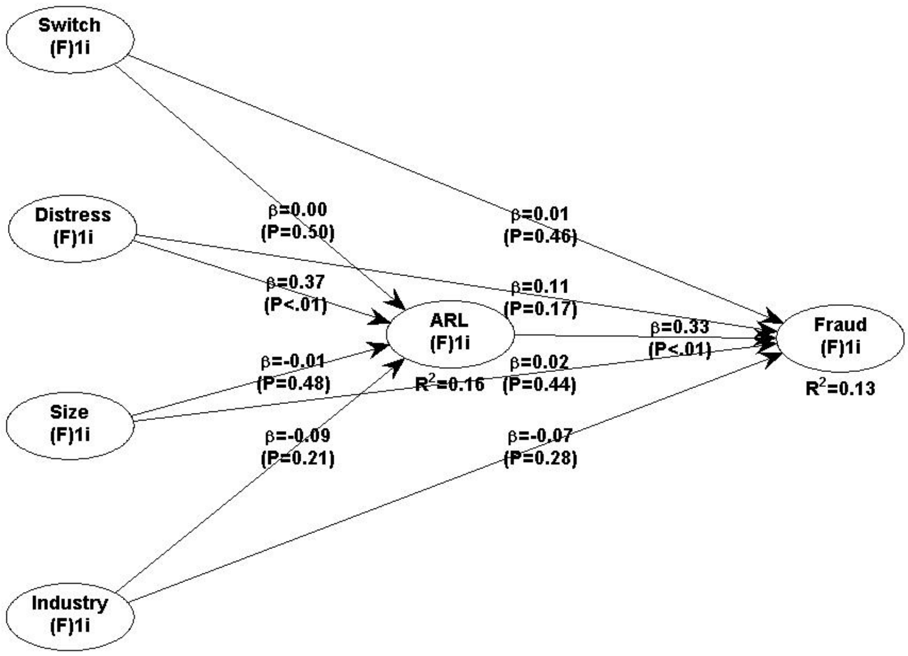

Table 7. **Direct Effect**

Hypothesis	**Relationship Between Variables**		**Path Coefficient**	**p-value**	**Result**
	Endogenous Variables =>	Exogenous Variables			
H_1	Auditor Switching	Audit Report Lag	0.001	0.496	Rejected
H_2	Financial Distress	Audit Report Lag	0.372	<0.001	Accepted
H_3	Audit Report Lag	Financial Statement Fraud	0.326	0.002	Accepted
H_4	Auditor Switching	Financial Statement Fraud	0.011	0.463	Rejected
H_5	Financial Distress	Financial Statement Fraud	0.108	0.174	Rejected

Table 8. **Indirect Effect for Path with 2 Segments**

No	Endogenous Variables	Mediating Variables	Exogenous Variables	Indirect Effect Path Coefficient	p-value	Interpretation
1.	Auditor Switching	Audit Report Lag	Financial Statement Fraud	0.000	0.498	Not a mediator
2.	Financial Distress	Audit Report Lag	Financial Statement Fraud	0.121	0.048	mediator

Discussion

Effect of Auditor Switching on Audit Report Lag (H1)

The test results showed that the hypothesis of auditor switching which has a positive effect on audit report lag was rejected. Auditor switching did not affect audit report lag because the descriptive statistical data showed that the frequency of auditor switching performed by companies in the year of observation was small, namely 14 companies compared to 57 companies that did not perform auditor switching. This data caused switching auditors unable to show significant results. It is expected that the number auditor switching from the sample of this study is high, in line with the number of companies indicated by fraud, but empirical data shows that on the contrary.

These results are in line with research conducted by Angelia and Mawardi (2021) that auditor switching has no effect on ARL because the auditor has prepared a strategy to plan the audit well before carrying out his duties. The Public Accounting Firm (KAP) conducting the audit has carried out its performance in accordance with the Public Accountant Examination Standard (SPAP). Starting from the acceptance stage of the auditee engagement, planning the audit process, and conducting the audit until the audit results are reported that can be reported, implemented and completed on time.

Each auditor will carry out the audit plan as well as possible, including the strategies implemented in the audit process. The Public Accounting Firm (PAF) will carry out client acceptance and audit planning before the end of the client's fiscal year. PAF will need more time understand the audit company characteristics (Wiryakriyana and Widhiyani 2017). The public accountant has planned well so that the time needed to understand the client's business characteristics, company conditions, and audit risk has been carried out before the end of the engagement period, so it does not take the time limit for reporting the entity's annual audit that has been regulated by the OJK.

Effect of Financial Distress on Audit Report Lag (H2)

The results of statistical tests show that the hypothesis of financial distress having a positive effect on audit report lag was accepted. Financial distress was measured using leverage ratio. Leverage ratio is the company's ability to meet its obligations. If the company has a high leverage ratio, the risk of loss will increase. As a result, in order to gain confidence in the company's financial statements, the auditor will exercise greater caution, resulting in a longer audit report lag range. Various studies use leverage ratios to assess the company's financial condition (Ashton, R.H., Graul, P.R. and Newton 1989; Bamber 1993; Carslaw, C.A, Kaplan 1991). These studies argue that auditors are more cautious when auditing firms with high debt levels, which in turn, may result in an increase in ARL. Each of these studies finds that companies with a lower proportion of debt to assets (leverage) have shorter Audit Report Lag.

This finding is in line with research conducted by (Hsu 2017), Angelia and Mawardi (2021) which states that financial distress has a positive effect on Audit Report Lag. This finding indicates that auditors are more careful when auditing companies that have high leverage to ensure the accuracy of their audit reports, so that financial distress will increase the length of Audit Report Lag.

Effect of Audit Report Lag on Financial Statement Fraud (H3)

The test results of this study proved that the third hypothesis (H3) regarding audit report lag affected the occurrence of financial statement fraud was accepted. The longer the auditor's time, the more likely it is that there will be many errors or lack of data required by the auditor during the examination of the financial statements, which hinders the auditor's performance in completing the assessment of the entity's report.

Companies want to submit their annual financial statements as soon as possible to users of financial statements if they are in good condition. Conversely, when the company is in bad condition, it will affect or slow down the submission of the financial statements. This delay is due to the company's management that needs more time to manipulate its financial statements. When financial statements are published, they can look better in the eyes of users than the actual condition of the company. The results of this study are in line with (Khaksar et al. 2022; Suryanto 2016). The study states that there is an influence between audit report lag on financial statement fraud.

Fraud is an act that is not justified and will be very detrimental to the company and KAP conducting the audit. Fraudulent financial statements carried out will give the company a bad image in the eyes of the public and investors. Users of financial statements will be distrustful of the performance of the entity's management. Furthermore, it will have an impact on shares that will fall freely, as happened to PT. Garuda Indonesia (Persero) Tbk if proven to have committed fraudulent financial statements. Companies that commit fraud and influence the KAP auditing the entity's financial statements experience negative experiences. KAP that intentionally allows fraudulent activities to be carried out or is inadvertently negligent in the audit process will receive sanctions in the form of suspension to license revocation.

Effect of Auditor Switching on Financial Statement Fraud (H4)

The fourth hypothesis (H4) that the effect of auditor switching on financial statement fraud was rejected. This means that auditor switching had no effect on financial statement fraud. This is because, based on the descriptive statistical data, the frequency of auditor switching performed by companies in the year of observation was small, at 14 companies compared to 57 companies that did not change auditors. This data caused switching auditors unable to show significant results.

The Financial Services Authority (OJK) has regulated auditor switching in regulation Number 13/POJK.03/2017, which explains that parties who carry out financial services activities outside are required to limit the use of audit services from the same Public Accountant for a maximum of 3 (three) years. Auditor switching is arranged with the aim that the auditors can maintain their independence. Based on the data in this study, companies tend not to change their auditors in the year of observation so that the hypothesis cannot be supported.

The results of this study are in line with research conducted by (Pamungkas et al. 2018; Widharma and Susilowati 2020; Wijayani and Ratmono 2020) which states that auditor switching does not affect financial statement fraud. This evidence is because the company has a well-structured and effective internal control system.

Effect of Financial Distress on Financial Statement Fraud (H5)

The fifth hypothesis (H5) that financial distress which affects financial statement fraud was rejected. This means that financial distress had no effect on fraudulent financial statements. This is because, based on the descriptive statistical data, it showed that the average company had a leverage ratio value of 0.53 times. The value of a good leverage ratio for the company is 0.6-0.7 times. This means that the company's financial condition in the 71 observations in this study is in good condition and shows the company's ability to pay off its obligations by 53%, thus causing the hypothesis test results to be insignificant.

This finding is in line with research conducted by (Safiq and Seles 2019; Wijayani and Ratmono 2020). The results of the study explained that it could happen because creditors have no longer considered a low leverage value, but were replaced by a level of trust and good relations between the company and creditors.

Effect of Auditor Switching Indirectly on Financial Statement Fraud through Audit Report Lag (H6)

The sixth hypothesis (H6) was rejected. It was not proven that there was an effect of auditor switching on financial statement fraud through audit report lag. This hypothesis was rejected because, based on the hypothesis testing, auditor switching did not have a direct effect on financial statement fraud and audit report lag. The absence of this effect was because the company's auditor switching was a form of company compliance with the rules that prohibited companies from using the same KAP for three consecutive audit years.

Auditor switching carried out does not affect the time required for the auditors to complete their duties and does not indicate that the company has committed fraud. Although there is a relationship between audit report lag and financial statement fraud, these results prove that audit report lag cannot mediate the relationship between auditor switching and financial statement fraud. This result is in line with the research conducted by Widharma and Susilowati (2020) which stated that ARL was unable to mediate the relationship between auditor switching and financial statement fraud.

Effect of Financial Distress Indirectly on Financial Statement Fraud through Audit Report Lag (H7)

The seventh hypothesis (H7) was accepted. This means that financial distress had an effect on financial statement fraud through audit report lag. Companies that are experiencing financial distress will have a negative impact on the company. Increased financial difficulties will increase the length of time for auditors to publish audit reports, because auditors are more thorough in auditing the financial statements of companies that are experiencing distress.

The condition of the company that is under pressure, especially from the financial side, will have a negative impact on the company itself. Increased financial difficulties will increase the length of time for auditors to publish audit reports, because auditors are more thorough in auditing the financial statements of companies that are experiencing distress. This is because in order to improve financial statements to make them look good in the eyes of financial statement users, it will take longer to produce an audit report lag (Muliantari and latrini 2017)

Furthermore, the existence of financial distress conditions that increase audit report lag will also increase the risk of financial statement fraud. The decline in the company's financial performance can encourage company management to commit financial statement fraud. These results indicate that audit report lag is a mediating variable.

Conclusion

Agency theory explains the relationship between principals, equity owners (shareholders in public companies), and agents as managers of the company (Jensen, M. C. 1976). Equity owners want to maximize their wealth, while management wants to show their work performance to claim their rewards, such as raises, bonuses, stock options, etc. Managers tend to act in their own unfounded and value-maximizing pursuit of self-interest in making funding decisions. At the same time, management can deceive owners by making false claims on performance in financial statements (Handoko et al. 2020).

This study aims to investigate agency theory in testing the effect of auditor switching, financial distress on financial statement fraud with audit report lag as the mediating variable. The results showed that auditor switching did not have a direct effect on audit report lag, while financial distress had a direct effect on audit report lag. Furthermore, audit report lag had a direct effect on financial statement fraud. In testing the indirect effect, the hypothesis of financial distress had an indirect effect on financial statement fraud through ARL, so that ARL is the mediating variable. However, in the indirect testing, the effect of auditor switching on financial statement fraud through ARL was rejected, so ARL was unable to mediate the relationship between auditor switching and financial statement fraud.

The theoretical implications of this study are that the results of this study can support existing theories. While the practical implications of the results of this study are a good audit work plan is required to ensure that the audit process runs smoothly and on schedule. External auditors might foresee the probability of barriers or impediments that may arise throughout the audit process with appropriate work preparation. For the prospective investor, is necessary that investors understand the elements that might cause audit report lag and financial statement fraud, so that they can forecast the impact on possible profits or losses if they invest in a firm.

The limitation of this research is the small sample in the observation. Although the size of the company has been considered in comparing companies indicated by fraud and non-fraud, this study is not able to control companies involved in ARL or those that did auditor switching. This weakness is also a suggestion for further research, to consider a representative sample for all research variables. Further researchers can also use F-score proxies and benefit M-scores to measure indications of financial statement fraud, in order to get a larger sample. Based on the limitations of the study, it is necessary to carry out further development and improvement for better future research. Some suggestions for further research are to expand the observation period for a larger sample size, and use other proxies in measuring variables that can affect financial statement fraud.

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