

## THE INFLUENCE OF AUDIT WORK DURATION, AUDIT FEES, AUDIT COMMUTING, AND AUDITOR SWITCHING ON FINANCIAL STATEMENT FRAUD

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### Abstract

This study aims to examine the effect of audit tenure, audit fees, audit committees, and auditor switching on financial statement fraud. The research was conducted on manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2023 period. The research method used is quantitative method with secondary data in the form of annual financial statements. The sample was obtained by purposive sampling method as many as 57 companies, resulting in 285 observations. The analysis technique used is multiple linear regression with the help of SPSS version 26. The results showed that audit tenure and auditor switching had a significant negative effect on financial statement fraud. While audit fees and audit committees do not show a significant effect. These results indicate that the continuity of the audit relationship and auditor switching can play a role in reducing fraudulent financial statement practices.

**Keywords:** Audit Tenure, Audit Fees, Audit Committee, Auditor Switching, Financial Statement Fraud.

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### INTRODUCTION

Financial statements are an important tool in conveying information about the financial condition and performance of a company to various interested parties, such as management, investors, creditors, and the government (agusputri & Sofie, 2019). According to the Financial Accounting Standards Statement (PSAK) No. 1, financial statements aim to provide information about the financial position, financial performance, and cash flows of an entity that is useful for economic decision-making by report users.

The fraud committed by companies is an unresolved issue faced by many organizations worldwide, especially in Indonesia. The evolution of economic conditions provides many opportunities for fraud (according to Nurhayati et al., 2018). In practice, not all financial statements presented reflect the actual condition of the company. There are various motivations from management to manipulate reports in order to show better performance, maintain reputation, or attract investor interest. This phenomenon underlies the occurrence of financial statement fraud, which is a manipulative action carried out intentionally to present misleading financial information (Pratiwi & Rohman, 2021).

According to a survey by the Association of Certified Fraud Examiners (ACFE), although the frequency of financial statement fraud is lower compared to other types of fraud such as corruption and asset misuse, the financial losses caused are much greater. Indonesia is noted as one of the countries with a high rate of fraud cases. The manufacturing sector is one of the most affected industries, as seen from the cases involving PT Tiga Pilar Sejahtera Food Tbk and PT Indofarma Tbk, both of which manipulated financial statements. As business complexity continues to grow, the methods of fraud are becoming more varied and difficult to detect. Therefore, effective oversight is

needed both from within the company, such as an audit committee, and from external parties like independent auditors. In this context, there are several factors that are expected to influence the level of financial statement fraud, namely audit tenure, audit fees, the expertise of the audit committee, and auditor switching.

A long audit tenure can create an overly close relationship between the auditor and the client, thus risking the reduction of the auditor's objectivity and independence (Edna & Laksito, 2024). Meanwhile, according to (Martha & Wenny, 2023), the audit tenure has an impact on financial statement fraud; in this case, it is stated that audit tenure can enhance the auditor's competence because the auditor has broader knowledge of the client's business, making the audit process more efficient. Excessively high or low audit fees can also place pressure on audit quality (Astrawan & Achmad, 2023). High audit fees allow auditors to allocate more time and resources to identify issues and strengthen audit evidence (Korompis & Latjandu, 2017).

A competent and independent audit committee is expected to provide better oversight of the financial reporting process (Edna & Laksito, 2024). With this, the audit committee with a background in accounting and finance can detect the presence of financial statement fraud or misstatements in the financial statements created by the company at an earlier stage (Larasati et al., 2020). Auditor switching is also an important factor, as periodic changes of auditors can maintain audit independence and detect potential fraud that may not have been revealed by the previous auditor (Achmad, 2019). Auditor switching can also be defined as the replacement of auditors or Public Accounting Firms (KAP) undertaken by a company. This change occurs when the client company, through management decision, chooses a new auditor to perform the audit of the company's financial statements (Martha & Wenny, 2023).

However, previous research results have shown inconsistent findings regarding the influence of these variables on financial statement fraud. This study is conducted to provide new empirical evidence while also enriching the literature on the factors that influence financial statement fraud, especially in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2019–2023. Referring to the Policeman theory, which emphasizes the important role of auditors as supervisors in detecting and preventing fraud. Based on this background description, the researcher is interested in conducting a study titled "The Influence of Audit Tenure, Audit Fees, Audit Committees, and Auditor Switching on Financial Statement Fraud (In Manufacturing Companies Listed on the Indonesia Stock Exchange in 2019-2023)."

## LITERATURE REVIEW AND HYPOTHESIS FORMULATION

This research is based on the Policeman Theory, which emphasizes the auditor's role in detecting and preventing financial statement fraud. The theory underscores the auditor's responsibility as a watchdog who upholds financial integrity by examining financial reports with professional skepticism (Akinradewo et al., 2024). This aligns with the core of this study, which investigates how internal and external audit-related variables influence financial fraud within manufacturing companies.

Audit tenure refers to the length of time an auditor has audited a particular client. According to Auliyah et al. (2022), a longer audit tenure enhances the auditor's understanding of the client's business, which could improve fraud detection. However, prolonged relationships may also risk auditor independence (Thuneibat et al., 2017). Research by Nejad et al. (2024) found a negative correlation between audit tenure and fraud, indicating that longer tenure may reduce fraud risk.

H1: Audit tenure negatively affects financial statement fraud.

Audit fees are compensation received by auditors from clients for audit services (Yulaeli, 2022). Higher fees may enhance audit quality due to better resource allocation (Korompis & Latjandu, 2017), but they can also threaten independence if auditors are economically dependent on the client (DeAngelo, 2018). Previous studies show inconsistent results regarding this relationship.

H2: Audit fee significantly affects financial statement fraud.

The audit committee is crucial in overseeing the financial reporting process. According to Nurliasari & Achmad (2020), audit committee members with accounting expertise can better detect financial anomalies. Handoko & Ramadhani (2017) emphasized the importance of such competencies in reducing fraud.

H3: Audit committee expertise negatively affects financial statement fraud.

Auditor switching refers to the client's decision to replace their auditor. It is often regulated to maintain auditor independence (OJK, 2017). While new auditors may bring a fresh perspective (Martha & Wenny, 2023), they may also lack firm-specific knowledge, affecting fraud detection efficacy.

H4: Auditor switching negatively affects financial statement fraud.

## RESEARCH METHODS

This research uses a quantitative approach with associative research type. The data used is secondary data obtained from the financial statements of manufacturing companies listed on the Indonesia Stock Exchange for the period 2019–2023. Population and Sample: All manufacturing companies listed on the IDX. The sampling technique uses purposive sampling, resulting in 57 companies (285 observations). Research Variables financial statement fraud (Y): measured using the Beneish M-score. Audit tenure (X1): the number of years the auditor has audited the company. Audit fee (X2): the amount of audit fee paid by the company. Audit committee (X3): the financial background of the audit committee members. Auditor switching (X4): auditor change (dummy: 1 = occurred, 0 = not occurred). Analysis Technique: Multiple linear regression analysis with classical assumption tests (normality, multicollinearity, heteroscedasticity, autocorrelation), followed by t-test, F-test, and coefficient of determination ( $R^2$ ).

## RESULTS AND DISCUSSION

This study analyzes 285 observations of manufacturing companies listed on the Indonesia Stock Exchange (BEI) during the period of 2019–2023. The results of the multiple linear regression test show that audit tenure and auditor switching have a significant negative impact on financial statement fraud. This means that the longer the auditor conducts audits and in the event of an auditor switch, the tendency for fraud in financial statements decreases. On the other hand, audit fee and audit committee variables do not have a significant effect on financial statement fraud. This indicates that the magnitude of audit fees and the existence of audit committees are not yet effective enough in preventing financial statement manipulation practices in manufacturing companies. These findings strengthen the relevance of the Policeman Theory, which emphasizes the role of auditors' oversight in detecting and preventing fraud. A long tenure allows auditors to understand their clients' operations more deeply, Meanwhile, auditor switching can renew the objectivity and independence of the audit. On the other hand, the size of audit fees and the existence of the audit committee require strengthening of roles and integrity to contribute more significantly to fraud prevention.

## CONCLUSION

This research concludes that audit tenure and auditor switching can significantly reduce the risk of financial statement fraud in manufacturing companies. Audit fees and audit committees do not have a significant influence. This research implies that companies need to pay attention to the duration of auditor work and conduct regular evaluations of auditors to maintain the independence and integrity of financial statements.

Equation

$$1. LK_{it} = \alpha - \beta_1MKA_{it} - \beta_2AF_{it} - \beta_3KA_{it} - \beta_4AS_{it} + e \dots \dots \dots (1)$$

Description:

LK = Financial Statement Fraud

$\alpha$  = Constant

MKA<sub>it</sub> = Audit work duration

AF<sub>it</sub> = audit fee

KA<sub>it</sub> = Audit Committee

AS<sub>it</sub> = Auditor switching

$\beta_1, 2, 3, 4, 5$  = Regression coefficients of independent variables

$e$  = Error term  $i$  =  $i$ -th entity  $t$  =  $t$ -th period

Figures and Tables

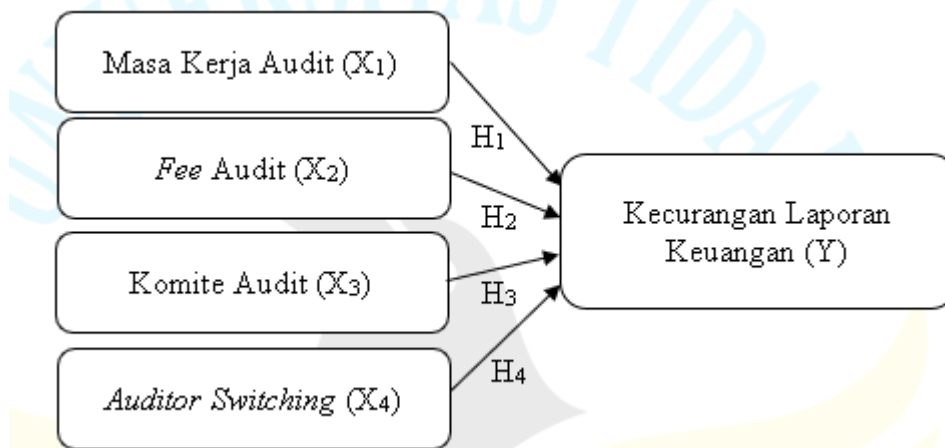


Figure 1 framework of thought

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