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EFFECT OF AUDIT DELAY, AUDIT QUALITY AND LEVERAGE AGAINST FINANCIAL REPORTING FRAUD: AUDITOR SWITCHING AS INTERVENING VARIABLE

Chairian Tomy[1]
Postgraduate Students of Universitas Negeri Medan
chairiantomy@gmail.com

Arfan Ikhsan[2]
Universitas Negeri Medan

Andri Zainal[3]
Universitas Negeri Medan

Abstract

This study aims to show the influence of variable audit delays, audit quality and leverage, on financial reporting fraud: auditor switching as intervening variables on idX-listed property, real estate, and building construction companies. The population of this study is 85 companies, by accessing financial statements and auditor reports through the Indonesia Stock Exchange website. The sampling method used is the purposive sampling method, so 30 sample companies were obtained for 3 years of observation (2018-2020) with 90 units of analysis. The data analysis method used is the logistic regression method. Based on the results of data processing using the logistic regression method with SPSS software, it is known that simultaneous audit delays, audit quality and levarage have a significant influence on auditor switching at a significance level of 5%. Similarly, the influence that occurs between switching audiors on financial reporting fraud is statistically significant at a significance level of 5%. Switching auditors are also able to mediate the relationship between audit delay, audit quality and leverage against financial reporting fraud with a significance level of 5%.

Keywords: *Financial Statement Fraud, Audit Switching, Leverage, Audit Quality, Audit Delay*

A. Introduction

The company's financial statements aim to provide financial information to parties who have an interest in the company. Financial statements will function optimally if

displayed in accordance with their qualitative elements, namely: easy to understand, reliable, *comparable*, and relevant. Financial statements are displayed to *stakeholders*, namely: management, employees, investors (*holders*), creditors, suppliers, customers, and the government.

In the Basic Framework of Preparation and Presentation of Financial Statements issued by the Indonesian Association of Accountants (2013) it is stated that users of financial statements include investors, employees, governments and financial institutions, and the public. Then in terms of economic decision making financial statements are influenced by many factors, including: the state of the economy, politics and the prospects of the industry.

Financial statements display more information than just numbers, as they include information on the financial condition and performance of the company. This report serves for corporate and economic decision making for business purposes. For example, investors can use it as a guideline for the buying or selling activities of a company's shares.

When the company publishes financial statements, it actually wants to show its condition in the best condition. This can lead to fraud on financial statements that will mislead investors and other users of financial statements. When there is a misstatement in the financial statements, then the information becomes invalid to be used as a source of decision making, because the analysis carried out is not based on actual information. The rise of various accounting scandals in the world causes various parties to speculate that management has cheated on financial statements (Stice, Stice, & Skousen, 2011).

According to the Association of Certified Fraud Examiners (ACFE, p. 2000), fraud is an act of *fraud* or misconduct made by a person or entity who knows that such errors may result in some unfavorable benefits to individuals or entities. The definition *of fraud* according to Tuanakotta (2000, p. 28) is: "*Any illegal act characterized by deceit, concealment or violation of trust. these acts are not dependent upon the application of threats of violence or physical force. Fraud are perpetrated by individuals, and organization to obtain money, property or service; to avoid payment or loss of services; or to secure personal o business advantage.*" The definition of *fraud* according to Johnstone, (2014, p. 34) is: "*Fraud is an intentional act involving the use of deception that results in a material misstatement of the financial statements.*" The definition of fraud according to Arens (2012, p. 336) is: "*Fraud is defined as an intentional misstatement of financial statements.*" The definition *of fraud* according to Karyono (2013, pp. 4-5) is:

"*Fraud* can be termed as fraud that means an irregularity and *unlawful* act, which is done deliberately for certain purposes such as cheating or giving *a misapprehension (mislead*) to other parties, which is carried out by people both from within and outside the organization. Cheating is designed to dishonestly take advantage of opportunities, which directly or indirectly harm the other party." Some definitions of fraud according to experts can conclude that *fraud* is an act carried out by an individual or organization deliberately to manipulate, hide, or benefit under a condition, where the action can harm the parties concerned. Likewise*, fraud* in financial statements can make the information presented in the financial statements do not show the actual condition, so that the information can make users of financial statements wrong in making decisions and suffer heavy losses.

Accounting scandals have grown widely, as has the case in the United States. Spathis (2002) explained that in the USA, accounting fraud that befell Enron caused huge losses in almost the entire industry. The accounting scandal is estimated to have cost Enron $50 billion, plus investor losses of $32 billion and thousands of Enron employees had to lose their pension funds of about $1 billion (Tiffani & Marfuah, 2015).

Indonesia as a country with unstable economic conditions and also widespread cases of accounting scandals. In 2001, there was a financial scandal by PT Lippo Tbk and PT Kimia Farma Tbk (Boediono, 2005). PT Kimia Farma is a state-owned enterprise whose shares have been traded inbursa so that it becomes a financial sector company. Based on indications by the Ministry of SOEs and bapepam examination (BAPEPAM 2002) found a misstatement in the financial statements that resulted in more overstatement of net profit for the year ended December 31, 2001 amounting to Rp 32.7 billion which is 2.3% of sales and 24.7% of net profit. This misstatement occurs by overstateing sales and inventory in business units, and is done by inflating the price of inventory that has been authorized by the production director to determine the value of inventory in business units that are not streamlined by external auditors (Koroy, 2008).

In addition, cases of financial statement fraud also occur in companies engaged in *property, real estate* and development. One of them is the state-owned company Waskita Karya, the beginning of the disclosure of this case when a re-examination of the balance sheet in order to prepare the company for the Innitial Public Offering (IPO). Former Finance Director of PT. Adhi Karya (Persero), M. Choliq who is the President Director of Waskita Karya who only discovered the excess recording of Rp. 400 billion and allegedly the directors of the previous period engineered financial reporting from 2004

to 2008 by including the projected revenue of the next multi-year project as a certain year's income (Putra, 2009).

Cases of financial statement fraud that harm many users of financial statements and the biggest scandals in the world are the Case of Enron and the Case of Worldcom. Enron Corporation committed fraud by boosting profits and hiding more than $1 billion in debt by exploiting *off-the-books partnerships*, as well as manipulating electricity and energy markets in Texas and California. The consequences of the scandal are shown by a market capitalization loss of $ 70 billion which destroyed a large number of investors, employees, and retirees (Christy, 2013).

The financial statement fraud scandal also occurred at WorldCom which is the second major telecommunications company in the United States. WorldCom cheated by manipulating its books by inflating the profits of about $3,850,000 made by the company's executives. The accounting scandal caused trading of its shares to stall on the *National Association of Securities Dealers Automated Quotations* (NASDAQ) exchange which then a few weeks later WorldCom declared bankruptcy. The company's performance falsified billions of routine business as capital expenditures that made its profit *overstated* in early 2002 by $11 billion. Bernard Ebbers, *Chief Executive Officer* of WorldCom, also loaned his company more than $400 million to cover his personal trading losses. Bernard Ebbers has committed forgery, conspiracy and false financial statements, but the former WorldCom CEO has pleaded not guilty (Sihombing & Rahardjo, 2014)

Currently*, the property* and *real estate* sector needs to be a concern because from 2001-2014 there were 35 companies that were proven to commit *financial statement fraud* and one of them was from *the property* and *real estate* sectors. This is due to the increasing number of project developers who build various kinds of housing such as, housing, apartment areas and so on. The development of a sector, such as the *property* and *real estate* sectors, encourages the possibility of *fraud*. According to Sudaryatmo as chairman of yayasan Lembaga Konsumen Indonesia there has been an increase in complaints of property sector legal cases by consumers to the Indonesian Consumer Institute Foundation and cases in this sector have been second only to the financial and banking sectors (Tribun Timur, 2015).

B. Method

The type of research used is complementary causal research that aims to analyze the influence of independent variables (audit delay, audit quality and leverage)

on independent variables (financial reporting fraud) with intervening variables (auditor switching). This research was conducted on property, real estate, and building construction companies listed on the Indonesia Stock Exchange in the observation period 2018 to 2020 by taking annual report data. The data taken will be accessed through the www.idx.co.id website or the website of each company. This activity will be carried out by processing data.

This research was conducted using secondary data, namely data obtained from the annual reports and financial statements of property, real estate and building construction companies listed on the IDX during the period 2018-2020 by accessing www.idx.co.id and riset.or.id.

Research data analysis uses descriptive analysis. Descriptive statistics provide an overview or description of a data that is seen from the average value (average), standard deviation, maximum and minimum values. The study also examined classical assumptions. A classical assumption test is performed to test whether the data meets classical assumptions. This is done to avoid biased estimates, considering that not all data can be applied regression. The tests performed are normality tests, multicollinearity tests, heteroskesdasity tests, and autocorrelation tests.

Testing with the logistic regression model used in this study is to determine the influence of each independent variable on the dependent variable. Where the test criteria are as follows.

a. The level of trust used is 95% or the real level of significance of 5% (α = 0.05)
b. The criteria for acceptance or rejection of the hypothesis are based on *the significance of P-Value* if the significance level of > 0.05 Ho is accepted, if the significance level < 0.05 Ho is rejected.

C. Finding and Discussion

1. Descriptive Statistical Analysis

Table 1 Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Audit Delay	90	0.00	1.00	.4333	.49831
Audit Quality	90	0.00	1.00	.6333	.48459
Leverage	90	0.00	1.00	.2556	.43862
Auditor Switching	90	0.00	1.00	.5111	.50268
Financial Reporting Fraud	90	0.00	1.00	.1667	.37477

Valid N (listwise)	90

Based on the table it was concluded that the total number of research samples was 30 companies multiplied by three (3) years of research so that the total N was 90 companies. In the first independent variable, the audit delay has a minimum value of 0.00 maximum value of 1.00, an average value of 0.433, and a standard deviation of 0.49831. This indicates that the number of audit delays in companies that are research samples makes the company's condition better in the timeliness of publishing its financial statements. The audit quality variable has a minimum value of 0.00, a maximum value of 1.00, an average value of 0.6333, and a standard deviation of 0.48459. The minimum value on the leverage variable is 0.00, the maximum value is 1.00, the average value is 0.2556, and the standard deviation is 0.43862. In the switching auditor variable, the minimum value is 0.00, the maximum value is 1.00, the average value is 0.5111 and the standard deviation is 0.50268. On the financial reporting fraud variable, the minimum value is 0.00, the maximum value is 1.00, the average value is 0.1667, and the standard deviation is 0.37477.

Table 2 Financial Reporting Fraud Variable Frequency Statistics Table

		Frequency	*Percent*	*Valid Percent*	*Cumulative Percent*
Valid	*Non Fraud*	75	83.3	83.3	83.3
	Fraud	15	16.7	16.7	100.0
	Total	90	100.0	100.0	

Source: SPSS Processing Results (2021)

Based on this, it can be described that the financial statement fraud variable is a nominal variable that uses *a dummy* variable, companies whose *f-score* is more than 1 code "1", which means indicated to be cheating financial statements, while companies whose *f-score* is less than 1 are coded "0", have valid data because all of them have been processed. Companies that are indicated to have cheated financial statements as many as 15, while those that are not indicated as many as 75 companies.

Table 3 Variable Frequency Statistical Table Auditor Switching Auditor Switching

		Frequency	*Percent*	*Valid Percent*	*Cumulative Percent*
Valid	*Non Switching*	44	48.9	48.9	48.9
	Switching	46	51.1	51.1	100.0
	Total	90	100.0	100.0	

Source: SPSS Processing Results (2021)

Based on the table, it can be described that *intervening* variables, namely *switching auditors* are nominal variables that use *dummy* variables, where

companies that perform *auditor switching* are coded "1" while companies that do not perform *auditor switching* are given the code "0", have valid data because all of them have been processed. Companies that conduct *auditor switching* as many as 46 companies, while those that do not conduct *auditor switching* as many as 44 companies.

2. Logistic Regression Analysis

a. Assessing the Overall Model (*Overall Model Fit)*

Testing the entire model (*Overall Fit Model*) can be done with *a chi square test.* The ^{X2} value is used for the entirety of the model against existing data by comparing the initial *-2log likehood* value or the result of *block number* 0 with the value of -2 *log likehood* or the result of *blocknumber* 1. When the comparison of the two models decreased, the model showed good regression results. The *test value of likelihood overall fit block* regression equation can be seen in the following table.

Table 4 Overall Model Fit

Iteration	*-2 log likelihood*
Step 0 1	82.113
2	81.107
3	81.101
4	81.101
Step 1 1	71.037
2	65.695
3	65.063
4	65.044
5	65.044
6	65.044

Testing on *block number* 0 where the test was performed obtained -2 *initial log likelihood* of 81,101. Yamin and Kurniawan (2014) explained that *blocknumber* output 0 or starting block is an initialization process, meaning that independent variables have not been incorporated into the research model. Then in *the block number* 1 test obtained a value of -2 *log likehood* of 65,044. If *the log likelihood is* smaller than the *chi-square* value of 0.05 profitability, then Ho is accepted. The *chi-square* value on *block number* 0 is 4.031 and *the chi-square* value in *block number* 1 is 81.101. This indicates that there is a decrease in the value of -2 *log likehood* so that it can be concluded that the model is considered capable enough to explain the relationship of independent variables with dependent variables and *intervening variables.*.

b. *Omnibus Test of Model Coefficient Test*

Overall regression coefficient testing (*overall model*) is done using *omnibus test of model coefficient*. The *omnibus test value of the logistic regression equation coefficient model* can be seen in the following table.

Table 5 Omnibus Tests of Model Coefficients

		Chi-square	*Df*	*Sig.*
Step 1	Step	39.017	3	.000
	Block	39.017	3	.000
	Type	39.017	3	.000

The table shows that the value of *the omnibus test test* was obtained *by chi square* (decrease to the value of *-2 log likehood*) of 39.017 with a significance of 0.000. The table *square chi* with α = 0.05 is 4.031, while *the chi square* count value is 39.017. *Chi square* count>*chi square* table, this indicates that Ho was accepted. A significance value of 0.02< 0.05 indicates that audit delay, audit quality, and *leverage,* have a simultaneous effect on the occurrence of *auditor switching.*.

c. Coefficient of Determination (*Cox and Snell R Square and Nagelkereke R Square*)

The detemination coefficient is used in research to measure how far a model's ability to explain dependent variables is (Ghozali, 2013). To get a coefficient of determination that can be interpreted like the value of ^{R2} in *multiple regression*, *nagelkerke's R square* is used. *Nagelkerke's R square* value can be seen in table 4.8, while the complete output of the data can be seen in the attachment.

d. Assessing regression model eligibility *(Hosmer and Lemeshow's Goodness of Fit Test)*

Model feasibility testing on all variables that use logistic regression analysis can use test testing with *hosmer and lemeshow goodness of fit. Hosmer and lemeshow goodness of fit is* used to test the null (Ho) hypothesis which states that there is no difference between the model and the data so that the model can be said to be fit. The basis for decision making fit or not the model is if the value of *the hosmer and lemeshow goodness of fit* is equal to or less than 0.05 hypothesis zero (Ho) is rejected, which means that there is a significant difference between the model with the observation value so that *the goodness of fit* is not good because the observation value cannot be predicted by the model, while if *the hosmer and lemeshow goodness of fit* Greater than 0.05, the

null hypothesis (Ho) is accepted and means that the model is said to be able to predict its observation value.

3. Hypothesis Testing Results

The use of logistic regression because the dependent variable in this study is financial statement fraud which is a categorical variable where the measurement uses *dummy*. The results of regression analysis can be seen in the following table.

Table 6 Results of Logistic Regression Analysis

Variabel in the equation	*Direction Prediction*	*Koef.*	*Sig.*	Significance
Audit Delay	+	1.094	0.046	Positive Significance
Audit Quality	-	-2.825	0.000	Negative Significance
Leverage	+	1.093	0.078	No Effect
Constant	+	1.244	0.036	Positive Significance
Auditor Switching	+	2.157	0.017	Positive Significance

Source: SPSS Processing Results (2020)

Based on the table, the test results of the logistic regression coefficient can be explained as follows:

a. constant (a) = 1.244 indicates a constant value, where if the value of an independent variable is equal to zero, then the *auditor variable switching* (Y) is equal to 1.244
b. test results of the audit variable delay correlation value of 1,094 with a significance value of 0.046. The significance value of 0.046 < 0.05 proves that *the audit delay* variable has a significant effect on the occurrence of *auditor switching*. The coefficient shows a positive correlation which means the audit delay has a positive effect on the *switching auditor*
c. test results on audit quality variables have a correlation value of 2.825 with a significance value of 0.000. The significance value of 0.000 > 0.05 proves that quality variables have a significant effect on the occurrence of *auditor switching*,
d. test results on *leverage* variables have a correlation value of 1.093 with a significance value of 0.078. The significance value of 0.078 > 0.05 proves that *the leverage* variable has no significant effect on the occurrence of *auditor switching*,

e. test results on the auditor switching variable have a significance value of 0.017 and a correlation value of 2.157. The significance value of 0.001 < 0.05 proves that *the variable auditor switching* has a significant effect on the occurrence of financial statement fraud, while the correlation of 2,157 shows that *the auditor switching* has a positive effect on the occurrence of financial statement fraud.

E. Conclusion

Based on the results of the logistic regression analysis, it can be concluded as follows.

1. .*Audit delay* has a significant positive effect on the occurrence of *auditor switching* because the publication of financial statements at a time that is past the tempo will reduce investor interest and confidence, so it is expected that with *the auditor switching* can carry out the financial reporting supervision process effectively, so as to reduce effective *audit delays*.
2. The quality of the audit has a significant negative effect on *the switching auditor* because the company's desire to meet the needs of the principal who is also himself is getting bigger.
3. *Leverage* does not have a significant positive effect on the occurrence of *auditor switching* because companies that have financial difficulties tend not to conduct auditor switching to minimize cost expenditures.
4. Based on *the omnibus test of model coefficients,* it is concluded that *audit delay*, audit quality and *leverage* have a simultaneous effect on *the switching auditor*. This is evident, because its significance is 0.036 < 0.05.
5. *Auditor switching* have a positive and significant effect on the occurrence of financial statement fraud, switching auditors become audit delay boosters, audit quality and leverage against financial reporting fraud because with switching auditors, the new auditor will not understand the history of the audited company so that the company's management can manipulate the audited financial statements and the company wants to get a more efficient auditor and have expertise in accordance with the company's industrial field so that it can comply with government regulations, namely auditor regulations.

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