AUDITOR SWITCHING, FINANCIAL DISTRESS, AND FINANCIAL STATEMENT FRAUD PRACTICES WITH AUDIT REPORT LAG AS INTERVENING VARIABLE

Fandry Widharma¹, Endah Susilowati²

¹,²Department of Accounting, Faculty of Economics and Business, Universitas Pembangunan Nasional Veteran Jawa Timur, Jl. Raya Rungkut Madya, Gunung Anyar, Surabaya – Indonesia 60294

DOI: https://doi.org/10.33005/jasf.v3i2.135

Abstract
This research aims to examine Auditor Switching and Financial Distress's effect on the possibility of Financial Statement Fraud occurrence, which is proxied by using the F-Score formula, and Audit Report Lag Intervening variable. This study's subjects are companies engaged in manufacturing and listed on the Indonesia Stock Exchange (IDX) with a research period in 2014-2018. The sample in this study used a non-probabilistic purposive sampling technique with a total of 27 manufacturing companies. The analysis technique in this study uses Partial Least Square (PLS) with smart PLS 3.0 tools. Results indicate that financial distress and audit report lag directly affect Financial Statement fraud. Auditor report lag as an intervening variable does not influence the relationship between auditor switching, financial distress, and Financial Statement fraud. These results imply that investors must be more careful in investing in the company with a lag in their audit reports. It is also suggested that management must continue to be cautious with the opportunity to do fraud in the financial statement.

Keywords: auditor switching, financial distress, audit report lag, financial statement fraud.

INTRODUCTION

Every company will produce output from accounting activities that inform its financial performance for a certain period (Saputra & Kusumaningrum, 2017). The report will be used by internal & external as a basis for decision making. It makes financial statements be presented as well as possible to have a good impact later.

The financial report is a crucial instrument for various parties who have an essential role in the company. The report presents the company's financial position and financial performance

¹ Fandry Widharma
Email: fandrywidharmaa@gmail.com
during the current period. Every financial information must be submitted completely and accurately. Characteristics of the quality of financial statements stated in PSAK (IAI, 2018) are that financial statements must be understandable, relevant, reliable, and comparable.

Entities that go public are required to publish their financial statements to the public. Companies must show attractive financial reports to reflect useful financial information to attract external parties (Aprilia, 2017). The enormous demand to present useful financial reports can trigger the entity to justify any means so that the given financial statements look good in the eyes of investors and the public. This tendency can make some entities do not meet the four quality characteristics of financial statements and commit financial statement fraud, commonly known as financial statement fraud.

Public Company Accounting Oversight Board (PCAOB, n.a.) stated that fraud in financial statements is the misstatement or deletion of amounts or disclosures that are intentionally carried out to deceive its users. Fraudulent financial statements are illegal acts that make financial statements inappropriate. Inappropriate disclosures such as companies that overstate their assets and report debts or expenses lower than their supposed value (understates) (Zager, Malis, & Novak, 2016); Samsulubis et al., (2018). A company usually does this immoral act to maintain its right name so that it continues to be visible on the axis of its financial success.

According to data from a fraud survey conducted by ACFE in 2018 in the Asia Pacific region, Indonesia ranks third out of 18 countries with the most fraud cases, namely 29 instances. This case is also in line with the many fraud cases in Indonesia related to financial statement fraud. Financial statement fraud can occur due to motivation and encouragement from various parties, both within and outside the company. This fraud is intentionally carried out to attract the attention of investors and potential investors. (Septriani & Handayani, 2018).

The Association of Certified Fraud Examiners (ACFE) indicates the most prominent anti-fraud organization globally, divided fraud into three types: Corruption, Asset Misappropriation, and Fraudulent Statement. Based on Report to The Nation by ACFE in Asia Pacific 2018, asset misappropriation was the most cases with a percentage of 80%, followed by corruption cases with a portion of 51% and fraudulent statements with a ratio of 13%. Financial statement fraud does have the smallest percentage, but the impact of the losses experienced is the most material compared to other types of fraud. The data shows that the fraudulent statement has a median loss of USD 700,000. And this survey also shows that the industry most involved in this fraud case is manufacturing companies with 38 cases (17%) (ACFE, 2018).

The condition of the company that is not good, especially from a financial perspective, can also be a factor that submits financial reports not on time (Krisnanda & Ratnadi, 2017). Financial difficulties, or what is commonly referred to as financial distress, can affect the length of the audit report lag because this condition is "bad news" in the financial statements, which causes reporting delays. (Sawitri & Budiartha, 2018). Praptika & Rasmini (2016), in their research, also stated that the higher the level of financial distress would affect the length of the audit report lag because by experiencing financial distress, the audit risk will increase. Therefore, auditors will need more time to carry out risk examinations.

Auditor switching is also one of the factors that can affect the audit report lag. Auditor switching is the change of auditors and public accounting firms (KAP) that carry out examinations on a company. A new audit change certainly takes a long time to recognize the client's
characteristics and business systems. It takes up the auditor’s time and causes delays in submitting audited financial statements (Praptika & Rasmini, 2016).

Audit Report Lag is also considered to affect financial report fraud because the longer the audit report, the more likely it is that there will be many errors or lack of data. The auditors' financial data error found during the financial statements audit will hinder the auditor’s performance. This lag is also in line with research (Suryanto, 2016) that tests that audit report lag has implications for financial statement fraud. The Sunprima Finance company experienced an example of this in 2018. This example was based on SNP Finance committing fraud to manipulate fictitious receivables data on its financial statements to apply for credit to the bank. SNP Finance makes a loan application because it is on the verge of bankruptcy (Syafina, 2018).

The entity’s behaviour to change its auditors may be due to applicable regulations or voluntary. Breaking the relationship between the company and the old auditor and the appointment of a new auditor requires the new auditor (successor) to communicate with the previous auditor, identify the client’s reasons, and understand the company (Tambunan, 2014). New auditors must communicate with previous auditors and company managers to obtain information about company transactions so that these things will take up the auditor’s time in carrying out the audit process (Widhiasari & Budiartaha, 2016). New auditors take longer to understand the client's characteristics and can cause an audit report lag. However, Fatimah & Wiratmaja (2018) research states that auditor switching does not affect audit report lag because auditors have considered the company's condition, materiality, audit risk, and so on before auditing a company. Thus, the hypothesis is:

**H1:** Auditor switching effects audit report lag

Financial distress is a condition in which an entity experiences financial difficulties (Sawitri & Budiartha, 2018). The situation that illustrates that the entity is experiencing financial distress is when the company finds it difficult to pay debts to suppliers, even to the point of bankruptcy.

Financial distress is terrible news for company financial reports (Muliantari & Latrini, 2017). Financial distress can be seen from the ratio between the company’s long terms debt and total assets owned (Dianova & Nahumury, 2019). For companies, they will avoid publication if the company is experiencing difficult financial conditions. After all, the company will avoid publication if the company is experiencing difficult financial situations because it will impact users' reactions to financial reports. To show the good news that is shown in financial reports, companies often try to improve it. This news, of course, will make the company need more time to improve financial statements. It will automatically have an impact on the timeliness of completing the audited report.

A company’s financial distress can increase audit risk for independent auditors, particularly control risk and detection risk (Praptika & Rasmini, 2016). The increased risk that arises will require the auditor to conduct a risk assessment in the audit planning phase before carrying out the audit process. This risk causes the audit process's length and can cause the audit report lag. The length of the audit process and can lead to an audit report lag. In contrast to Krisnanda & Ratnadi (2017) research, whether the company's financial condition is good or bad does not affect the speed of publication of financial reports. Therefore, the hypothesis is:

**H2:** Financial distress affects audit report lag
The longer it takes to complete the audit report or the audit delay is closely related to audit quality (Suryanto, 2016). The existence of a delay (audit report lag) indicates that the audited financial statements do not meet the quality of the financial statements as relevant. Late audit reports are no longer useful (relevant) to be used as a basis for economic decision making.

Low-quality financial reports can include many errors or fraud. Management will feel pressured to commit fraud when it finds out that the managed company is experiencing financial difficulties (Nugroho et al., 2018). Because the company does not want to show the bad conditions it has experienced or impress users of financial statements, its management will commit fraudulent acts (fraud) to keep the company appearing to remain on the axis of a good reputation.

Repairing reports due to errors or deliberately deceiving users of financial statements by committing fraud will take time. This error will lead to an audit report lag or the longer it takes to complete the audit report (Muliantari & Latrini, 2017). Therefore, the hypothesis is:

**H₃:** Audit report lag affects financial statement fraud.

Companies that commit fraud will more often change auditors because management tends to reduce the possibility of auditors' detection related to their fraudulent financial statement actions (Aprilia, 2017). The new auditor will study the crew's entire auditee effort, and there is a possibility that the new auditor will not detect fraud detected by the previous auditor.

Auditor switching is used as a management effort to eliminate fraud traces found by previous auditors (fraud audit trail) (Santoso, 2019). This action was carried out based on covering up the fraud committed and for the auditor to provide a fair opinion. However, Aprilia's (2017) study result that auditor switching does not affect financial statement fraud because the SPI implemented within the company has been effective, so it is difficult to commit fraud. Therefore, the hypothesis is:

**H₄:** Auditor switching Effect financial statement fraud

An entity's financial distress is one part of financial pressure Nugroho et al., (2018). It is considered force because this unfavourable condition can influence its elements, such as investors, creditors, suppliers, customers, etc.

Management will feel pressured to commit fraud when it finds out that the entity it manages is experiencing financial distress caused by several things related to the management's performance. This pressure can come from external parties such as suppliers and shareholders who have certain company expectations.

Financial distress is one of the bad news in financial reports (Muliantari & Latrini, 2017). This condition will also indirectly make it difficult for companies to find creditors to continue to have good competitiveness. The importance of corporate financial reports for stakeholders will encourage entity management to cover up this bad condition by committing fraud. Financial statement fraud by management is expected to deceive users of financial statements. Therefore, the hypothesis is:

**H₅:** Financial distress effect financial statement fraud
Companies must have certain factors that encourage companies to do audience switching. New auditors' obligation to communicate with previous auditors and company managers in obtaining information about company transactions can lead to audit report lag (Widhiasari & Budiartha, 2016).

Companies that replace their previous auditors can also be interpreted as management actions that want to reduce the company's chances of detecting fraud. According to Santoso (2019), auditor switching can furthermore be construed as a form of management's effort to eliminate traces of fraud (fraud trail). Therefore, the hypothesis is:

\textbf{H6: Auditor switching effect indirectly on financial statement fraud through audit report lag}

The company's condition, which is under pressure, especially from a financial perspective, will have a negative impact on the company itself. To improve financial reports so that they look good in the eyes of users of financial statements, it will take more time to publish audit reports that are late (audit report lag) (Muliantari & Latrini, 2017).

The decline in the company's financial performance can encourage management to commit fraudulent actions against its financial statements to deceive users of financial statements. This action was carried out because the information presented was critical so that it was able to impress users of financial statements (Samsulubis et al., 2018). In addition to maintaining the company's reputation in the eyes of external parties, financial statement fraud was also carried out with the intention that the company could still quickly obtain loans from creditors. Therefore, the hypothesis is:

\textbf{H7: Auditor switching effect indirectly on financial statement fraud through audit report lag}

Figure 1 shows the relationship among variables and the hypotheses in this study.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{researchFramework.png}
\caption{Figure 1. Research Framework}
\end{figure}
RESEARCH METHODS

This research is quantitative. In this study, the subjects were manufacturing companies listed on the Indonesia Stock Exchange in 2014-2018 with the research objects of auditor switching, financial distress, audit report lag, and financial statement fraud. The sample in this study amounted to 72 financial reports with a non-probability purposive sampling technique of five criteria, namely: 1) Manufacturing companies listed on the IDX in 2014-2018; 2) Listed on the IDX no later than 2013; 3) Publish the 2014-2018 annual report and stated in rupiah; 4) Completed required data, and 5) Financial statements that suffered losses in 2014-2018.

Auditor switching is measured using dummy variables. If the company changes its auditors, it will be assigned the number 1. If the company does not change its auditors, it will be given the number 0.

Financial distress is measured using a ratio scale and calculated by the Debt to Asset Ratio (DAR) formula by calculating how much the total debt ratio to the company's total assets. The debt to asset ratio (DAR) is a measuring tool for financial distress because this ratio shows debt that can be guaranteed by all assets owned by the company (Sawitri & Budiartha, 2018). This study uses the DAR proxy because research (Praptika & Rasmini, 2016) and Sawitri & Budiartha (2018) how the leverage generated from this proxy has a positive effect in predicting financial distress. The formula used is

\[
\text{DAR} = \frac{\text{Total Debt}}{\text{Total Asset}} \times 100\%
\]

The audit report lag variable is measured quantitatively (number of days) with an interval scale, calculated from the date of the last book closing to the independent auditor’s report. (Sawitri & Budiartha, 2018).

Fraud in financial reports is usually carried out so that the company's financial performance looks better than it is. Management will commit fraud on financial statements, generally due to pressure factors experienced by the company. Financial statement fraud is calculated using the following formula:

\[
\text{F-Score} = \text{Accrual Quality} + \text{Financial Performance}
\]

\[
\text{Accrual Quality} = \frac{\Delta \text{WC} + \Delta \text{NCO} + \Delta \text{FIN}}{\text{ATS}}
\]

Legend:
WC (Change in Working Capital) = (Current Assets – Current Liability)
NCO (Change in Operating Accrual) = (Total Assets – Current Assets – Long Term Non-Current = Investment) – (Total Liabilities – Current Liabilities - Long Term Debt)
FIN (Change in Financial Accrual) = Total Investment – Total Liabilities
ATS (Average Total Assets) = (Beginning Total Assets + Ending Total Assets) / 2
Financial performance = Change in Receivable + Change in Inventories + Change in Cash Sales + Change in Earnings

Legend:
Change in Receivables = \( \frac{\Delta \text{Receivable}}{\text{Average Total Assets}} \)
Change in Inventories = \( \frac{\Delta \text{Inventories}}{\text{Average Total Assets}} \)
Change in Cash in Sales = \( \frac{\Delta \text{Sales}}{\text{Sales} (t)} - \frac{\Delta \text{Receivable}}{\text{Receivable} (t)} \)
Change in Earnings = \( \frac{\text{Earnings} (t)}{\text{ATS} (t)} - \frac{\text{Earnings} (t - 1)}{\text{ATS} (t - 1)} \)

Hypothesis testing is done by analysing the probability value. For probability values, the p-value with an alpha of 5% is less than 0.05. If the p-value <0.05, the hypothesis is declared significant, and if the p-value> 0.05, then the hypothesis is stated insignificant. All data were tested using Smart PLS 3.0.

RESULT AND DISCUSSION

Result

R-Square Test Results
Table 1 shows that the audit report lag has an R-Square value of 0.034 and financial statement fraud has an R-Square value of 0.354. It can be explained 3.4% (weak) by variables X1, X2, and 96.6% explained by other variables. Whereas Y can be explained by 77.1% (moderate) by variables X1, X2, and Z, and 22.9% is explained by variables not researched.

Table 1. R-Square Results

|                             | R-Square |
|-----------------------------|----------|
| Audit Report Lag            | 0.034    |
| Financial Statement Fraud   | 0.771    |

Source: Data processed (2020)

Predictive Relevance Test Results
The predictive relevance test \( (Q^2) \) serves to validate the predictive ability of the model. This technique represents the cross-validation synthesis and the fitting function to predict the observed variables and the construct parameters' estimation. Table 2 shows the calculation of \( Q^2 \) produces a value of -0.041 and 0.016. These results indicate that audit report lag and financial statement fraud lack predictive relevance because \( Q^2 <0 \).
Table 2. Predictive Relevance Results

|                                | $Q^2$   |
|--------------------------------|---------|
| Audit Report Lag               | -0.041  |
| Financial Statement Fraud      | -0.016  |

Source: Data processed (2020)

Hypotheses Test Result

Table 3 shows that only hypothesis 3 and 5 are accepted with the p-value of 0.016 and 0.044, respectively (the p-value < 0.05). It means that Audit Report Lag and Financial Distress affect Financial Statement Fraud.

Table 3. Hypothesis Test Result

| Hypothesis | Standard Deviation (STDEV) | P Values | Result |
|------------|---------------------------|---------|--------|
| H1         | Auditor Switching >> Audit Report Lag | 0.119  | 0.564  | Rejected |
| H2         | Financial Distress >> Audit Report Lag | 0.134  | 0.331  | Rejected |
| H3         | Audit Report Lag >> Financial Statement Fraud | 0.094  | 0.016  | Accepted |
| H4         | Auditor Switching >> Financial Statement Fraud | 0.088  | 0.378  | Rejected |
| H5         | Financial Distress >> Financial Statement Fraud | 0.134  | 0.044  | Accepted |
| H6         | Auditor Switching >> Audit Report Lag >> Financial Statement Fraud | 0.539  | 0.590  | Rejected |
| H7         | Financial Distress >> Audit Report Lag >> Financial Statement Fraud | 0.041  | 0.471  | Rejected |

Source: Data processed (2020)

Discussion

Effect of Auditor Switching on Audit Report Lag (H1)

The test results show that the auditor switching hypothesis positively affects the audit report lag is rejected. Auditor switching does not affect audit report lag because not all manufacturing companies listed on the Indonesia Stock Exchange (IDX) that replace the previous auditor with a new auditor will experience delays in submitting annual reports. The public accounting firm (KAP) that carries out the auditing has carried out its performance by the applicable Public Accountant Professional Standards (SPAP). Starting from the stage of acceptance of the auditee's engagement, planning the audit process, and conducting the audit until the audit results are reported can be reported—implemented, and completed on time.
Each auditor will carry out the audit plan as best as possible, including the strategy applied in the auditing process. The Public Accounting Firm (KAP) will conduct client acceptance and audit planning before the end of the client's fiscal year. The KAP that will carry out the audit will have more time to understand its characteristics audited (Wiryakriyana & Widhiyani, 2017). The public accountant has planned well so that the time needed to understand the client's business characteristics, company condition, and audit risk has been carried out before the end of the client's fiscal year so that it does not take up the time limit for the entity's annual audit reporting which has been regulated by OJK.

This result aligns with the compliance theory, which explains that the company will be more obedient to the applicable rules. The regulations regarding the accuracy of submitting annual financial reports have been regulated by OJK No. 29/POJK.04.2016 states that every issuer or public company must submit yearly information to OJK no later than the end of the fourth month after the financial year ends.

This study's results are not in line with Praptika & Rasmini (2016) research, which states that auditor switching affects audit report lag because new auditors need a long time to recognize the characteristics and business systems of clients. On the other hand, this research is in line with Wiryakriyana & Widhiyani (2017) research results (Fatimah & Wiratmaja, 2018). They found that auditor switching does not affect the audit completion period because the auditor has prepared a strategy to plan the audit well before carrying out his duties.

**Effect of Financial Distress on Audit Report Lag (H2)**

The test results prove that Indonesia's manufacturing companies and experiencing financial distress do not affect the audit report lag. This result can be interpreted that the company's Public Accounting Firm (KAP) will immediately conduct auditing after closing the book at the end of the year. Whether the report presented follows the applicable standards and its actual condition regardless of the company experiencing a financial downturn or vice versa. It is also assumed that the auditors have acted objectively and professionally so that they can complete the task on time to be able to provide quality and relevant audit results.

Sugita & Dwirandra (2017) stated that the company's financial distress would not affect the market reaction. This condition will not hamper the company in submitting its financial reports on time. These results align with the signal theory, which explains how company management provides signals to users of financial statements. Companies will as soon as possible submit or publish their financial reports regardless of the good or bad financial conditions experienced. Companies that experience financial distress will not make things worse by presenting their financial statements late. Vice versa, companies will try to provide the right signals (good news) by submitting their financial reports on time.

The different result is shown by Sawitri & Budiartha (2018) and Fatimah & Wiratmaja (2018) research, which states that companies' financial distress influences financial distress experienced by companies audit report lag. Financial distress is bad news on financial reports and causes audit report lag because management is deliberately trying to reduce bad news on their financial statements. Financial distress in the company can also increase audit risk for independent auditors, particularly control risk and detection risk.
Effect of Audit Report Lag on Financial Statement Fraud (H3)

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

Companies want to submit their annual financial reports as soon as possible to users of financial statements if they are in good condition. On the other hand, and vice versa, when the company is in bad conditions, it will affect or slow down these financial statements' delivery. This delay is due to the company's management taking more time to manipulate their financial reports. When the financial statements are published, they can look better than the company's actual condition in users' eyes. This study's results are in line with Suryanto (2016). He states that there is an influence between the audit report lag on financial statement fraud.

The act of fraud (fraud) is an act that is not justified and will be very detrimental to the company and the KAP conducting the audit. The financial statement fraud committed will give the company a bad image in the public and investors' eyes. The users of financial statements will become distrustful of the management performance of the entity. Furthermore, it will impact shares that will fall free, as was the case that PT. Garuda Indonesia (Persero) Tbk when proven to have committed a financial statement fraud. Companies that commit fraud and affect KAP that audits the entity's financial statements are experienced negatively. KAP that deliberately allows this fraudulent activity to be carried out or is accidentally negligent in the auditing process will receive sanctions in the form of suspension to revocation of the license.

Effect of Auditor Switching on Financial Statement Fraud (H4)

The fourth hypothesis (H₄) that there is a direct effect of auditor switching on financial statement fraud is rejected. The existence of a change of auditors does not indicate that the company committed financial statement fraud. The Financial Services Authority (OJK) has regulated auditor switching in regulation Number 13 / POJK.03 / 2017, where it is explained that parties carrying out financial services activities are required to limit the use of audit services from the same AP for a maximum of 3 (three) years.

If associated with the theory, these results follow the compliance theory in which the entity that performs auditor switching is a form of compliance with applicable rules. Auditor switching is regulated with the aim that auditors can maintain independence. The independence of an audience is prioritized so that the output in the form of an audit report can be accounted for following actual events and is useful for users of financial statements.

The same results are shown by Aprilia (2017) and Warsidi et al. (2018), which suggest that auditor switching does not affect financial statement fraud. This proof is because the company's internal control system is well structured and runs effectively. Whether or not an auditor is switching, managers cannot commit financial statement fraud.

In contrast, the research conducted by Santoso (2019) and Utomo, Machmuddah, & Pamungkas (2019) results of their study are that there is an effect of auditor switching on indications of financial statement fraud. The perpetrators of fraud assume that the replacement...
Auditor will not detect the fraud. This tendency encourages entities to perform auditor switching to commit financial statement fraud.

**Effect of Financial Distress on Financial Statement Fraud (H5)**

Table 1 shows a direct effect of financial distress on financial statement fraud, which means that the fifth hypothesis (H₅) is accepted. The company's management will not want to publish its financial statements in a crisis condition because it can influence investors and potential investors to invest. Companies will try to show that they are in good condition even by committing fraudulent acts.

This research is the same as the results of the study conducted by Nugroho et al. (2018) and Samsulubis et al. (2018), which explain that companies' financial distress will pressure management to commit financial statement fraud. Because of the great demands to present reports, this financial condition in an excellent and stable situation is what presses. It encourages company management to commit financial statement fraud to deceive users of financial statements. Similar to the case that happened to SNP Finance, where management committed financial statement fraud when the company experienced financial difficulties by creating fake accounts receivable data.

Company management is required to be proficient in managing the company to continue to spin the business's wheels. However, the act of deceiving users of financial statements by committing financial statement fraud is not a solution because it will only worsen the company's business condition as an increasingly damaged image in the eyes of the public. You must know the company's financial situation by looking at how much debt ratio to assets owned.

The relationship between the acceptance of this hypothesis can be explained by using the Fraud Pentagon Theory. In this theory, it is stated that one of the factors in the occurrence of fraud is pressure (pressure). Financial pressure conditions that hit the company will be able to trigger/encourage management to commit fraud.

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

The sixth hypothesis (H₆) is rejected. It is not proven that there is an effect of auditor switching on financial statement fraud through an audit report lag. This hypothesis is rejected because, based on the data results, auditor switching has no direct influence on financial statement fraud or audit report lag. The absence of this effect is because the company's auditor switching is a form of company compliance with the rules that restrict companies from using the same KAP for three consecutive years of audits.

The auditor switching that is carried out does not affect the time it takes for the auditor to complete his duties and does not indicate that the company has committed fraud. Even though 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.

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

The seventh hypothesis (H₇) is rejected. It is not proven that the indirect effect of financial distress on financial statement fraud through an audit report lag can be concluded. Audit report lag affects
financial statement fraud because auditors make an audit report until it is too late from the time limit set by the Financial Services Authority. It can be indicated that the company has committed financial statement fraud. The reason is that companies do not present their financial statements properly, so that the complexity of auditing checks will increase.

CONCLUSION

This research shows that auditor switching, and financial distress don't affect audit report lag because these factors can occur because of the rules that apply to auditors. Auditor switching does not directly affect financial statement fraud, but financial distress affects. Audit reports lag also influences the financial statement fraud. Another conclusion is audit report lag cannot mediate the effect between Auditor Switching and Financial Distress on indications of a Financial Statement Fraud.

This research implied that companies experiencing bad financial conditions could trigger management to be compelled to commit manipulation in the form of financial statement fraud. The company took this action to show the use of financial statements that the company was still in good condition. The more extended period for completing the annual audit report may indicate that the company committed financial statement fraud. The longer it takes the auditor to audit the company's financial statements, the management's information has many errors or does not match the actual conditions.

Therefore, it is suggested that company management must continue to pay attention to its financial condition not to be motivated to commit financial statement fraud. Besides, this study's results can be used as input for investors and potential investors as well as users of financial reports. They can continue to pay attention to factors that can encourage or indicate that the company's management has committed fraud, such as financial distress and its audit report lag.

REFERENCES

ACFE (2018). Report to The Nation : Asia Pacific Edition.
Aprilia, R. (2017). Pengaruh Financial Stability, Personal Financial Need, Ineffective Monitoring, Change In Auditor Dan Change In Director Terhadap Financial Statement Fraud Dalam Perspektif Fraud Diamond (Studi Empiris Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek). Jurnal Online Mahasiswa Fakultas Ekonomi Universitas Riau, 4 (1), 1472–1486.
Dianova, A., & Nahumury, J. (2019). Investigating the Effect of Liquidity, Leverage, Sales Growth, and Good Corporate Governance on Financial Distress. Journal of Accounting and Strategic Finance, 2 (2), 143-156. https://doi.org/https://doi.org/10.33005/jasf.v2i2.49
Fatimah, S., & Wiratmaja, I. D. N. (2018). Kompleksitas Operasi Perusahaan sebagai Pemoderasi Pengaruh Pergantian Auditor dan Financial Distress terhadap Audit Delay. E-Jurnal Akuntansi, 25 (2), 1205. https://doi.org/10.24843/eja.2018.v25.i02.p15
Fransiska, N., S., Aris E., & Astuti, D. S. (2016). Sistem Pengendalian Intern Dan Kualitas Laporan Keuangan Pemerintah Daerah Di Indonesia, *Seminar Nasional dan The 3rd Call For Syariah Paper (SANCALL) 2016, Publikasi Ilmiah UMY*, 323–331. http://hdl.handle.net/11617/7325

Gayatri, N., Yuniarta, G. A., & Prayudi, M. A. (2017). Pengaruh Kepuasan Kompensasi, Asimetri Informasi, Sistem Pengendalian Internal Terhadap Kecenderungan Terjadinya Kecurangan (fraud) dalam Organisasi (Studi Empiris pada Organisasi Sektor Publik di Kabupaten Buleleng). *E-Journal Universitas Pendidikan Ganesha*, 8 (2).

IAI. (2018). *Standar Akuntansi Keuangan*. Jakarta.

Krisnanda, & Ratnadi. (2017). Pengaruh Financial Distress, Umur Perusahaan, Audit Tenure, Kompetensi Dewan Komisaris pada Kecepatan Publikasi Laporan Keuangan. *E-Jurnal Akuntansi Universitas Udayana*, 20(3), 1933–1960.

Lunenburg, F. C. (2012). *Compliance Theory and Organizational Effectiveness*. *International Journal of Scholarly Academic Intellectual Diversity*, 13 (1), 1–4.

Muliantari, & Latrini. (2017). Ukuran Perusahaan Sebagai Pemoderasi Pengaruh Profitabilitas Dan Financial Distress Terhadap Audit Delay Pada Perusahaan Manufaktur. *E-Jurnal Akuntansi*, 20(3), 1875–1903.

Nugroho, Baridwan, & Mardiati. (2018). Pengaruh Profitabilitas, Likuiditas, Leverage, dan Corporate Governance Terhadap Kecurangan Laporan Keuangan, Serta Financial Distress sebagai Variabel Inter- vening. *Media Trend*, 10(1), 1–26.

OJK. (n.d.). *Peraturan Otoritas Jasa Keuangan Nomor 29/POJK.04/2016 Tentang Laporan Tahunan Emiten Atau Perusahaan Publik*.

PCAOB (n.a.). *AS 2401: Consideration of Fraud in a Financial Statement Audit*. https://pcaobus.org/oversight/standards/auditing-standards/details/AS2401#:~:text=Misstatements%20arising%20from%20fraudulent%20financial%20reporting%20are%20intentional%20misstatements%20or,material%20respects%20in%20conformity%20with

Praptika, P., & Rasmini, N. (2016). Pengaruh Audit Tenure, Pergantian Auditor Dan Financial Distress Pada Audit Delay Pada Perusahaan Consumer Goods. *E-Jurnal Akuntansi*, 15(3), 2052–2081.

Samsulubis, Ambonlingtonyas, & Fatoni (2018). The Effect Of Profitability And Liquidity On Frances Of Financial Reports (Fraud), And Education Of Financial Distress (Empirical Study On Hotels, Restaurants And Tourism Sub Sector Companies Registered At Idx 2013-2017 Period). *Journal of Management*, 5 (5).

Santoso. (2019). Fenomena kecurangan laporan keuangan pada perusahaan terbuka di indonesia. *Jurnal Magister Akuntansi Trisakti*, 6 (2), 173–200. https://doi.org/http://dx.doi.org/10.25105/jmat.v6i2.5556

Saputra, & Kusumaningrum. (2017). Analisis Faktor – Faktor Yang Mempengaruhi Fraudulent Financial Reporting Dengan Perspektif Fraud Pentagon Pada Perusahaan Perbankan Yang Terdaftar Di Bursa Efek Indonesia Tahun 2011-2015. *Jurnal Akuntansi Dan Keuangan*, 22(2), 121–134.
Sawitri, N. M. D. C., & Budiartha, I. K. (2018). Pengaruh Audit Tenure dan Financial Distress pada Audit Delay dengan Spesialisasi Auditor Sebagai Variabel Pemoderasi. E-Jurnal Akuntansi, 22 (3), 1965–1991. https://doi.org/10.24843/eja.2018.v22.i03.p12

Septriani, & Handayani. (2018). Mendeteksi Kecurangan Laporan Keuangan dengan Analisis Fraud Pentagon. Jurnal Akuntansi, Keuangan Dan Bisnis, 11 (1), 11–23.

Sugita, & Dwirandra. (2017). Ukuran Kap Memoderasi Pengaruh Financial Distress Dan Ukuran Perusahaan Klien Pada Audit Report Lag. E-Jurnal Akuntansi Universitas Udayana, 21 (1), 477–504.

Suryanto, T. (2016). Audit delay and its implication for fraudulent financial reporting: A study of companies listed in the Indonesian Stock Exchange. European Research Studies Journal, 19 (1), 18–31.

Syafina, D. C. (2018). Kasus SNP Finance dan Pertaruhan Rusaknya Reputasi Akuntan Publik. Retrieved from tirto.id website: https://tirto.id/kasus-snp-finance-dan-pertaruhan-rusaknya-reputasi-akuntan-publik-c4RT

Tambunan, P. U. (2014). Pengaruh Opini Audit, Pergantian Auditor dan Ukuran Kantor Akuntan Publik Terhadap Audit Report Lag (Studi Empiris Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia). Jurnal Akuntansi Universitas Negeri Padang, 3 (1).

Utomo, D., Machmuddah, Z. & Pamungkas, I. D. (2019). The Effect of Auditor Switching and Managerial Ownership on Fraudulent Financial Statement. WSEAS Transactions on Business and Economics, Volume 16, 306-315.

Warsidi, Pramuka, B. A., & Suhartinah. (2018). Determinant Financial Statement Fraud: Perspective Theory of Fraud Diamond (Studi Empiris pada Perusahaan Sektor Perbankan di Indonesia Tahun 2011-2015). Jurnal Ekonomi, Bisnis, Dan Akuntansi (JEBA), 20 (3).

Widhiasari, S., & Budiartha. (2016). Pengaruh Umur Perusahaan, Ukuran Perusahaan, Reputasi Auditor, Dan Pergantian Auditor Terhadap Audit Report Lag. E-Jurnal Akuntansi, 15 (1), 200–228.

Wiryakriyana, & Widhiyani. (2017). Pengaruh Ukuran Perusahaan, Leverage, Auditor Switching, Dan Sistem Pengendalian Internal Pada Audit Delay. E-Jurnal Akuntansi, 19 (1), 771–798.

Zager, L., Malis, S. S. & Novak, A. (2016). The Role and Responsibility of Auditors in Prevention and Detection of Fraudulent Financial Reporting. Procedia Economics, and Finance, Volume 39, 693-700. https://doi.org/10.1016/S2212-5671(16)30291-X
Appendix 1

Outer Model Testing Results
The outer model aims to assess the validity and reliability of the model. The outer Model analysis also seeks to specify the relationship between latent variables and their indicators, or it can be said how each indicator is related to its latent variable. In this study, there are Convergent Validity and Discriminant Validity tests in analyzing the Outer Model. After testing using Smart PLS software, the Outer Model analysis results were obtained in Figure 2.

Figure 2. Outer Model Testing Results

Convergent Validity Test
The validity test shows the convergent validity of the variables in this study. The results show that the switching auditor obtained a value of 1,000 (> 0.70) in the tests that have been carried out, which means that it has met the predetermined standard of loading factor. Financial distress gets a value of 1,000 (> 0.70), which means that it has completed the predetermined loading factor's standard. Audit report lag value of 1,000 (> 0.70), which means that it has met the predetermined loading factor's standard. Financial statement fraud gets a value of 1,000 (> 0.70), which means that it has completed the predetermined standard of loading factors.

Discriminant Validity Test
The entire cross-loading value of each variable is greater than the intended value of the other constructs. This result means that the cross-loading value has met the criteria for discriminant validity and is sufficient for further testing.