

## Financial Target, Nature of Industry, Change in Auditors, Change in Directors regarding Financial Fraud and Audit Quality as Moderating Variables

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### Abstract

Audits are conducted to ensure that the information in financial statements is accurate and to provide users with confidence in management's accountability. However, financial statements still contain errors due to incomplete or biased reporting, or fraud. The 2022 ACFE results show that Indonesia ranks fourth among the four most fraudulent countries in the Asia-Pacific. In Indonesia, there were 23 cases of fraud, with 6.7 percent of these cases involving financial statement fraud. This indicates that management continues to commit fraud in financial reporting. Therefore, the purpose of this study is to examine the influence of financial targets, industry nature, changes in directors, and auditor changes on financial fraud. This study will utilize data from 13 state-owned enterprises listed on the Indonesia Stock Exchange. The results show that the moderating effect of audit quality weakens the influence of financial targets, industry nature, changes in directors, and auditor changes on financial fraud.

## Introduction

Information related to a company's financial transactions during a period will be presented in financial reports. These financial reports provide information regarding the company's financial position, performance, and changes in financial position, which is useful for a wide range of users in decision-making. However, in the process, companies sometimes manipulate financial reports to gain profits. One example of this fraud is when a company reports higher assets or revenues than actual, or lower liabilities and expenses than actual. If financial reports contain fraud, the information presented will mislead decision-makers and cause people to lose money because the financial reports do not convey the company's performance accurately, relevantly, and free from fraud (Ashma & Laksmi, 2023; Mesioye & Bakare, 2024; Begum & Siddiqui, 2024; Bader et al., 2024; Burlacu et al., 2024; Ahern & Peress, 2023). The 2022 ACFE results show that Indonesia ranks fourth out of four countries with the most fraudulent practices in the Asia-Pacific region. In Indonesia, there were 23 cases of fraud, with 6.7 percent of these cases involving financial reporting fraud. This indicates that management still commits fraudulent financial reporting. This type of fraud has very serious consequences for organizations because it has implications for investors, company owners, regulators, auditors, and the public (Albrecht et al., 2015; Rashid et al., 2022; Campa et al., 2025; Fowler, 2023). Therefore, companies can minimize the occurrence of *fraud* if the fraud can be defined. The theory used to understand fraud is the theory popularized by Donald Cressey and W. Steve Albrecht, namely *the Theory of Fraud Triangle*, which states that fraud occurs when the perpetrator has opportunity, pressure, and rationalization. This theory is known as the *Diamond Fraud Theory*, which states that in addition to the three factors above, there is another element that influences the occurrence of fraud, namely capability (Yarana, 2023; Chukwuekwu, 2024;

Ratmono & Frendy, 2022; Amyulianthy et al., 2023; Amyulianthy et al., 2023; Manurung & Hardika, 2015). Audits are one way companies reduce fraud. Auditors conduct audits to ensure that the company's financial statements comply with applicable standards and are free from misstatements. If there are errors, the auditor will report these errors to reduce the possibility of bias in the financial statement information. This demonstrates the quality of the auditor's audit (Yousefi Nejad et al., 2024; Francis, 2024; Anjani, 2023).

Therefore, further research is needed regarding the factors influencing *financial fraud*. The research will be conducted on state-owned enterprises (SOEs) listed on the Indonesia Stock Exchange (IDX). This is because at the end of 2023, one of the SOEs, PT Waskita Karya Tbk and PT Wijaya Karya Tbk, came under scrutiny due to allegations of financial report manipulation. Deputy Minister of SOEs Kartika Wirjoatmodjo stated that in several SOEs, such as Waskita Karya and WIKA, financial reporting did not reflect the actual situation. This means that they were reported as if they were profitable for years, even though their *cash flow* was never positive (Liputan6.com, 2023).

## **Hypothesis Development**

### ***Fraud Triangle Theory***

The financial triangle framework popularized by Donald Cressey and W. Steve Albrecht explains that financial crime and fraud in the workplace only occur if the perpetrator has *opportunity, pressure* and *rationalization*.

### ***Fraud Diamond Theory***

A theory used in auditing and *forensic accounting*. This theory involves four main elements. Three of the main elements are elements found in *the Fraud Triangle Theory*, and the fourth element is *capability*.

### **The Influence of *Financial Targets* on *Financial Fraud***

A proxy for *pressure* is *financial targets*. SAS No. 99 explains that *financial targets* are the risk of excessive pressure on management to meet financial targets set by the board of directors or management. This condition can lead to fraud in financial reporting because management must consistently achieve predetermined targets. This statement aligns with research by Wahyuni et al. (2023) which shows that *financial targets* have a significant influence on *financial fraud*. Therefore, the third hypothesis in this study is

H<sub>1</sub>: *Financial targets* have an influence on *Financial Fraud*

### **The Influence of *Nature of Industry* on *Financial Fraud***

The proxy for the opportunity variable is *Nature of Industry*. *Nature of Industry* is the ideal state of a company within an industry. Several accounts in the financial statements, such as uncollectible accounts receivable and obsolete inventory, are determined based on the company's estimates. Based on this description, the following hypothesis is proposed:

H<sub>2</sub>: *Nature of Industry* influences *Financial Fraud*

### **The Impact of *Change in Auditor* on *Financial Fraud***

A proxy for rationalization is *Change in Auditor*. According to SAS No. 99, rationalization includes factors such as auditor changes and the auditor's opinion obtained by the company. If the external auditor change is made prematurely and does not comply with applicable regulations, there is a potential for problems within the company (Odetunde et al., 2021). Aprilia (2017) stated that external auditors sometimes justify earnings management behavior, but external auditors should be more thorough in identifying and considering potential risks.

This statement aligns with research by Aviantara (2021), which states that *change in auditor* has a positive effect on financial statement fraud.

H<sub>3</sub> : *Change in Auditor* influence on *Financial Fraud*

### **Effect of *Change in Directors* on *Financial Fraud***

The proxy for competency is *Change in Directors*. Competency Competence is the ability of employees to ignore internal controls, create plans, and exploit social situations for personal gain. According to Aprilia (2017), the ability of management to generate personal gain without regard for the principal's interests is called competence. *Change in Directors* is the transfer of power from old management to new management with the aim of improving or enhancing the company's performance under the previous management. The existence of interests of certain parties that can create conflicts of interest is one of the causes of changes in directors (Achmad et al., 2022; Bint Raza et al., 2024; Demski, 2003; La Rosa et al, 2013; Macey, 2005). In addition, replacing the board of directors and recruiting new, more capable directors can improve the performance of the previous directors. Based on this description, a hypothesis is proposed.

H<sub>4</sub> : *Change in Directors* influence on *Financial Fraud*

### **Audit quality moderates the relationship between *Financial Target*, *Nature of Industry*, *Change in Auditor* and *Change in Directors*.**

Rajgopal et al. (2021) define audit quality as the probability that an auditor discovers and reports violations in a client's accounting system. The audit opinion provided by an auditor is an important consideration for stakeholders because it demonstrates the fairness and appropriateness of financial statements based on applicable standards. Therefore, with the quality of an auditor's audit, it is expected to minimize the occurrence of fraudulent financial reporting. Hence, the fifth hypothesis in this study is:

H<sub>5</sub> : Audit quality minimizes the occurrence of *financial fraud* caused by *Financial Target*, *Nature of Industry*, *Change in Auditor* and *Change in Directors*.

## **Methods**

This study aims to examine the influence of *Financial Target*, *Nature of Industry*, *Change in Auditors*, *Change in Directors* regarding *Financial Fraud* and Audit Quality as Moderating Variables. The data used in this study are secondary data in the form of state-owned enterprise financial reports from 2019 to 2024. The data sources were obtained from the idx.co.id website or directly from the IDX representative office in Kupang City.

### **Population and Sample**

The population in this study was state-owned companies listed on the Indonesia Stock Exchange (IDX). The sample used a *purposive sampling method*.

The population in this study consists of 24 state-owned enterprises listed on the Indonesia Stock Exchange from 2019 to 2024. This study uses a sample of 78 business data, with a sample of 13 companies selected based on the following criteria:

Table 1. Sampling Criteria

No	Criteria	Amount
1	Companies listed on the IDX in 2019-2024	24
2	Companies that present financial reports in 2019-2024	24

3	Companies whose financial statements have been audited in 2019-2024	24
4	Companies that experienced profits in 2019-2024	(11)
5	Manufacturing companies that are samples	13

Source: Author 2025

Table 2. Operational Definition of Variables

No	Independent Variables	Information
1	<i>Financial target</i>	$ROA = \frac{Laba Bersih}{Total Aset}$ Note: ROA: <i>Return on assets</i>
2	<i>Nature of Industry</i>	$RECEIVABLE = \frac{Piutang t}{Penjualan t} - \frac{Piutang t - 1}{Penjualan t - 1}$
3	<i>Change in Auditor</i>	Measurement uses a <i>dummy variable</i> . If the industry does not change external auditors, it is given a value of 0. If the industry does change external auditors, it is given a value of 1.
4	<i>Change in Directors</i>	The measurement uses a dummy variable. An industry is assigned a value of 1 if it changes its directors, and a value of 0 if it does not.
No	Dependent Variable	Information
5	<i>Financial Fraud</i>	$Discretionary Accrual (DAit) = \frac{TAit}{Ait - 1} - NDAit$ Note: TAit : <i>Total Accrual</i> Ait-1 : <i>Total Assets t-1</i> NDAit : <i>Non Discretionary Accrual</i>
No	Moderating Variables	Information
6	Audit Quality	Quality measurement is proxied based on the size of the accounting firm. If a company is audited by a Big 4 accounting firm, it is given a code of 1, and if a company is audited by a non-Big 4 accounting firm, it is given a code of 0.

Source: Author 2025

### Data Analysis Techniques

The analysis stages in this study begin with descriptive statistical analysis, classical assumption tests (multicollinearity, autocorrelation, and heteroscedasticity), and then hypothesis testing to determine the influence of the independent variables on the dependent variable. Hypothesis testing uses multiple linear regression without moderation and multiple regression with the inclusion of moderating variables. This study will use multiple regression analysis to formulate the hypotheses formulated in the study, with the following equation:

$$FF = \beta_0 + \beta_1 FT + \beta_2 NoI + \beta_3 CA + \beta_4 CD + e \quad (\text{Equation 1})$$

$$FF = \beta_0 + \beta_1 FT * KA + \beta_2 NoI * KA + \beta_3 CA * KA + \beta_4 CD * KA + e \quad (\text{Equation 2})$$

Note:

*FF* : *Financial Fraud*

- $\beta_0$  : constant
- $\beta_{1..4}$  : regression coefficient
- FT : *Financial Target*
- No. I : *Nature of Industry*
- CA : *Change in Auditor*
- CD : *Change in Directors*
- KA : *Audit Quality*
- e : *error*

## Results and Discussion

### Normality Test

Table 3. Results of the One-Sample Kolmogorov–Smirnov Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		73
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.25812161
Most Extreme Differences	Absolute	.086
	Positive	.086
	Negative	-.071
Test Statistic		.086
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

The data above shows that the research data is normally distributed because the probability value of the Kolmogorov-Smirnov test is greater than 0.05.

### Multicollinearity Test

Table 4. Multiple Linear Regression Results

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.646	.098		6,611	.000		
	LNXI	.121	.024	.514	5.085	.000	.960	1.042
	NOF X2	-.143	.112	-.127	-1.275	.207	.984	1.017
	CIA X3	.210	.083	.256	2.538	.013	.966	1.035
	CID X4	.140	.064	.221	2.185	.032	.960	1.041
a. Dependent Variable: FF Y								

The results of the research data test show that there is no multicollinearity as indicated by the tolerance value which must be below 10 and the VIF must be above 10.

## Heteroscedasticity Test

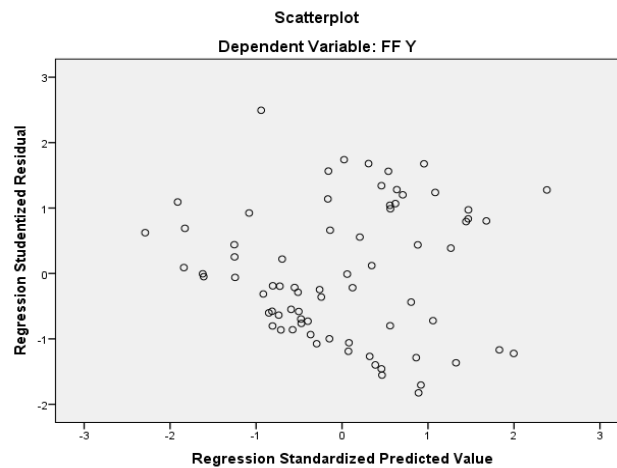


Figure 1. Scatterplot of Standardized Predicted Values vs. Studentized Residuals

Based on the image above, it can be concluded that the data does not form a particular pattern and the data is spread evenly between the X and Y axes.

## Autocorrelation Test

Table 5. Model Summary of Multiple Regression Analysis

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson
1	.587 <sup>a</sup>	.344	.262	.27139	1,730
a. Predictors: (Constant), X4M, NOF X2, X3M, LN XI, XIM, CID X4, CIA X3, X2M					
b. Dependent Variable: FF Y					

Based on this research data, if  $n = 73$  and  $k = 4$ , then the  $d_U$  value  $\approx 1.73$  and  $d_L \approx 1.52$ . The test results show that the Durbin–Watson (d) value is between 1.73 and 2.27, so this research model passes the autocorrelation test.

## t-test

Results of the t-test of Regression Model 1 (without moderation)

Table 6. Multiple Linear Regression Coefficients

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.646	.098		6,611	.000
	LN XI	.121	.024	.514	5,085	.000
	NOF X2	-.143	.112	-.127	-1.275	.207
	CIA X3	.210	.083	.256	2,538	.013
	CID X4	.140	.064	.221	2,185	.032
a. Dependent Variable: FF Y						

Results of the t-test of Regression model 2 (with moderation)

Table 7. Moderated Regression Analysis Results

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.656	.102		6.437	.000
	LNXI	.096	.038	.409	2.520	.014
	NOF X2	-.085	.839	-.076	-.101	.920
	CIA X3	.003	.336	.004	.010	.992
	CID X4	-.066	.245	-.104	-.268	.790
	XIM	.031	.035	.161	.870	.388
	X2M	-.046	.847	-.040	-.054	.957
	X3M	.218	.347	.257	.627	.533
	X4M	.226	.254	.354	.889	.378

a. Dependent Variable: FF Y

From the table of t-test results with regression model 1, it shows that *Financial Target* (X1), *Change in Auditor* (X3) and *Change in Directors* (X4) has a positive and significant effect on *Financial Fraud*, however the *Nature of Industry* variable (X2) does not have an effect on *Financial Fraud*. Furthermore, after these variables are moderated by audit quality, the results show that audit quality weakens the influence of *Financial Target* (X1), *Change in Auditor* (X3), *Nature of Industry* (X2) and *Change in Directors* (X4) on *Financial Fraud*.

#### ***Financial Target and Financial Fraud are moderated by Audit Quality***

One factor that can lead to *financial fraud* is *pressure*. One such pressure experienced by company management is the presence of targets. According to SAS No. 99, *financial targets* are the risk of excessive pressure on management to meet financial targets set by the board of directors or management. *Financial targets* are proxied using *return on assets* (ROA) (Skousen, 2009), which is an equation that compares net income to total assets. ROA indicates how efficiently assets are used to generate profits. Therefore, if a company has a low ROA, there is a possibility that the company will manipulate financial report data to achieve a positive ROA. These results align with research conducted by Anwar and Musyaffi (2025).

However, this situation can be mitigated by audit quality, which is the probability that an auditor discovers and reports violations in a client's accounting system. Audit quality is measured by the firm's size, whether it is a Big 4 firm or not. If company management knows that the company's financial statements will be audited by a Big 4 auditor, there is a high risk of fraud detection. Therefore, even though management must meet targets, they will be hesitant to manipulate financial statement data due to the high chance of the manipulation being discovered.

#### ***Nature of Industry and Financial Fraud moderated by Audit Quality***

*Nature of Industry* is the ideal state of a company within an industry. In accounting practice, several accounts are determined based on estimates, such as obsolete inventory and uncollectible accounts receivable. In this study, *Nature of Industry* was measured using sales and receivables data from the current and previous years. Statistical test results indicate that *Nature of Industry* has no effect on *Financial Fraud*. This is in line with research conducted by Sunardi and Amin (2018), which stated that *nature of industry* has no effect on financial statement fraud.

While *the nature of the industry* has no influence on *financial fraud*, the existence of audit quality also weakens it. This is in accordance with SAS No. 99, which requires auditors to consider risk factors related to the company's operations and industry, including the risk of sales and receivables manipulation, as both components will affect the company's revenue. If the auditor has done this effectively, these risks may have been mitigated.

### ***Change in Auditor and Financial Fraud moderated by Audit Quality***

One factor contributing to *fraud* is rationalization. This explains how company management justifies their actions, even if they involve manipulation. According to SAS No. 99, rationalization includes things like changing auditors with the intention of finding one willing to provide an opinion consistent with the company's wishes. This statement aligns with research by Aviantara (2021), which found that *a change in auditor* has a positive effect on financial statement fraud.

However, the impact of a change in auditor on financial fraud can be mitigated by audit quality. If the auditor change occurs from a non-Big 4 accounting firm to a Big 4 accounting firm, the audit will be more complex because Big 4 accounting firms have adequate resources and broader experience.

### ***Change in Directors and Financial Fraud moderated by Audit Quality***

One factor contributing to fraud is competence. This competence is particularly important at the management level, specifically at the director level. *A change in directors* is the transfer of authority from old management to new management with the aim of improving or enhancing the company's performance under the previous management. However, director changes can also occur due to vested interests of certain parties. This situation can lead to *financial fraud* because the current position provides an opportunity for fraud. This is in line with research conducted by Wibowo & Putra (2023), which states that *a change in directors* influences financial statement fraud. However, this situation can be mitigated by audit quality, as a change in directors requires auditors to be more skeptical in conducting audit procedures.

## **Conclusion**

Financial targets, changes in auditors, and changes in directors all influence financial fraud, while industry nature has no effect. However, after being moderated by audit quality, the results show that audit quality can weaken the relationship between financial targets, changes in auditors, changes in directors, and industry nature on financial fraud.

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