



## Does Audit Firm Size and Audit Tenure Influence Fraudulent Financial Statements?

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### Abstract

The phenomenon of financial statement fraud in Indonesia often occurs, related to reports on audit results of public accounting firms. These findings have an impact on investors because of fraudulent financial statements that have the potential to cause losses. The purpose of the study was to determine the effect of the size and tenure of KAP on the detection of financial statement fraud. The research sample was 140 manufacturing companies from 2014 to 2015, which were listed on the Indonesia Stock Exchange using a purposive sampling technique. Data analysis research used SPSS version 20. Descriptive analysis used multiple regression. This research finds that the size of the audit firm and the tenure of the audit did not significantly affect the indications of fraudulent financial statements as measured by the Sales Growth Index (SGI), Gross Margin Index (GMI), Asset Quality Index (AQI), Days' Sales Receivable Index (DSRI) indicators, Sales, General and Administrative Expenses Index (SGAI), Leverage Index (LVGI), Total Accrual to Total Assets (TATA) and Messod D Beneish-Score (M-Score), but have a significant effect on fraudulent financial indication reports as measured by the Depreciation Index indicator (DEPI).

**JEL:** K40, K41, M42, M48

**Keywords:** Audit Firm Size, Fraudulent Financial Statements, Audit tenure.

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## Introduction

Financial accounting scandals in corporations have sparked fears of fraud. According to the Association of Certified Fraud Examiners, corruption, asset misappropriation, and financial statement fraud are the three types of fraud, according to the Association of Certified Fraud Examiners (ACFE, 2016). According to an ACFE report titled the 2016 Global Fraud Survey, the estimated loss due to fraud worldwide is 5% of company sales, or USD 3.7 trillion (ACFE, 2016). Financial statement fraud had the fewest cases, resulting in the highest average loss of USD 975 thousand, followed by corruption at USD 200 thousand and asset misappropriation at USD 125 thousand. Since top executives (Chairman, President, CEO, CFO, in a congregation, also with company founders) typically commit financial statement fraud, this pattern demonstrates that financial statement fraud is the leading cause of company failure (Tuanakotta, 2013). The 2016 Global Fraud Report describes the fraud detection system that most whistleblowers are carried out by 39.1% of internal auditors, 16.5 percent by external auditors, and just 3.8 percent by external auditors (ACFE, 2016). Based on the above phenomenon, investors may wonder how a third party may detect financial statement fraud, the most costly form of fraud. Why is the External Auditor's financial statement audit can only detect a small percentage of fraud?

Financial statement fraud is also a frequent occurrence in Indonesia, owing to the results of audits conducted by both the Financial statement fraud is also prevalent in Indonesia, as evidenced by recent audit findings by the Public Accounting Firm and the Audit Board of the Republic of Indonesia (BPK). Additionally, a World Bank Report on Accounting and Auditing (Report on Standards and Codes Compliance, 2010) makes observations about the efficiency of Indonesia's public accountants. The ROSC assesses the extent to which public accounting firms of various sizes adhere to various audit standards. Due to limited resources, quality control is typically more difficult to implement in small public accounting firms for various reasons, one of which is that many auditors do not seek to detect fraud (Tuanakotta, 2015). DeAngelo (1981) demonstrated that an audit firm's size (public accounting firm size) affects an auditor's independence in detecting financial statement errors. According to Francis and Yu (2009), large accounting firms have a heightened interest in detecting irregularities in financial statements. The Public Accounting Firm and the Audit Board of the Republic of Indonesia (BPK) in recent years.

In addition, a World Bank Report on Accounting and Auditing (Report on Observance of Standards and Codes, 2010) makes observations on the efficiency of Public Accountants in Indonesia. The ROSC identifies the level of compliance with various audit standards among Public Accounting Firms of various sizes. Due to limited resources, quality control is typically more difficult to enforce in small public accounting firms, one of which is that many auditors do not seek to detect manipulation (Tuanakotta, 2015). DeAngelo (1981) discovered that the size of an audit firm (public accounting firm size) impacts an auditor's independence in uncovering financial statement errors. According to Francis and Yu (2009), major accounting firms have more goals for detecting issues in financial reports.

In 2015, a phenomenon occurred in a revision to government regulations governing the rotation of public accounting firms performing audit services. More precisely, Government Regulation No. 20 / PP / 2015 regarding public accountant practices. This new regulation creates a new phenomenon regarding the rotation period for auditor and public accounting firms, extending auditor tenure from three to five years and public accounting firm's tenure from six to unlimited, provided the Public Accounting Firm has more than two partners. Why is this regulatory change concerning public accounting firm rotation so critical? According to Rick Hayes et al. (2005), an audit tenure characteristic is that the first year of the audit (short tenure) is considered less comprehensive (less in-depth), as it takes time to identify all potential audit risks for the client. As a result, audit quality is diminished. However, if an audit

assignment is excessively lengthy (excessive tenure), there is a risk of excessive familiarity (familiarity threat). As a result, there is an ongoing debate about audit tenure, as evidenced (Carcelo and Nagy 2004), who assert that financial statement fraud occurs more frequently during the first three years of the auditor-client relationship and that there is no evidence of long auditor tenure. As a result of the foregoing, the authors wish to conduct additional research into how effectively an external auditor can detect indications of fraud and the effect of audit firm size or the size of a public accounting firm and audit tenure on indications of fraudulent financial statements.

### **Literature Review**

According to the contract's terms, Jensen and Meckling define an agency relationship as "when the principal delegates some decision-making authority to the agent" (Jensen and Meckling, 1976). This agency relationship generates two issues (agency issues), namely: (a) information asymmetry, in which management typically has more information about the entity's actual financial and operating position than the owner; and (b) a conflict of interest due to unequal goals, in which management does not always act in the owner's best interests (Jensen and Meckling, 1976). An audit is a type of supervision that management employs to resolve agency conflicts to take actions that benefit both the individual and the group (Jensen and Meckling, 1976; Watts and Zimmerman, 1986). Agency theory governs the cooperative relationship between management, acting as an agent, and the principal, the business's owner (Jensen & Meckling, 1976). Agency theory asserts that the relationship between management and the principal frequently results in conflict between the two parties due to conflicting interests. The presentation of credible and trustworthy financial reports is one way in which management owes principals. Regardless of the principal's interests, management tends to overstate the company's performance. This is done by management to ensure that the financial statements always appear to the principal in a favorable light. While the company's performance will occasionally be less than ideal, management wishes for its financial reports to be consistently favorable in the principal's eyes. As the business's owner, the principal desires that management consistently perform at a high level to maximize profit. This circumstance forces management to deceive the principal through financial statement manipulation.

Based on the foregoing relationship, it raises allegations of community outrage. Fraudulent financial reporting is an accounting scandal that undermines public trust or the confidence of interested parties; fraudulent financial reporting is inextricably linked to auditor interference due to a series of events. According to proponents of audit rotation, auditor independence can be harmed by long-term relationships with company executives. A closer relationship with management causes the auditor to align his or her interests more closely with management. Financial reporting or manipulation that is fraudulent results in errors in business decision-making. The duration of the auditor's engagement with the client is suspected of causing financial reporting fraud. In the context of a financial statement audit, fraud is defined as an intentional misstatement of financial statements. The ACFE classifies fraud into three categories: fraudulent financial statements, asset misappropriation, and corruption. Financial reporting fraud is the intentional misstatement or omission of amounts or the deliberate disclosure of information to deceive the report's users. Financial reporting fraud is well-known to auditors performing general audits as fraud committed by management in the form of material misstatements, both overstatement and understatement, because earnings management is one type of fraudulent financial reporting.

Fraud is defined in the Fraud Examiners Manual (2014) as "a deliberate misstatement of the truth or a dishonest scheme used to take unfair advantage of another person or group of people". It encompasses all methods of deception, such as surprise, trickery, or cunning. According to ACFE (2016), there are three distinct types of occupational fraud: "(1) asset

misappropriation, which involves the theft or misuse of an organization's assets; (2) corruption, in which fraudsters improperly use their influence in a business transaction to obtain a benefit for themselves or another person, in violation of their duty to their employer or the rights of others; and (3) fraudulent statements, which generally involve falsification of an organization's financial statements".

Numerous red flags indicate that a business has engaged in financial statement fraud, including behavioral, situational, organizational, financial, and transactional red flags (Stamler et al., 2014:70). Organizational red flags refer to the control environment's effectiveness in monitoring financial processes, whereas financial & transactional red flags are indicators based on financial reports or accounting data. This study employs financial and transactional red flags as a simpler and more objective method of measurement. According to the ACFE (2016), financial ratio analysis can reveal indications of financial statement fraud. George (2009) and Alwi et al. (2013) also established this. In accordance with the ACFE statement (2016) and the findings of (George 2009; Alwi et al. 2013), this study employs one of the tools used to detect the possibility of fraudulent financial statements using the financial & transactional red flags approach, namely the M-Score from Messod D. Beneish (Beneish, 1999). The purpose of this study is to establish whether the size of the Public Accounting Firm affects the indicators of fraudulent financial statements, (DeAngelo 1981; Francis and Yu 2009; Lisic et al. 2014; Nedal and Ihab assert 2013). Additionally, it will demonstrate whether the suspicion of fraudulent financial statements affects the indicators of fraudulent financial statements (George 2009; Lisic et al. 2014; Carcello and Nagy 2004).

According to (Arens, Elder, and Beasley 2014: 46), CPA firms are classified according to their size as follows: (1) The Big Four International firms, (2) National firms, (3) Regional and Local firms, and (4) Small Local firms, with the distribution determined by total revenue, partner count, professional count, and office count. Meanwhile, Deis and Giroux assert that the size of an audit firm can be determined by the number of clients and the percentage of audit fees collected (Watkins et al., 2004). Meanwhile, Hayes (2014) divides public accounting firms into two categories: Big Four and non-Big Four. The big four public accounting firms participate through their international headquarters, which have more developed technology, procedures, and regulations than small regional public accounting firms.

Farber (2005) demonstrates that businesses that commit fraud frequently avoid hiring the big four external auditors. This finding demonstrates that the big four have a higher audit quality than other external auditors, lowering the risk of a company committing fraud. The big four public accounting firm maintains a positive reputation by providing high-quality audits that inspire public confidence (Nizar, 2017). Becker et al. (1998) quantified audit quality by examining discretionary accruals. This research is motivated by a study indicating that non-Big Six auditors allow more earnings management than big six auditors. According to Zhou and Elder (Antonia, 2008), companies audited by reputable public accounting firms are less likely to commit fraud before the initial public offering than companies audited by the big four public accounting firms. It demonstrates that businesses face a barrier to entry when choosing one of the big four public accounting firms. According to (Lennox & Pittman 2010; Chen 2016), the big four accountants assist businesses in avoiding financial scandals. Weiner (2012) asserts that the size of the auditor firm is indicative of credibility, followed by disclosure of corporate fraud. Similarly, Fimanaya & Syafruddin (2014) asserted that the audit firm's size affects the likelihood of financial statement fraud. A third hypothesis can be drawn from this study based on the explanation: the larger the auditor firm or auditor company, as measured by the Big Four Public Accounting Firms, the lower the indication of financial statement fraud.

**H1: Audit Firm Size has a significant effect on the indication of fraudulent financial statements.**

According to Johnson et al. (2002), audit tenure is defined as “the number of consecutive years in which the audit firm (auditor) audited the client.” Griffin et al. (2009) define audit tenure as “the duration of an auditor’s work and relationship with clients, which is defined as the duration of an auditor’s work within the scope of the contract.” According to Dutton et al. (1994), the longer a person works for an organization or company, the more he becomes a part of the organization or company in the personal category. Public accountants’ familiarity can stifle the skepticism required to examine client financial statements. The next argument in favor of the length of the audit assignment is that the knowledge gained about the client and industry through repeated audits will increase, thereby improving the audit’s quality.

Additionally, (Johnson et al. 2002; Myers et al. 2003) reported that the discretionary accrual rate decreased as the assignment period lengthened. Carcello and Nagy (2004) investigated the association between the tenure of public accounting firms and financial reporting irregularities. Financial reporting fraud was discovered during the engagement’s early years or the auditor’s brief tenure (three years or less). Johnson et al. (2002) found that the absolute value of unexpected accruals (AVUA) was higher in the first year of the auditor assignment (Carcello & Nagy 2004:3). Azizkhani et al. (2006) discovered that tenure is significantly related to ex-ante costs or costs to be faced that are less than equity capital, but only for non-Big four accounting firms. The result is that the longer the commitment to the perceived quality of financial statements is, the greater.

The length of the audit tenure can affect two factors that ultimately affect audit quality: the auditor’s independence and competence (DeAngelo, 1981). According to the independence factor, the longer the audit tenure, the more emotional the relationship with the client becomes, resulting in decreased independence, which is reflected in the auditors’ less objective assumptions (Dinuka & Zulaikha, 2014). Additionally, a lengthy audit engagement period increases the possibility of developing economic ties, with the auditor agreeing to the client’s efforts to manipulate financial statements through accounting techniques (Nasser et al., 2006). From the auditor’s perspective, if the client being audited already has adequate control over the financial statements and management demonstrates integrity and competence, auditors tend to have expectations that the client will retain these characteristics, which exacerbates the auditor’s skeptical attitude diminished (Carcello & Nagy, 2004).

Meanwhile, if viewed from the competency factor, the longer the audit tenure can increase knowledge about a specific industry and client-specific information such as in terms of business processes, accounting systems, and internal controls so that this knowledge can increase the competence of auditors to detect material misstatement in financial statements. Johnson et al., 2002). However, if there is a change of auditors, the specific knowledge about the client will be limited to the new auditor (DeAngelo, 1981). And the process of understanding the specific industry and client companies take at least one year after the change of auditors (Knapp, 1991; Krauss & Zulch, 2013). Therefore, it appears that there are two views regarding the effect of the length of the audit tenure. So, according to the research objectives, it will focus more on the effect of audit tenure on the level of independence, which can then affect the level of audit quality.

## **H2: Audit Tenure affects Fraudulent Financial Statement**

### **Methodology**

The research method used in this research is explanatory research because it is a study that explains the causal relationship between research variables (Cooper and Schandler, 2014). The operationalization of each variable in this study is as follows: Audit firm size (variable X1): The size of the public accounting firm is the size of the public accounting firm, which can be classified based on big four firms and non-big four firms (Hayes et al., 2014: 50). A dummy variable measures this variable. Audit tenure (variable X2): Audit tenure is defined as the

number of consecutive years that a public accounting firm has audited clients and the length of time that a public accountant has worked on a contract (Griffin et al., 2010; Carey and Simnett, 2006; Johnson et al., 2002). Fraudulent financial statement (variable Y). The variable indication of financial reporting fraud is measured using 8 Beneish ratios and the M-Score formula (Beneish, 1999). The Beneish ratio is used to detect indications of fraudulent financial reporting that has been tested in several studies afterwards and has been proven to be used as an indicator or a way to detect or detect indications of fraudulent financial reporting (Bourne, 2008; Grove and Basilio, 2008; Alwi et al., 2013; George, 2009).

According to Beneish (1999), the criteria for the M-Score are that if the M-Score value is less than -2.22, it means that the company does not manipulate financial statements (does not carry out fraudulent financial statements). Meanwhile, if the M-Score value is greater than -2.22, this figure shows that the company has manipulated financial statements. In this study, the population is company issuers listed on the Indonesia Stock Exchange in 2015 registered at least 2014. The type of sampling method to be used is the nonprobability sampling method. The technique of nonprobability sampling method used is purposive sampling. Based on the purposive sampling technique, the criteria for the sample to be taken are determined according to the research objectives, namely a sample of manufacturing companies listed on the IDX. Manufacturing criteria are set as specific objectives because, in financial reporting, similar companies will have almost the same transaction accounts so that when entering into the financial ratio formula, it becomes easier and equal. In addition, manufacturing criteria are also the objective of research because fraudulent financial statements in the world and Indonesia are more prevalent in manufacturing companies. The type of statistical analysis tool used is multiple linear regression analysis. To find the performance of the estimated regression model, several assumptions must be fulfilled so that the conclusions of the test results are not biased, including the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test (only for data containing time series).

## Results and Discussion

The statistical description of the results of research regarding the audit firm size or public accounting firm size, audit tenure, and indications of fraudulent financial statements as measured by financial ratios from a sample of manufacturing companies listed on the IDX as measured by the Beneish Ratio (1999): Sales Growth Index (SGI) indicator, Gross Margin Index (GMI), Asset Quality Index (AQI), Days' Sales Receivable Index (DSRI), Sales, General and Administrative Expenses Index (SGAI), Depreciation Index (DEPI), Leverage Index (LVGI), Total Accrual to Total Assets (TATA) and M-Score. The average Mscore data is -2.5134, which means that the average financial statements of the sample companies are not indicative of fraud, but 37 samples indicate fraud. Even companies reach the highest score of 7.95, which exceeds the minimum threshold for indications of fraud, namely -2.22. In addition to other ratios, as shown in the table below:

**Table 1. Statistical Overview of Each Research Variable**

	N	Min	Max	Mean	Std Deviation
Y1 (SGI)	140	.40	6.95	1.0442	.59929
Y2 (GMI)	140	-2.74	4.81	.9847	.73813
Y3 (AQI)	140	-26	31.57	1.5691	2.93769
Y4 (DSRI)	140	.19	2.59	1.0150	.36224
Y5 (SGAI)	140	.20	2.66	1.1468	.30096
Y6 (DEPI)	140	.03	5.05	1.1059	.53564
Y7 (LVGI)	140	.25	34.10	1.2530	2.80856
Y8 (TATA)	140	-.82	.25	-.0454	.11578
Y (M-Score)	140	-13.71	7.95	-2.5134	1.67059

X1 (Size)	140	.00	1.00	.3929	.49014
X2 (Tenure)	140	1.00	6.00	4.3429	1.96286
Valid N (listwise)	140				

Source: Data processed 2021

The regression model test results include the assumption test for multiple regression for normality, multicollinearity, and heteroscedasticity. The multiple regression autocorrelation assumption test was not carried out because the multiple regression model data were not time-series. This data analysis and hypothesis testing is intended to provide empirical evidence whether there is an effect of audit firm size or size of the public accounting firm and audit tenure on indications of fraudulent financial statements. The table below presents a summary of the regression model output for each regression model that identifies the magnitude of the effect, the prediction of the variables causing the fraudulent financial statements indication, and the level of significance of the regression model.

**Table 2. Summary of Regression Output Identification of Causes of Fraudulent Financial Statements Indications**

	SGI	GMI	AQI	DSRI	SGAI	DEPI	LVGI	TATA	M-Score
Constant	1.177	1.099	2.246	0.981	1.136	0.98	0.706	-0.066	-2.02
t – count	9.417	7.123	3.679	12.984	18.116	8.934	1.213	-2.711	-5.823
Audit Firm Size	0.021	-0.033	-0.412	-0.081	-0.078	-0.254	-0.859	0.007	0.056
t – count	0.175	-0.221	-0.701	-1.119	-1.286	-2.409 <sup>b</sup>	-1.534	0.283	0.168
P – value	0.861	0.825	0.484	0.265	0.201	0.017	0.127	0.777	0.867
Audit Tenure	-0.032	-0.023	-0.119	0.015	0.010	0.052	0.204	0.004	-0.118
t – count	-1.082	-0.629	-0.809	0.840	0.635	1.978 <sup>c</sup>	1.456	0.695	-1.422
P – value	0.281	0.532	0.420	0.402	0.526	0.050	0.148	0.488	0.157
R-Squared	1.0%	0.6%	1.6%	1.0%	1.2%	4.6%	2.1%	0.7%	1.7%
F- count	0.676	0.390	1.147	0.678	0.827	3.296 <sup>bc</sup>	1.491	0.508	1.210
P-value	0.511	0.678	0.321	0.509	0.440	0.040	0.229	0.603	0.301
Observed	140	140	140	140	140	140	140	140	140

Two-tailed test: a Significant at the 1% level; b Significant at the 5% level; ° Significant at the 10% level

The partial test results of the effect of Audit Firm Size on the indication of fraudulent financial statements as measured by the indicators Sales Growth Index (SGI), Gross Margin Index (GMI), Asset Quality Index (AQI), Days' Sales Receivable Index (DSRI), Sales, General and Administrative Expenses Index (SGAI), Depreciation Index (DEPI), Leverage Index (LVGI), Total Accrual to Total Assets (TATA) and Messod D Beneish-Score (M-Score), show a negative relationship on the indicators GMI, AQI, DSRI, SGAI, DEPI, and LVGI. Therefore, it means that the big four public accounting firms can report financial statements without indicating fraud. On the other hand, it shows a positive relationship with the SGI, TATA, and M-Score indicators. However, from the nine (9) indicators, from the results of the hypothesis

test, it is concluded that only the DEPI indicator has the alternative hypothesis ( $H_a$ ) accepted by showing a significant effect, meaning that audit firm size has a significant effect on the indication of fraudulent financial statements on the DEPI indicator. Meanwhile, the other eight indicators do not have a significant effect, meaning that the audit firm size variable does not significantly affect the indication of fraudulent financial statements.

This result is contrary to the research results by (DeAngelo 1981; Francis and Yu, 2009; Sawan, 2013), that the Firm Size Audit or auditors at Public Accounting Firm with Big Four criteria are considered more capable of finding reporting fraudulent financial statements or improving quality. Financial reports (DeFond and Zhang, 2013). This means that the financial reports audited by the Big Four public accounting firms should not contain fraud or indications of fraud because large public accounting firms provide more training to achieve audit quality (Francis and Yu, 2009). The partial test results of the effect of audit tenure on the indication of Fraudulent Financial Statements as measured by indicators of Sales Growth Index (SGI), Gross Margin Index (GMI), Asset Quality Index (AQI), Days' Sales Receivable Index (DSRI), Sales, General and Administrative Expenses Index (SGAI), Depreciation Index (DEPI), Leverage Index (LVGI), Total Accrual to Total Assets (TATA) and Messod D Beneish-Score (M-Score), show a positive relationship on the indicators DSRI, SGAI, DEPI, LVGI, and TATA. On the other hand, it shows a negative relationship with the SGI, GMI, AQI, and M-Score indicators. It means that the longer the audit tenure or engagement with one public accounting firm, the more indications of fraudulent financial statements and vice versa with a negative relationship. However, from the nine (9) indicators, from the results of the hypothesis test, it is concluded that only the DEPI indicator has the alternative hypothesis ( $H_a$ ) accepted by showing a significant effect, meaning that Audit Tenure has a significant effect on the indication of Fraudulent Financial Statements on the DEPI indicator. Meanwhile, the other eight indicators do not have a significant effect, meaning that the Audit Tenure variable does not significantly affect the indication of fraudulent financial statements.

This result is not entirely the same as the research results conducted by George (2009), which only examined five indicators, in which four indicators were significant, and only one indicator was insignificant, namely the DSRI indicator, all in a negative direction. George (2009) states that the longer the engagement period, the lower the fraud in the financial statements. This is because the auditors are increasingly understanding and competent with the client company's systems and procedures. Meanwhile, research by (Deis and Giroux 1992; Carcello and Nagy 2004, Mgbame 2012) shows that long audit tenure negatively affects the quality of financial reports, which means that there are indications of fraud in the financial statements. In addition, if the engagement period is too long, there is an emotional closeness between the auditor and the client, reducing independence, professional skepticism, and more compromise.

The results of hypothesis testing jointly with Audit Firm Size and Audit Tenure on the nine (9) indicators conclude that only the DEPI indicator has the alternative hypothesis ( $H_a$ ) accepted by showing a significant effect. It means that Audit Firm Size and Audit Tenure together significantly affect the indication of fraudulent financial statements on the DEPI indicator. Meanwhile, the other 8 indicators have no significant effect. Likewise, the results of the coefficient of determination or  $R^2$  or the greatest influence can explain the variation of the two variables audit firm size and audit tenure are DEPI indicators, although only 4.6% compared to other indicators, other factors influence the rest. Several researchers have proved the Beneish Ratio Method (Beneish, 1999), one of which is (George 2009; Beneish et al. 2012) stated that these ratios are significant and could indicate fraud in the financial statements. There is an interesting phenomenon from the results of this study, that the indicator that has the most significant effect is DEPI (Depreciation Index), while from the results of previous empirical research by Beneish (1999), the DEPI ratio is an insignificant variable is showing indications



of fraud in financial statements, together with LVGI and SGAI are also insignificant. Therefore, George (2009) only uses five ratios from Beneish's (1999) study. Of the five (5) ratios used in George's (2009) study, all of them have a negative effect on audit tenure, and there is one (1) which is not significant, namely DSRI. However, in this study, an anomaly was found that the DEPI indicator is the only one that has a significant effect either partially or collectively. It may be due to the Depreciation Index (DEPI) in the sample companies of this study indicating the possibility of manipulation, indicating that the depreciation rate of assets has been slowed down, there is a possibility that the company has revised up the estimated economic life of the assets or used a new method that increases income (Beneish, 1999).

### **Conclusion**

Either partially or jointly, Audit Firm Size and Audit Tenure have no significant effect on indications of fraudulent financial statements as measured by indicators of Sales Growth Index (SGI), Gross Margin Index (GMI), Asset Quality Index (AQI), Days' Sales Receivable Index (DSRI), Sales, General and Administrative Expenses Index (SGAI), Leverage Index (LVGI), Total Accrual to Total Assets (TATA) and Messod D Beneish-Score (M-Score), but have a significant effect on Fraudulent Financial indications Statements as measured by the Depreciation Index (DEPI) indicator. Likewise, the result of the largest coefficient of determination or R<sup>2</sup> is on the DEPI indicator, meaning that variations in DEPI changes can be explained by variations in the two variables of Audit Firm Size and Audit Tenure, although only 4.6% influence, the remaining 95.4% is influenced by other factors. It means that partially or jointly, the two independent variables have not significantly influenced the indication of fraud in the company's financial statements, or only 4.6%. It can happen because of many other factors that influence financial reports, so it cannot be detected by looking at financial ratios alone. Several other methods need to be proven as well.

The results of this study have several limitations. First is the complexity of the problem under study, so the possibility of influencing other factors besides audit firm size and tenure on indications of fraudulent financial statements. Other factors that may affect the indications of fraudulent financial statements include audit fees, time budgets, reputation risk, etc. Second, the observation data used is limited to the type of manufacturing company. Therefore, the regression model resulting from data processing can be different if more observations are made in the next research. Based on the conclusions and limitations of the research presented above, here are suggestions for auditors and public accounting firms in Indonesia and future researchers. First, the auditor of public accountant needs to improve their ability in auditing so that the audit objectives meet audit procedures that comply with international standards and can detect indications of fraud in the financial statements. Second, the public accounting firm must improve the quality of its quality control in collaboration with PPPK and OJK as regulators and IAPI to increase public confidence in users of financial reports. So that in making rules and standards based on good research results. Third, for the next researcher, the results of the regression analysis on the audit firm size and audit tenure variables in this study do not fully support the results of the previous research, so there is still an opportunity for further research to find and find the cause, to add more varied research samples or research methods.

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