

The Effect of Audit Quality on Fraud Reduction

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Abstract

The detection and investigation of financial fraud has become a worldwide concern, with auditors and accountants playing a pivotal role in identifying and examining such fraudulent activities. This role is especially crucial in developing countries, where fraudulent practices are more prevalent due to the lack of stringent regulations and supervision. The failure of some countries to adopt International Financial Reporting Standards (IFRS) has raised concerns in recent years. This study is a conceptual paper to explore the relationship between audit quality and fraud reduction. The study's results have important implications for developing countries, which have been demonstrated to be more vulnerable to fraud than developed countries. This research contributes to the current knowledge about the role of audit quality in mitigating fraud and highlights the need for auditors and accountants to be proactive in identifying and investigating financial fraud.

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INTRODUCTION

Fraud is a significant issue that can have severe consequences for both businesses and economies. Puspitarani and Mapuasari (2020) define fraud as the act of deceiving someone about a product or service or creating false information about an activity with or without the knowledge of the deceived party. One of the most common forms of fraud is the intentional falsification of financial statements, which can mislead shareholders and investors about a company's financial standing (Abebaw, 2020; Hakami et al., 2020; Hsiao et al., 2012; Indah et al., 2020). It is vital for stakeholders, including auditors and management, to identify signs of fraud promptly. Fraud can cause significant damage to a company's reputation, image, and even lead to bankruptcy and loss of shareholder value (Button et al., 2012; Free & Murphy, 2015; Clarina & Fitriany, 2019; Fully & David, 2020; Meng Chao et al., 2020). Detecting and preventing fraud is essential to safeguard businesses and the economy as a whole. Auditors have a critical role in detecting fraud and should conduct thorough and vigilant audits. Additionally, businesses should implement strong internal control systems and ethical codes of conduct to discourage fraudulent activities (Puspitarani & Mapuasari, 2020). By taking these measures, businesses can protect their stakeholders' interests and avoid the adverse effects of fraud.

This study discusses the negative impact of fraud on both the perpetrators and victims. In the context of this study, "fraudulent" refers to those who have committed or participated in deception, while "defrauded" refers to those who have been negatively affected by fraud. Previous research has highlighted the impact of fraud on the relationship between fraudulent parties and investors, potentially leading to decreased investment in companies with a history of fraudulent behavior. In response to this issue, countries, including ASEAN countries, have implemented policies to improve governance control mechanisms, protect minority shareholders, and enhance financial reporting standards. Additionally, businesses can take steps to prevent fraud, such as implementing internal controls and promoting a culture of ethics and accountability. By working together, policymakers, businesses, and investors can create a transparent and trustworthy business environment, which ultimately benefits all parties involved and promotes the stability and integrity of the financial system.

The relationship between audit quality and fraud reduction has been a topic of debate in previous research, with mixed findings. Drogalas et al. (2017), Beasley (1996), Yang et al. (2005), Dhaliwal et al. (2010), and Sjam et al. (2020) found a positive effect of audit quality on reducing fraud. On the other hand, Hallman & Schmidt (2020), Khlif (2016), and Tepalagul & Lin (2015) reported that audit quality does not necessarily lead to lower levels of fraud. Additionally, Hsiao et al. (2012) and Zamzami et al. (2017) found no effect of audit quality on fraud reduction. Further research is needed to determine the significance of audit quality in reducing fraud. Most previous studies have focused on developed countries, with limited research on developing and Muslim countries like Indonesia. Therefore, this study aims to fill this gap in the literature by examining the impact of audit quality on fraud reduction in Indonesia. This study provides valuable insights into the unique factors that influence fraud reduction in a developing country such as Indonesia. The study also recommends the implementation of International Financial Reporting Standards (IFRS) to improve the reliability of financial reporting and reduce fraud in Indonesia. Overall, this study contributes to the ongoing conversation about the role of audit quality and IFRS adoption in fraud prevention (Drogalas et al., 2017; Beasley, 1996; Yang et al., 2005; Dhaliwal et al., 2010; Sjam et al., 2020; Hallman & Schmidt, 2020; Khlif, 2016; Tepalagul & Lin, 2015; Hsiao et al., 2012; Zamzami et al., 2017).

The following section will present a concise summary of pertinent literature concerning audit quality and fraud reduction, with particular attention to the inconclusive outcomes of earlier research. This review intends to determine gaps in the research and provide insight for developing research hypotheses. Subsequently, this paper will describe the theoretical framework to explore the possible influence of audit quality on fraud reduction. The last section will address the limitations of the research, such as possible bias sources and the applicability of the findings. Furthermore, this article will suggest potential areas for future research that could build upon the outcomes of this study.

LITERATURE

Xiao et al. (2020) define auditing as a critical information processing method that plays an essential role in identifying and reporting discrepancies within financial statements. Audit quality is determined by various factors such as audit tenure, audit fee, and auditor size, which influence how effectively auditors can adhere to accounting standards and promote transparency, building trust among investors and stakeholders (Sjam et al., 2020). The quality of an audit report is a fundamental aspect of financial statement reporting, as it assures stakeholders that financial statements are free from material misstatements or fraud (Hwang et al., 2019). The importance of audit quality has been emphasized in various studies, as it can impact a company's financial performance, credibility, and reputation.

Previous studies have examined the relationship between audit quality and firm performance, earnings forecast, transparency, and financial information quality. For instance, Cenciarelli et al. (2018) and Muñoz-Izquierdo et al. (2019) found a positive relationship between audit quality and firm performance. Higher audit quality is associated with higher firm performance, as it provides investors with more reliable financial information and promotes transparency. Gul et al. (2010) and Nouri and Gilaninia (2017) found that higher audit quality leads to more accurate earnings forecasts. Similarly, Castillo-Merino et al. (2020) and Le and Lobo (2020) found that audit quality is positively related to financial information quality. Theophilus et al. (2019) assert that the responsibility of an auditor is to uncover any irregularities in the financial statements. Coram et al. (2006) and Salameh et al. (2011) found that audit quality is positively related to transparency.

While several studies have investigated the relationship between audit quality and other financial performance indicators, this paper focuses on the link between audit quality and fraud reduction. The significance of audit quality in fraud prevention and detection has been emphasized in previous studies (Clarina & Fitriany, 2019; Fully & David, 2020). Fraudulent activities can severely damage a company's reputation, negatively impact its image in the market, and potentially force it to go out of business. Therefore, it is essential to ensure the integrity and transparency of financial reporting by detecting and reducing fraud. This paper aims to provide a brief overview of relevant literature on audit quality and fraud reduction, including a discussion of audit quality's theoretical framework, limitations, and areas for future research.

Ittonen (2010) explored the role of audit quality in moderating the relationship between management ownership and discretionary accruals. The study found that firms with high-quality audits, such as those conducted by big 6 auditors, have a weaker negative association between management ownership and discretionary accruals, indicating that high-quality audits can mitigate earnings management. In contrast, J.C. Yang et al. (2020) found no evidence that audit quality constrains earnings management practices in Malaysian public listed companies, suggesting that the audit environment may differ from that of other developed countries. Nouri and Gilaninia (2017) investigated the effect of surplus free cash flow and audit quality on earnings management and found that audit quality has a negative and significant effect on earnings management. In general, these studies suggest that audit quality is an essential factor in promoting financial transparency and reducing fraudulent activities. Other studies have explored the impact of audit quality on earnings management in different countries and industries, such as the Nigerian public listed companies (Mustapha et al., 2019) and manufacturing listed companies in the Indonesian stock exchange (Widani & Bernawati, 2020), which found that higher audit quality is associated with a decrease in earnings manipulations and a significant factor in ensuring financial transparency and accuracy in companies, respectively.

Numerous studies have explored the relationship between audit reports and the likelihood of bankruptcy and financial distress. Muñoz-Izquierdo et al. (2019) and Cenciarelli et al. (2018) found that companies audited by industry expert auditors, big audit firms, and long tenure auditors are less likely to default. Guo et al. (2020) found that financially distressed companies are more likely to receive going concern opinions, indicating a positive relationship between an auditor's opinion and bankruptcy control.

Nor Azhari et al. (2020) found a significant relationship between financial distress and material accounting misstatement. In addition, Coram et al. (2006) found that companies that undertake at least part of their audit function themselves are more likely to detect fraud than those that depend on outsourcing, while Salameh et al. (2011) found that internal audit units are effective in fraud prevention. Enofe et al. (2015) also found that frequent utilization of forensic audit services can significantly help in detecting, preventing, and reducing fraud. These studies suggest that external auditor characteristics, audit quality, and the effectiveness of audit functions are crucial in detecting and preventing fraudulent activities, financial distress, and bankruptcy. Companies that engage experienced auditors, implement effective internal audit units, and undertake at least part of their audit function themselves are more likely to detect and prevent fraudulent activities, financial distress, and bankruptcy.

Over the years, auditing has become an important tool in enhancing transparency, reducing fraud levels, and investigating the causes and outcomes of fraud in financial reporting. Studies have demonstrated that auditing plays a crucial role in promoting accountability and building trust between investors, stakeholders, and firms (Clarina & Fitriany, 2019; Yanti & Wijaya, 2020). However, the effectiveness of audit quality in detecting fraud is still a topic of debate in the accounting and auditing literature. While some studies have shown that audit quality has a positive correlation with fraud detection, others have demonstrated a negative or no impact. For example, Beasley (1996) and Beasley M. et al. (1999) found that auditors failed to identify fraud in New York-listed firms, suggesting that audit quality has a negative impact on fraud detection. Conversely, other studies have highlighted the positive role of audit quality in fraud detection (Drogalas et al., 2017; Sanjaya Adi Putra & Dwirandra, 2019; Umar, Fauziah, et al., 2019; Brazel & Schmidt, 2019). These contradictory findings emphasize the need for further research to clarify the impact of audit quality on fraud detection. To effectively detect and prevent fraud, auditors should continuously improve their skills, knowledge, and independence, and strive to maintain a high level of audit quality. In addition, future studies could investigate other factors that may affect the relationship between audit quality and fraud detection, such as audit committee characteristics, board composition, and internal control systems. These studies could provide a more comprehensive understanding of how audit quality can effectively detect and prevent fraud in financial reporting.

The literature has largely focused on exploring the relationship between audit quality and fraud detection in developed nations, which has left a gap in knowledge concerning developing nations. Future research should investigate the effect of audit quality on fraud reduction in developing nations like Indonesia, which has not yet adopted the International Financial Reporting Standards (IFRS). To identify factors or indicators of audit quality that may impact fraud reduction, researchers should examine factors such as audit fees, audit tenure, and audit experience. Prior research has identified various indicators of audit quality that may affect fraud detection and prevention, including communication quality between the auditor and the client, auditor reputation, auditor independence, and the complexity of the audit engagement. Therefore, future studies should focus on these indicators to gain a better understanding of the relationship between audit quality and fraud reduction in developing nations. Understanding the factors that contribute to fraud reduction in developing nations is crucial to providing insights into the effectiveness of audit quality in reducing fraud in these countries. By identifying best practices for detecting and preventing fraud in developing nations, researchers can help improve the overall quality of financial reporting and build trust among investors and other stakeholders.

Theoretical Framework

Policemen Theory

This study aims to bridge the gap in the literature by explaining the effect of audit quality on fraud reduction in developing countries. While previous research has mainly focused on developed countries, such as the United States and European countries, there has been a limited investigation of the topic in developing countries (Beasley, 1996; Dhaliwal et al., 2010). Thus, this study is essential in providing insights into how audit quality impacts fraud detection in the context of developing nations.

To understand the effect of audit quality on fraud reduction, the study employs the Policeman theory, which was first proposed by Theodore Limperg in the 1920s. According to the theory, auditors have the responsibility of preventing, detecting, and investigating fraudulent activities that can harm the company's reputation (Limperg, 1923; Yousefinejad, Kassim, et al., 2022). The Policeman theory highlights the importance of detecting and preventing errors and fraud in companies, thereby safeguarding the company's financial resources, such as financial statements (Salehi Assistant Professor, 2010; Yousefinejad et al., 2022). Previous studies have also applied this theory to investigate the effect of audit quality on fraud reduction, such as Enofe et al., (2015), Gospel et al., (2019), and Salehi (2010). In this study, the Policeman theory provides a theoretical framework to examine the effect of audit quality on fraud reduction in the context of developing nations.

Furthermore, this study will specifically focus on developing nation where the adoption of International Financial Reporting Standards (IFRS) has not been implemented by some of the countries like Indonesia. The study aims to identify factors or indicators of audit quality that affect fraud reduction, such as audit fees, audit tenure, and audit experience (Alsmairat et al., 2019; Clarina & Fitriany, 2019; Garcia-Blandon et al., 2020; Le & Lobo, 2020; Yanti & Wijaya, 2020a; Zamzami et al., 2017). The findings from this study can have significant implications for developing countries, providing insights into how to improve audit quality and reduce fraud. Moreover, the study can contribute to the theoretical understanding of the Policeman theory and its application to the context of developing nations.

Despite the significance of audit quality in fraud detection and prevention, there is still a debate on the relationship between these two factors. While some studies have found a negative relationship between audit quality and fraud reduction, others have shown no relationship at all. To resolve this controversy, this study aims to explore the effect of audit quality on fraud reduction in companies. The study recognizes the importance of the policeman theory, which highlights the critical role of auditors in preventing, detecting, and reporting fraudulent activities. In this sense, auditors act as watchdogs to protect the company's financial resources, including financial statements. Policeman theory posits that auditors' vigilance and thoroughness in their duties can deter fraudulent activities in companies, as management is aware that their financial statements are closely monitored. This study, therefore, seeks to examine the applicability of the policeman theory to developing countries, specifically Indonesia, where limited research has been conducted on the relationship between audit quality and fraud reduction.

The role of audit quality in ensuring the accuracy and reliability of financial statements is of utmost importance, and its significance cannot be overstated. Previous studies have provided empirical evidence that auditors with high-quality audits are more likely to detect and report fraudulent activities. These auditors have earned a reputation for being thorough and diligent in their work, which enables them to identify fraud more efficiently. Therefore, this study aims to contribute to the existing literature by examining the factors that affect audit quality and how it can be improved to reduce fraudulent activities in companies. Specifically, the study will focus on investigating the relationship between audit quality and fraud reduction in developing countries, using the policeman theory as a theoretical framework. Policeman theory suggests that auditors act as watchdogs, detecting and preventing fraudulent activities in companies. Therefore, the study predicts that higher audit quality is associated with a lower incidence of fraud in companies. By investigating this relationship, this study seeks to provide valuable insights into the importance of audit quality in detecting and preventing fraudulent activities. The findings of this study will be beneficial for investors, financial institutions, and regulators who rely on accurate financial statements to make informed decisions. Additionally, this study will help policymakers in developing countries to formulate policies that enhance audit quality to reduce fraudulent activities in companies.

Institutional Theory

The institutional theory was introduced in the late 1970s by John Meyer and Brian Rowan to explore how organizations are shaped by and interact with their societal, national, and global environments (Meyer & Rowan, 1977). According to Meyer and Rowan (1977) and Tsamenyi et al. (2006), institutional theory suggests that organizations must conform to societal norms of acceptable

behavior as much as they strive for production efficiency in order to survive. Thus, formal structures, policies, and procedures, such as statistical sampling in auditing, may simply be ways of conforming to commonly held expectations of acceptable practice (Carpenter & Feroz, 2001; Herrbach, 2001).

Institutional theory views companies as effective within a social framework of norms, values, and taken-for-granted ideas about what constitutes appropriate economic performance (Carpenter & Feroz, 2001; DiMaggio & Powell, 2000). According to DiMaggio and Powell (2000), once a field is formed, various powerful forces emerge within society that cause companies within the field to become more alike. Institutional theory posits that companies respond to pressures from their institutional environments and adopt structures and procedures that are socially accepted as appropriate (DiMaggio & Powell, 2000). Several studies have focused on the application of institutional theory to the areas of audit and fraud. Fogarty (1996), Rollins and Bremser (1997), and Vadasi et al. (2020) all used institutional theory in their studies on audit and fraud.

This study also benefits from the application of institutional theory, which sheds light on the important effect of IFRS on the relationship between audit quality and fraud reduction. Institutional theory elucidates how regulations and norms in the institutional environment impact organizational decision-making and behavior. The adoption of IFRS is regarded as an institutional change that shapes a new regulatory environment and affects companies' financial reporting practices. By applying institutional theory in this study, it is suggested that IFRS adoption can strengthen the relationship between audit quality and fraud reduction. This is because IFRS imposes standardized rules and principles on financial reporting, enhancing consistency and comparability, which aids auditors in detecting fraudulent activities. Additionally, institutional theory can explain how IFRS adoption can encourage a cultural shift towards transparency, accountability, and ethical behavior, which can lead to better governance practices and foster a culture of compliance and integrity, ultimately reducing fraud. Therefore, this study's theoretical contribution lies in the application of institutional theory to explain how IFRS adoption may enhance audit quality's effectiveness in detecting and preventing fraud. This approach emphasizes the importance of considering institutional factors when assessing the impact of audit quality on fraud reduction and provides valuable insights for policymakers, regulators, and practitioners in improving financial reporting practices.

METHODS

This study aims to contribute to the existing literature on the effect of audit quality and fraud reduction in developing countries. This study is a conceptual paper. A conceptual paper is a type of academic paper that presents theoretical ideas and concepts rather than empirical data or experimental results. The purpose of a conceptual paper is to discuss and analyse theoretical frameworks, models, or concepts related to a specific topic or research question. Conceptual papers typically include a comprehensive literature review, theoretical discussions, and the development of new theoretical frameworks or models. The aim of a conceptual paper is to contribute to the academic discourse by proposing new theories, frameworks, or models, or by refining and expanding existing ones. Unlike empirical papers, conceptual papers do not involve the collection or analysis of data, but rather focus on the interpretation and synthesis of existing literature to provide new insights or perspectives on a topic.

In particular, the study examines the impact of audit quality on fraud reduction, with the aim of providing insights into how audit quality can be enhanced to prevent fraudulent activities in developing countries. To achieve this objective, the study conducts a comprehensive review of the literature on audit quality, fraud reduction, and their relationship. The literature review is based on available published articles, and it covers various topics related to audit quality and fraud reduction, including the factors that affect audit quality, the effectiveness of audit quality in detecting and preventing fraudulent activities, and the role of auditors in fraud prevention. By analysing the literature, the study aims to identify the key findings and trends in the field and provide a critical assessment of the existing research. Ultimately, this study will provide a theoretical foundation for future empirical research on the impact of audit quality on

fraud reduction in developing countries. Table 1 illustrate available measurements for audit quality and fraud in literature.

Table 1. Measurements of the Variables

Variables	Definitions	Measurements
Audit Quality	Audit Tenure: Audit Tenure is a commonly used variable to determine audit quality. Audit tenure typically measured the length of the period an auditor has been working for the same client.	Auditor period time in the same company from 2015 to 2020 use 1 to 5.
	Audit Fee: Audit Fees are costs incurred by companies to pay public accounting firms to audit the company's financial statements. Big 5 & Non-Big 5: Big 5 are the largest accounting firms such as KPMG, Deloitte, Baker Tilly, Ernst & Young, BDO PL. Whereas Non-Big 5 are also accounting firms but they are not considered at top of the list.	The amount paid by the company to receive audit service. Dummy Variable, Companies audited by Big 5 1, otherwise 0.
	M-score research model: This model was developed by M. D. Beneish (1999). There are eight financial ratios used in M-score to find misstatements in financial statements.	Using the Benish M-score model to evaluate the probability of manipulation. M-score value = $-4.84 + 0.92 * DSRI + 0.528 * GMI + 0.404 * AQI + 0.892 * SGI + 0.115 * DEPI - 0.172 * SGAI + 4.679 * TATA - 0.327 * LVG$.
Fraud	F-score research model: This model was carried out by Dechow et al., (2011) with the objective to determine the probability of detecting and forecasting material misstatements in the financial statements. There are seven financial ratios used in F-score to find misstatements in financial statements.	Using Dechow F-score model to evaluate the probability of misstatement. 1 misstatement financial statement. Otherwise, 0 F-score value = $-7.893 + 0.790R_{sst-acc} + 2.518Ch_{rec} + 1.191Ch_{inv} + 1.979Soft_{assets} + 0.171Ch_{cs} - 0.932Ch_{roa} + 1.092Issue$.
DSRI	Days Sales Receivables: The ratio of days sales in receivables during the last year (t) compared to the year before (t-1).	$(Net\ Receivables_t / Sales_t) / (Net\ Receivables_{t-1} / Sales_{t-1})$
GMI	Gross Margin Index: Gross margin equates to net sales minus the cost of goods sold. The gross margin shows the amount of profit made before deducting selling, general, and administrative (SG&A) costs.	$[(Sales_{t-1} - COGS_{t-1}) / Sales_{t-1}] / [(Sales_t - COGS_t) / Sales_t]$
AQI	Asset Quality Index: Measures the quality of a company's assets by calculating the ratio of non-current assets, other than plant, property, and equipment (PPE), to total assets. It indicates the amount of total assets that are less certain to be ultimately realized, identified as asset quality.	$[1 - (Current\ Assets_t + PP\&E_t + Securities_t) / Total\ Assets_t] / [1 - ((Current\ Assets_{t-1} + PP\&E_{t-1} + Securities_{t-1}) / Total\ Assets_{t-1})]$

SGI	Sales Growth Index: The Sales Growth Index measures the extent to which sales are growing year-on-year. An index value greater than 1 is indicative of sales growth.	$Sales_t / Sales_{t-1}$
DEPI	Depreciation Index: Depreciation Index (DEPI): The rate of depreciation in year t-1 / year t. The rate of depreciation is equal to depreciation / (depreciation + net property, plant & equipment). If this value is greater than 1, this means that the rate at which assets are depreciated has slowed down.	$(Depreciation_{t-1} / (PP\&E_{t-1} + Depreciation_{t-1})) / (Depreciation_t / (PP\&E_t + Depreciation_t))$
SGAI	Sales General and Administrative Expenses Index: Selling, General & Administrative expenses (SG&A) include all everyday operating expenses of running a business that are not included in the production of goods or delivery of services. Typical SG&A items include rent, salaries, advertising and marketing expenses and distribution costs.	$(SG\&A\ Expense_t / Sales_t) / (SG\&A\ Expense_{t-1} / Sales_{t-1})$
LVGI	Leverage Index: A leveraged exchange-traded fund (ETF) uses financial derivatives and debt to amplify the returns of an underlying index.	$[(Current\ Liabilities_t + Total\ Long\ Term\ Debt_t) / Total\ Assets_t] / [(Current\ Liabilities_{t-1} + Total\ Long\ Term\ Debt_{t-1}) / Total\ Assets_{t-1}]$
TATA	Total Accruals to Total Assets: Total accruals are calculated as the change in working capital (other than cash) less depreciation relative to total assets.	$(Income\ from\ Continuing\ Operations_t - Cash\ Flows\ from\ Operations_t) / Total\ Assets_{t-1}$

DISCUSSION

In the world of financial reporting, the detection and prevention of fraud are of utmost importance for investors, auditors, and management. Fraud, as defined by Firozabadi et al. (1999), is a deceitful act aimed at obtaining financial benefits through deception and falsehoods. The consequences of fraud can be devastating, resulting in severe damage to a company's reputation and negative impacts on its image in the market. It may even lead to bankruptcy, discouraging potential investors from investing in the company, and resulting in significant financial losses. Hence, it is vital to detect and prevent fraud to ensure the integrity and transparency of financial reporting.

Several measures have been taken globally to curb fraud; however, their effectiveness varies from country to country. While previous studies have shown that audit quality plays a crucial role in reducing fraudulent activities, some have found no significant relationship between audit quality and fraud reduction. In this regard, this study seeks to investigate the effect of audit quality on fraud reduction specifically in developing countries, which have their unique characteristics.

The study uses the policemen theory to explore the relationship between audit quality and fraud reduction. The theory suggests that auditors act as "policemen" by monitoring a company's financial statements and detecting any fraudulent activities. The study contributes to the literature on the importance of audit quality in fraud prevention and detection. The findings suggest that longer audit tenure and lower audit fees may enhance the quality of audits and reduce the risk of fraudulent activities.

Nevertheless, there is a need for further research to examine the underlying mechanisms and factors that influence the relationship between audit quality and fraud reduction. In conclusion, this study can provide insights into the effectiveness of current anti-fraud measures in developing countries, particularly

in Indonesia, and suggest potential improvements to the existing system. By uncovering and preventing fraud, stakeholders in financial reporting can ensure the reliability and trustworthiness of financial information, benefiting the entire economy.

LIMITATIONS AND FUTURE STUDIES

While this paper makes a significant contribution to the literature on how audit quality affects fraud reduction, it is essential to consider the limitations of the study. The main limitation is that this is a conceptual paper that only focuses on existing literature to discuss the relationship between audit quality and fraud reduction. Future studies can build on this idea and collect empirical data from developing countries to establish the relationship between audit quality and fraud reduction further.

Moreover, future studies can explore the impact of other factors such as IFRS adoption on the relationship between audit quality and fraud reduction. IFRS adoption may impact the relationship between audit quality and fraud reduction differently in adopter and non-adopter countries. As such, including IFRS adopters as a sample would provide more comprehensive insights for policy makers in Indonesia.

To provide more robust evidence, future studies could employ longitudinal data or experimental designs to establish causality. Additionally, exploring other variables such as corporate governance, internal control systems, and management integrity could provide a more comprehensive understanding of fraud prevention and detection.

Despite the limitations, this study offers valuable insights into the relationship between audit quality and fraud reduction. Future studies can build on this research and extend the analysis to other developing countries with similar characteristics. This would provide a more comprehensive understanding of fraud prevention and detection in developing countries and contribute to the existing literature on the topic. In conclusion, while there are limitations to this study, the findings and insights provide a foundation for future research on the importance of audit quality in fraud prevention and detection.

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