

Audit Quality and Financial Reporting Fraud: The Interaction of Standards, Governance, and Managerial Integrity

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Abstract: Financial reporting fraud still has implications for the effectiveness and efficiency of world capital markets, particularly in emerging-market nations where regulatory environments are less structured. Although studies in audit quality and regulatory compliance are independent from each other in the previous academic research, we develop a new comprehensive theoretical model, which integrates the antecedents of audit quality (audit tenure, audit fee, Big 4 affiliation) and the extant IFRS adoption, governance quality, and Managerial Ethical Integrity, to assess their combined and interactive impacts on fraud detection. Based on 480 firm year observations of listed manufacturers operating in Indonesia emerging economy from 2018 to 2023, this research adopts multiple regression and moderation analysis to unravel intricate interconnections. The innovation of having structural (audit mechanisms), regulatory (IFRS compliance), and behavioral (ethical leadership) variables in one model is providing a multi-dimensional view not touched upon by previous studies. The findings show that audit quality and IFRS adoption are associated with a lower fraud risk; the impact of these determinants, however, varies positively or negatively depending on the governance mechanisms and ethical leadership. This discovery undermines a prevailing belief that institutional and technical conformance are sufficient to inhibit misconduct. By demonstrating the moderating influence of managerial integrity and governance quality, this study contributes to the theoretical understanding and provides practical implications to government, auditors and board members for creating an anti-corruptive governance system. The originality of this research is that it also adds to the expanding the horizon of audit research in terms of behavioural governance which is particularly important for ASEAN and other emerging economies.

Keyword: audit quality, financial reporting fraud, audit tenure, audit fee, Big 4.

1. INTRODUCTION

Financial reporting fraud remains a serious threat to worldwide financial transactions markets and disciplines, investor confidence, economic sustainability and the functioning of global markets. Recent events, such as the economic impact of the COVID-19 pandemic, changes in global commodities prices, and increased complexity of corporate structures, have increased the risk of financial statement fraud. Notably, industries with a high degree of capital intensity and several-level operation are still at risk of fraudulent financial reporting and accounting fraud [1], [2], [3]. A number of cross border corporate scandals due to earnings manipulation and inflated assets have highlighted the failure of extant auditors' practices and regulatory systems in detecting fraud [4], [5], [6], [7]. These recent trends serve to further highlight the importance of a need for robust audit systems, transparency guided by a reputable set of financial reporting standards worldwide, and servant leadership grounded on ethics as well as the need for stopping manipulation [8]. Audit quality and the implementation of international financial reporting standards (IFRS) are heavily advocated as means of reducing fraud, even if the actual impact of these instruments is the focus of extensive ongoing empirical discussion, especially in developing institutional contexts [8], [9], [10].

A crucial difficulty of dealing with financial reporting fraud is that conflicting audit standards are applied and accounting rules are enforced differently in different jurisdictions. Though, more than 140 countries have adopted IFRS, there have been some mixed results about the effect toward IFRS as a mean to reduce fraud, which is very much depends on the quality of institutional governance and the strength of enforcement [11], [12], [13], [14]. Likewise, the impact of auditor tenure, fee structure, and auditor

affiliation Big Four vs. non-Big Four on audit quality has been found to be attenuated by, *inter alia*, weak corporate governance and managerial incentives conflicts [15]. These disparities pose a fundamental obstacle for international initiatives that seek to improve financial reporting quality. While there is an extensive literature on financial scandals, somehow these incidents have been portrayed as “*black swans*,” “*rogue*” events that emerge independently from any professional and corporate governance setting.

The Policeman Theory and the Application Theory are the main supporting theories of this study. The Policeman Theory (Watts, Zimmerman 1983) interprets the auditor’s objective as an independent policeman who monitors in advance, extorting the true and ensuring discipline in financial fraud. In contrast, according to institutional theory [16], firms not only mimic efficient practices and structures, including IFRS, but also legitimate structures that seemingly reflect societal expectations as well as external pressures. Within the larger accounting paradigm, it will follow the stewardship perspective of emphasizing accountability, transparency, and the protection of stakeholders, using good governance and ethics [17],[18].

Although audit quality and IFRS adoption and their influence have been studied earlier, rarely have these elements been combined with corporate governance and management integrity for a comprehensive model analysis. Evidence from developed economies often shows that higher quality audit services can mitigate fraud risk [19], [20], [21], [22], but evidence from transitional and emerging economies provides mixed results. Some other studies indicate that longer auditor tenure will tend to cause complacency whereas other ones argue it would result in familiarity and audit efficiency [6], [23], [24]. The moderating effects of corporate governance and managerial integrity are scarcely explored, particularly in terms of multiple interaction. Further, it is argued that the adoption of IFRS is likely to improve transparency, comparability and welfare but the fraud deterrent effect is contingent upon enforcement and ethical climate [25], [26], [27], [28], [29]. This incoherence is solved by the current paper, which proposes a holistic rubric to examine and compare audit quality, IFRS adoption, governance controls, and managerial honesty. This model serves to address the prevailing academic calls for cross sectional, multi dimensional probes that explore the sources of financial fraud, particularly in rapidly developing markets in the ASEAN region and other emerging economies [30], [31], [32], [33], [34], [35], [36], [37], [38].

The study has an objective of empirically demonstrating how audit quality and IFRS adoption could reduce the financial reporting fraud as well as the moderating contribution of corporate governance mechanisms and managerial integrity. In particular, it examines whether attributes (auditor tenure, audit fees, auditor association) mitigating fraudulent risk contribute to risk reduction and how they mediate the magnitude of reduction moderated in different level of governance quality and ethical behavior. With the inclusion of both internal and external forms of control, my study draws the attention of a number of interested parties regulators interested in fine-tuning their policies, auditors wishing to enhance the standards of practices, boards wanting to engage in the ethical governance and investors demanding accountability. Additionally, the study provides theoretical implications on the refinement of audit and institutional theories and practical implications on the financial accountability improvement in different market settings around the world.

2. LITERATURE REVIEW

2.1 Quality audit and financial reporting fraud

The quality of an audit is vital to the maintenance of credibility of the financial statements and consequently the financial information contained in them. There are also clear expectations that financial statements are not materially mis-stated as a result of fraud or error. Auditor independence, professional skepticism and expertise are among the factors known to signify high audit quality. Prior research indicating that Big 4 audit companies are less likely to manage earnings [39], [40], [41], [42], is consistent with this contention. Additionally, both the length of audit tenure and audit fees are believed to be indicators of audit quality that impact auditors’ ability to detect fraud. Extended audit tenure may bring about auditor complacency [38], [43], [44], but it might also improve familiarity and detection [45], [46]. Likewise, high audit fees may be positively associated with audit effort and risk assessment, but they might also impede independence if the auditor becomes too dependent on one client [47], [48].

H1: Audit quality has a negative impact on the incidence of financial reporting fraud.

2.2 The IFRS Adoption and financial reporting fraud

The adoption of IFRS is aiming to enhance financial transparency, eliminate information asymmetry and enhance cross border comparability of financial statements [49], [50]. More stringent disclosure requirements from IFRS can reduce managerial discretion in financial reporting by reducing IFRS, thereby reducing information asymmetry [51], [52], [53], [54]. The effect of IFRS on reduction in fraud, however, is contingent upon the indigenous laying and enforcing regime [55], [56], [57]. However, the adoption of IFRS in solid legal environments results in a decrease in fraudulent reporting. However, in countries where the regulatory bodies are weak, IFRS alone may not be effective to prevent fraud [27], [58], [59], [60], [61]. The ability of IFRS in mitigating fraud would therefore be dependent on both the adoption of such standards as well as the rigor of their enforcement.

H2: Acceptance of IFRS will have a significant effect in decreasing financial reporting fraud.

2.3 Corporate governance as a moderating variable

Corporate governance mechanisms i.e., board independence, audit committees and ownership structures are important internal control elements that can reduce agency problems and financial distortions [62], [63]. Good governance will improve the supervision of the board and solidify the effectiveness of the external auditing quality [64], [65], [66]. Previous research has also demonstrated that governance mechanisms may mitigate the association between audit quality and fraud detection which in turn, strengthens the positive effect of auditor diligence [67], [68], [69], [70]. Poor governing, on the other hand, is dragging down the monitoring ecosystem, reducing the effectiveness of even proper performing audits in identifying cheating. As a result, it is anticipated that audit quality will serve as the effect of governance mechanisms in deterring fraudulent reporting.

H3: The role of corporate governance is a positive moderator in the relation between the quality of audit and the reduction of financial fraud, which enhances the power of auditing to prevent fraud.

2.4 Moderating role of managerial integrity

Ethical orientation of executives and truthfulness of a manager, in their financial decision-making, fall into the category of managerial integrity [71]. Ethical leadership discourages self-interest behavior and decreases the probability of distorted earnings and false reporting [71], [72], [73], [74]. A number of other studies indicate that, despite high audit quality or high IFRS adoption, poor managerial integrity can disable these controls and enables fraud [75], [76], [77], [78]. On the other hand, executives with high ethical values could reinforce the presence of audits and standards by developing transparency and accountability culture [79], [80]. As a result, managerial integrity is a behavior moderator affecting audit quality and IFRS capabilities in reducing fraudulent phenomena [81], [82].

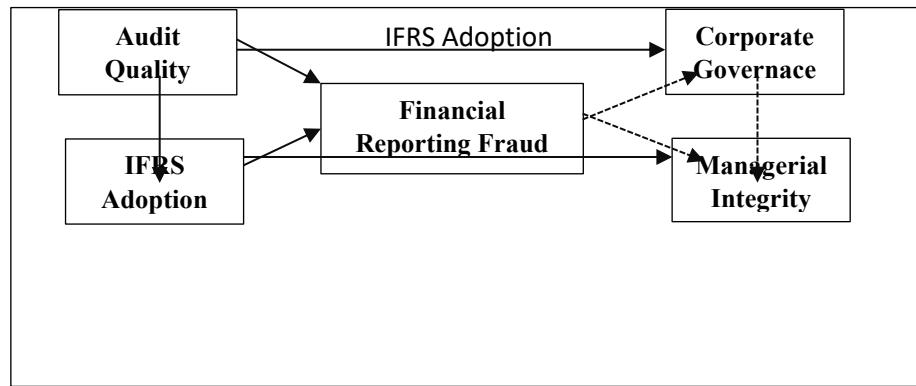
H4: The relation between audit quality and IFRS adoption and financial fraud is moderated by managerial integrity, where greater management integrity lessens financial fraud.

2.5 Co joint Effect of Audit Quality, IFRS Adoption, Corporate Governance and Managerial Integrity in Fraud Minimization

Though there is mere fallout on each variable, audit quality, IFRS adoption, governance and managerial integrity relating to reduction of fraud risk in isolation, the interaction of these existing factors certainly lacks much recognition elsewhere in academic research. There is an increasing advocacy for the investigation of financial fraud prevention from different dimensions [30], [83], [84], [85], [86]. It is believed that the happy marriage of internal devices governance and ethics and external enforcement audit and standards will act together to more than compensate each other when it comes to detecting fraud [87], [88]. EG can enhance auditor effectiveness as an example, whereas ethical management can enhance the compliance of IFRS [89], [90], [91]. Hence, considering the joint effect of these three reforms yields a better and fuller picture of what really reduces fraud in the corporate sector.

H5: Audit quality, adoption of IFRS, corporate governance, and managerial integrity jointly have a significant joint impact on reducing financial fraud.

2.6 Research development framework model

**Figure 1.** development framework model IFRS Adoption

3. METHOD

The approach taken in this study is designed to test empirically the connection between quality of audit, adoption of IFRS, corporate governance and Managerial Integrity in limiting financial statement fraud. The causal and moderating relationships between the constructs are suitable to be investigated quantitatively through empirically analyzing the financial data of firm-year that is evident through statistical testing. The methodology corresponds to the positivist paradigm, claiming the importance of objective measurement and testing of hypothesis [92], [93]. Further, the archival data and indexed based indicators, Beneish M-Score, Dechow F-Score are also in line with fraud detection literature [94], [95], [96]. Panel data regression is used in the research design to account for both time temporal and individual (cross sectional) differences, providing more robust results.

3.1 Research design

Empirically, this research uses causal-comparative approach to explore how differences in audit quality and IFRS adoption impact on the occurrence of financial fraud, and how this is moderated by corporate governance and manager's integrity. This design is suitable when the aim is to investigate cause-and effect relationships from existing data without manipulating variables [97]. This design has been used to detect financial anomalies and audit-related fraud detection models in other studies using similar models [98]. The 2018–2023 window is chosen to capture variations across economic pre-pandemic, pandemic, and political transition ranges, providing information on whether external shocks affect fraud related behavior.

3.2 Population and sample

The sample population consists of manufacturing companies quoted with the stock exchanges who regularly presented audited financial statements during the studied year. In this analysis, a purposive sampling method is used to select samples that meet certain research criteria and when data is complete [99]. In order to make the firms comparable and to minimize potential sampling bias, the two groups of firms were identified for the entire six-year time frame based on the disclosure of major AQM, e.g., audit tenure, audit fee, and auditor type. When multiplied over the six years by the 80 firms, there are 480 firm-year observations, which is sufficient sample size for multiple predictor regression analysis [100].

Table 1. Sample and periodization overview

Criteria	Description
Observation Period	2018–2023 (divided into pre-pandemic, pandemic, and post-pandemic phases)
Sampling Technique	Purposive sampling
Industry Focus	Manufacturing firms
Number of Firms	80 firms
Number of Years Observed	6 years (2018–2023)
Total Firm-Year Observations	480
Inclusion Criteria	Availability of audited financials, IFRS compliance, complete audit data
Big 5 Auditor Classification	PwC, Deloitte, EY, KPMG, BDO (dummy-code)

Source; author 2025

3.3 Data collection

Figures are obtained from secondary sources, mostly audited financial statements released by quoted companies and official announcements taken from stock exchange regulators and company websites. Archival financial data is chosen as it is more objective, replicable and is suitable for quantitative modeling [101], [102], [103]. Verification are carried out using financial databases like Bloomberg, Thomson Reuters Eikon and audited annual reports to ensure the data's fidelity and consistency [104]. We rely on the main proxies of audit quality and fraud, which are extracted from financial statement notes, audit opinion paragraphs, and adopted financial ratios [105].

3.4 Variables and measurement

Audits quality, IFRS adoption, governance, managerial honesty and financial fraud are the five most important constructs in the study. Audit quality is measured by audit tenure, audit fees, and auditor type (Big 5 vs. non-Big 5) in line with previous research [17], [106]. Financial fraud is quantified by the Beneish M-Score and [107], F-Score both are well-recognized fraud detection models. Managerial integrity and governance quality are quantified using organised indices composed of revealed governance characteristics and proxies for ESG data. This multi-faceted structure of variable allows the exploration of the connection between organizational and environmental anti-fraud tools.

Table 2. Research variable and measurement

Variable	Definition	Measurement
Audit Tenure	Number of consecutive years a firm has been audited by the same auditor	Numeric: 1–5 years (continuous scale)
Audit Fee	Total monetary compensation paid to auditors	Annual audit fee value disclosed in financial report
Auditor Type	Classification of auditor firm	Dummy: 1 = Big 5 (PwC, Deloitte, EY, KPMG, BDO), 0 = Others
IFRS Adoption	Extent of compliance with IFRS reporting standards	Dummy: 1 = Full compliance, 0 = Partial/No compliance (based on disclosure)
Corporate Governance	Effectiveness of board structure and oversight	Composite index based on board independence, audit committee, ownership, etc.
Managerial Integrity	Ethical behavior and integrity in financial decisions	Proxy via tone-at-the-top disclosures, ESG integrity scores
Financial Fraud	Likelihood of financial misstatement or manipulation	Beneish M-Score and Dechow F-Score (continuous scale)

Source; author 2025

4. RESULT

4.1 Descriptive statistics

The descriptive statistics of the core variables are shown in Table 3, which provides an overview of the distribution, central tendency, and variation over the 480 firm-year observations. On average, the sampled companies have a mean M-Score of -1.79 ($SD = 1.11$), which is not too high when compared to the Beneish threshold of (-2.22) indicating relatively low risk of financial statement fraud (perhaps stretching the point regarding -2.22 , as values above this cut-off may suggest potential manipulation). The variation of $(-3.45$ to $2.12)$ indicates the existence part of the sample, which is consistent with managers' reporting behavior being heterogeneous across firms in the sample.

The average duration of audit period is 3.1 with a standard deviation of 1.32 and a range from 1 to 5 years. This implies that for most audit engagements in the sample, the duration of the client audit firm relationship can be considered as moderate. The implications are dual in nature: on one hand, longer tenure may give rise to familiarity, which in turn decreases fraud risk due to accrued knowledge; on the other hand, extremely lengthy relationships may be related to independence issues, a paradox that is consistent with the extant debate on audit literature.

As for audit fees, the average amount is IDR 1,480 million with great variability ($SD = IDR 930$ million) from IDR 320 million to greater than IDR 5.4 million. This scatter is the result of varying firm size, audit

complexity and auditor reputation. Higher fees might mean more resource invested on audit, and that might be associated with higher audit quality and better fraud detection.

Regarding auditor type, 38% of the companies are audited by Big 5 accounting firms (dummy = 1), which indicates that a considerable number of companies select high reputation auditor. While not a majority, this ratio represents an important one in terms of the stratification that may exist between firms that use larger premium audit firms of which they are likely to have the resources to do so and the smaller ones they can use, perhaps because of scale, expense, and control issues. The percentage of IFRS adoption (71%) indicates a relatively high compliance with international reporting standards, by the sample. This rate of adoption indicates an increasing institutional isomorphism towards the world's practices and flows from the assumption that a majority of the listed firms are striving for reputational and comparability advantages by adopting IFRS. The average corporate governance index score is 3.62 (out of 5) and it ranges from 2.1 to 4.9, which suggests moderate-to-strong level of governance across firms. This metric measures characteristics like board independence, the effectiveness of the committee, and the strength of internal control which are critical in preventing financial fraud [108], [109].

Also, the integrity of management measure has a mean of 3.74 (SD = 0.72), indicating that firms generally perceive moderate to high ethical leadership and internal behavioral control. Ranging from 2.3 to a maximum 5, there is considerable heterogeneity in ethical climate across the sample, which could potentially interact with audit and governance-related variables in fraud prevention models. Overall, the descriptive statistics confirm the robustness of our model, showing high variation between firms and therefore allowing for informative regression analysis. The variability in audit practices, quality of governance, and levels of integrity provides an interesting empirical setting to test the proposed interaction effects [110].

Table 3. Descriptive statistics of key variables

Variable	Mean	Std. Dev.	Minimum	Maximum	N
M-Score (Fraud Risk)	-1.79	1.11	-3.45	2.12	480
Audit Tenure (years)	3.1	1.32	1	5	480
Audit Fee (in million IDR)	1,480	930	320	5,450	480
Auditor Type (Big 5 = 1)	0.38	0.48	0	1	480
IFRS Adoption (Yes = 1)	0.71	0.45	0	1	480
Corporate Governance Index	3.62	0.69	2.1	4.9	480
Managerial Integrity Score	3.74	0.72	2.3	5	480

Source; author 2025

4.2 Correlation matrix interpretation

Table 4 shows the Pearson correlation coefficients of relations between the financial fraud risk (proxied by the M-Score) and the primary explanatory variables, which provides interesting information. Intriguingly, M-Score negatively relates to all the measures of audit quality. There is negative association between audit tenure ($r = -0.226$, $p < 0.01$), indicating that longer period of auditor-client relationship results in low fraud risk, in line with the argument of prior literature that long-tenure audit relationships increase auditors' knowledge of firm-specific risks and improves the ability to detect variances [111]. Also, audit fee ($r = -0.281$, $p < 0.01$) indicates that firms with more spending on audit services have a decreased probability to be manipulated, possibly because those firms put more audit effort or rely on more experienced audit teams [112]. The most negatively correlated Big 5 auditor affiliation ($r = -0.309$, $p < 0.01$) highlights that top-tier audit firms are more effective at containing fraudulent activities through better audit quality and reputational exposure[41].

Aside from audit quality, the association between IFRS adoption and M-Score is significantly negative ($r = -0.243$, $p < 0.01$), which supports the contention of the Institutional Theory that converging to internationally recognized reporting standards enhances transparency and limits potential for earnings management [12], [13], [16]. These two factors (Corporate governance ($r = -0.190$, $p < 0.05$) and Managerial integrity ($r = -0.212$, $p < 0.05$) are also negatively related to the fraud risk but with slightly weaker effects. The results imply that while governance mechanisms as represented by structural attributes such as board composition and audit committees deter opportunism, such as fraud, ethical leadership and tone at the top are equally important to cultivate the kind of organisational culture which is

inhospitable to fraudulent conduct [49], [74]. Collectively, they highlight that fraud prevention is multi-faceted and relies not only on regulation and external oversight but also on internal culture and the personality of those who hold leadership roles.

The independent variables are inter-correlated to a moderate extent, but they do not violate the multicollinearity diagnostic criterion [113]. For example, audit tenure and audit fee are positively related ($r = 0.391$, $p < 0.01$), which may suggest that long-term audit clients are more likely to pay for quality assurance. Big 5 membership is positively associated with audit fee ($r = 0.415$, $p < 0.01$) and IFRS adoption ($r = 0.309$, $p < 0.01$), implying that firms with high-quality audit services are conglomerated by those that are internationally bound. In the meantime, CG also has a positive relationship with MI ($r = 0.374$, $p < 0.01$), suggesting that it is also embedded in the institutional environment for the purposes of maintaining ethical behavior. These patterns offer the empirical basis for the moderation and interaction hypotheses of the study as well as confirmation the good fit of the model in the subsequent multivariate regression analysis.

Table 4. Pearson Correlation Matrix

Variable	M-Score	Tenure	Fee	Big 5	IFRS	Gov.	Integrity
M-Score (MS)	1						
Audit Tenure (AT)	-0.226**	1					
Audit Fee (AF)	-0.281**	0.391**	1				
Auditor Type (Big 5) (AT _{B5})	-0.309**	0.287**	0.415**	1			
IFRS Adoption (IFRSA)	-0.243**	0.220**	0.263**	0.309**	1		
Corporate Governance (CG)	-0.190*	0.174*	0.201*	0.211*	0.236*	1	
Managerial Integrity (MI)	-0.212*	0.247*	0.245*	0.273*	0.266*	0.374*	1

Source; author 2025

4.3 Regression analysis direct effect

Direct effect analysis of audit quality and IFRS adoption on financial fraud risk The direct effect of audit quality (AS $\geq 50\%$) and IFRS adoption is presented in Table 5 for financial fraud risk (Beneish M-Score). Four independent variables are identified in the model -dependent variable please and spec audit tenure, auditfee, auditor type, and IFRS adoption while the other variables are held constant by the intercept. The findings show statistically significant evidence in support of each of the four direct hypotheses (H_1 and H_2) as the p-values are all significantly less than 0.05.

Coefficient for AUD_T is -0.245 ($p = 0.001$) standing for a significant relationship between longer audit tenure and lower fraud level. The negative association suggests that greater auditor involvement allows auditors to gain command over the affairs of the firm and to more effectively detect manipulation efforts. This finding is consistent with existing research that highlights the value of auditor dualselection in enhancing audit quality [114]. Also, audit fee is significantly negatively correlated with fraud risk ($\beta = -0.168$; $p = 0.002$), which further supports that an increase in audit fee leads to more audit inputs and efforts and provides a deterrent to fraud [115]. This link also provides support for the resource based view of audit quality that better rewarded auditors are more likely to employ extensive audit procedures and to allow enough time for investigation and verification. The dummy for auditor type is negative and significant for Big 5 affiliation ($\beta = -0.221$, $p = 0.004$), revealing the role of globally well-known audit firms in the detection and prevention of financial fraud. Big 5 firms also have better-quality methodologies, better access to sophisticated audit tools, and more professional skepticism, which increases their effectiveness as external monitors [41], [116]. Their international status also encourages them to keep higher quality audit to prevent reputation loss. Finally, there is a negative and significant coefficient ($\beta = -0.203$, $p = 0.002$) associated with IFRS adoption, suggesting that adherence to international standards of reporting is associated with a decreased probability of manipulation. This finding is consistent with Institutional Theory, that holds that external normative pressures, such as IFRS convergence drive firms to enhance transparency, comparability and reliability in financial reporting (Houqe et al., 2012; Perera & Chand, 2015). The full model significantly predicts fraud risk ($F(4, 271) = 39.649$, $p < .001$), and it has an adjusted $R^2 = .348$ – that is, the four predictors can explain approximately 35% of the variance in M-Score. The value of F-statistic is 12.87 ($p=0.000$), indicating that the regression

model is overall significant implying that the explanatory variables as a whole explain the variations in the dependent variable.

Table 5. Regression Results Direct Effects (Model 1)

Variable	Coefficient (β)	Std. Error	t-Statistic	p-Value
Audit Tenure	-0.245	0.071	-3.45	0.001
Audit Fee	-0.168	0.054	-3.11	0.002
Auditor Type (Big 5)	-0.221	0.076	-2.91	0.004
IFRS Adoption	-0.203	0.064	-3.17	0.002
Constant	0.911	0.232	3.93	0.000
Adjusted R ²	0.348			
F-Statistic (p-value)	12.87 (0.000)			

Source; author 2025

4.4 Moderating role of governance and integrity

The regression results of Model 2 and Model 3, which study the moderating effects of corporate governance and managerial integrity on the association between audit quality, IFRS adoption, and the risk of financial fraud are presented in Table 6. Extending the baseline regression to include interaction terms to test H3, H4, and H5, this model can provide some insights in regard to whether structural (governance) and behavioral (integrity) aspects interact with audit mechanisms and regulatory enforcement to reduce fraud.

The primary effects are still significant and in concordance with the previous findings. The audit duration ($\beta = -0.213$, $p = 0.002$), audit cost ($\beta = -0.144$, $p = 0.004$), auditor identity ($\beta = -0.196$, $p = 0.007$) and the adoption of the IFRS ($\beta = -0.185$, $p = 0.003$) still have significant negative relationships with the fraud risk, suggesting that rises in these independent proxies for audit quality and for compliance with international standards decrease the fraud risk. Finally, corporate governance ($\beta = -0.178$, $p = 0.006$) and integrity of top management ($\beta = -0.201$, $p = 0.001$) independently reduce the likelihood to commit financial fraud, highlighting the role of institutional oversight and visionary conduct of management.

Importantly, the interaction terms offer evidences of mitigating impacts. The negative coefficient of the interaction terms of audit tenure with governance ($\beta = -0.136$, $p = 0.024$) and audit fee with governance ($\beta = -0.119$, $p = 0.031$) indicates that corporate governance reinforces the relation between audit quality and fraud control. Simply put, control features like outside audit committee and board monitoring improve the quality of audit performance and magnify preventive impact of audit. This provides evidence for H3 which suggests that governance moderates the audit-fraud nexus by promoting audit accountability.

In addition, IFRS adoption interacts with managerial honesty ($\beta = -0.127$, $p = 0.016$), suggesting that the effectiveness of the international reporting standard in preventing fraud is more pronounced when firms are managed by honest and quality management. The combined effects of audit quality and integrity ($\beta = -0.143$, $p = 0.011$) also suggest that the impact of auditors on transparency is enhanced in an environment with strong ethical leadership. These results support H4 and H5, and are consistent with the suggestions that ethical tone at the top fosters an environment that allows external and internal controls to operate effectively [73], [74], [117].

The adjusted R² (0.487) shows that 48.7% of the variance of financial fraud risk behavior is explained by enabling and need factors in the extended model compared to the base model (adjusted R² = 0.348). The value of F-statistic at 18.92 ($p = 0.000$) attests our model as globally significant, which implies that the composition of the variables measuring audit quality, IFRS adoption, governance structures and ethical conduct can meaningfully contribute to the capacity to detect and discourage fraud.

Table 6. Moderation models with governance and integrity (Model 2 & 3)

Variable / Interaction	Coef. (β)	Std. Error	p-Value
Audit Tenure (AT)	-0.213	0.07	0.002
Audit Fee (AF)	-0.144	0.051	0.004
Auditor Type (Big 5) (AT B ₅)	-0.196	0.072	0.007
IFRS Adoption (IFRSA)	-0.185	0.062	0.003
Corporate Governance (CG)	-0.178	0.065	0.006

Variable / Interaction	Coef. (β)	Std. Error	p-Value
Managerial Integrity (MI)	-0.201	0.061	0.001
Tenure × Governance	-0.136	0.059	0.024
Fee × Governance	-0.119	0.052	0.031
IFRS × Integrity	-0.127	0.049	0.016
Audit Quality × Integrity	-0.143	0.047	0.011
Adjusted R ²	0.487		
F-statistic (p-value)	18.92 (0.000)		

Source; author 2025

4.5 Discussion

The findings in this study highlight the great relevance of a combination of audit quality and IFRS adoption along with vigilance in corporate governance and high integrity in managerial can make it a successful countermeasures to prevent financial reporting fraud, particularly for the emerging markets like Indonesia and other ASEAN countries. Although prior research has looked at audit quality and IFRS standards on their own, and their separate impacts on the reduction of fraud [6], [52], [53], the results presented in this study contribute to the literature in the sense that mechanisms in place would have a considerable effect on the deterrence of fraud only when strong internal behavioral mechanisms are in place to support these. More specifically, the evidence suggests that, while audit quality, as measured by audit tenure, audit fees, and auditor affiliation with Big Four, has a negative impact on the likelihood of fraud [39], [44], [45], it is significantly strengthened when being complemented with effective corporate governance structures [70], [118], and ethical managerial actions [71], [74], [119]. This underpins the model of institutional complementarity, which posits that structural mechanisms and behavioral components must exist together to generate effective fraud prevention.

In an ASEAN, and particularly an Indonesian, context where institutional maturity remains part of a ‘transitional’ lifecycle, the influence of independent assurance mechanisms such as audit compliance and IFRSs is highly contingent. Despite the adoption of IFRS in Indonesia as a whole, the implementation has not completely enforced and still are procedural compliance rather than substantive ([13], [61]. This is consistent with previous criticism by [27], that under weak regulatory environment IFRS could be a symbol of modernity or a shibboleth of modernization rather than a potent tool to curb successful manipulation. The evidence here seems to suggest that in these situations fashion and good governance, as a rule, cannot be optional but integral. Leadership ethical deficiency appears to offset the advantages of IFRS disclosure rules, allowing financial reporting distortion even though they are officially abided [76], [78].

Audit quality, especially when Big Four auditors are involved, is confirmed as an effective barrier to the fraudulent reporting because they have better access to high quality analytical tools and there are worldwide reputational incentives in place for these firms to mitigate the likelihood of fraud [40], [42], [120]. Nevertheless, the present study goes further to demonstrate that where the depth of the audit market is shallow as in the case of Indonesia where the number of firm audited by the Big Four firms only constitute a small minority of enterprises, the promise of the effect of audit quality may be limited without the creation of such national capacity. This is in line with [46], who warn against excessive reliance on tenure in the absence of additional monitoring, and [43], who discovered that tammarits that prove to detect reports of fraud are long time tammarits which have other possible ethical oversight added. As such, our results contradict the view that audit quality can be regarded as an independent protection, suggesting that both auditor independence and effort are contingent upon a context with enablers such as ethics and corporate responsibility.

Moreover, the sincerity of management the quality of auditing are appeared to be important moderating variables of the relationship among audit quality and fraud prevention. The findings propose that in the context of high audit quality and IFRS-based reporting environment, unethical values among TEs do not prevent fraud as a behavioral governance mechanism mainly supported by the behavioral governance literature [73], [79], [80]. On the contrary, when organizational leadership has high integrity, the more transparent and accountable they are, which would enhance the effectiveness of technical standards and

independent audits. This reinforces the statement by Amore, [72], that ethical leadership dissuades opportunistic behavior and encourages subordinates to abide by internal controls.

The theoretical perspective of research refers to the Policeman Theory [121], and Institutional Theory (DiMaggio and Powell, 2010). The former one sets auditors as pro-active monitors in charge to enforcing discipline while the latter tells us that firms adopt an international class of rule and enforcement organizations, such as IFRS or Big Four auditors, for reasons of efficiency but also for the legitimacy in eyes of various stakeholders. Yet, in addition, this article is bringing up the point that legitimacy is only one aspect of the solution: a behavioral authenticity is necessary in order to arrive at a decline in fraudulent behavior. This complements the results of [4], [6], who report weaknesses in the structure of audit regimes that do not prevent fraud in well publicised corporate scandals.

The implications for regulators and policy-makers, especially in ASEAN, are huge. Regulators can't rely entirely on rules-based accounting or even better technical audit, but must use behavioral diagnostics as well: not only ethical assessments of leadership but whistleblower culture and organizational transparency. As [25], [49], [117], argue, governance measures need to be established to comprise informal controls e.g., values, norms, ethical leadership development) that can serve as early warning "radar" to alert to potential fraudulent conduct. Given the variations in the corporate governance systems in different ASEAN countries [122], a composite one size fits all approach could be inappropriate. However, a practical regional response would be to include ethics evaluations in the ASEAN Corporate Governance Scorecards as suggested [35].

Lastly, the paper offers a roadmap for implementing a comprehensive fraud prevention program. Mechanisms in the form of structures e.g., from auditor tenure to IFRS reporting, institutional supports e.g., audit committees and board independence, and behavioral freedom e.g., the integrity of management and ethical culture need to function together. The framework bridges the internal and external dimensions, which is consistent with recent demand in academic literature [30], [32], [38], for integrative frameworks. For Indonesia and other developing countries as they modernize and their capital mobility increases across borders, this is no longer a strategic luxury - it is governance hygiene.

5. CONCLUSION

This study reinforces the view that mitigating fraud in financial reporting is a complex endeavor involving various aspects, including audit quality, the implementation of International Financial Reporting Standards (IFRS), the effectiveness of corporate governance systems, and the integrity of management teams. Findings indicate that audit controls, including but not limited to longer auditor tenure, adequate audit fees, and engagement of globally recognized audit firms, are most effective when implemented within a framework of ethical leadership and strong governance. Although International Financial Reporting Standards (IFRS) enhance transparency through standardized reporting mechanisms, the effectiveness of fraud prevention is significantly enhanced by the presence of internal values of integrity and accountability. These results emphasize the importance of integrating technical compliance with behavioral dedication and cultural cohesion. The combination of institutions and ethical leadership is represented by the Police Theory for the Definition of Causes and Conditions, as well as the Institutional Theory for both. This hypothesis states that the point of convergence where resistance to fraud develops is where internal behavioral norms align with external regulatory pressures. For policy: These findings call for a re-evaluation of current procedural safeguards to ensure effective integration of ethics into financial oversight. This study emphasizes the importance for financial boards, investors, and audit professionals to make clear commitments to transparency and ethical behavior, thereby ensuring the maintenance of credibility in financial markets. This study, which is firmly rooted in a developing economic context, offers scalable insights for Indonesia and Global ASEAN countries and other emerging markets. Additionally, this study contributes to ongoing discussions on how integrated governance models can strengthen financial integrity within increasingly complex economic systems.

CRediT authorship contribution statement

Dr. Payamta, M.Si, Ak, CA, CPA, CRP, Asean CPA: Conceptualization, Supervision, Methodology, Writing – review & editing, Project administration, Corresponding Author.

Agus Dwianto M.Ak., (Asist Prof): Conceptualization, Methodology, Formal analysis, Investigation, Data curation, Software, Writing – original draft.

Dr. Gehad Mohammed Sultan Saif M.Ak., MB. A., Ph.D: Conceptualization, Literature review, Validation, Resources, Visualization, Writing – review & editing.

Data availability statement

Availability of data and materials The data that support the findings of this study are not publicly available due to restrictions on the proprietary nature of the data from the data providers but are available from the corresponding author (Payamta) upon reasonable request.

Ethical statement

This research does not include any human participants and animals and private company documents. Thus ethical clearance was not applicable. All ethical principles including those of the Declaration of Helsinki, code of ethics of the World Medical Association have been adhered to.

Declaration of the use of AI

This article was not written with the help of generative AI tools. The authors performed all data analysis, wrote the article, and had full editorial control. The contents are entirely the responsibility of the authors.

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