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DETERMINANT OF AUDIT DELAY: EMPIRICAL STUDY OF COMPANIES IN INDONESIA

Ludwina Harahap[1*]

[1] Fakultas Ekonomi dan Bisnis, Universitas Trilogi, Jakarta, Indonesia

*Corresponding Author: ludyhara@universitas-trilogi.ac.id

Abstract : This study investigates how profitability, solvability, auditor opinion, and reputation relate to audit delays (AD) in Indonesian companies. This is an example of quantitative research. This study employs a sample of 40 property and construction firms that are trading at the Indonesian Stock Exchange from 2016 until 2018, the time before Covid 19 pandemic hit. The sampling method used is the purposive judgment sampling method. This study was measured by using multiple linear regression analysis. The annual audited financial statements are used as the data. The findings demonstrate that profitability significantly affects AD. Nevertheless, there is no evidence that solvability, audit opinion, or auditor reputation are connected to the audit report's timeliness. The outcome supports the signalling hypothesis, which states that a company with positive earnings or income will swiftly submit the financial report to investors to inform them about the firm's favorable economic situation.

Keywords: audit delay, audit report lag, developing economics, profitability, solvability, auditor opinion, and reputation

Abstrak: *Penelitian ini menyelidiki bagaimana profitabilitas, solvabilitas, opini auditor, dan reputasi berhubungan dengan audit delay (AD) di perusahaan Indonesia. Ini adalah contoh penelitian kuantitatif. Penelitian ini menggunakan sampel 40 perusahaan properti dan konstruksi yang diperdagangkan di Bursa Efek Indonesia dari tahun 2016 hingga 2018, sebelum pandemi Covid 19 melanda. Metode pengambilan sampel yang digunakan adalah metode purposive judgment sampling. Penelitian ini diukur dengan menggunakan analisis regresi linier berganda. Laporan keuangan tahunan yang telah diaudit digunakan sebagai data. Temuan menunjukkan bahwa profitabilitas secara signifikan mempengaruhi AD. Namun demikian, tidak ada bukti bahwa solvabilitas, opini audit, atau reputasi auditor terkait dengan ketepatan waktu laporan audit. Hasil tersebut mendukung hipotesis pensinyalan, yang menyatakan bahwa perusahaan dengan pendapatan atau pendapatan positif akan dengan cepat menyampaikan laporan keuangan kepada investor untuk memberi tahu mereka tentang situasi ekonomi perusahaan yang menguntungkan.*

Kata kunci: *audit delay, audit report lag, ekonomi berkembang, profitabilitas, solvabilitas, opini auditor, dan reputasi*

INTRODUCTION

This research investigates some of the elements that contribute to ADs in Indonesia. According to Law Number 8 of 1995 concerning "Capital Market Regulations," all businesses that are registered on the capital market (issuers) are required to provide periodic financial reports to the Otoritas Jasa Keuangan (OJK) and make them public. Public companies are required to submit the findings of an annual financial report audit no later than 90 days following the date the annual financial statements are announced, according to an attachment of Regulation of the Chairman of BAPEPAM and Financial Institutions Number: KEP-460/BL/2008 concerning the requirement to submit periodic reports. Hence the issuers might be prudent to provide their yearly financial reports on schedule.

The process of auditing is a time-consuming task that uses a variety of resources. The Bapepam-LK-imposed time constraint (AD) will undoubtedly cause delays in releasing financial reports. The audit may take longer to complete if audit reports are delayed because they may point to issues with the issuer's financial statements. The time between the end of the fiscal year and when the audit report is issued is known as an AD (or audit report lag) (Ashton et al., 1987).

Audit report delays are one of the few externally apparent audit output factors that may be evaluated for audit effectiveness (Bamber et al., 1993). Investors prefer that the audit report be released quickly after the fiscal year ends as it contains the auditor's assessment of the validity of the financial statements. ADs may cause earnings announcements to be delayed, reducing earnings informativeness and resulting in a lower market response to earnings (G. P. Whittred, 1980; G. Whittred & Zimmer, 1984). Some research looked at the factors that contribute to ADs (audit report lag), such as corporate governance (Kaaroud et al., 2020; Nor et al., 2010), board characteristics, CEO duality, audit committee existence and independence (Abernathy et al., 2017; Bhuiyan & D’Costa, 2020), profitability (Ambarwati & Putri, 2016; Fujianti, 2019; Ismail et al., 2022; Lai et al., 2020), audit firm attributed , financial reporting complexity (Chen et al., 2022).

Financial statements should be provided relevant, reliable, and timely information to assist users in making decisions. As a result, in order for financial reports to be relevant and reliable, some means must be provided to encourage high-quality earnings reporting. Some decisions require timely financial reports due to competitive business challenges. Timeliness, as a key qualitative qualities of financial information is the availability of information to decision-makers before the usefulness of that information in influencing those decision-makers as stated to the Financial Accounting Standards Board (FASB) in Statement of Financial Accounting Concepts No. 8 (FASB, 2010). The greater value of useful financial information decreases when the preparation of financial reports requires a lot of time and consequently delays the availability to the public. A key aspect of financial reporting that is crucial to the information market and consumers' investment decisions is the timely release of financial information by businesses (Sultana et al., 2015).

Academics continue focusing on finding the reasons of ADs due to investors value timely audits. Previous research has found that the length of the lag in the issuance of the audit report is the most evident indicator of timely financial report production. (Ashton et al., 1987; Bamber et al., 1993; Bhuiyan & D’Costa, 2020; Chen et al., 2022; Ismail et al., 2022; Kaaroud et al., 2020; Nor et al., 2010). Financial reports must be audited and verified by external auditors to confirm quality and fairness. Depending on the business, there may be a different amount of time between the end of a corporation's fiscal year and the date of the audit report (Afify, 2009). In Egypt, the average AD is 67 days, in Vietnam takes 63 days (Lai et al., 2020), while in Australia it takes roughly 10 weeks to generate audited financial reports (Sultana et al., 2015).

Considering to the significance of timeliness for investors, past research has looked into a range of factors that might impact delays in auditing, such as earnings, firm attributes such as size, the nature of audit firm and qualifications, and the firm's complexity, internal control, and governance. Meanwhile, an examination of existing studies reveals that AD, both developed and developing nations, have been investigated, and the result is still unanswered whether the determinants studied have an impact to AD. Yet it should be noted that still needed to investigate to confirm the various results (Kaaroud et al., 2020).

The primary goals of this research are to investigate the extent and causes of ADs. This study is driven by the fact that financial reports are an informative tool for investors to make investment decisions. Information asymmetry is exacerbated and investment decision uncertainty is increased by delays in revealing an auditor's opinion on management's representation of the financial facts in an accurate and fair manner. Making business decisions with timely information would be more beneficial, especially in growing markets like Indonesia. It prompts the current study to do more empirical research.

The study, especially in emerging nations, adds to the body of literature on timely financial reporting by examining the problems with AD. The implications of the findings will assist Indonesian authorities in giving feedback on previous and present company reporting procedures, compliance with financial reporting submission requirements, and some proper recommendations to enhance them.

LITERATURE REVIEW

Prior researchs on the antecedent of financial reporting timelines examined a similar set of enterprise characteristics, including age, size, the end of the fiscal, profitability, solvability, and complexity of the firm and its clients complexity, governance, internal control, auditor size, auditor reputation, audit opinion, and earnings quality, as well as bankruptcy (Ashton et al., 1987; Bamber et al., 1993; Bhuiyan & D'Costa, 2020; Ismail et al., 2022; Kaaroud et al., 2020; Nor et al., 2010; Sultana et al., 2015; G. Whittred & Zimmer, 1984). The first research was carried out by (Ashton et al., 1987) examines comprehensive assessment of the factors that affect audit report delays. Clustered by country, such as United States (Ashton et al., 1987; Bamber et al., 1993; Chen et al., 2022), Malaysia (Kaaroud et al., 2020; Nor et al., 2010), Australia (Al-Mulla & Bradbury, 2020; Azizkhani et al., 2021; Bhuiyan & D'Costa, 2020), Afrika (Chalu, 2021; Gontara & Khlif, 2020; Ismail et al., 2022), Arab (Bazrafshan & Dehghani Madise, 2022), Cina (Song & Zhou, 2021), and Tunisia (Lajmi & Yab, 2021).

Despite the significance of audit latency to investors, recent studies have shown that academics and researchers are interested in examining the causes of audit lag (see Abernathy et al., 2017; Afify, 2009; Chen et al., 2022; Ismail et al., 2022; Kaaroud et al., 2020; Raweh et al., 2019). However, empirical investigations of the variables influencing AD in emerging nations remain unexplored. By addressing the relationship between distinct firm attributes and audit report lag in developing markets that are known for their high levels of opacity and absence of openness, this research occupies a gap in the body of research.

Prior research on the drivers of AD were distinct, with some studies concluding that the factors driving AD are business characteristics, corporate governance attributes, and other aspects. Companies that are profitable or have the potential to be profitable often submit their financial reports more quickly. This is due to the fact that businesses with high profit margins frequently release their financial reports more rapidly, ensuring that consumers of financial statements, such as investors, receive the good news right away, which will ultimately influence their investment choices. An earlier study revealed that a company's profitability had an effect on the audit report delay (Rusmin & Evans, 2017). Longer reporting delays are observed to be related to the businesses with worse financial performance.

Profitability (rate of return on investment) determines how well a company uses its resources to generate revenue. Profitability is a relative measure of the success or failure of a business. Profitability indicates the company's capacity to generate a profit. Profitability is a message from the firm to investors and good news for current and prospective investors. It encourages enterprises to publish their financial accounts as soon as possible. Given the competing arguments, we develop the first hypothesis:

H1. The AD is significantly impacted by the firm's profitability.

The capability of an enterprise to meet its commitments is referred to as leverage or solvability. High leverage might put the firm at danger. Companies must now prepare financial accounts with extra care due to the current circumstance. Additionally, debtors will exert significant pressure on enterprises with high levels of debts because they want the audited financial accounts to be produced sooner, which will minimize the AD estimations. Based on the discussion above, our second hypothesis is:

H2: The firm's leverage significantly influences AD

The audit opinion has a negative and significant impact on AD because it confers on the auditor the authority or right to audit the financial statements of the company. When the auditor issues an opinion other than an unqualified opinion, it necessitates greater care in carrying out the audit procedures, which extends the time required for financial reporting.

Qualifications or concerns voiced may be one of the elements which lead to delays. Consequently, a qualified Audit report Delay opinions are frequently taken as reflecting a poor assessment of the business's financial circumstances, which causes the company to delay the publication of the audited report and spend more time consulting with the auditor, which slows down the audit process. Furthermore, because qualified opinions are always perceived as "bad news," companies may fail to react to the auditor's suggest within a reasonable time frame. It indicates an auditor-management disagreement, which might also result in ADs. To evaluate the effect of this variable, the third hypothesis is posited

H3: The AD is significantly impacted by the audit opinion.

A further factor that may affect audit time is audit firm size, specifically the Big 4 vs. non-Big 4 comparison. According to prior research, Big 4 auditors shorten the auditing process since they hire knowledgeable staff and have access to innovative technology tools (Ashton et al., 1987). According to (Bazrafshan & Dehghani Madise, 2022), top-rated auditing firms are going to offer better, quicker services and produce audit results with less delays. One may claim that top or large auditing firms have more resources, are more at risk for reputational damage, have greater and more competent resources, and can thus deliver an audit of a high standard. A top-tier audit company or one of the Big 4 auditors is anticipated to offer a quicker, higher-quality service that will result in shorter audit reporting delays (Rusmin & Evans, 2017). The possibility that an audit report will be completed faster is higher for audit firms with more resources. Following the discussion above, we convey the following as our fourth hypothesis:

H4: The AD is greatly influenced by the auditor's quality.

RESEARCH METHODOLOGY

We use sample from 40 Indonesian firms that were listed on the Indonesian Stock Exchange (IDX) between 2016 and 2018. Property and construction firms make up the corporations. After deleting businesses with missing data, there are 118 firm-year observations in the final sample whereas the primary source of data for this study was yearly reports retrieved from IDX.

AD is the dependent variable, which is assessed by the amount of days among the end of the financial year and the day the external auditor signs. The net profit margin (NPM) measures profitability. The NPM indicates how much of each dollar of sales remains as net income after all expenditures are deducted. The formula is Net Income / Net Sales. The debt-to-equity ratio is used to calculate leverage. This ratio computes the proportion of debt and equity that a corporation employs to support its operations. It is a key financial measure that demonstrates how a firm finances its activities. Total Liabilities / Total Shareholder Equity is the formula used to compute it. Dummy variables are employed to represent auditor opinion and reputation. Value 1 represents an unqualified audit opinion, whereas value 0 represents anything other. Meanwhile, auditor reputation is assessed by Big 4 or non-Big 4, with a score of 1 for Big 4 auditing firms and a rating of 0 for everyone else.

RESULT AND DISCUSSION

Table 1 displays descriptive statistics for the variables integrated into our model. The dependent variable, AD, has a variability of 43 to 119 days and a mean of 78 days. There are four independent variables; profitability has a mean value of 3,394 and a standard deviation of 4,544. The profitability has a maximum value of 25,852 and a lowest value of -8,653. Leverage is the second independent variable, with a mean value of 3,335 and a standard deviation of 4,739 as a consequence. Additionally, the minimum value is 0.045 and the greatest value is 28,021. According to data in Table 1, 89,1% of the sampled enterprises had an unqualified audit opinion, which is 0.891. Additionally, the Big 4 audit firms conduct audits of 95,8% of the companies in our sample.

Table 1. Results of Descriptive Statistics

Variabel	N	Mean	Min	Max	Std. Dev
AD	120	77.533	43	119	14.675
Profitability	120	3.394	-8.653	25.852	4.544
Leverage	120	3.335	0.045	28.021	4.739
Audit Opinion	120	0.891	0	1	0.312
Audit Reputation	120	0.958	0	1	0.200

Source: data processed by researchers

As demonstrated in Table 2, the order model of regression has a significant power for the explanation of 0.0184 (F statistic p 0.000). At the same time, the modified R2 suggests that independent factors explain 6.7% of the AD variance overall. The findings demonstrate that just one variable (profitability) is statistically significant at the 5% level, with a negative sign in explaining AD. Yet, the leverage, audit opinion, and audit reputation coefficient variables are all negative and negligible. Overall, delays in audits are shorter for organizations with more profitability. If a company's profitability is powerful, to convey the "good news" to investors, management is probably urged to release the company annual report. We can say the result confirms the signaling theory.

Table 2. Regression Result

Variable	Coeffisien	P-value	
Constanta	80.8	0.00	
Profitability	-0.88	0.00	*)
Leverage	-0.13	0.61	
Audit Opinion	-4.92	0.22	
Audit Reputation	-4.47	0.47	
Observations		118	
Prob>F		0.0184	
Adj.R-squared		0.0670	
Notes: *significant coefficient at 5%			

Source: data processed by researchers

CONCLUSION

Profitability is confirmed as one of the key variables related to AD, according to the data. The result confirms some studies (see Ambarwati & Putri, 2016; Fujianti, 2019; Lai et al., 2020; et al., 2020). This study's primary goal is to investigate the associations between audit reporting timelines and several variables, including profitability, leverage, audit opinion, and audit reputation. The evidence indicates that firms with high profitable are more inclined to publish audit results quickly or on schedule. The firms with high level of earning has good news and the company will immediately publish the financial statements for potential investors, investors, governments, creditors, and public. This study also shows that the other factors such as leverage, audit opinion, and audit reputation are not as essential as profitability in affecting audit report latency as well.

There are various limitations to this study. Because the study only covers three years, the pattern of AD and other effects on audit report timeliness could not be explored. To increase the audit lag model's explanatory power, further study may look at the firm's ownership structure, internal controls, and ownership robustness as well as complex transactions such special items and related party transactions.

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