Analysis of Factors Affecting Audit Report Lag in the Consumer Goods Industrial Manufacturing Company

Bambang Leo Handoko[a]*, Maria Marshella[b], [a,b]Accounting-Department,- Faculty of Economics and Communication, Bina Nusantara University, Jakarta, Indonesia, 11480, Email: [a]*bambang.handoko@binus.edu

Lag or delay of the final report provides loss to the financial statement user and stakeholder because they want to use this report as a tool for decision making. Our study's purpose is to empirically explore factors: CPA firm, audit opinion, firm size and profitability towards audit report lag in retail company which has been public ownership of manufacture within range year 2013-2018. This research uses purposive sampling method with the total sample of 35 companies. This research also employs multiple linear regressions as model analysing method using SPSS. The partial and simultaneous test shows that CPA firm size, audit opinion, company total asset and company profit do not positively give meaningful impact to delay or lag in final report of auditor independence in retail sub category in manufacture.

Key words: *CPA, firm, audit, opinion, profitability, report, lag.*

Introduction

In this era of globalisation, the world economy has experienced significant developments that have pushed national and international economies towards free trade, which has further tightened competition between companies. To deal with these challenges, the management is trying to get more funds to fund its operational activities which cannot be fulfilled only by relying on internal funding sources and loans from banks. Another way to meet the needs of these funds can be done by selling the company's stock ownership to investors.

Financial statements are one important instrument in supporting the sustainability of a company, especially companies that have gone public. As the rapid development of companies that go public increases, the higher the demand for financial statement audits that become information for investors.

Based on Bapepam Regulation Number XK2, Attachment to the decision Bapepam LK (now known as OJK) No 36 / PMK / 2003 concerning Obligations to Submit Periodic Financial Statements, Bapepam requires that every public company registered (publicly shares traded) has to complete year end statement certified with Independent audit opinion, at least 90 days post-closing.

Public shares who can't finish on time in reporting their audit suffer punishment from Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) listed in Government Regulation Number 45 of 1995 article 63e concerning administrative sanctions stating that issuers whose registration statements have become effective, are subject to a sanction of a fine of IDR 1,000,000 for each day of late submission of a report; provided that the total amount of the fine is a maximum of IDR 500,000,000 Audit report lag will affect the timeliness in the publication of audited financial statement information. Delays in the publication of financial statement information will have an impact on slowing down and increasing time in policy making, due to the unavailability of references (Putri, 2015).

Literature Review and Hypotheses Development

Audit Report Lag

According to Lawrence, Ph, & Elijah (2015) lag in examination result work means the time ties start from the date of the company's closing the book, and ending up with the completion of the reporting. More time is used to finish the engagement, causing impact on more days for the delay of the company he is auditing. If the audit report lag is getting worse, then the possibility of delay in publishing financial statements will automatically worsen. The purpose of the financial statement audit is to express an opinion, if the results correlated by the management have been fairly made in an overall manner according to General Acceptable Accounting Principles (Accounting standard). According to (Francis, Pinnuck, & Watanabe, 2014), there are four stages in auditing financial statements, namely:

a. Acceptance of audit assignments
b. Audit planning
c. Audit implementation
d. Audit Reporting
The number of audit procedures that auditors must carry out in auditing their clients takes a long time in the process so that this affects the length of the audit report lag.

Audit Firm Size

The audit quality of a financial statement can be measured by the size of a public accounting firm that can be classified into two, namely audit firm affiliated with Big Four audit firm and audit firm affiliated with non-big four audit firm.(Al-khaddash, Nawas, Dasman, & Ramadan, 2013) proves that: public accountant office brand names negatively affect delay in completing audit. This is because Big Four public accounting firms generally have greater resources, both in terms of competence, expertise, and the ability of auditors and the facilities, systems and auditing procedures used compared to non big four public accounting firms so that they can complete audit work more effectively and efficiently.

Research conducted by (Hassan, 2016) failed in proving the influence of audit firm size on audit report lag. This might be due to increasingly fierce competition in the audit firm business environment today, so non-Big Four audit firms also try to audit clients' financial statements effectively and efficiently as the Big Four audit firms do. Based on the description above, the hypotheses put forward are:

Hypothesis 1: audit firm size influences audit report lag.

Audit Opinion

Defond & Lennox (2017) state that audit opinion only has minor result which is no impact on the delay of the final work. Whereas Kim, Lee, & Lee (2015) a revealed different or opposite result. They conclude that there is an impact but a negative one on audit report lag. The company is aware of the impact that will be obtained with an opinion other than fair without exception in its financial statements. So companies need more time to check their financial statements and to negotiate with auditors. Companies create fraudulent financial reporting because it is impossible for investors to place their investments in companies that are not good at presenting their financial statements. Conversely, companies that get unqualified opinion will experience a short audit lag report lag time because there are no problems or things that must be confirmed between the company and the auditor. Therefore, the hypothesis used in this study is:

Hypothesis 2: audit opinion influences audit report lag.

Company Size

The bigger the company, the more the company management has support to reduce audit lag reports and has more days, thus resulting in a longer time.

According to Burritt & Christ (2016), Hopper, M.J. and Pornelli, (2010) large companies reported faster than smaller companies. In conclusion, company size related to audit lag reports. However, these results are not in line compared with Sommer (2015) also Aris, Maznah, Arif, Othman, & Zain (2015). According to these premises, the hypothesis that will tested is:

Hypothesis 3: company size influences audit report lag.

Profitability

According to (Sabrina, Lisandra, Meiryani, & Handoko, 2019) corporate profit significant impact to lag of report work. Public entity who report positive profit result has shorter audit delay times because this will delight the board and positive publication. The board of management will boast on this result.

According to Avramov, Chordia, Jostova, & Philipov (2013) if the company is declared to have suffered losses, management will ask the auditor to give more time. However Salloum, Azzi, & Gebrayel (2014) failed to prove this. According to premises that believed, hypotheses to be tested are:

Hypothesis 4: profitability influences audit report lag.

Research Methodology

Research Object

The objects in our research were public entities that shares traded in the capital market. The population was a collection in terms of: people, events, and other objects that are objects of research that researchers want to explore deeper. The sample is only part of the population being studied.

In this study, researchers used a purposive sampling method in determining the number of samples to be taken, namely the number of samples determined based on certain criteria, adjusted for the original purpose of the study, including:

a. A publicly listed entity which shares their stock in market between five consecutive years before the period of 2018.
b. Go Public Companies that have never delisted from 2013 to 2018.
c. A Go Public Company that has audited annual financial statements in the 2013-2018 period.
d. Companies that have the data needed to complete research.
e. Companies included in the manufacturing industry and are in the consumer goods industry sector.

Data Analysis Method

Descriptive statistics function as data analysers by describing samples of data that have been collected without generalisation. This study describes the amount of data, averages, minimum and maximum values, and standard deviations.

In order to provide a received proper research framework which provides appropriate results, the model needs to run a test for classical assumptions using the Ordinary Least Square (OLS) method or the rank of ordinary least squares. The regression model is said to be appropriate. The following paragraph identifies the classic assumption test that will be carried out. Then the data will be tested as a hypothesis.

Statistic and LinearAlgebra

Our research, testing was done by the statistical linear algebra model multiple linear regression analysis, which is a statistical method that is often used to examine the relationship between a dependent variable with several independent variables.

The regression model used is as follows:

$$ARL = \alpha + \beta 1 KAP + \beta 2 Opini + \beta 3 Size + \beta 4 Prof + \varepsilon$$

Information:
α   = Constant
β   = Regression coefficient of each independent variable
ARL   = Audit Report Lag
KAP   = Dummy KAP size
Opinion = Dummy audit opinion
Ln Size = Company size (log total assets)
Prof   = Profitability (net income to total assets)
ε   = confounding factor

Operation of Variables

Table 1 presents the operation factors used for our research.

Table 1: Operation of variables

Variables	Measurement
Lag or delay (Y)	Delay measured by the time difference between December 31 of the financial year to the date stated on the independent auditor's report.
Accountant firm size (X1)	Dummy variables where the value is 1 for Big Four audit firm and 0 for non Big Four audit firm.
Audit opinion (X2)	Dummy variables where the value of 1 for companies that get unqualified opinion and 0 for other opinions
Company size (X3)	Company size is measured by a log of total assets
Profitability (X4)	Profitability is measured by net income to total assets

Research Results

Testing Normal Probability

Normal probability was conducted in order to avoid bias. Data used should be normally distributed. The normality test also looks at proper use. It can be concluded as a proper means having adequate normal probability. In our study the normality uses Kolmogorov-Smirnov (K-S) (Sekaran & Bougie, 2016). The basis for decision making is to look at the probability figures, provided that:

Probability> 0.05: hypothesis is accepted because the data are normally distributed.
Probability <0.05: hypothesis rejected because the data are not normally distributed.

Based on the statistical theory of the linear model only the residual of the dependent variable Y must be tested for normality, while the independent variable is assumed not to be a distribution function. So it does not need to be tested for normality. The output is as follows:

Table 2: Normality Test (*Kolmogorov-Smirnov*)

		Unstandardized Residual
N		130
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	9.92614439
Most Extreme Differences	Absolute	.088
	Positive	.049
	Negative	-.088
Kolmogorov-Smirnov Z		1.004
Asymp. Sig. (2-tailed)		.265

a. Test distribution is Normal.
b. Calculated from data.

From Table 2, Sig = 0.265 or 26.5% which exceeds 0.05 or 5%, meaning of these variables are have normal distribution.

Testing Multi-collinearity

The approved multi-collinearity was in the form regression which was found to represent between intern factors. Proper results cannot agree upon, the detection of multi-collinearity referred as assessment. Both of the parameters indicate the X variables discussed by another X in this research. If return factor above 0.1 and the VIF is below 10, we assume the multi-collinearity test is passed (Ghozali, 2011).

Table 3: Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	X1	.597	1.675
	X2	.978	1.022
	X3	.742	1.348
	X4	.786	1.272

a. Dependent Variable: Y

From Table 3 we can check the score of both tolerance value> 0.1 and a VIF value <10. It concludes that multi-collinearity test is passed.

Testing for Autocorrelation

Testing for autocorrelation is intended knowing if it has similar correlation on current and the previous. If there is a correlation, there is allegedly an autocorrelation problem. Autocorrelation arises because there are sequential observations all the time related to one another. This problem arises because residuals are not free from one observation to another. Check this probability with Durbin-Watson (DW) performed. The model is said to be free from autocorrelation if the DW score over du value in the table (Ghozali, 2011).

With the value n = 130, k = 4 is obtained dl = 1.6508 and du = 1.774. From Table 4 we can see the DW value of 1.911 and is in the du and 4-du regions, so passed autocorrelation.

Table 4: Autocorrelation Test

Model	Durbin-Watson
1	1.911

b. Dependent Variable: lag_y

Testing Heteroscedasticity

Heteroscedasticity purposed in finding the deficiency occurs between residuals values of variables. When found a score of one observation with another is fixed, resulted in homoscedasticity, while different it was said heteroscedasticity. The proper one is homoscedasticity. In order to detect homoscedasticity (refers to the scatter of the plots) if the result indicates that the 'plots' are perfectly scattered, this means this test has been passed. (Sekaran & Bougie, 2016).

Figure 1: Heteroscedasticity Test
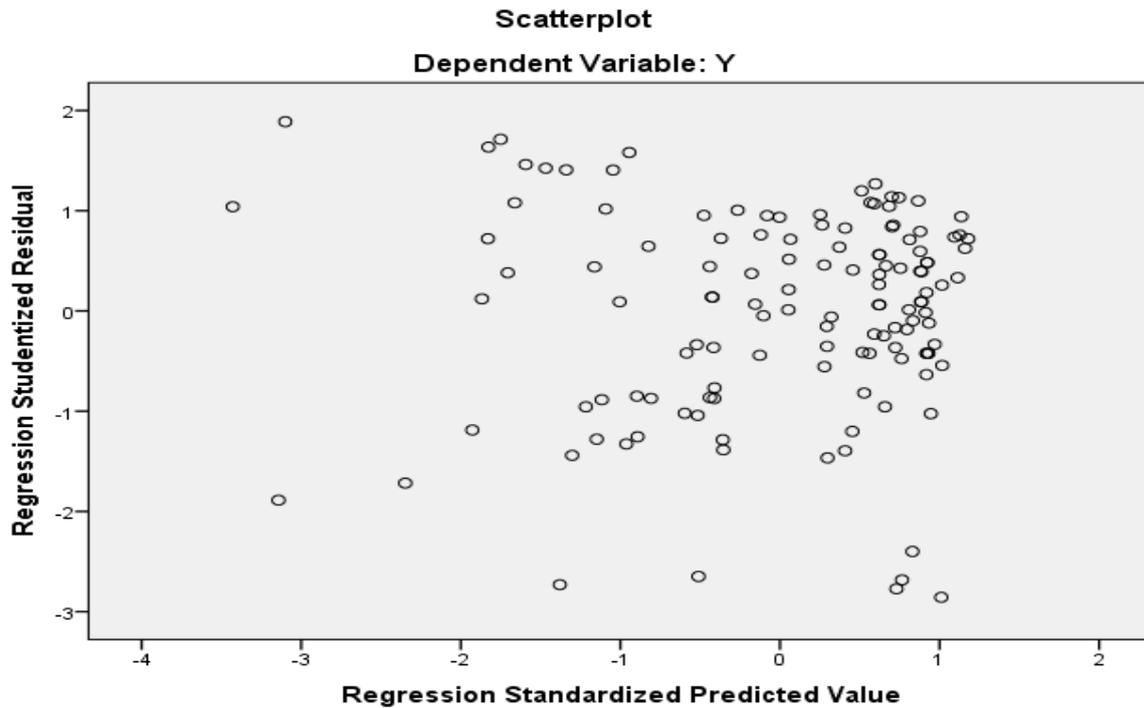
In Figure 1, it does not appear to form a certain pattern, and looks spread, indicating non-heteroscedasticity, so that further testing continued.

Coefficient Determination

The coefficient of multiple regression determination test (adjusted R2) aims to measure how far the ability of the model extends in explaining the variation of the dependent variable. The coefficient of determination is between zero and one. A small adjusted R2 value means that the ability of the independent variables to explain the variation of the dependent variable is very limited. A value close to one means that the independent variables provide almost all the information needed to predict the variation of the dependent variable. If there is an adjusted R2 value negative, then the adjusted R^2 value is considered zero.

Table 5: Coefficient Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.257[a]	.366	.360	10.084

a. Predictors: (Constant), X4, X2, X3, X1
b. Dependent Variable: Y

In the Table Obtained adjusted R2 value of 0.36 or 36%. This means that the independent variable KAP size, audit opinion, company size and company profitability only affect the dependent variable audit lag report by 36% and the rest depends on other variables not included in this study.

Simultaneous F Test

The simultaneous significance test (F statistical test) aims to measure whether all independent variables included in the model have an influence together on the dependent variable. Simultaneous testing is done by comparing the significance level F of the test results with the significance value used in this study.

Table 6: F Test

	Model	Sum of Squares	df	Mean Square	F	Sig.
	Regression	900.467	4	225.117	2.214	.071[b]
1	Residual	12710.156	125	101.681		
	Total	13610.623	129			

a. Dependent Variable: Y
b. Predictors: (Constant), X4, X2, X3, X1

Partial t Test

The significance test of individual parameters (t test statistic) aims to measure how far the influence of one independent variable individually in explaining the variation of the independent variable. Simultaneous testing is done by comparing the level of significance t of the test results with the significance value used in this study.

Table 7: Partial t Test

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	61.781	11.286		5.474	.000
	X1	-3.045	2.289	-.149	-1.330	.186
1	X2	10.786	7.265	.130	1.485	.140
	X3	.419	.587	.072	.714	.477
	X4	-.111	.073	-.149	-1.526	.130

Based on Table 7, obtained the multiple linear regression equation as follows:

ARL = 61.781 - 3.045 KAP + 10.786 Opinion + 0.419 Size - 0.111 Prof + Ɛ

Statistical test results with SPSS as shown in Table 7, namely the variable audit firm size (X1) obtained t count = -1.330 < t table = 1.978 and sig = 0.186 > 0.05 so H0 is accepted, this means the audit firm size statistically has no effect on the variable dependent audit report lag. This result is in line with (Al-khaddash et al. 2013).

In the audit opinion variable (X2) obtained t count = 1.485 < t table = 1.978 with sig = 0.14 > 0.05 so H0 is accepted, this means that the audit opinion statistically has no effect on the audit report lag dependent variable. This result is in line with (Defond & Lennox, 2017).

In the company size variable (X3) obtained t count = 0.714 < t table = 1.978 with sig = 0.477 > 0.05 so H0 is accepted, this means that the size of the company statistically has no effect on the audit report lag dependent variable. This result support previous study by (Hassan, 2016).

In the profitability variable (X4) obtained t count = -1.526 < t table = 1.978 with sig = 0.13 > 0.05 so H0 is accepted, this means that the company's profitability statistically has no effect on the audit report lag dependent variable. This result support previous study by (Salloum et al. 2014)

Conclusion and Suggestion

Conclusion

The conclusions that can be drawn are that the audit firm does not affect report lag, the audit opinion did not impact report lag, the company size did not impact report lag, and that profitability did not impact report lag. This research has weaknesses and limitations in several ways; therefore, these limitations need to be considered in order to obtain more accurate data. Limitations in this study include:

1. This research is only conducted on retail goods industry listed in capital market, so may be different if done including all companies.
2. Exogenous or impact or driver of our research were only able to explain 3.6% of the dependent variables. The remaining 96 percentage were affected by another factors.

Suggestion

Some suggestions that can be submitted in this research are:
1. For auditors: can improve the quality of their work so that the audit report lag time lag can be increased so that the quality of audited financial statement information becomes more reliable and relevant.

2. For companies: can improve quality for the sake of fairness in the presentation of their financial statements so as not to get a qualified opinion on their financial statements that will affect the decision making of external parties.

3. For further researchers: can expand the independent variable that will be a factor that can influence the dependent variable outside of the independent variable that has been used by researchers so that the results obtained later can larger.

REFERENCES

Al-khaddash, H., Nawas, R. Al, Dasman, P. O. B., & Ramadan, A. (2013). Factors affecting the quality of Auditing : The Case of Jordanian Commercial Banks Accounting Department , College of Business. *International Journal of Business and Social Science*, *4*(11), 206–222. https://doi.org/10.1016/j.lindif.2008.05.003

Aris, N. A., Maznah, S., Arif, M., Othman, R., & Zain, M. M. (2015). Fraudulent Financial Statement Detection Using Statistical Techniques: The Case Of Small Medium Automotive Enterprise, *31*(4), 1469–1478.

Avramov, D., Chordia, T., Jostova, G., & Philipov, A. (2013). Anomalies and financial distress. *Journal of Financial Economics*. https://doi.org/10.1016/j.jfineco.2012.10.005

Burritt, R., & Christ, K. (2016). Industry 4.0 and environmental accounting: a new revolution? *Asian Journal of Sustainability and Social Responsibility*, *1*(1), 23–38. https://doi.org/10.1186/s41180-016-0007-y

Defond, M. L., & Lennox, C. S. (2017). Do PCAOB Inspections Improve the Quality of Internal Control Audits? *Journal of Accounting Research*, *55*(3), 591–627. https://doi.org/10.1111/1475-679X.12151

Francis, J. R., Pinnuck, M. L., & Watanabe, O. (2014). Auditor style and financial statement comparability. *Accounting Review*. https://doi.org/10.2308/accr-50642

Ghozali, I. (2011). Moderated Structural Equation Modeling. In *Model persamaan struktural. Konsep dan aplikasi dengan program AMOS 19.0*.

Hassan, Y. M. (2016). Determinants of audit report lag: evidence from Palestine. *Journal of Accounting in Emerging Economies*, *6*(1), 13–32. https://doi.org/https://doi.org/10.1108/JAEE-05-2013-0024

Hopper, M.J.; Pornelli, C. M. (2010). Deterring and Detecting Financial Reporting Fraud; A platform for action, (October), 55. Retrieved from www.TheCAQ.org

Kim, H., Lee, H., & Lee, J. E. (2015). Mandatory audit firm rotation and audit quality. *Journal of Applied Business Research*.

Lawrence, I., Ph, A., & Elijah, A. (2015). Corporate Attributes and Audit Delay in Emerging Markets : Empirical Evidence from Nigeria. *International Journal of Business and Social Research*, *05*(03), 1–10. https://doi.org/http://dx.doi.org/10.18533/ijbsr.v5i3.712

Putri, S. (2015). Pengawasan Bapepam-Lk Terhadap Transaksi Efek Yang Berindikasi Insider Trading Pada Bursa Efek Indonesia. *Jurnal Mahasiswa Fakultas Hukum*, 1–20. Retrieved from http://hukum.studentjournal.ub.ac.id/index.php/hukum/article/view/1087

Sabrina, S., Lisandra, A., Meiryani, & Handoko, B. L. (2019). The factors affecting internet financial reporting application in Indonesian listed manufacturing company. In *ACM International Conference Proceeding Series*. https://doi.org/10.1145/3355966.3355969

Salloum, C., Azzi, G., & Gebrayel, E. (2014). Audit Committee and Financial Distress in the Middle East Context: Evidence of the Lebanese Financial Institutions. *International Strategic Management Review*. https://doi.org/10.1016/j.ism.2014.09.001

Sekaran, U., & Bougie, R. (2016). Research Methods For Business. A Skill Builing Approch. 7th Edition. *Book*. https://doi.org/10.1007/978-94-007-0753-5_102084

Sommer, L. (2015). Industrial revolution - Industry 4.0: Are German manufacturing SMEs the first victims of this revolution? *Journal of Industrial Engineering and Management*, *8*(5), 1512–1532. https://doi.org/10.3926/jiem.1470