The Effect of Company Size, Profitability, Solvency, and Auditor Reputation on Audit Report Lag

Indah Widya Ningrum[1], Fauzan[2]

[1]Faculty of Economics and Business, Universitas Muhammadiyah Surakarta, Surakarta, Indonesia
[2]Faculty of Economics and Business, Universitas Muhammadiyah Surakarta, Surakarta, Indonesia
Email address: widyaindah707@gmail.com, fau136@ums.ac.id

Abstract— This study aims to determine and analyze the effect of company size, profitability, solvency, and auditor reputation on audit report lag in food and beverage companies listed on the Indonesia Stock Exchange in 2018-2021. This research is a quantitative study using a population of food and beverage companies on the Indonesia Stock Exchange from 2018 to 2021. Sampling in this study using purposive sampling method so that it requires sampling criteria and obtained a sample of 17 companies. The data analysis method used is multiple linear regression analysis. Data obtained from the annual financial statements of food and beverage companies listed on the Indonesia Stock Exchange in 2018-2021. The results of this study indicate that company size, profitability, solvency, and auditor reputation together have an effect on audit report lag, partially profitability has a significant effect on audit report lag. Meanwhile, company size, solvency, and auditor reputation have no significant effect on audit report lag.

Keywords— Company Size, Profitability, Solvency, Auditor Reputation, Audit Report Lag.

I. INTRODUCTION

The company makes various efforts in its business which until now has experienced very rapid development. In its business, the company needs to have various strategies to maintain its business with several existing competitors. Companies that can survive will be able to improve company performance. The performance of the company can also be evaluated from reporting on effective and efficient financial statement records because this is very crucial for companies where financial reports are used to contain information about the company's own finances. Financial statements are information structures that present financial position and financial performance. This information will also be useful for company management in making decisions, as well as for investors, when investors invest it needs to be supported by good financial reports and has the information value needed for users, such as creditors, customers, society, government and other users as well as a benchmark for the sustainability of the company's business. Financial reports must be timely in their submission so that the information contained therein has relevant benefits for its users given the importance of these financial reports for each company, timeliness means the availability of information for decision makers at the right time so that it can influence their decisions, especially for companies listed on the Indonesia Stock Exchange.

In the regulations issued by the Financial Services Authority regarding annual reports, companies are required to submit annual financial reports to the Financial Services Authority and announce to the public no later than the end of the third month after the date of the annual financial statements. The company may have made good financial reports and on time, but from the auditors who carry out the inspection process can complete quickly or slowly, if the process experiences obstacles by taking longer due to the complexity of the transactions, transactions that must be audited, and poor internal control can hinder the company in submitting its financial reports to the public. Some companies still have problems that often occur in submitting financial reports which cause audit report lag. Delays in the delivery of information cause a decrease in investor confidence, so this can have a negative impact on the movement of the selling price of shares in the capital market which experiences instability and investors also assume that the company is experiencing poor health conditions, investors call it audit report lag in the company. The time difference between the date of the financial statements and the date of the independent auditor's financial statements that have been published on the Indonesia Stock Exchange with the length of time for completion of the audit can be measured by the closing date of the financial year until the issuance of the independent auditor's financial report which states the audit report lag. The time span between the closing date of the book and the audit reporting date is often referred to as the audit report lag.

Audit report lag is the period of time between the end date of the financial year and the date of the independent auditor's report. The longer it takes to complete the audit of the company's financial statements, the higher the delay in the issuance of the public company's financial statements and will affect the choice of investors or other users of financial statements because the delay in issuing audited financial statements will reduce the level of relevance of the financial information that has been reported (Arifa, 2013). In the audit report lag in companies, there may be several factors that influence it, in this study only taking several factors which include company size, profitability, solvency, and auditor reputation.

This study refers to previous research conducted by Sarah Nurjanah (2022), namely the Effect of Profitability, Liquidity, Company Size on Audit Report Lag in the Food and Beverage Sub-Sector Listed on the Indonesia Stock Exchange for the 2017-2020 Period. The difference between this research and Sarah Nurjanah's research (2022) is that first, in this study researchers reduced one independent variable, namely

liquidity and added two independent variables, namely solvency and auditor reputation. The second difference is that previous research uses data from the 2017-2020 period, while this study uses data from Food and Beverage companies in 2018-2021. This study aims to obtain empirical evidence that company size, profitability, solvency, and auditor reputation affect audit report lag.

II. LITERATURE REVIEW

Agency Theory

According to Jensen and Meckling, (1976) agency theory is a theory that explains an organization can lead to conflicts of interest caused by agency relationships. This relationship occurs with a contract between the principal where the principal is the party who gives the task to the agent and the agent is the party who is given the mandate by the principal. This relationship can usually be seen from large companies that cooperate with several stakeholders such as investors, creditors, and shareholders where stakeholders who are principals authorize the company where the company as an agent, namely the manager, can create the best decisions or make good decisions by upholding mutual interests. But sometimes there are still problems caused by conflicts of interest that should be concerned with the common interest but are still concerned with personal interests, this causes financial managers to focus more on their company which cannot maximize investment from shareholders in their project, even though the project provides long-term benefits. In this study, the company as the owner or principal authorizes the auditor as an agent to resolve conflicts that occur in terms of information discrepancies between the company and the auditor. With this agency theory, it will help in the conflict of interest of both, if financial statement information can be submitted on time, it will benefit its users, which is close to agency theory. With problems like this, the party that can become a bridge to account for mistakes made by the company to shareholders is the auditor. Auditors make opinions on financial statements that are based on generally accepted accounting standards, accurate, and completed in a timely manner, because this is the auditor's obligation.

Audit Report Lag

Audit report lag is the length of time the audit of the company's financial statements is measured, starting from the closing date of the financial year until the date the auditor's report is issued. The audit process can be measured by the auditor based on the number of days required from the closing date of the company's books (financial statements) as of December 31 to the date stated in the independent auditor's report (Chalmers, Hay & Khlif, 2019).

The longer the audit report lag, the longer the financial statements will be published so that there is a delay and the uncertainty of decisions by investors will have an impact on losses for investors. Delays in the publication of financial reports can identify problems in the company's financial statements. The longer an information is, the less useful it is (Indonesian Institute of Accountants, 2016). Therefore, auditors must be responsible for completing audits in a timely manner to increase the relevance of a company's financial statements.

Company Size

Company size is a measure that shows the size of the company which can be seen in various ways, including the number of sales, total assets, log size, total employees, company market value, and company book value and others (Putri and Setiawan, 2021). Company size is a function of the speed of financial reporting because the larger a company is, the faster the company will report the results of the audited financial statements because the company has many sources of information and has a good internal control system so as to minimize the level of errors made in preparing financial statements, this can make it easier for auditors to carry out financial statement audits.

Profitability

Profitability is a ratio to see the company's ability to generate profits at a certain level of sales, assets and share capital (Thuneibat, Al-Rehaily & Basodan, 2015). One of the things that causes a delay in the submission of the company's financial statements is: reporting profit or loss for indicators of good news or bad news on the performance of the company (Tiono & Jogi, 2013).

Solvency

Solvency is the company's ability to meet all its financial obligations when the company is liquidated (Lianto & Kusuma, 2010). The solvency ratio is used to measure how far the company's assets can pay the company's debt. If the company has high debt, the future of the company will be trapped in the debt so that it is difficult to pay off. The high debt owned by the company indicates a delay in preparing financial reports so that it can extend the audit report lag. Poor financial conditions will create a bad image for the company from outsiders.

Auditor Reputation

Auditor reputation serves as evidence of auditor quality in the delivery of information between management and investors (Godbey & Mahar, 2004). Auditors have the responsibility of preparing information that has high quality because this information can be useful for users of financial statements who can assist company management in carrying out their responsibilities to analyze, assess, advise, and criticize the project being examined which has the aim of making decisions. Auditor reputation can be seen from the existence of KAP Big 4 in completing work very quickly. This can increase the auditor's reputation to always maintain the trust of his clients in examining financial statements.

III. METHODOLOGY

This study uses a quantitative research design by testing the hypothesis. The data used is secondary data in the form of annual reports on food and beverage companies listed on the Indonesia Stock Exchange (IDX) with the period 2018-2021. This study uses a population of food and beverage companies listed on the Indonesia Stock Exchange (IDX) in 2018-2021.

In this study, sampling was carried out with the technique used for sampling was purposive sampling. Purposive sampling is a sample based on the suitability of sample characteristics that are determined sample selection criteria. The sample selection criteria are as follows: 1) Food and Beverage companies are still listed on the Indonesia Stock Exchange from 2018 to 2021. 2) Food and Beverage companies that publish annual audit reports for the period 2018 to 2021 on the IDX in full which contain the data and information used in this study. 3) Food and Beverage companies that use rupiah currency in the financial statements. 4) Food and Beverage companies that earn profits consecutively in 2018-2021.

In this study the data used is secondary data, where data is obtained from other parties or data that is already available. The data is annual reports (annual reports) obtained from the Indonesia Stock Exchange website (www.idx.co.id) or through the company's website related to the company.

This study uses the following measurements:

TABLE 1. Measurement of Operational.

Variables	Indicators	Source
Audit Report Lag (ARL)	ARL = Date of audit financial statements - Closing date of the financial year	(Febrianti & Sudarno, 2020)
Company Size (SIZE)	SIZE = LN (Total Assets)	(Widiastuti & Kartika, 2018)
Profitability (ROA)	ROA = Net Profit / Total Assets	(Widiastuti & Kartika, 2018)
Solvency (DAR)	DAR = Total Debt / Total Assets	(Widiastuti & Kartika, 2018)
Auditor Reputation (REP)	Dummy variable (REP = entities with big-four KAP affiliation will be presented with a score of will be presented with a score of 1, entities whose affiliation is with KAP from non the big-four will be presented scoring 0)	(Fasha & Ratmono, 2022)

IV. RESULT AND DISCUSSION

TABLE 2. Descriptive Statistic

Variable	N	Min	Max	Mean	Standard Deviation
SIZE	63	27.340	32.402	28.79159	1.350842
ROA	63	0.001	.424	0.10125	0.079101
DAR	63	0.108	.639	0.35982	0.153931
REP	63	0	1	0.35	0.481
ARL	63	46	130	82.03	18.106
Valid N (liswise)	63				

Source : data processed, 2023

Based on the results of the descriptive statistics table, it can be seen that the data analyzed consists of 68-5 data samples which are outliers to 63 obtained from the annual financial statements of 17 food and beverage companies listed on the Indonesia Stock Exchange for 4 years (2018-2021). Company size has a minimum value of 27.340, a maximum value of 32.402, the average obtained is 28.79159, and has a

standard deviation of 1.350842. Profitability has a minimum value of 0.001, a maximum value of 0.424, an average of 0.10125, and has a standard deviation of 0.079101. Solvency has a minimum value of 0.108, a maximum value of 0.639, an average of 0.35982, and has a standard deviation of 0.153931. Auditor reputation has a minimum value of 0, a maximum value of 1, an average obtained of 0.35, and has a standard deviation of 0.481. Audit report lag has a minimum value of 46, a maximum value of 130, an average of 82.03, and has a standard deviation of 18.106.

TABLE 3. Classical Assumption Test

Variable	Tolerance	VIF	Heteroscedasticitys
SIZE	0.707	1.414	0.065
ROA	0.953	1.050	0.104
DAR	0.864	1.157	0.645
REP	0.745	1.342	0.154

Source : data processed, 2023

Based on the classical assumption test, this study is normally distributed using the Kolmogorov-Smirnov Test Monte Carlo which is 0.222 greater than 0.05. The test results in the table show that there is no multicollinearity with each variable having a tolerance value of more than 0.10 and a VIF value of less than 10.00. The heteroscedasticity test using Glejser, shows that each variable has a value of more than 0.05, so this study does not occur heteroscedasticity problems. Durbin-Watson shows a result of 2.111, so it can be concluded that there is no autocorrelation.

TABLE 4. Multiple Linear Regression Test

Variable	B	sig	Results
constant	53.049	0.321	
SIZE	1.619	0.398	H1 Rejected
ROA	-68.640	0.017	H2 Accepted
DAR	-22.347	0.144	H3 Rejected
REP	-7.584	0.150	H4 Rejected

Source : data processed, 2023

Based on the results of the multiple linear regression test, the F test results with a significance value of 0.022 less than 0.05, this states that the multiple regression model in this study has met the requirements and can be said to be a fit regression model. The Adjusted R Square value is 0.119 or 11.9%. This shows that the variables SIZE, ROA, DAR, and REP can explain the dependent variable, namely audit report lag of 0.119 or 11.9%. while the rest is explained by other variables not included in this study by 88.1%.

The constant value of 53.049 means that if the SIZE, ROA, DAR and REP variables do not change or are considered constant (value 0), then the audit report lag is 53.049. The regression coefficient on the SIZE variable shows a value of 1.619 and is positive. This shows that if SIZE increases by 1 unit, the level of audit report lag will increase by 1.619. The regression coefficient on the ROA variable shows a value of -68.640 and is negative. This shows that if ROA increases by 1 unit, the level of audit report lag will decrease by 68.640. The regression coefficient on the DAR variable shows a value of -22.347 and is negative. This shows that if DAR increases by 1 unit, the level of audit report lag will decrease by 22.347. The regression coefficient on the REP variable shows a value of -

7.584 and is negative. This shows that if REP increases by 1 unit, the level of audit report lag will decrease by 7.584.

The t test result of company size has a significance value of 0.398> 0.05. This means that H1 is rejected or partially has no significant effect on audit report lag in food and beverage companies listed on the Indonesia Stock Exchange in 2018-2021. The profitability t test results have a significance value of 0.017 <0.05. This means that H2 is accepted or partially has a significant effect on audit report lag in food and beverage companies listed on the Indonesia Stock Exchange in 2018-2021. The solvency t test results have a significance value of 0.144> 0.05. This means that H3 is rejected or partially has no significant effect on audit report lag in food and beverage companies listed on the Indonesia Stock Exchange in 2018-2021. The t test result of auditor reputation has a significance value of 0.150>0.05. This means that H4 is rejected or partially has no significant effect on audit report lag in food and beverage companies listed on the Indonesia Stock Exchange in 2018-2021.

V. CONCLUSION

Based on the results of the analysis and discussion that has been described, the following conclusions can be drawn:
1. The results state that the Company Size variable has no influence on Audit Report Lag. Significant for the Company Size variable on Audit Report Lag of 0.398, so that H1 rejected. This means that Company Size has no effect on Audit Report Lag.
2. The results stated that the Profitability variable hasinfluence on Audit Report Lag. Significant for variable Profitability variable on Audit Report Lag of 0.017, so that H2 accepted. This means that Profitability has an effect on Audit Report Lag.
3. The results state that the Solvency variable has no influence on Audit Report Lag. Significant for the Solvency variable on Audit Report Lag of 0.144, so H3 rejected. This means that Solvency has no effect on Audit Report Lag.
4. The results state that the Auditor Reputation variable has no influence on Audit Report Lag. Significant for the Auditor Reputation variable on Audit Report Lag of 0.150, so H4 rejected. This means that Auditor Reputation has no effect on Audit Report Lag.

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