PSYCHOLOGY AND EDUCATION (2021) ISSN: 0033-3077 Volume: 58(3): Pages: 440-446
Article Received: 13th September, 2020; Article Revised: 25th January, 2021; Article Accepted: 12th February, 2021

Audit Report Lag is Affected by Profitability, Leverage, Audit Opinion, and Company Size

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ABSTRACT

This research aims to examine the importance of the influence of profitability, leverage, audit opinion, and company size on audit report lag. The sampling technique used in this research is non-probability sampling with a purposive sampling method. This research uses panel data regression analysis method with a significance level at 5%. The program used in analyzing the data uses e-views 10. The results show that profitability and audit opinion have a negative effect on audit report lag, while leverage and company size have no effect on audit report lag.

Keywords
Audit report lag, profitability, leverage, audit opinion, company size

Introduction

The length of time required to carry out the audit process on financial statements until the issuance of an independent auditor's report is called an audit report lag (Rakhmawati, 2017). The negative impact for users of financial statements will increase if the audit report lag is longer (Bawono, 2018). The timeliness of publication and financial statement information will be affected by the length of time it takes to complete the audit process, so that it has an impact on decision under uncertainty based on information from the published annual reports of the company (Rahayu, 2017).

There was a decrease in companies that did not submit their financial reports on time from 2011 to 2013, but in 2014 and 2015 there was an increase. The Financial Services Authority (OJK) Regulation on the publication of audited financial reports as stipulated in article 7 requires submission of annual reports no later than the end of the third month after the closing book year ends. Companies that are late in submitting financial reports will be given administrative sanctions. Apart from administrative sanctions, the company has removed one of the characteristics of financial statements, namely, relevance. Relevant is the timeliness of submitting financial reports so that information is available when users need it for decision making.

Delays in the publication of financial reports indicate some problems, such as the company experiencing losses which means bad news, consequently will extend the audit completion time (Febrianty, 2011). Another research conducted by Kusumah and Manurung (2017), Kusumah and Manurung (2016) shows that audit report lag is influenced by various factors.

Companies that gain profits and have a good profitability ratio will have relatively short audit reports lag so that the company is not late in submitting financial reports, while companies with losses work otherwise.

The definition of leverage (Febrianty, 2011) and leverage has a positive effect on audit report lag, which Angruningrum and Wirakusuma (2013) have studied. Companies that have leverage will have high audit report lag longer / longer, while companies with leverage low audit report lag will have shorter / faster.

Research on audit opinion and audit report lag has been researched by Halim (2018), Dino (2019), Dirvi and Roni (2019), Yoga (2018), Annisa and Yumniati (2019). About company size that has an effect on audit report lag has been studied by Machfoedz (1994), Mutiara (2019), Gustia and Liesma (2020) showing that the variable company size has a significant effect on audit report lag. Meanwhile, research by Putu Megayanti and Ketut Budiartha (2016) proves that the audit report lag is negatively affected by the firm size variable. Research conducted by Suryanti and Fadjar (2018) shows a positive effect on audit report lag. Meanwhile, research conducted by Dino (2019), Carania and Effriyanti (2020), Kusumah and Manurung (2017), company size variables in this study prove that audit report lag is not influenced by company size.

Literature Review

According to Novika (2017) and Liwe et al. (2018) state that the audit report lag is the length of time it takes for the auditor to complete the audit process from the date the report ends until the independent auditor's report date.

The concept of profitability uses Kasmir (2016) and Irham (2013) theory. The relationship between audit report lag and profitability is when the company earns a profit or experiences a loss, it will affect the audit report lag. Because profit is synonymous with success in running a business, the effect of good news (profit) like that can affect stock prices, public trust and others (Adebayo & Adebiyi, 2016).

Leverage is a measure of the funds provided by the owner compared to those provided by creditors. Debt financing affects the company because it has fixed expenses. Failure to pay interest causes financial difficulties that lead to bankruptcy. On the other hand, the use of debt provides tax deductions that are beneficial for shareholders (Kamaludin, 2011). The use of debt that is too high will be dangerous because the company will fall into the category extreme leverage according Fahmi (2011) and Darsono (2005).

The audit opinion given by the auditor varies depending on the results of the audit performed. ''Unqualified'' is such good news for the company that the company publishes its financial statements as soon as possible, to report good news. The auditor accelerates the auditing of the financial statements. In companies that receive an opinion other than an unqualified opinion, there will be negotiations between the auditors and the company, besides that the auditor also needs to consult with a more senior auditor or other staff to make his opinion more convincing, as result the audit report lag will be relatively longer (Iskandar et al., 2010).

According to Tiono and Yulius (2012) in Megayanti (2016), it shows that company size can be seen from the total asset value, total sales, and the number of workers. Attachment to the decision of the chairman of BAPEPAM and LK No Kep. 11 / PM / 1997 that the size of a small company is measured by looking at the total assets of IDR 100,000,000,000 and the requirement for the size of a large company to have total assets equal to or greater than IDR 100,000,000,000. The company size in this study uses log natural (ln) total assets.

The hypothesis formulation is as follows:
Hypothesis 1: There is a negative effect of the profitability variable on the audit report lag.
Hypothesis 2: There is a positive effect of the leverage variable on audit report lag.
Hypothesis 3: There is a negative effect of the audit opinion variable on audit report lag.
Hypothesis 4: There is a negative effect of the firm size variable on audit report lag.

Methodology

This research uses explanatory that examines the causality between variables that describe a particular phenomenon. So that in this research explanatory, the researcher tries to explain or prove the relationship or influence between variables (Zulganef, 2018).

Secondary data is a source of data obtained indirectly by the data collectors, secondary data functions to support primary data needs such as books, literature and other resources that related to and support this research, for example through third parties or through documents (Sugiyono, 2017).

The research population is a collection of individuals who have the same characteristics that serve as a source of research information (Edison, 2018). Population is the total collection of elements from which the collection will be made to conclusions (Nuryaman & Christina, 2015). The research population in this study will be mining companies listed on the Indonesia Stock

Exchange for the 2016-2018 period that have submitted audited corporate financial reports. Thus, the prediction regarding the audit report lag is very necessary for mining companies.

Sampling based on purposive sampling technique was carried out based on assumptions and criteria that illustrate that the research population is specific and population characteristics and criteria are based on the provisions of an institution (Edison, 2018), so that 24 companies were obtained.

The analysis model uses panel data analysis. According Basuki and Pratowo (2017), panel data analysis is a combination of data cross section and time series. Data of time series is the data based on observations made at different times and the data cross section is the data collected at a particular time (Ghozali & Ratmono, 2013). The data that has been collected is processed using software data processing e-views 10.

Results and Discussion

Description Analysis on The Variable of Audit Report Lag

In 2016, the average length of audit report lag duration for mining companies was 101.33 days. In this research, mining sector companies that had the duration of audit reports lag above the average in 2016 were 4 companies or 17%, while below the average in 2016 were 20 companies or 83%.

In 2017, the average length of audit report lag days for mining companies was 92.13 days. In this research, mining sector companies that had duration of audit reports lag above the average in 2017 were 6 companies or 25%, while below the average in 2017 were 18 companies or 75%.

In 2018, the average length of audit report lag days for mining companies was 98.17 days. In this research, mining sector companies that had duration of audit reports lag above the average in 2018 were 3 companies or 12.5%, while below the average in 2018 as many as 21 companies or 87.5%.

Description Analysis of Profitability Variables

In 2016, the average profitability value of mining companies was 2.10%. In this research, the mining sector companies that had profitability values above the average in 2016 were 14 companies or 58%, while companies that had profitability values below the average in 2016 were 10 companies or 42%.

In 2017, the average profitability value of mining companies was 8.75%. In this research, the mining sector companies that had profitability values above the average in 2017 were 10 companies or 42%, while companies that had profitability values below the average in 2017 were 14 companies or 58%.

In 2018, the average profitability value of mining companies was 7.20%. In this research, the mining sector companies that had profitability values above the average in 2018 were 8 companies or 33%, while companies that had profitability values below the average in 2018 were 16 companies or 67%.

Description Analysis of Leverage Variable

The minimum value of 13.98% owned by GWSA in 2016 shows that leverage of GWSA in 2016 was good, because the liabilities owned by the company are not high so that the company's financial risk is quite low. This has a positive impact on the company to increase investor confidence. While the maximum value of 284.94% owned by GMTD in 2017, this shows that the level of leverage owned by PT. Goa Makassar Tourism Tbk. In 2016 was not significantly good, because the source of funds needed is greater so that the financial risk of the company will also tend to be large. Therefore, it might encourage investors to feel hesitant to invest their capital in the company because the level of company risk tends to be high.

Description Analysis on The Variables of Audit Opinion

There are 3 companies that are not classified as unqualified opinions in 2015-2018. Thus, there were companies that received 12.5% other than unqualified opinions and 87.5% unqualified opinions.

Descriptive Analysis of Company Size Variable

In 2016, the average asset value in the mining industry was $ 1.151.2241.650. In this study, in 2016 there were 14 (58%) companies that had asset value above the average and 10 (42%) other companies were below the average. In 2017, the average asset value in the mining industry was $ 1.357.835.365. In this study, in 2017 there were 14 (58%) companies that had asset value above the average and 10 (42%) other companies were below the average. In 2018, the average asset value in the mining industry was $ 1.431.993.652. In this study, in 2018 there were 14 (58%) companies that had asset value above the average and 10 (42%) other companies were below the average.

Analysis of Profitability, Leverage, Audit Opinion, Company Size, and Audit Report Lag

The Effect of Profitability to Audit Report Lag

Profitability (X1) has t-value of -4,164, meanwhile the t-table is 1,986 (t-table data with df = 92 on significant rate of 5%) which produced t-value > t-table, then the audit report lag is influenced by the profitability variable. Significant value of the study of 0,000 was smaller than 0,05, so Ho is rejected which then conclude that audit report lag is negative effected by profitability variable.

When profitability got increased and then the audit report lag will be decreasing. When profitability got decreased and then the audit report lag will be increasing. The ability of the company to make profit based on asset owned has significant effect to time span of audited financial report delivery. Most of companies that had increased profit making quicker publication. Also indicated that stakeholder such as investor and creditor were giving high demanding to push company to deliver the audited financial report more quickly.

The effect of leverage to audit report lag

Leverage variable (X2) has t-value of 0,875, meanwhile the t-table is 1,986 (t-table data with df = 92 on significant rate of 5%) which produced t-value < t-table (0,875 < 1,986), then the audit report lag is not influenced by company size. Significant value of the study of 0,653 was greater than 0,05, so Ho is accepted which then conclude that leverage has no effect on audit report lag (Y). This study rejected existing theory by proofing that leverage has no effect to audit report lag.

The audit report lag is influenced by the audit opinion variable

Audit opinion variable (X3) has t -value of -7,882, meanwhile the t-table is 1,986 (t-table data with df = 92 on significant rate of 5%) which produced t-value > t-table (7,882 > 1,986). Its means that audit report lag is negative effected by audit opinion variable.

This means when a company receives an unqualified opinion, the audit report lag will be reduced. Vice versa, when a company receives a non-unqualified opinion, the audit report lag will be increased. The audit opinion is given by the auditor based on the fairness level of the company's financial report. When a company gets an unqualified opinion, this means that the company's financial report is free from misstatement. However, when a company gets a non-unqualified opinion, it indicates that there is impropriety or misstatement in the company's financial report. An unqualified opinion is a good news and can be a good reason for a company deliver the financial report.

The audit report lag is affected by company size variable

Company size variable (X4) has t-value of 0,310, meanwhile the t-table is 1,986 (t-table data with df = 92 on significant rate of 5%) which produced t-value < t-table (0,310 < 1,986), that company size partially has no effect on audit report lag (Y). Significant value of the study of 0,747 is greater than 0,05, so Ho is accepted which then conclude that company size has no effect on audit report lag (Y).

This study rejected existing theory by proofing that audit report lag is no affected by company size variable. It is because all companies listed on IDX are required to deliver financial report to predetermined time frame. Moreover, all companies used in this study are mining companies that are under strict supervision of investors, capital supervisors, government, and the public, who have the same pressure to deliver good financial report with either small or huge asset they own.

Conclusion

According to the result of analysis and study, can be conclude that audit report lag is negative influenced by profitability and audit opinion, which means that company who get profit and had good profitability ratio and also get good audit opinion will have shorter audit report lag and will not be late in delivering their financial report. While company who get loss and low profitability ratio, also poor audit opinion will have longer audit report lag.

Audit report lag is no effected by leverage and company size variable. It is because all companies listed on IDX are required to deliver their financial report to predetermined time frame, so all companies have the same pressure to deliver their financial report with either small or huge asset they own.

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