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

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Lag or delay of the final report results in loss to the financial statement user and stakeholders since the report is used as a tool for decision making. The purpose of this study was to empirically explore the factors of CPA firm, audit opinion, firm size and profitability on audit report lag in retail companies which have had public ownership of manufacture within the five year range of 2013-2018. This research uses purposive sampling method with a 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 reports of auditor independence of the manufacturing retail sub-category.

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

Introduction

In this era of globalization, 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, company managers in general are trying to access more funds for operational activities which cannot be fulfilled solely by relying on internal funding sources and bank loans. Another way to meet the needs of these funds can be accomplished by selling company stock ownership to investors.

Financial statements are one important instrument in supporting the sustainability of a company, especially companies that have gone public. In pace with the rapid development of companies going public, there is higher demand for financial statement audits that inform 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) must complete a year end statement certified with an independent audit opinion, at least 90 days post-closing.

Public share companies who don't report their audit by deadline, 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, which states 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, with maximum fine being IDR 500,000,000. Audit report lag affects 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 is determined by the measuring the time taken from the start date to the close of book which ends with a report. The greater the time taken to finish the engagement, the greater the impact on delay of the company being audited. If the audit report lag worsens, then the possibility of delay in publishing financial statements will automatically worsen. The purpose of the financial statement audit is to express an opinion of management results in a fair manner according to General Acceptable Accounting Principles (Accounting standard). Francis, Pinnuck, & Watanabe (2014), outline four stages in auditing financial statements:

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 involves a lengthy process that consequently 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: audit firms affiliated with the Big Four audit firms and audit firms affiliated with non-Big Four audit firms. Al-khaddash, Nawas, Dasman, & Ramadan (2013), proved that public accountant office brand names negatively affect delay in completing audits. 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 currently such that non-Big Four audit firms also try to audit client financial statements as effectively and efficiently as the Big Four audit firms do. Based on the description above, the following hypotheses were posed:

H1: audit firm size influences audit report lag.

Audit Opinion

(Defond & Lennox, 2017) state that audit opinion has only minor results which have no impact to delay of the final work. Whereas, Kim, Lee, & Lee(2015) found different or opposite results. They conclude an impact but negative on audit report lag. A company is aware of the impact of an opinion that is reached that is other than ‘fair without exception’ in its financial statements and 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 issues that must be confirmed between the company and the auditor. Therefore, a second hypothesis posed in this study is:

H2: 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 the more days allocated to generating such reports which cause public entitiesto be closely supervised by both shareholders and the government.

According to Burritt & Christ, 2016; Hopper, M.J.; Pornelli (2010), large companies reported faster than smaller companies and in conclusion, company size related to audit lag reports. However, these results are not consistent with previous research (Sommer, 2015) also (Aris, Maznah, Arif, Othman, & Zain, 2015). According to this premise, the further hypothesis that will tested is:
H3: company size influences audit report lag.

Profitability

Corporate profit has significant impact on lag of report work(Sabrina, Lisandra, Meiryani, & Handoko, 2019). Public entities who report positive profit result have shorter audit delay times because this will delight the board and generate positive publication. According to Avramov, Chordia, Jostova, & Philipov (2013), if the company is declared to have suffered losses, management will ask the auditor to allocate more time. However (Salloum, Azzi, & Gebrayel, 2014) failed to prove this and according to the believed premise the following hypothesis is tested:

H4: profitability influences audit report lag.

Research Methodology
Research Object

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

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

a. Publicly listed entities which share their stock on themarket between five consecutive years from 2013- 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 analyzers by describing samples of data that have been collected without generalization. This study describes the amount of data, averages, minimum and maximum values, and standard deviations.

To construct a valid 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 if there is no autocorrelation, multi co-linearity, heteroscedasticity and thus, if there is normality. The classic assumption test carried out is detailed below and the data will test the hypotheses.

Statistic and Linier Algebra

In this research, testing was conducted via statistical linear algebra model multiple linear regression analysis, a statistical method that is often used to examine the relationship between a dependent variable and several independent variables.

The regression model used is as follows:

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

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 below presents the operation factors used for this 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 as data used should be normally distributed. The normality test looked at proper use. To be deemed proper means having adequate normal probability. In our study the normality test used was Kolmogorov-Smirnov (K-S) (Sekaran & Bougie, 2016). The basis for decision making was 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 in Table 2.

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, it is seen that Sig = 0.265 or 26.5% which exceeds 0.05 or 5%, meaning these variables have normal distribution.

Testing Multi-Collinearity

The approved multi-collinearity was in the form of regression which was found to be represented between intern factors. Proper results cannot agree upon and the detection of multi-collinearity is referred as assessment. Both parameters indicate the X variables discussed by another X in this research. If return factor is above 0.1 and the VIF is below 10, it is assumed the multi-collinearity test is passed (Ghozali, 2011). Multi-collinearity results are presented in Table 3 below.

Table 3: Multi-collinearity 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

As shown in Table 3 above, the score of both tolerance value> 0.1 and a VIF value <10 indicate that that multi-collinearity test is passed.

Testing for Autocorrelation

Testing for autocorrelation is intended to determine similar correlation with current and previous data. 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. As presented in Table 4, we can see that the DW value of 1.911 is in the du and 4-du regions and passed autocorrelation.

Table 4: Autocorrelation Test

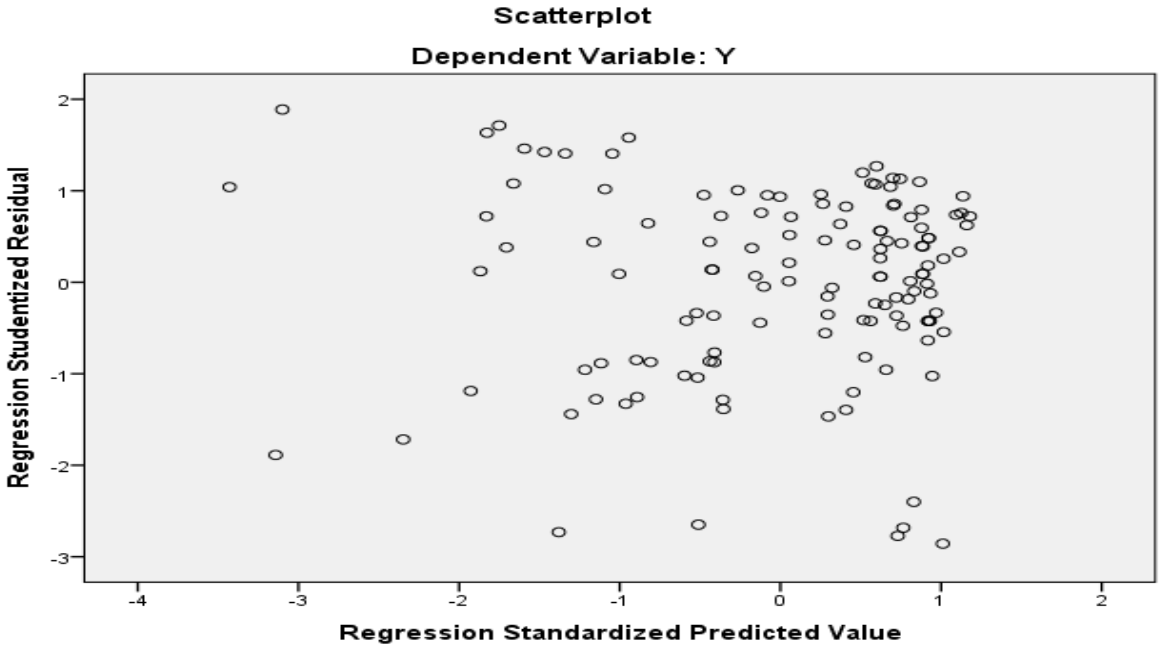
Model	Durbin-Watson
1	1.911

b. Dependent Variable: lag_y

Testing Heteroscedasticity

The purpose of heteroscedasticity is to find the deficiency that occurs between residualvariable values. A score of one observation with another that is fixed results in homoscedasticity, while where different, the result indicates heteroscedasticity. The desired result is homoscedasticity. As seen in Figure 1 below, order detecting homoscedasticity, refers to the scatter of the plots, if it perfectly scattered, it passed this test. (Sekaran & Bougie, 2016).

Figure 1. Heteroscedasticity Test



In Figure 1 above, it does not appear to form a certain pattern, and looks spread or indicates non-heteroscedasticity so that further tests were continued.

Coefficient Determination

The coefficient of multiple regression determination test (adjusted R2) aims to measure the ability of the model in explaining the variation of the dependent variable. The coefficient of determination is between zero and one. A small adjusted R2 value indicates 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.

In Table 5 the obtained adjusted R2 value of 0.36 or 36% is presented. 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.

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

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 conducted by comparing the significance level F of the test results with the significance value used in the study and the results are presented in Table 6 below.

Table 6:F Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	900.467	4	225.117	2.214	.071[b]
	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 explains the variation of the independent variable. Simultaneous testing is conducted by comparing the level of significance t of the test results with the significance value used in this study as presented in Table 7 below.

Table 7: Partial t Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	61.781	11.286		5.474	.000
	X1	-3.045	2.289	-.149	-1.330	.186
	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 above, the multiple linear regression equation obtained was 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 are that the variable audit firm size (X1) obtained t count = -1.330 < t table = 1.978 and sig = 0.186 > 0.05 and 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 supports a 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 company profitability statistically has no effect on the audit report lag dependent variable. This result is consistent with the findings of Salloum et al.,(2014)

Conclusion and Suggestions

Conclusion

The conclusions that can be drawn are that audit firm does not affect report lag, audit opinion does not impact report lag, company size doe not impact report lag, profitability does not

impact report lag. This research has several weaknesses and limitations which 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 the capital market and may be different for all companies.
2. The exogenous or driver impactof this research was only able to explain 3.6% of the dependent variable. The remaining 96 % was affected by other factors.

Suggestion

Some suggestions for further research in this field are:

1. For auditors: improve work 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: improve quality for the sake of fairness in the presentation of their financial statements to get a qualified opinion on their financial statements that will affect the decision making of external parties.
3. For further researchers: expand the independent variable that will be a factor that can influence the independent variable used in this research so that larger scale results can be determined.

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