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The Characteristics Of Auditee and Audit Report Lag

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Abstract

The purposes of this study was to examine the effect of auditee characteristics as reflected by ROE, company size, DER and PAF's (Public Accounting Firm) reputation on Audit Report Lag. Companies engaged in Real Estate and Property listed on the Indonesia Stock Exchange for the period 2011-2014 are used in this study. This sector was chosen because many investors are interested in investing in the real estate and property sector. The purposive sampling method was chosen as the basis for determining the sample so that a sample of 39 companies was obtained. The type of data in this study is quantitative data derived from secondary data in the form of financial reports and auditor reports which can be obtained from the page www.idx.co.id or the Indonesia Capital Market Directory (ICMD). SPSS 21 software was used to analyze research data. The results showed that ROE and company size had a significant negative effect on Audit Report Lag. DER has no effect on Audit Report Lag, while PAF's reputation has a positive effect on Audit Report Lag

Keyword: ***ROE, company size, DER, PAF's reputation, audit Report Lag***

INTRODUCTION

Financial reports are prepared in order to provide information about the company's financial position, financial performance and cash flow to be used by most report users in making decisions. Users of financial reports can be investors and creditors. Investors base their investment decisions on the company's financial statements. Meanwhile, creditors view the company's solvency level as the company's ability to settle debt.

The financial statements as a source of information for users are expected to reflect the actual condition of the company. According to PSAK No. 1 of 2009, a quality financial report is a report that can meet qualitative requirements such as comprehensibility, relevance, reliability and comparability.

The rule Number X.K.2, Attachment to Decree of the Chairman of Bapepam and LK Number: KEP-346 / BL / 2011 dated July 5, 2011 which was updated as a circular of the Financial Services Authority (OJK) number 6 / SE OJK.04 / 2014 which regulates the Submission of Financial Statements Periodically Issuers or Public Companies, namely Annual Financial Statements and Semi-Annual Financial Statements. This OJK regulation requires public companies listed on the

Indonesia Stock Exchange to submit an audited financial report along with an auditor's opinion report prepared by an independent auditor no later than the third month after the closing of the annual financial year. A financial statement that must be audited in advance is by an independent auditor. Delay in submitting financial reports can have a negative impact on market reactions. The slower the time for the submission of financial statements, it will cause market doubts to increase or decrease the level of relevance of financial reports (Lestari 2010).

The financial statements that are submitted on time can be seen from the date of closing of the financial statements until the submission of the audited financial statements provided by the independent auditor's report. This time period can be referred to as the Audit Report Lag. The longer the Audit Report Lag will negatively affect the market because it will also reflect the state of the financial statements. The longer the Audit Report Lag, the market will give a negative signal to investors and creditors. The maximum number of days allowed by the OJK is not more than 90 days, because if it exceeds that time the company will be subject to sanctions which will cause the company to suffer losses.

With the discovery of issuers who are not disciplined in submitting audited financial reports. There are at least 52 issuers that did not submit financial reports as of December 31, 2014. This is based on news reports quoted from http://www.neraca.co.id. PT. Bumi Resources Tbk is an example of an emitter engaged in mining that has not submitted its financial statements. One of the contributing factors is the issuer is still waiting for a third party debt confirmation answer.

There are several characteristics and factors that influence auditor lag. One of them is ROE (Return on Common Equity). ROE is an indicator of a company's ability to generate return on capital investment by shareholders. The higher ROE value is certainly one of the good news that companies can provide for investors and potential investors. This statement is in accordance with the results of an empirical study from Carslaw and Kaplan (1991) in Lestari (2010) which states that companies that experience losses will not immediately report audit results, while companies that are experiencing profits tend to report their financial statements as soon as possible (Pradana). 2014).

The second factor is company size. The bigger the company, the faster the company can submit financial reports. Large companies have good internal controls and tend to come under pressure from external parties to immediately submit audited reports (Ariyani and Budiartha 2014), and (Sa'adah 2013). The results of their study on the other hand are not in accordance with the results of research (Nugraha and Masodah 2012), and (Tiono and Jogi 2013) who concluded that company size has no effect on auditor lag.

The third factor is DER (Debt to Equity Ratio). Companies with a high Debt to Equity Ratio will require clearer disclosure, causing the time used to complete the audit to be longer or the Auditor lag will be longer. The same is the case with the research results (Putra and Putra 2016) which show that DER has a positive effect on auditor lag. Meanwhile, the research results (Destiana 2013) show that DER has no effect on the Audit Report Lag. This may be due to indications that the company can fulfill its obligations by way of debt restructuring

The fourth factor is the PAF’s reputation. Research by Parwati and Suhardjo (2009), and Iskandar and Trisnawati (2010) stated that the PAF’s reputation as measured by PAF affiliated with the Big Four or PAF that is not affiliated with the Big Four has an effect on Audit Report Lag. This can be interpreted that the competence between the two types of PAF whether affiliated with the Big Four or not, is no different.

This study examines ROE, firm size, DER, and PAF’s reputation on audit report lag because there are still inconsistencies in results from previous studies. Meanwhile, the samples chosen were companies engaged in the real estate and property sector which were listed on the IDX between 2011 and 2014. This sector was chosen to be studied because in previous studies many had examined the manufacturing sector. Besides that, there are also many investors who are interested in investing in the real estate and property sector which motivates to study this sector. This indicates that this sector is experiencing resilience in the face of a sluggish economy.

Based on the research background, the proposed research problem is to investigate whether ROE, DER, company size and PAF reputation affect Audit report Lag. The first part is background research, the second part presents a literature review and hypothesis development. The research methodology is presented in the third section and followed by the results in the fourth section. In the fifth section are Conclusions and suggestions.

THEORETICAL FRAMEWORK AND HYPOTHESIS

Financial reports are a useful tool for reducing information asymmetry and providing signals between management and company owners. Signaling Theory is developed in economics and financial management to show that there is a mechanism that insiders have superior information that is better and faster than outside investors (Akerlof 1970). This theory is the basis of this research to solve the problem of information asymmetry because the signal reflects the actions taken by management that management is obliged to convey information about the state of the company to the owner in addition to information which is an obligation that must be conveyed to outside investors, information that can be a signal of success or failures related to company operations.

Financial reports are a useful tool to reduce information asymmetry and provide information related to the financial position, performance, and changes in the financial position of a company that is useful for a large number of users in making economic decisions (IAI 2007). Users of financial reports include investors, employees, lenders, suppliers and creditors, customers, governments, and the public.

Based on the Financial Accounting Standards (IAI 2012, 6), financial reports have four qualitative characteristics, namely comprehensible, relevant, reliable, and comparable. In fulfilling the qualitative characteristics of financial statements, there are constraints, namely when it is full of relevant and reliable characteristics. These constraints include punctuality, a balance between costs and benefits, and a balance between qualitative characteristics. The timeliness of submitting financial reports to its users is one of the important things because if a company delays the submission of financial reports, the relevance of financial reports that must be fulfilled will decrease or even disappear so that it will greatly affect the decision making of users of financial statements.

The preparation of financial statements uses many assumptions, methods and bases that have been set as a standard by the accounting profession. The choice of assumptions, methods and bases is called accounting policies that provide flexibility for management to use one of the methods based on interest or purpose. Information in financial reports like this can be known if audited by a public accountant to determine the fairness level of the financial statements

An independent auditor is a profession whose role is to perform externally on the side of the owner or shareholder (Fan and Wong 2005; Ausbaugh and Warfield 2003). Audit functions to reduce agency costs by providing assurance on the quality of accounting information, so as to increase the accuracy and efficiency of the contractual relationship between owners and management based on financial statements. An audit assignment is a systematic and competent activity to collect and evaluate evidence regarding economic activities and transactions which will then be adjusted according to predetermined conditions for publication to interested parties.

Several reasons for the need for audit services by independent auditors include (Halim 2008, 60):

1. Differences in interest: The difference in interests between company management that prepares financial statements and users of financial statements is a factor in the need for auditor services to improve information quality.
2. Consequences: independent auditors as third parties who assess the fairness of the financial statements.
3. Complexity: The development of the increasingly advanced business world makes financial reporting more complicated. Treatment of transactions often requires assistance from independent auditors.
4. Limited access: The complexity of developments in the business world will affect the process of preparing financial statements to become more complex. This condition causes the need for an independent auditor to improve the quality of information.

Financial services authority (OJK) circular number 6 / SE OJK.04 / 2014 which updates BAPEPAM Regulation No. X.K.2, Attachment to Decision of the Chairman of Bapepam Number: Kep / 346 / BL / 2011 which regulates the Submission of Periodic Financial Reports of Issuers or Public Companies. This OJK regulation requires public companies listed on the Indonesia Stock Exchange to submit an audited financial report along with an auditor's opinion report prepared by an independent auditor no later than the third month after the closing of the annual financial year so that the timeliness of submitting financial statements is very important. to be paid attention to in order to avoid any sanctions for delays in delivering information that will be claimed by users in making decisions. This delay in the submission of financial reports not only has an impact in the form of sanctions, but has the effect of reducing the qualitative characteristics of the financial statements, one of which is said to be relevant. The financial statements will be deemed to meet the relevant requirements if the financial statements are able to influence users in making decisions.

On the other hand, timeliness in the submission of financial statements will increase relevance. Meanwhile, the delay is called auditor lag, which is the time span between the balance sheet date and the date when the audit report is completed by an independent auditor (Tuanakotta 2011, 215). Whereas Knechel and Payne (2001) in Ahmad, et al (2005: 942) define Audit Report Lag or commonly known as audit delay is the time span between the closing date of the company's financial year to the date listed in the audit report. So that from the two definitions regarding Audit Report Lag above, it can be concluded that the definition of audit is the period of completion of the audit on financial statements carried out by an independent auditor starting from the closing date of the company's books, namely 31 December to the date stated in the audit report of the independent auditor.

The Influence of ROE on Audit Report Lag.

ROE or Return on Common Equity is a ratio that measures the extent to which a business unit generates profits based on the book value of ordinary shareholders (Horne and Wachowicz 2013,183). Companies with high ROE levels will as soon as possible submit their financial reports to the public because this is good news which will provide a high assessment in the eyes of the interested parties. Therefore, based on the description above that:

H1: ROE has a negative effect on the Audit Report.

Effect of Company Size on Audit Report Lag (Y)

Company size reflects the scale of the company which can be measured by the size of its assets and the number of employees. Companies that have large assets will reflect a large involvement of money as well. The larger the company size, the higher the level of complexity of the company. Based on the description above it can be stated that:

H2: Company size has a positive effect on Audit Report Lag.

Effect of DER on Audit Report Lag (Y)

DER is a comparison between the funds provided by creditors and company owners. The greater the DER, the higher the risk is because most of the company's operations are financed by debt. Therefore, investors will tend to avoid risks related to high DER. This large risk will cause the company to become the center of attention so that this will prolong the Auditor Report Lag. Based on the description above it can be stated that:

H3: DER has a positive effect on Audit Report Lag.

PAF's Reputation on Audit Report Lag (Y)

Companies that use PAF services that are affiliated with PAF the Big Four will be faster to publish their financial reports than companies that use PAF services that are not affiliated with PAF the Big Four. This is due to the reputation that PAF has which are affiliated with PAF the Big Four as well as a larger number of professional resources. Parwati and Suhardjo (2009), Lestari (2010) and Pradana (2014) conclude the same study results, so based on the description above it can be concluded that:

H4: The PAF's reputation has a negative effect on the Audit Report Lag.

RESEARCH METHOD

This study uses a causality test which aims to predict the cause and effect relationship between the variables studied (Anwar 2011, 14). The causality relationship to be tested is the effect of ROE, company size, DER and PAF reputation on Audit Report Lag.

Population and Sample

The real estate and property sector listed on the IDX in 2011-2014 is the population used in the study. There are a total of 207 companies in the population while the sampling method is purposive sampling. A sampling method based on certain characteristics. The following table is the steps in determining based on this purposive sampling :

Table 1
Sample Determination

	Description	*Sample Number*
	The population is Real Estate and property companies listed on the IDX (years 2011-2014)	207
1.	Real estate and property companies that are not consecutively listed on the IDX in 2011-2014	(15)
2.	Real estate and property companies that did not experience profit or profit in a row during 2011-2014	(36)
	Total Samples	156
	Total period of observation	39

On the basis of the two criteria above, sampling can be carried out in order to obtain a sample of 39 companies from a total population of 207 companies.

Data collection

This research uses quantitative data with secondary data from audited financial reports and independent auditors' reports that have been published on the IDX or can be accessed through www.idx.co.id and through the Indonesia Capital Market Directory (ICMD).

Data Analysis

To analyze the research data, several analyzes were used. The first analysis is descriptive statistical analysis with the aim of knowing the data description of the independent variables, namely ROE, company size, DER and reputation of PAF and the dependent variable, namely Audit Report Lag. After descriptive statistical analysis, the results are shown in Table 2, then as the second step of analysis, which is one of the prerequisites to be tested with multiple linear regressions, is to pass the classical assumption test. This test consists of normality test, heteroscedasticity test and multicollinearity test. These four classical assumption tests have all passed. Then the third as the most recent data analysis is multiple linear regression analysis. This analysis aims to measure the degree of relationship and direction between each independent variable and the dependent variable (Ghozali 2011, 96). Software to analyze this data using SPSS Software (Statistical Package for Social Science) version 21

Table 2
Descriptive Statistics

	N	Minimum	Maximum	Mean	Standard Deviation
Y	156	30,00	107	78,839	10,154
X1	156	0,27	44,24	11,62	8,817
X2	156	10,99	17,45	15,05	1,102
X3	156	0,08	1,91	0,734	0,419
X4					
Not affiliated with The Big 4 PAF (0)	89			77,978	11,635
Affiliated with The Big 4 PAF (1)	35			81,03	3,974

Multiple Linear Regression Analysis

The model to be tested in this study with multiple regression analysis is as follows:

$$Y = \alpha - \beta x1 + \beta x2 + \beta x3 - \beta x4$$

Description:

γ	= dependent Variable	β	= coefficient of independent variable
α	= Constanta	x1	= ROE

x2 = company size X4 = PAF's Reputation
x3 = DER

Hypothesis testing in this study uses multiple linear regression analysis using SPSS software version 21. There are four hypotheses proposed in this study. Hypothesis test results are measured at the significant level at the p-value level <0.05 or significant at the 5% level. The results of the research model hypothesis test above are shown in Table 3 as follows :

Table 3
The Result of Hypothesis Test

Hypothesis	Unstanderdized Coeffisient			
	B	Standard Error	T	Significant Level
Constant	109,885	12,742	8,624	
H1	-,252	,109	-2,318	0,022
H2	-1,950	,890	-2,191	0,03
H3	-,213	2,368	-0,090	0,929
H4	4,935	2,030	2,341	,017

So based on the results of the multiple regression analysis test, the following equation model can be produced **:**

$\gamma = 109{,}885 - 2{,}52x1$ - $1{,}950x2$ - $2{,}13x3$ $+ 4{,}935x4$

RESULTS AND DISCUSSION

The results of descriptive statistics in Table 2 showed that the average Audit Report Lag variable is 78.84 or 79 days. Audit Report Lag has a range between 30 days to 107 days. With an average of 79 days, it shows that on average each manufacturing company has complied with the maximum allowable day limit, which is 90 days.

Furthermore, the results of the second descriptive statistic, namely the size of the company in Table 2 shows an average of 15.05. The smallest company size is indicated by the number 10.99, while the largest company size is 17.45. The average firm size indicates that the company is large because it is close to its maximum limit.

The results of the third descriptive statistics for the independent variable ROE in Table 2 show the minimum range is 0.27 and the maximum range is 44.24. The mean for this variable was 11.62, while the standard deviation was 8.82.

The results of the fourth descriptive statistic for the independent variable DER in Table 2 show the minimum range is 0.08 and the maximum range is 1.91. The average for this variable is 0.73. This shows that 73% of the capital of manufacturing companies is financed by debt.

The results of the fifth descriptive statistics for the independent variable Reputation of PAF in Table 2 show that real estate and property companies that use the Big Four PAF or given code 1 have a proportion of 35 companies, while real estate and property companies that use non the Big Four PAF or given code 0 it has the proportion of 89 companies.

The results of this study based on Table 3 states that ROE has a significant negative effect on Audit Report Lag. It can be seen that the significance value is 0.022. This figure is below alpha (α) 0.05 or 0.022 <0.05 so that H0 is rejected and H1 is accepted. The results of the study are in accordance with the signaling theory where ROE is one of the signals or directions given by the company. High ROE is good news for both companies and users of information, and vice versa. The good news will make it easier for auditors and encourage auditors to immediately complete the audit process or shorten the Audit Report Lag so that the audited financial reports can be published immediately. The results of the same study were also conducted by (Hariza et al. 2012). On the other hand, different study results were obtained by (Sutapa and Wirakusuma 2013) which stated that profitability in this case measured using ROE had no effect on Audit Report Lag.

The regression test results based on Table 3 indicate that company size has a significant negative effect on Audit Report Lag. It can be seen that company size has a significance value of 0.030 which is below alpha (α) 0.05 (<0.05) which means that it has a significant effect. Meanwhile, based on the value of the regression coefficient, company size has a beta value (β) of -1,950 to the Audit Report Lag. This means that if there is a one-unit increase in the company size variable and other variables are considered constant, the Audit Report Lag variable will decrease by 1.950. This means that the larger the company size, the shorter or shorter the Audit Report Lag. Thus, Hypothesis 2 (H2) is accepted and H0 is rejected. The results of the study are in accordance with signaling theory which states that company size as measured by total assets is a guideline for investors to determine the long or short duration of Audit Report Lag. Research results are in accordance with the results (Sa'adah 2013;)

The regression test results in Table 3 show that DER has no significant effect on Audit Report Lag. DER, which indicates how much capital the real estate and property company is financed by debt. This indicates that the high or low DER is not a factor considered by the auditor when completing his audit assignment. In the sense that auditors do not see DER as a factor that accelerates or slows down the audit process because high leverage is a normal or normal operational financing in most companies. The results of the study are not in accordance with the study (Putra and Putra 2016; Sutapa and Wirakusuma 2013);

The regression test results in Table 3 prove that PAF's reputation has a significant positive effect on Audit Report Lag. These results imply that the higher the PAF's reputation, the more Audit Report Lag will increase, in the sense that the more the number of PAFs that are affiliated with The Big Four PAF the longer the audit completion process will also lead to the length of reporting or preparation of the auditor's report. Or in other words the Audit Report Lag is getting longer too. This is because the number of PAFs that are not affiliated with Big Four PAF's is more dominant, causing an effect on the lengthening of the Audit Report Lag. This is indicated by the large number of PAF that are not affiliated with The Big Four PAF's in this study is greater, namely 89 or 71.77% so this does not show a major influence on Audit Report Lag.

CONCLUSIONS

ROE has a negative effect on the Audit Report Lag. The higher the ROE, the more it is good news for both the company and information users, and vice versa. The good news will make it easier for auditors and encourage auditors to immediately complete the audit process or shorten the Audit Report Lag.

Company size has a negative effect on Audit Report Lag. The increasing the size of the company, the shorter the Audit Report Lag and vice versa, the smaller the company size, the longer the Audit Report Lag.

DER has no effect on Audit Report Lag. This result implies that the high or low DER does not determine the length or shortness of the Audit Report Lag.

The PAF's reputation has a positive effect on the Audit Report Lag. This is because the number of PAFs that are not affiliated with Big 4 PAF is more dominant, thus causing an effect on the length of the Audit Report Lag.

The limitation of this study is that the sample of this study consists of only 39 companies. In addition, the model in this study is very weak because the resulting coefficient of determination is only 0.13 or 13%, meaning that the ability of the independent variables to explain the variation in the dependent variable is very limited. This means that there are other factors that are not tested against the Audit Report Lag.

Suggestions from this study are that future studies are suggested to test a sample of companies engaged in other sectors. In addition, it is necessary to consider using additional other independent variables that are expected to affect the Audit Report Lag such as variables of company age, industry classification, and others. Investors who will invest in Real Estate and Property companies are expected to pay more attention to ROE, company size and PAF's reputation.

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