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Determinants of Audit Report Lag with Intervening Auditor Specialist Industry

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ABSTRACT

This research was conducted to test and determine the factors that affect audit report lag. There are two independent variables in this study, namely profitability which is proxied by return on investment, and company size, which is indicated by total assets, then there is an industry specialist auditor as intervening. The research method applied in this research is quantitative by using Sem Partial Least Square and using Smart PLS 3.0 software as a data processing tool. The sample used in this study is a publicly listed BUMN company consistently during the 2014-2021 period. The results found in this study are that the profit proxied in return on investment does not affect audit report lag and industry specialist auditors, then company size has an influence on audit report lag but there is no relationship with industry specialist auditors, then industry specialist.

INTRODUCTION

The emergence of Industry 5.0, which is often known as the "age of society", brought great changes in various types of industries because of technical advances in industrial competitiveness. Especially in the economic and financial sectors which are the most important and fundamental factors because they can have a significant influence on the economic and political stability of a country, business actors, both private and public, are required to disclose information about the conditions and results of the business processes of each sector as a result of rapid developments Technology (Yudhi et al., 2020).

According to paragraph 43 of the Statement of Financial Accounting Standards in the Basic Framework for the Preparation and Presentation of Financial Statements 2012, delays in reporting material information result in the loss of useful information. For financial statements to be useful, the information included in them must be available when needed for decision-making. Management is responsible for ensuring consistency between the relevance and credibility of financial reporting. To meet tight deadlines, reports are routinely filed before all relevant aspects of a transaction or event are understood, reducing its accuracy. But if reporting is delayed until all pertinent information is available, it may be very reliable but ultimately useless to decision-makers. Finding a pleasant medium between adoption and trust is highly dependent on decision-making needs.

If the auditor waits too long to get the audited financial statements, then the financial statements may not be approved. not accurate and cannot be trusted. If the audit process takes too long to complete, the company may be penalized by the market for failing to release audited financial reports by the agreed time (Hesti, 2011).

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The external variable that can be used to measure audit quality is the time it takes the auditor to provide an opinion on the financial statements of an audited company. Habib, A., and Bhuiyan (2011), a long lag between audit and report release will reduce the value of financial statements. The usefulness of a company's financial statements is strongly influenced by timeliness. More information reduces effectiveness (IAI, 2009). As a result, there is increasing pressure on auditors to conduct audits in a timely and code-compliant manner. The following letters are given by the

Indonesia Stock Exchange to companies that are late in presenting the results of the entity's financial statements that have been audited by auditors (KAP) in the period December 31, 2014, to December 31, 2021.



Figure 1.

The phenomenon of audit lag in all Go Public companies at Indonesia Stock Exchange

Based on the graphic above from the Indonesia Stock Exchange, 52 lagging companies submitted financial reports in 2014, and 63 companies were lagging in submitting reports, there was an increase from the previous year in 2015, in 2016 35 companies were lagging in submitting financial reports, this was an improvement and experienced a decline, then in 2017 70 companies were lagging in submitting financial statements and increasing again up to 50%, then in 2018 there were 64 companies that were lagging in submitting financial reports this was an improvement and decreased, in 2019 42 companies were lagging in submitting the report and this there was an improvement due to a decrease, then in 2020 96 companies were lagging in submitting reports, this can be said to be a significant increase up to >50% from the previous year due to an extraordinary event. Usually, namely the COVID-19 pandemic, then in 2021 there were 91 companies left behind in submitting financial reports even though there had been improvements from the previous year, the number was quite high because the COVID-19 pandemic was still not over.

The following is the data for the last 5 years (2014-2021) specifically for state-owned companies or SOEs in the incidence of delays in submitting audited financial reports from December 31, 2014, to December 31, 2021, in companies in this sector.

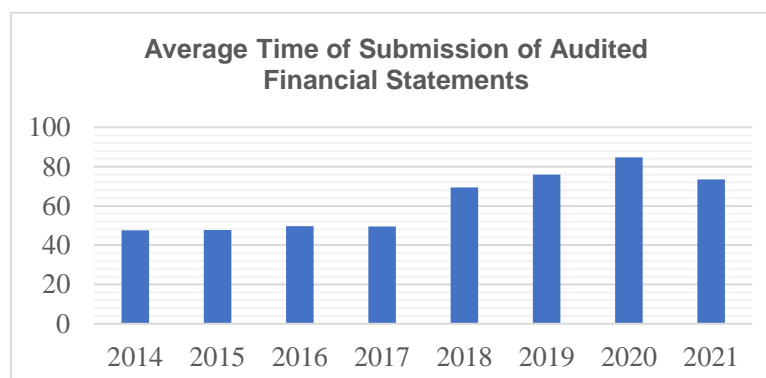


Figure 2.

Graph of Audit Report Lag in State-Owned Enterprises Go Public

Based on the graph above, shows that overall, based on that timperiod here is an increase in the number of companies on average per year experiencing an increase or increasing in terms of days of submission of audited financial statements, such as from 2014, 2015, 2016, 2017, 2018, 2019, 2020,

and 2021 where the number should decrease every year or even companies can be faster in submitting audited financial reports, in terms of current technological advances that are getting faster with a big data system being a basis for every business entity to provide information on financial statements quickly but do not abandon the relevance and validity of the information. So that information users can make decisions or policies that are small or large in nature can be implemented promptly audit procedures are the main reason why most companies that go public wait to release their financial results (Haryani & Wiratmaja, 2014). According to Pratiwi (2009), an independent auditor needs time to perform his duties. When an organization's audited financial accounts are not released until after the fiscal year ends, this is known as audited financial report lag or audit report lag. Financial statements contain important information. For example, the profits obtained as a parameter of the company's success and are used as considerations for making investment decisions, and the market will respond negatively to the lag of audit reports that exceed the time limit. Arifa (2013) and Alkhatib, K., & Marji, (2012), claims that delayed earnings releases result in negative abnormal returns, which contradicts the general assumption among investors that lagging financial reporting is a parameter of deteriorating company health.

Auditors must be careful to follow all applicable regulations when conducting audits. The belief that rules can regulate company activities, in this example the behavior of auditors to comply with regulations, is the core of compliance theory according to Dewi, I. C., dan Hadiprajitno (2017), which explains why business actors can comply with audit criteria regulations, the level of auditor professionalism can be measured by examining how strictly they adhere to accepted auditing standards. There is a risk that the auditor's credibility may decrease if users of financial statements become concerned about the increasing weakness of audit reports.

The problem that is often faced by public companies is lagging in the release of audit results. Many of the problems that develop in auditing can be traced back to subjective decisions made by the audited entity or the auditors themselves, such as the need for lengthy book-end adjustments or the complexities of preparing consolidated financial statements. Previous experience with audit firms in the same sector, unequal allocation of resources and audit coverage, and difficulties from another auditor's perspective are all things to keep in mind from the auditor's point of view. This study uses industry-specific auditors as an intervention to see if there is a correlation between the length of time between the time the audit is conducted and the time the report is published. The independent factors of this study include the company's profitability and size; The bigger the company, the more assets, and the longer it takes to complete the audit report. a measure of time measured in terms of how long it takes to file financial statements.

To be considered an industry specialist auditor, one must have completed additional training beyond the basic requirements of the auditing profession. According to Michael & Rohman (2017), auditors should be problem-finding experts with deep domain knowledge. According to research by Habib, A., and Bhuiyan (2011), the audit report completion time can be reduced if the auditor has expertise in the target business. According to Pham et al., (2014), indicating that auditors have a certain specialization, thanks to their familiarity with the client's business, which reduces the impact of the auditor's ignorance on the client's operations, which in turn will cause the audit report to be delayed by several years. For starters, sector-specific auditors will have shorter assignments.

Ni Made Sunarsi, Ida Ayu Budhananda Munidewi (2021), postulated that the time required to produce an audit report is proportional to the total assets of the company. The likelihood that a company's financial statements may be lagging increases the larger their entire asset base, supported by research from the French company Khoufi & Khoufi (2018), which finds the frequency of late audit reports is strongly influenced by the size of the organization. Even though French companies significantly affect the lag time of audit reports, this does not apply to the profitability parameter.

Based on that, this research was carried out because auditors need to know and be able to control several factors that affect the time needed to complete work and produce audit reports, ideally avoiding or at least minimizing audit report delays if an extraordinary event occurs. The second problem is that different studies have reached different conclusions about the importance of characteristics such as firm size, profitability, and use of industry-specific auditors. Third, the lack of literature on the potential mediating role of industry-specific auditors between business size and profitability and the dependent variable of interest, audit report lag, is the focus of this investigation.

METHODS

The purpose of this research is to create a mathematical model that explains the effect of exogenous variables (outside the control of the study) such as company size and profitability on the dependent variable (within the scope of the study) such as the time needed to complete an audit report using experts in the relevant industry as a variable.

The aim is to verify the hypothesis. Smart PLS, in its 3.0 literacy, serves as a research tool here. The reason for Using Partial Least Square in this Research is PLS can examine theories that are not strong or weak using predictions. This is due to the many paths of association between variables in the research model, which means that it does not require facts that match the assumptions Ghozali, (2018), argues that the sample represents the population in terms of size and composition. Purposeful sampling is used for this purpose. Purposive sampling Ghozali, (2018), is a sampling method that requires thinking. The researchers used a sampling strategy to ensure the sample they selected was representative of the full population of 160 businesses and would provide useful results. All BUMN Go Public companies traded on the Indonesia Stock Exchange (IDX) in 2014, 2015, 2016, 2017, 2018, 2019, 2020, and 2021 were included in the sample. Researchers use a technique called "purposive sampling" to select their research subjects.

1. The company has a public character and is listed on the Indonesia Stock Exchange with the symbol of BUMN and is required to submit annual financial reports and audited financial reports for 2014 to 2021.
2. In their financial statements, corporations use the rupiah currency value.
3. On December 31, the company's fiscal year ends (make sure the sample does not cover part of the annual financial statements).
4. Availability of relevant data for calculating ratios, which are important for measuring study variables. Financial reports and audit reports were used as secondary sources for this analysis.

All financial and audit reports for 2014 to 2021 can be viewed on the Indonesian Stock Exchange and Ticmi websites.

Table 1.
Sample Selection Process Based on Criteria

No	Criteria used	Total
1	BUMN Go Public listed on the Indonesia Stock Exchange (IDX) for the period 2014 to 2021	20
2	BUMN Go Public companies that are inconsistent in publishing audited financial statements for the period 2014 to 2021	(0)
3	The data presented is inadequate and incomplete	(0)
Total Sample		20

According to the criteria above, the number of sample companies used in this study is 20 companies in 2014, 2015, 2016, 2017, 2018, 2019, 2020, and 2021, so the number of samples (n) is 20 x 8 periods = 160 samples. This research focuses on several variables used, namely Audit Report Lag, Profitability, Company Size, and Industrial Specialist Auditors, the four variables are described:

Table 2.
Variable Operations

No	Variable	Indicators	Scale
1	Audit Report Lag	audit report lag is measured from the end of December 31st to the date stated in the audited financial statements	Interval Scale
2	Profitability	$ROI = \frac{EAT}{Total\ Assets} \times 100\%$	Ratio Scale
3	Firm Size	company size using the natural logarithm of total assets (LnTA)	Interval Scale
4	Industry Specialist Auditor	>30%: Industry Specialized Auditor <30%: Industry Specialized Non-Auditor	Ratio Scale

RESULTS AND DISCUSSION

Convergent Validity

The measurement model that reflects the convergence of the indicator model is assessed by comparing the item or component scores with the construct scores calculated by the PLS. Highly reflective if the size is more than 0.70. In contrast to later stage development research, when a measurement scale of 0.50 to 0.60 is considered quite acceptable, this only happens in the early stages of research (Ghozali Imam, 2006).

Table 3.
Nilai Convergent Validity

	Audit Report Lag	Industry Specialist Auditor	Profitability	Firm size
Audit Report Lag	1,000			
Industry Specialist Auditor	-0,256	1,000		
Profitability	-0,052	0,071	1,000	
Firm size	-0,568	0,179	0,174	1,000

The results of processing with smartPLS 3.0 are shown in Table 3. The loading factor indicator value is more than 0.70, indicating that the outer model value has reached convergent validity. The correlation value of the audit report delay parameter with the number 1000 is shown in table 3. There is a correlation value of 1,000 between constructs and indicators of audit skills in certain sectors. There is a 1,000 correlation between profitability metrics and business size parameters. Based on these results, there is no one best way to remove extraneous factors from a design

Discriminant Validity

The discriminant can test the reliability of the reflection parameter in the measurement model by comparing the measurement cross-load with the concept load. A more accurate block size prediction can be made using the developed construct if it has a stronger correlation with the measurement item than the other constructs (Ghozali Imam, 2006).

Table 4.
Nilai Discriminant Validity

	Audit Report Lag	Industry Specialist Auditor	Profitability	Firm size
ROI	-0,052	0,071	1,000	0,174
TA	-0,568	0,179	0,174	1,000
Y	1,000	-0,256	-0,052	-0,568
Z	-0,256	1,000	0,071	0,179

In Table 4 the loading factor value between the audit report projection indicator and the dependent variable Y is much higher than the correlation value between other indicators. The loading factor value is 1,000 for the projected profitability variable with a return on investment greater than the loading factor results for other indicators and a superior discriminator.

Composite reliability

Evaluating composite dependencies requires checking the validity and reliability requirements for construct values such Cronbach's alpha and Average Variance Extracted (AVE). To be considered highly reliable, a construct must have a Cronbach alpha of at least 0.70 and an AVE of more than 0.50. Table 5 shows the AVE and composite reliability values for all variables.

Table 5.
Nilai Composite Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Audit Report Lag	1,000	1,000	1,000	1,000
Industry Specialist Auditor	1,000	1,000	1,000	1,000
Profitability	1,000	1,000	1,000	1,000
Firm size	1,000	1,000	1,000	1,000

The composite reliability value in Cronbach’s Alpha for all variables in the construct is 1,000, as shown in Table 5, there is no problem with model dependency. Each variable also has an AVE higher than 0.50. Therefore, all metrics have been validated, making both results reliable.

Structural Model Analysis (Outer Model)

When evaluating internal models to see how the different constructs relate, we use the significant value and R-Square of our research model. The relevance of the structural route parameter coefficients and the strength of the relationship between the structural model and the dependent construct of the t-test were both quantified using R-Square. After tinkering with the shape of the model to find the optimal model, the structural model as in Figure 3 is the result.

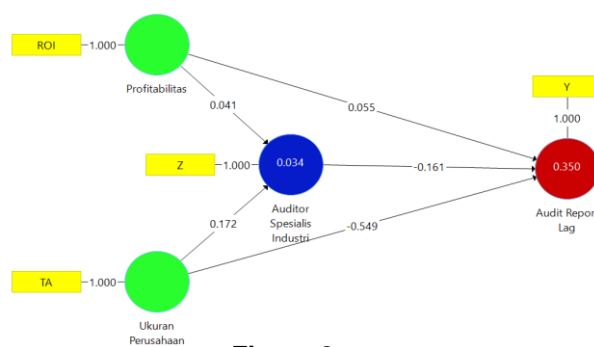


Figure 3.
Direct Influence Path Chart

For each variable, dependent and intervening in this example, an R-square value was calculated to evaluate the model using Partial Least Square (PLS). The estimated R-square value obtained from data processing using smartPLS 3.0 is shown in Table 6 below.

Table 6.
Nilai R-Square

	R Square
Audit Report Lag	0,350
Auditor Specialist Industry	0,034

The results of this study are presented in table 6 audit report lag variables driven by profitability, company size, and auditors with expertise in the industry concerned. Factors of profitability and firm size in turn have an impact on the industry specialist auditor variable.

Based on Table 6, the R-square value for the audit report lag variable is 0.350, 35% of the variation in audit report lag can be calculated by the model. The value of 0.034 for the industrial specialist auditor variable indicates that this variable is explained by the model at 3.4%. Predictive relevance (Q2) can be used in conjunction with R-squared to produce this finding. For the constructive model, the predictive relevance value (Q2) is the important value. This Q-square can also be used to evaluate how well the model and its parameter estimates explain the observed data. In general, a Q-squared score above 0 is considered high quality. The formula for determining Q2 is as follows.

$$Q^2 = 1 - (1 - R_1^2) (1 - R_2^2) \dots (1 - R_n^2)$$

$$Q^2 = 1 - (1 - 0,350^2) (1 - 0,034^2)$$

$$Q^2 = 0,1242$$

Figure 4.
Calculation Predictive Relevance

The calculation above shows that the Q-Square value is greater than 0, and the model output observations and parameter estimates are accurate. Then, secondly, check the Godness of Fit (GoF) value. The GoF value is determined based on the following criteria:

- Small GoF = 0.10
- Medium GoF = 0.25
- Large GoF = 0.38

The following is the calculation to do to find the Godness of Fit (GoF) value.

$$Q^2 = 1 - (1 - R_1^2) (1 - R_2^2) \dots (1 - R_n^2)$$

$$Q^2 = 1 - (1 - 0,350^2) (1 - 0,034^2)$$

$$Q^2 = 0,1242$$

Figure 5.
Calculation Predictive Relevance

The goodness of Fit (GoF) analysis reveals that the model lacks data because it is still classified as having a low number of observations. The findings of the inner model test show that the resulting structural model is less than optimal.

Hypothesis Analysis

When evaluating hypotheses through multiple pathways, the t-test (t-statistics) is usually used. The following is an example of hypothesis testing and modeling that shows a causal relationship between variables.

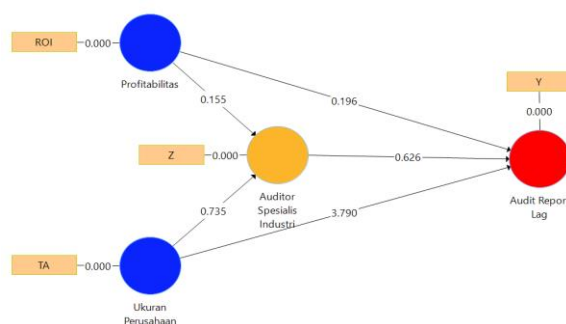


Figure 6.
Model According to Pathway Diagram

Table 7.
Path Coefficients

	T Statistics	P Values
Profitability -> Audit Report Lag	0,196	0,845
Profitability -> Auditor Specialist Industry	0,155	0,877
Firm Size -> Audit Report Lag	3,790	0,000
Firm Size -> Auditor Specialist Industry	0,735	0,462
Auditor Specialist Industry -> Audit Report Lag	0,626	0,532

The results of the analysis can be said in several ways:

The relationship between profitability proxied in ROI and audit report lag is not statistically significant because the value of 0.055 in the path diagram described in Table 7, t-statistics of 0.196,

and p-value of 0.845 in the fit model diagram in Figure 4 and Table 8 all failed to meet the threshold of statistical significance (t-statistic > 1.96 and p-value 0.05). Therefore, the idea was refuted.

The t-statistic of 0.155 and the p-value of 0.877 in the sections of Figure 4 and Table 7 of the model fit diagram show no statistically significant effect between the profitability of the industry specialist auditors, as indicated by the value of 0.041 in the route diagram generated in the section of Figure 4. A t-statistic greater than 1.96 and P-value less than 0.05 were used as the statistical significance level. In this case, the hypothesis is rejected.

As illustrated by the -0.549 value in the route diagram provided in Table 7, the relationship between business size and audit report latency is statistically significant when the t-statistic is greater than 1.96 and the P-value is smaller than 0.05. and in both parts of figure 4 and table 7, the t-statistic value is 3.790, with a p-value of 0.000. Therefore, the theory is accepted.

Model fit diagram (Figure 4) and table (Table 7) show that there is no significant effect of business size on industrial specialist auditors, with t-statistics of 0.735 and p-value of 0.462, respectively. Therefore, the hypothesis is not valid.

As can be seen from the route diagram in Figure 4, values of 0.161 and values of 0.161 do not show a statistically significant relationship between industry specialist auditors and audit report latency (t-statistic > 1.96 and P-value 0.05). In the fit model diagrams 4 and table 7, the t-statistic is 0.626 and the p-value is 0.532. It refutes the idea and refutes it emphatically.

Table 8.
Specific Indirect Effect

	Original Sample	T Statistics	P Values
Profitability -> Auditor Specialist Industry -> Audit Report Lag	-0,007	0,063	0,950
Firm Size -> Auditor Specialist Industry -> Audit Report Lag	-0,028	0,312	0,755

The results of the tests carried out above can be concluded in several ways as follows:

Table 8. shows the results of indirect testing between profitability and audit report lag using industry specialist auditors, and the results show that there is no effect between profitability and audit report lag using industry specialist auditors (t-statistic = 0.063, p-value = 0.950, direction coefficient = -0.007). This refutes the hypothesis.

Based on the findings of table 8. which presents the results of indirect testing between company size and audit report lag using industry specialist auditors, it can be concluded that there is no effect between company size and audit report lag using industry specialist auditors (t-statistic = 0.312, p-value = 0.755, the direction of the coefficient = -0.028). This refutes the hypothesis.

The findings show that there is no relationship between audit report delay and profitability. According to agency theory which explains the relationship between principals and agents, the results of this test show that the projected profitability based on the calculation of return on investment does not affect the auditor who submits the audited financial statements or does not become an indicator of disruption in the audit process whether it will be on time. In addition, a high level of profitability does not indicate the need for a delay in audit reports. The findings of this study contradict the findings (Fujianti & Satria, 2020), which found that audit report delay is related to company profitability.

The lack of a statistically significant relationship between earnings and auditors with sector expertise was found in our experiment. This means that the profitability of the company has no effect on whether the ability and competence of auditors in a particular field a requirement in should be conducting a financial statement audit, and consequently, that the presence or absence of an auditor specialist in a particular field should not be considered when submitting financial statements. whether or if it is faster. Then, the results of this study contradict other studies (Habib, A. and Bhuiyan, 2011), which found a more thorough investigation of all relevant elements when carried out by experts from the industrial sector.

The findings show that the length of time between the audit and the next report is significantly related to firm size. This means that large-scale companies face less risk than their smaller counterparts. This is because large companies have sufficient oversight over the business to deal with any pressing issues that may arise. Audit report latency will be reduced if this is done properly and effectively. Companies with a lot of assets may put pressure on their auditors to have their financial statements audited and out more quickly. Large companies may expect to receive their audit reports

sooner than smaller ones. Many factors, including the value of a company's assets, affect how quickly quarterly and annual reports should be submitted. To begin with, compared to small businesses, large companies utilize and utilize more advanced technology and information systems, which help improve the quality of the company's internal control system and reduce the number of errors made during the process of preparing financial statements. This, in turn, makes it easier for auditors to examine the financial statements of these companies. substitute auditors in justifying actions before the release of the auditor's report. Thus, the findings of this study are consistent with those (Fujianti & Satria, 2020), (Nur Affifah & Susilowati, 2021), and (Nguyen et al., 2022), all of which found that the expected size of the firm, as measured by the total indicator assets owned, affect the audit. report delay. While (Fadoli, 2015) found no correlation between firm size and audit report delay, this finding does not match our findings.

The data shows that the ratio of firm size to auditors with industry expertise is not statistically significant. This means that the auditor, regardless of the overall size of the client firm's assets, must have expertise in the industry in which the firm operates to provide an adequate audit. In this way, it will not affect the timeliness of the audit report if the auditor does not have experience in the client's business.

According to the findings, there is no correlation between industry-specific auditors and audit report delays. Thus, it was determined that organizations reviewed by industry-specific auditors did not acquire a credible reputation regardless of how quickly or slowly the audit was conducted. This finding contradicts the predictions of agency theory and signal theory, which argue that the presence of an external auditor will shorten the length of the agent-principal relationship between the company's management and its auditors to improve the quality of the latter's assessment. of the company's financial statements. faster so that people can have more confidence in financial accounts as a tool for making decisions. The findings of this study also contradict other research (Habib, A. and Bhuiyan, 2011) which found that using specialized auditors can speed up the audit examination process because these professionals already have the tools and expertise needed for the client's business.

Based on the data, it appears that using auditors who specialize in a particular industry as an intermediary variable in the relationship between earnings and audit report lag yields unimportant results. The auditor does not need to have special knowledge in a particular industry, because delays in submitting the auditor's report can still be caused by other factors, and the audit execution time can be reduced by examining the financial statements thoroughly from beginning to end. According to signaling theory, independent auditors should not communicate with auditors who have certain specializations in the client's business to accelerate the study of their financial statements based on whether the client is profitable or not.

The findings suggest that the use of industry specialist auditors as a mediator between firm size and audit report latency has unimportant results. For agents to develop and innovate in advancing industrial business with new technologies and existing information systems, and to establish partners from external parties to be able to monitor and provide opinions, contrary to agency theory, which describes the relationship between agents and principals in the ownership of a company. financial data to act quickly in case of problems or inaccuracies. According to this idea, the investor prefers a large asset base for the company in which he has invested so that the company can more effectively and efficiently meet the demands of the global economy. The findings of this test contradict these expectations because it requires the expertise of professional and experienced appraisers in the company's industrial business field but presenting a fair assessment for significant assets takes more time. That the auditor, in his role as an evaluator of the accuracy of the company's financial statements, cannot promise a shorter turnaround time for audit findings, regardless of the size of the company's assets.

CONCLUSIONS

The purpose of this study is to examine the time lag of audit reports of state-owned companies traded on the Indonesia Stock Exchange between 2014 and 2021 regarding company size, profitability, and industry specialist auditor intervention. It is possible to derive the following conclusions from the studies and discussions provided. The results of the study show that there is no relationship between the delay in the release of the audit report and the prediction of profitability with return on investment. Studies have shown that using industry expert accountants does not significantly increase the expected profitability with a return on investment. The correlation between predicted firm size and total assets shows a substantial relationship with audit report lag, as shown by the results of the tests that have been carried out. Completed tests show that when the expected firm size is combined with the firm's

total assets, no relationship indicators with industry specialist auditors are produced. Expert auditors in the field conclude that audit report delay is not correlated with test results. There is no significant relationship indicator between the prediction of company profitability with return on investment and audit report lag conducted by auditors specializing in the company sector. The delay in audit reports by passing industry-specific auditors is compared with the expected size of the company and the number of assets controlled by the company, and the results show that there is no significant relationship between the two.

It still needs improvements and additions for further research. There are several suggestions from the author to make further research with themes and substances related to audit report lag, including. The sample used is more than this research and uses a sample of different companies such as the type of mining company because if you look at it, it has a more complicated business complexity. The data processing method used uses different tools so that the research results obtained are more diverse and can be compared with the results of previous studies. Conduct an offline literature study for practitioners in the Public Accounting Firm so that they know more about the operationalization of external auditors so that the delivery of ideas in the discussion is more complex and diverse. The research period is extended, for example in a decade for certain types of companies so that the resulting data is much more varied. Conducting literature studies from various international journals to be able to compare in interpreting research results.

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