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THE INFLUENCE OF COMPANY SIZE, PUBLIC ACCOUNTING FIRM SIZE, AND PROFITABILITY ON AUDIT REPORT LAG

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Abstract: *This research aims to investigate company size, KAP size, and profitability on Audit Report Lag. The research sample is derived from 74 companies in the Basic and Chemical Sector listed on the Indonesia Stock Exchange (BEI) during the period from 2019 to 2022. The study investigates the influence of company size, KAP size, and profitability on Audit Report Lag. The research methodology employed is quantitative research using SPSS version 26, 2019. The research type used is causal research, aimed at testing hypotheses regarding the influence of one or more independent variables on another dependent variable. The research findings state that Company Size, Audit Firm Size, and Profitability do not significantly impact the Audit Report Delay in companies within the Basic and Chemical Industry sector listed on the Indonesia Stock Exchange From 2019 to 2023.*

Keywords*: Audit Report Lag, Profitability, Impact, KAP Size, Company Size.*

Abstrak: Penelitian ini bertujuan untuk menyelidiki pengaruh ukuran perusahaan, ukuran KAP, dan profitabilitas terhadap Audit Report Lag. Sampel penelitian diambil dari 74 perusahaan di Sektor Dasar dan Kimia yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2019 hingga 2022. Penelitian ini menyelidiki pengaruh ukuran perusahaan, ukuran KAP, dan profitabilitas terhadap Audit Report Lag. Metodologi penelitian yang digunakan adalah penelitian kuantitatif dengan menggunakan SPSS versi 26, 2019. Jenis penelitian yang digunakan adalah penelitian kausal, yang bertujuan untuk menguji hipotesis mengenai pengaruh satu atau lebih variabel independent terhadap variabel dependen. Hasil penelitian menunjukkan bahwa Ukuran Perusahaan, Ukuran KAP, dan Profitabilitas tidak memiliki pengaruh signifikan terhadap Keterlambatan Laporan Audit pada perusahaan di sektor Industri Dasar dan Kimia yang terdaftar di Bursa Efek Indonesia dari tahun 2019 hingga 2023.

Kata kunci: *Audit Report Lag*, Profitabilitas, Pengaruh, Ukuran KAP, Ukuran Perusahaan.

INTRODUCTION

In the increasingly complex and globalized financial environment, the accuracy and timeliness of financial reporting have become paramount. Financial reports serve as the primary communication tool between a company and its stakeholders, including investors, regulators, and the public. The timeliness of these reports, particularly audit reports, is critical as it influences the decision-making process of stakeholders. Delayed audit reports can lead to a loss of investor confidence, legal repercussions, and a decrease in market value. As such, understanding the factors that contribute to audit report lag is essential for both academic researchers and practitioners in the field of accounting and finance.

The basic and chemical industries are vital components of the global economy, particularly in emerging markets like Indonesia. These sectors contribute significantly to industrial development and economic growth. However, they are also characterized by complex financial structures, high capital intensity, and regulatory scrutiny, which can impact the financial reporting process. In this context, the delay in audit reports within these sectors has garnered significant attention, prompting an investigation into the underlying causes.

A Delay in Audit Reporting is a condition in which a company is late submitting or publishing audited financial reports to the public, spanning from the fiscal year-end to the specified deadline. A well-prepared financial report must meet criteria such as relevance, reliability, accuracy, and timeliness (Widiastuti & Kartika, 2018). In its execution, the audit is carried out with precise planning and the collection of sufficient evidence, leading to a lengthy audit process, often resulting in delays in the Audit Report (Siregar & Sujiman, 2021).

In Financial Services Authority Regulation No. 29/POJK.04/2016, the deadline for submitting audited financial reports is stipulated, counting from the fiscal year-end up to four months thereafter or within one hundred and twenty days. Through these financial reports, companies can signal external parties. Audited financial reports submitted promptly are considered a positive signal for external parties. Conversely, if a company is late in submitting financial reports, it is viewed as a negative signal, as companies experiencing losses tend to be delayed in the publication of their financial statements (Atmojo & Darsono, 2017).

The delay in audit reports is caused by several factors, some of which include company size, the size of the Public Accounting Firm (KAP), and profitability. According to Gufranita et al. (2022), based on information provided by the Indonesia Stock Exchange (IDX) on www.idx.co.id , 42 listed Companies have not yet submitted Financial Reports ending on December 31, 2019. Among them, 3 companies are in the manufacturing sector, specifically in the basic and chemical industries. These companies have received a written warning II and a fine of Rp.50,000,000. In 2020, 41 Listed Companies had not submitted Interim Financial Reports ending on June 30, 2020. Among them, 3 companies are in the manufacturing sector, and they received a written warning I. In 2021, 35 Listed Companies have not submitted Interim Financial Reports ending on June 30, 2021. Among them, 4 companies are in the manufacturing sector, and these companies received a written warning II along with a fine of Rp.50,000,000.

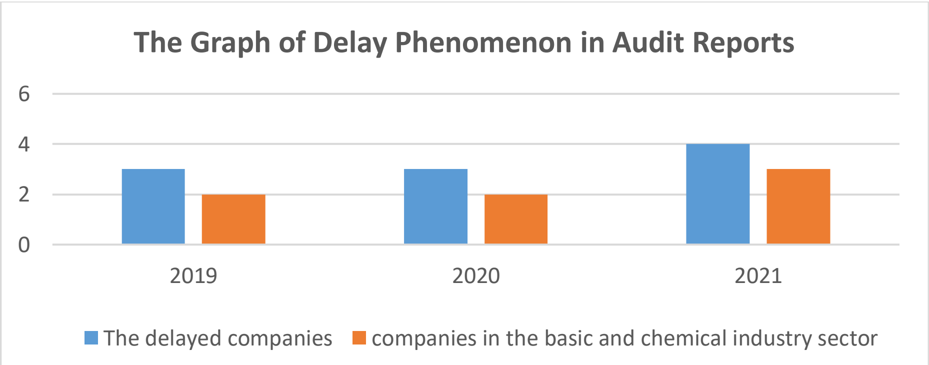

Figure 1. The Graph of Delay Phenomenon in Audit Report (Year 2019-2021)
Source: researcher's analysis

Based on the above phenomenon, analyzing the factors influencing Audit Report Delays is crucial as it can provide valuable information for stakeholders related to the company's performance. Examining delays in audit reports is crucial for evaluating the effectiveness of company management and aiding stakeholders in making well-informed investment choices.

Timely issuance of audit reports enhances the company's transparency and accountability. This research aims to analyze the influence of company size, the size of Public Accounting Firms (KAP), and profitability on the occurrence of Audit Report Delays in companies within the basic and chemical industry sector listed on the Indonesia Stock Exchange (BEI).

This research focuses on three potential determinants of audit report lag: company size, the size of the Public Accounting Firm (KAP), and profitability. Previous studies have yielded mixed results regarding the influence of these factors on audit report timeliness, indicating the need for further investigation, particularly within the context of Indonesia’s unique market dynamics.

Company size is often considered a significant determinant of audit report lag (Anggraeni & Mareta, 2023; Habib & Bhuiyan, 2011). Larger companies typically have more complex operations, a broader range of activities, and more extensive financial transactions, all of which can contribute to longer audit processes. However, they also tend to have more resources and established systems for financial reporting, which can mitigate delays.

Studies such as those by Mareta (2017) have explored the relationship between company size and audit report lag, with some suggesting that larger companies may have more timely reports due to their resources, while others argue that the complexity of larger firms could lead to delays. This research aims to clarify these conflicting findings by examining the specific context of the basic and chemical industries in Indonesia.

The size and reputation of the Public Accounting Firm (KAP) are often believed to influence the quality and timeliness of audit reports (Ashton et al., 1989; DeAngelo, 1981; Givoly & Palmon, 1982; Leventis & Weetman, 2004). Firms affiliated with the Big Four accounting firms are generally assumed to provide higher-quality audits and more timely reports due to their vast resources, expertise, and global networks. However, recent studies, including those by Mahendra (2021), have questioned this assumption, suggesting that non-Big Four firms can also produce high-quality and timely audits. This study contributes to the ongoing debate by investigating whether the size of the KAP, specifically whether it is affiliated with the Big Four, significantly affects audit report lag in the Indonesian context.

Profitability is another factor that has been explored in relation to audit report lag. Theoretically, profitable companies are expected to report their financial statements promptly, as they have positive financial performance to showcase to investors. Conversely, companies with lower profitability may delay reporting to avoid disclosing poor financial results. However, empirical studies have shown mixed results. For instance, Nisak (2015) found no significant relationship between profitability and audit report lag. This research seeks to build on these findings by examining the role of profitability in the timeliness of audit reports within the basic and chemical industries.

The theoretical foundation of this study is rooted in agency theory, which explores the relationship between principals (shareholders) and agents (company management). According to agency theory, there is a potential for conflict of interest between principals and agents, as agents may not always act in the best interest of the principals (Jensen & Meckling, 2000; Watts & Zimmerman, 1983). This conflict can manifest in the timeliness of financial reporting. Larger firms, due to their complex structures, may have more layers of management, which can lead to delays in the financial reporting process. Similarly, the choice of audit firm and the financial performance of the company may also influence the incentives for timely reporting.

This study applies agency theory to explore whether company size, KAP size, and profitability impact audit report lag. By understanding these relationships, the research aims to provide insights into how companies can better manage their financial reporting processes to meet the expectations of stakeholders and reduce the risk of audit report delays.

METHODS

This research is a descriptive quantitative study designed to examine the influence of independent variables consisting of company size, the size of Public Accounting Firms (KAP), and profitability on the dependent variable, which is Audit Report lag in companies within the Basic and chemical Sector listed on the Indonesia Stock Exchange from 2019-2022. The type of research employed is causal research, which aims to test hypotheses regarding the influence of one or more variables (independent variables) on another variable (dependent variable).

The sampling method used in this study is purposive sampling. Purposive sampling is a sampling method based on specific considerations or criteria, where the population that meets these criteria can become the sample (Siregar & Sujiman, 2021). Criteria for the Sample and Research Population, Companies in the Basic and Chemical Sector listed on the Indonesia Stock Exchange, Companies in the Basic and Chemical Sector listed on the Indonesia Stock Exchange that did not publish complete and consistent financial reports from 2019 to 2022, Companies in the Basic and Chemical Sector listed on the Indonesia Stock Exchange that published complete and consistent financial reports from 2019 to 2022.

This research utilizes secondary data sources in the form of financial reports and independent auditor reports of companies in the Basic and Chemical sectors listed on the Indonesia Stock Exchange (BEI) during the period 2019-2022. Data were obtained from the websites www.idnfinancials.com/id/ and www.idx.co.id.

The method used is logistic regression. Logistic regression is similar to discriminant analysis, where we aim to test whether the probability of the dependent variable occurring can be predicted by its independent variables. To support the research findings and ensure research accuracy, the obtained research data will be analyzed using statistical tools with the assistance of the SPSS 26 (Statistical Package for the Social Sciences) program.

RESULT AND DISCUSSION

This study aims to evaluate the influence of company size, Public Accounting Firm (KAP) size, and profitability on the audit report lag in companies within the basic and chemical industry sector listed on the Indonesia Stock Exchange for the 2019-2021 period. The method of analysis used in this study is logistic regression to test the proposed hypotheses. The following is a comprehensive discussion of the results of this study.

The Influence of Company Size on Audit Report Lag

Based on the results of logistic regression analysis, it was found that company size, proxied by Ln (Total Assets), does not have a significant effect on the timeliness of financial reporting. This indicates that the size of a company, whether large or small, does not guarantee the timeliness of its financial report submission. Companies with large total assets are not always timely in submitting their financial reports, while companies with small total assets are not always late in presenting their financial reports to the public.

From the perspective of agency theory, which discusses the relationship between agents and principals, both large and small companies have the same obligation to provide information about their financial condition to the public promptly. Financial reports are crucial to be presented to the public on time to ensure the credibility of the financial statements, as they serve as the basis for public decision-making.

The findings of this study are in line with Mareta (2017) and Owusu-Ansah (2000), who also concluded that company size does not influence the timeliness of financial reporting. This means that large companies are not always timely in submitting reports, and conversely, small companies are not always late in presenting their financial reports.

The Influence of Public Accounting Firm Size on Audit Report Lag

According to the logistic regression analysis results, the size of the Public Accounting Firm (KAP) does not significantly affect the audit report lag. Whether the KAP is affiliated with the big four or not, the professionalism displayed remains high. This finding is consistent with Mahendra (2021), who stated that the size of the KAP does not influence the timeliness of audit reports. Another research by Leventis & Weetman (2004) idea that larger firms report sooner, while others find no such relationship.

Affiliation with the Big Four does not guarantee the production of high-quality audit reports, and a KAP not affiliated with the Big Four can still produce quality audit reports. Therefore, the focus should not be solely on the reputation of the KAP but also on the quality of the audit produced by the firm.

The Influence of Profitability on Audit Report Lag

The results of the logistic regression analysis indicate that profitability, proxied by Return on Assets (ROA), does not significantly influence the timeliness of financial reporting. This means that the magnitude of profitability does not impact a company's punctuality in submitting its financial reports. Profitable companies are not always timely in presenting their financial reports, and similarly, loss-making companies do not always delay in submitting their financial reports.

The results of this hypothesis test differ from the theory suggesting that companies with high profitability tend to report their financial statements promptly because highly profitable companies are expected to provide high dividends to investors, and therefore, management may intentionally delay financial reporting. However, companies with low profitability may be timely because they do not want to risk facing penalties for delays and losing public trust. The findings of this research are consistent with Nisak (2015) and Ettredge et al (2006), who concluded that profitability does not affect the timeliness of financial reporting. This implies that companies with high profitability are not always timely in presenting financial reports, and conversely, companies with low profitability are not always late in submitting their financial reports.

Overall, this study shows that company size, Public Accounting Firm size, and profitability do not have a significant influence on audit report lag. These results indicate that these factors cannot be relied upon as indicators to predict audit report delays in companies within the basic and chemical industry sector listed on the Indonesia Stock Exchange. Therefore, greater attention should be given to other factors that may influence the timeliness of financial reporting, such as corporate governance, the complexity of financial statements, and the level of information disclosure.

CONCLUSION

Based on the research findings, it can be concluded that company size, Public Accounting Firm (KAP) size, and profitability do not have a significant impact on the delay of audit reports in companies within the basic and chemical industry sector listed on the Indonesia Stock Exchange from 2019 to 2021. The size of a company, whether it has large or small total assets, does not guarantee the timeliness of audited financial report submissions. Similarly, the size of the KAP, whether affiliated with the big four or not, does not determine the quality of the audit report produced, as the professionalism of the KAP remains high regardless of the affiliation. Additionally, profitability levels do not influence a company’s punctuality in submitting financial reports. Both profitable and loss-making companies are not consistently timely in their reporting. Therefore, these factors cannot be relied upon as indicators to predict the delay in a company’s audit report.

The findings of this study have several important implications for both academic research and practical application in the field of financial reporting and auditing. Firstly, the insignificance of company size, Public Accounting Firm (KAP) size, and profitability in determining audit report timeliness suggests that these traditional indicators may not be sufficient to predict audit delays. This calls for a re-evaluation of the factors typically considered in audit timeliness models and highlights the need for broader and more nuanced variables, such as internal governance mechanisms and industry-specific characteristics.

For future research, it is recommended to incorporate additional variables that may better capture the complexities of audit report lag. Researchers should explore factors like the quality of corporate governance, the composition of the audit committee, and the robustness of internal controls. A sectoral analysis across different industries, or a focus on smaller firms such as SMEs, could provide insights that are more generalizable or specific to certain types of companies. Additionally, longitudinal studies that extend beyond the 2019-2021 period could shed light on how these relationships change over time, particularly in response to economic fluctuations or regulatory shifts.

Moreover, a combination of quantitative and qualitative methods could be beneficial. While quantitative analysis provides a broad view of patterns and relationships, qualitative insights from interviews with auditors, regulators, and corporate executives could reveal underlying reasons for audit delays that numbers alone cannot explain. International comparative studies could also offer valuable perspectives by identifying global trends or unique national challenges in audit report timeliness.

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