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EFFECTS OF PROFITABILITY,SOLVABILITY, AND COMPANY SIZE ON AUDIT DELAY

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ABSTRACT

This study aims to determine the effect of profitability, solvency, and firm size on audit report lag. The research population is transportation and logistics companies listed on the Indonesia Stock Exchange for the 2019-2021 period. The sample in this study was obtained using purposive sampling method. The criteria that have been determined are that there are 20 companies that are the research sample. The data analysis technique used is multiple regression analysis. The results showed that profitability, solvency, and firm size had no effect on the delay in audit reports.

KEYWORDS: Profitability,Solvability,Company Size,Audit Delay

Introduction

Financial reports are released periodically, whether monthly, quarterly, or annually, depending on your needs and policies. Financial statements to measure performance and analyze the health of the company, as well as communication tools for stakeholders who need to make decisions related to the company. Non-management parties interested in financial statements, such as shareholders, creditors, the government, and the general public. Financial statements are prepared in accordance with applicable regulations and allow all parties to meet the requirements of financial statements.

OJK Regulation Number. 13/ POJK. 03/ 2017 requires that financial statements reported by the public industry are required to be audited before being informed to the IDX. The time span for the completion of this audit is called audit report lag. For Kaaroud, Meter. A., Mohd Ariffin,N. and Ahmad, Meter. (2020) and Afify(2009) audit report lag is the length of time for completion of the audit from coinciding with the closing of the industrial novel to the date of the issuance of the audit report. It continues to be a short time span for its audit report lag until the time it takes to deliver its audited financial statements so that it continues to be lightning so that the publication of the industry's annual financial statements will continue to be lightning as well.

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Audit Report Lag can be a problem if the audit period is very long because it will affect the timely publication of financial reports (Hashim and Rahman, 2011). Thus, the length of the audit process will ensure the time of publication. The speed with which financial statements are issued is significantly determined not only by industry management but also by the audit process attempted by independent auditors (Ahmed & Hossain, 2010). So it continues to take a long time for the auditor to complete the audit, so that the audit opinion continues to become a mandatory instrument in the disclosure of financial statements to the public. Thus, an audit report lag that is too late can endanger the quality of financial reports, because it does not share data on time to investors and has implications for reducing investor confidence in the market (Hashim and Rahman, 2011). This is due to the fact that audited financial statements which contain profit data generated by the industry concerned are used as a basis for making decisions to buy or sell ownership owned by investors.

In accordance with the Financial Services Authority Regulation No. 29/POJK.04/2016 all issuers and all stock companies listed on the Indonesian stock exchange are required to submit annual financial reports to OJK within 4 months after the end of the fiscal year. Results All stakeholders have up-to-date information on the Company's situation. Companies that do not submit timely financial reports are subject to administrative sanctions, including written warnings and fines.

The case of PT Garuda Indonesia Tbk (GIAA) which experienced delays in the presentation of its financial statements for 2020 which was given a disclaimer opinion or did not express an opinion by its auditors and a loss of USD 2.44 billion or equivalent to RP 35.38 trillion in 2020 (exchange rate of USD 1 = Rp. 14,500). The Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX) imposed sanctions on PT Garuda Indonesia Tbk (GIAA) regarding the company's financial statements which were considered problematic. As a result, the company must pay a fine of Rp. 1.25 billion to the two institutions.

The formulation of the research problem is whether profitability, solvency, and company size affect audit report lag in transportation and logistics companies listed on the Indonesia Stock Exchange. The purpose of the study was to determine and analyze the effect of profitability, solvency, and firm size on audit report lag in transportation and logistics companies listed on the Indonesia Stock Exchange.

Methode

Agency Theory

According to (Jensen, 1976) Agency theory is a contract between the manager (agent) and the owner (principal). In order for this contractual relationship to run smoothly, the owner will delegate the creation authority to the manager. Agency theory is a theory that explains the relationship between the principal and the agent. In a corporation, the principal refers to the owner while the agent refers to the manager. The owner is the party that mandates the agent to act on behalf of the owner while the agent is the party who is mandated by the owner to run the company.

Signalling Theory

According to (Deasy, 2020) Signal theory is the action of a company in providing signals or actions taken by management where management knows information that is complete and accurate on the company's internal and company prospects in the future from investors. If the company gets an unqualified opinion from the audit report, the company will not delay issuing the audited financial statements because the company's management knows that the signal captured by investors is a positive signal (good news). Thus, in addition to reducing the audit delay period, it can also increase the value of the company in the eyes of investors.

Audit Delay

According to (Naftali, 2022) The time difference between the end of the financial reporting year and the date of issuance of the audit report is referred to as audit report lag or audit delay in some studies. The length of time it takes to complete the audit can impact the timeliness of the information to be disclosed, affect the market reaction to information delays and the level of uncertainty in judgments based on published data.

Profitability

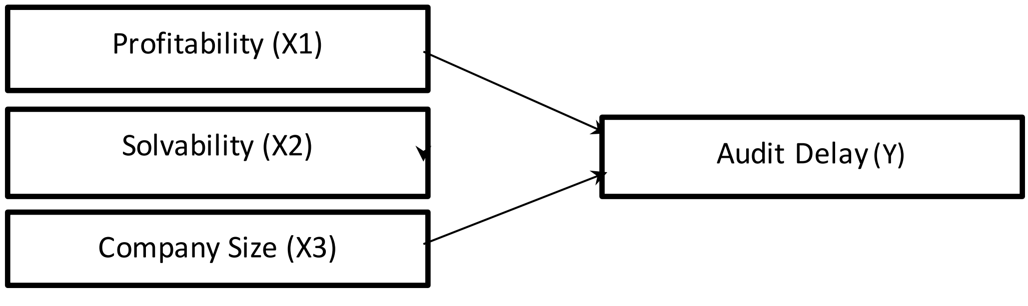
According to (Bahri, 2017) profitability ratio is the entity's ability to earn profits in relation to sales, total assets, and own capital. Long-term investors are very interested in profitability information. This ratio also provides a measure of the level of management effectiveness. This is indicated by the profit generated from sales and investment income. The point is that the use of this ratio shows the efficiency of the entity.

Solvability

According to (Muslichah & Bahri, 2021) Solvency is the ability of an entity to pay all of its obligations. Entities that have sufficient assets to pay their debts are called solvable, while those that cannot are called unsolvable. The ability to pay off its obligations shows good performance.

Company Size

Variable scale or size can be used to describe size company as measured by total assets,measure of market value, shares, total sales,total income, total capital, and factor other. Company size is a scale that can be determined with use total assets and can represent the state of a company, with the size the advantages of the source of funds available to finance the investment in making a profit (Naftali, 2022).



Hypothesis

Effects of Profitability on Audit Delay

Profitability is a company's ability to make profits in relation to sales, total asset, and equity. Companies with high profitability level tends to speed up the publication of their financial statements because it can increase the company value. The research results by Nuryanti (2018); Prameswari & Yustrianthe (2015) show that profitability affects audit delay. Companies that suffer losses tend to require an auditor to start the slower auditing process than usual (Subekti & Widiyanti, 2004). This shows that the higher the company profitability, the shorter the audit delay is, and vice versa. Companies with low profitability tend to experience longer audit report issuance (Ashton et al., 1987). Based on this thought, then the second hypothesis is formulated as follows:

H1 : Profitability level affects audit delay.

Effects of Solvability on Audit Delay

Solvability is the company ability to fulfill all financial obligations when the company is liquidated. The results of Hakiki (2018) research show that company solvability has a significant effect on audit delay. A high solvability ratio results in the length of time required for completing the audit. High amount of debt will lead to a relatively longer audit process. In such auditing process condition, auditors need to be more careful and thorough because this concerns the company survival. This shows that the higher the company solvability, the longer the audit delay and vice versa. Based on this thought, the third hypothesis is formulated as follows:

H2 : Solvability level affects audit delay.

Effects of Company Size on Audit Delay

Research results of Apriliane (2015); Hakiki (2018); Nuryanti (2018) state that audit delay is affected by the company size, which means the audit delay will be longer if the audited company is large. This relates to the increasing number of samples that must be taken and the audit process of larger companies takes more time than smaller companies. Management of a large-scale company tends to be given an incentive to reduce audit delay as large companies are supervised very closely by investor, government, and capital supervisory agencies. Therefore, there is higher external pressure to announce the audited financial statements earlier (Subekti & Widiyanti, 2004). The larger the company size, the shorter the audit delay is. Based on this thought, then the first hypothesis is formulated as follows:

H3 : Company Size affects audit delay.

Method

The population is the entire object of research and meets certain characteristics (Bahri, 2018). The research population is transportation and logistics companies listed on the Indonesia Stock Exchange for the 2019-2020 period. Sampling based on criteria:

1. Transportation and logistics company listed on the Indonesia Stock Exchange and consistent during the 2019-2020 period.
2. Reporting on companies that publish audited financial statements.
3. Expressed in rupiah currency.

Table 1 Sample Selection Procedure

Kriteria	Jumlah
Perusahaan transportasi dan logistik yang terdaftar di BEI tahun 2022	30
Perusahaan yang konsisten dalam menyajikan laporan keuangan pada periode 2019-2021	(4)
Perusahaan yang tidak menggunakan mata uang rupiah dalam menyajikan laporan keuangannya	(3)
Perusahaan yang tidak menerbitkan laporan keuangan yang telah diaudit & laporan audit independen	(3)
Laporan keuangan yang dinyatakan dengan mata uang rupiah dan sebagai sampel penelitian	20

After the criteria are determined and the sample selection process is carried out, the number of samples obtained is as many as 20 transportation and logistics companies. The research period is 3 years, the number of data is n = 60.

Operational Definition of Variabels

1. Profitability is proxied by return on assets (ROA). ROA is a measurement of the efficiency of assets in obtaining profits by comparing net income after tax with total assets (Muslichah & Bahri, 2021) ROA formula:

$$\mathrm{ROA} = \frac{\text{Laba bersih}}{Jumlah\ Aset} \quad (1)$$

2. Solvency is proxied by debt to equity ratio (DER). DER shows the amount of debt borne by the entity in the capital structure. Menurut (Muslichah & Bahri, 2021) DER formula:

$$\mathrm{DER} = \frac{Kewajiban}{Ekuitas} \quad (2)$$

3. Company size is proxied based on the number of assets owned (Fitriana & Bahri, 2022). Formula Company Size:

Ukuran Perusahaan = LNTotal Aset ....(3)

Result

Normality Test

Data normality is a test of data distribution by taking into account the level of spread under the normal curve or not with a one-sample Kolmogorov-Smirnov approach with a statistical test value of 0.156 and a significance of 0.026 with the conclusion that the residual data is normally distributed.

Coefficient of Determination

The multiple R value in the table is 0.840 which is far from 1, meaning that the relationship between ROA, DER, Ln, and ARL is weak. The R Square value of 0.007 explains the ARL value of 0.007. So ARL is only explained by 0.007 by the variables ROA, DER, Ln. The Adjusted R Square value of -0.046 is the value of the ability of the ROA, DER, Ln variables to explain the ARL variable.

Autocorrelation

The autocorrelation test value with Durbin-Watson (DW) with a significance of 5% in the table shows the number 1.672. The number of samples n = 61, and the number of variables k = 3. The value of dL = 1.4797 and the value of dU = 1.6889. The DW value to the dL value is 1.672 < 2.5203 and the DW value to the dU value is 1.941 < 2.3111. The DW value is in the area where there is no autocorrelation so there are no symptoms of autocorrelation.

Multicollinearity

Value of Variance Inflation Factor (VIF) variable ROA = 1.060, DER = 1.007, Ln = 1.053. The VIF value of the three independent variables is < 10 or not above 10 so that there is no multicollinearity between each independent variable in the regression model.

Multiple Linear Regression

The constant 92.594 shows the ARL value if there are no ROA, DER, and Ln variables. The positive constant value is assumed that the ARL value will increase by 92.594 when the independent variable is constant. The ROA value of –7.276 is negative indicating an inverse relationship to ARL. If ROA increases by one unit, ARL will decrease by 7.276 and vice versa. A DER value of 0.095 is positive indicating a unidirectional relationship with ARL. If DER increases by one unit, ARL will increase by 0.095 and vice versa. The Ln value of 0.958 is positive indicating a unidirectional relationship with ARL. If Ln increases by one unit, ARL will increase by 0.958 and vice versa.

Hypothesis

The ROA variable with a significance of 0.771 < 0.050 means that ROA has no effect on ARL so that the first hypothesis is rejected. DER variable significance 0.876 > 0.050 then DER has no effect on ARL so that the second hypothesis is rejected. Variable Ln significance 0.644 > 0.050 then Ln has no effect on ARL so that the third hypothesis is rejected.

Discussion

Effects of Profitability on Audit Delay

The effect of profitability on audit delay shows a significance value of 0.771 > 0.05. These results indicate that profitability has no significant effect on audit report lag, so the first hypothesis is rejected. The greater the company's profit, the faster the audit process is carried out, but changes in the level of profit have no significant effect on audit report lag. Companies that experience losses tend to require auditors to start the audit process longer than usual. The results of the study support Hakiki's (2018) findings that profitability has no effect on audit delay. Audit delay is not significantly affected by the level of company profits because the audit process for companies with small profits is no different from the audit process for companies with large profits. Companies that experience both small and large profits tend to speed up the audit process. However, the results of this study are different from the findings of Nuryanti (2018); Subekti & Widiyanti (2004) that profitability has an effect on audit delay.

Effects of Solvability on Audit Delay

The effect of solvency on audit report lag shows a significant value of 0.876 <0.05. The results showed that solvency had no significant effect on audit report lag, so the second hypothesis was rejected. The high solvency ratio results in the length of time required to complete the audit. The results of the study support the findings of Sari (2017) that solvency has no effect on audit report lag. A higher amount of debt owned by the company will lead to a relatively longer audit process. This is because the audit is processed, the auditor needs to be careful and thorough because it relates to the survival of the company. This shows that the higher the company's solvency, the longer the audit delay and vice versa.

Effects of Company Size on Audit Delay

The effect of firm size does not affect theaudit report lag shows a significance value of 0.644 > 0.05. The results showed that firm size had no significant effect on audit report lag and the third hypothesis was rejected. The value of company size in this study does not affect audit report lag because the sample used is a company listed on the Indonesia Stock Exchange supervised by investors, capital supervisory agencies, and the government. This study's results support the findings of Sari (2017); Wijaya (2019) that firm size has no effect on audit delays. However, this study does not support Apriliane's (2015) findings; Hakiki (2018); Nuryanti (2018); Subekti & Widiyanti (2004) that the size of the company has a negative and significant effect on audit delay, meaning that the audit delay will be longer if the size of the company to be audited is larger.

Conclusion

The results show that profitability has no effect on audit report lag because the audit process of companies with high levels of profitability is different from companies with low levels of profitability. Solvency has no effect on audit report lag. The size of the company does not affect the audit report lag because the size of the company does not determine the length of the audit process.

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