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"The Strategy of Digitalization in Business for Gaining Competitive Advantages after Pandemic"

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FOREWORD

Alhamdulillah, praise be to Allah Subhanahu Wa Ta'ala for granting us the opportunity to organize and publish the proceedings of the 4th International Conference on Business and Banking Innovations (ICOBBI) with the topic "The Strategy of Digitalization in Business for Gaining Competitive Advantages after Pandemic". This proceeding contains several researches articles from many fields in Business & Marketing, Banking & Sharia Banking, Accounting & Financial Management, Human Resources Management, Operations Management, Investasi, Insurance & Capital Market, Strategic Management, Technology Management, and Information System.

The 4th International Conference on Business and Banking Innovations was held on 29th January 2022 by virtual (online) zoom meeting and organized by the Master Management Study Program of Universitas Hayam Wuruk Perbanas in Collaboration with five Higher Education Institutions in Indonesia and three Universities from Asia countries. Keynote speakers in this conference were: Chonlatis Darawong, P.hD (Sripatum University, Thailand), Associate Prof. Dr. Ellisha Nasrudin (University of Science, Malaysia), Dr. Sanju Kumar Singh (Postdoctoral Fellowship in Universitas Airlangga, Tribhuvan University Nepal) and Prof. Dr. Abdul Mongid, MA., P.hD (Universitas Hayam Wuruk Perbanas, Indonesia).

I would like to give high appreciation to the Rector of Universitas Hayam Wuruk Perbanas for his support at this event. Acknowledgments and thank you to all the steering and organizing committees of the ICOBBI for the extra ordinary effort during the conference until this proceeding published. Thank you very much to all presenter and delegates from various Universities. Beside it, I would like to express our gratitude to the three universities, namely Universitas 17 Agustus Surabaya, STIE YKPN Yogyakarta, Universitas Negeri Gorontalo, Universitas Surabaya and Universitas Muhammadiyah Surakarta which has been the co-host of this event.

Hopefully, the proceeding will become a reference for academics and practitioners, especially the business and banking industry to get benefit from the various results of the research field of Business and Banking associated with Information Technology. Proceedings also can be accessed online on the website http://eprints.perbanas.ac.id/

Chair of the Master Management Study Program
Universitas Hayam Wuruk Perbanas

Prof. Dr. Tatik Suryani, M.M.

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The Causes and Determinants of Audit Report Lag

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ABSTRACT

The timeliness of submitting the company's annual report to the stock exchange authority affects the relevance of the information contained therein. One of the reasons for the delay in submitting the annual report is the length of time the Public Accounting Firm (firm) issued the audit reports (audit report lag). The length of time the firm publishes an audit report is influenced by several factors, such as firm internal factors and client internal factors. This study investigates the effect of the firm and client internal factors (audit firm size, client firm size and company profitability) on audit report lag. A sample of 123 service companies listed on the Indonesia Stock Exchange (IDX) was selected using the purposive sampling method. Regression analysis is used to analyse the data. The results of the study indicate the significance of these factors, except for the profitability factor on audit report lag. Additional analysis by excluding unprofitable companies reveal similar results. Implication for future research can use all types of company data regardless of their profitability. Caution and discretion are needed in generalizing the findings by considering the existing limitations.

Keywords: *Audit report lag, audit firm size, client firm size, profitability.*

1. INTRODUCTION

Companies listed on the IDX are required to submit financial reports on time. Financial statements are intended to provide information related to the financial position, financial performance and cash flows of entities that are useful for most users of the report (investors and potential investors) for making sound economic decisions based on relevant and reliable information (DSAK-IAI, 2016). The relevance of information is influenced by the timeliness of the availability of information to the public. Meanwhile, the reliability of information is influenced by the existence of guarantees from capable and independent parties. These things do not always go in the same direction.

The deadline for submission of audited financial statements is set at the end of the third month after the date of the annual financial statements (OJK, 2016). The provisions on the deadline for submitting audited financial reports by the OJK are an effort by the regulator to protect the public interest, encouraging the availability of timely and reliable information. The shorter the time interval between the date of the financial statements and the date of publication of the financial statements, the greater the usefulness of information from the financial statements for the users. However, several companies failed to meet those deadlines. As reported, 80 out of 700 listed companies in 2019 (representing 11.4%) were late in submitting audited financial statements (Bisnis.com, 2020). This fact shows quite low compliance rate of public companies in complying with OJK regulations.

Agency conflicts that arise in the relationship between agents and principals (Jensen & Meckling, 1976) increase the time required for management to submit financial reports at an acceptable risk level because they have to go through an audit process by auditors (audit firm). This process needs additional time to collect evidence, analyze, and formulate the audit opinion thus suspected to be one of the causes of those delays (Abernathy, Beyer, Masli, & Stefaniak, 2014). Other factors identified as the causes of companies lateness issuing audited financial statements are company's size, industry type, and company's performance (Durand, 2019), (Abdillah, Mardijuwono, & Habiburrochman, 2019) and auditor characteristics (Ocak & Ozden, 2018).

The delay in submitting audited financial reports has an impact on the decline of the usefulness of financial information. These findings indicate the need for further research on the delay in the presentation of audited financial statements (Audit report lag/ARL) and the factor that cause it. This is considered important because it can lead to the erosion of the quality of the timely availability of information.

This study aims to examine whether the company's size, financial performance and auditor's firm size influence the ARL. This paper contributes to the limited literature, which investigated the causes and determinants of ARL in services public companies. The rest of this study is arranged as follows: The second section presents the literature review and the study's hypotheses formulation. The third section describes the research methods, the fourth section presents the data analysis and discussions, and the last section presents the conclusions, limitations and future research suggestions.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

One of the primary qualities of financial information is the usefulness in decision making. The information must accurately represent what is represented, and can be improved if the information meets the comparability aspect, verified and presented in a timely manner. (DSAK-IAI, 2016). The existence of a conflict of interest in the agent-principal relationship can lead to the asymmetry of information (Jensen & Meckling, 1976). This conflict has caused the need for independent verification services by external auditors in the order of reducing information risk at an optimal expense.

Auditors need time to verify the fairness and accuracy of financial statements. Since the historical characteristics possessed by the financial statements, the auditor cannot start the audit process early and in turn it will lengthen the submission of the audited financial statements.

Given its direct impact on the timeliness and relevance of financial statements, it is important to study the factors associated with audit report lag. Many studies carried out by ARL indicate company size, company profitability, audit committee, internal control effectiveness and audit quality as possible causes of ARL. This study focuses on the impact of company size, company financial performance and audit firm size on ARL.

2.1. Audit Report Lag and Company Size

The separation management from the company owner may motivate managers to opportunistically prioritize their interests at the expense of the owners (Jensen & Meckling, 1976). In addition, the separation results in reduced owner access to information and ultimately creates distrust of the owner towards the actions and responsibilities of management as reflected in the financial statements, thereby increasing information risk. Government and various relevant professional associations around the world make various rules, one of which is a statement of accounting standards and financial reporting standards that serve as guidelines in preparing and reporting management activities in managing the company for a period (usually 12 months or one year) in order to reduce the crisis of trust between management and users of financial statements in general.

Another way that can be taken to improve the quality of financial information (reducing information risk) is by verifying its accuracy and compliance with standards and various rules by an independent professional examiners (independent auditor). Financial statements audit is a systematic process to collect evidence regarding financial statements of a company and evaluate the audit evidence to determine the fairness of the statements according to the generally accepted accounting principles (GAAP) (Arens, Elder, & Beasley, 2014).

The involvement of external auditors to conduct audits is not free, companies must sacrifice some time for the implementation of the audit process and pay audit fees. Considering financial statements as an accumulation of economic events that meet the definition and can be measured reliably, the nature of financial statements tends to contain events that have occurred (historical). Therefore, it is logical that the audit process can only be carried out after the financial statements have been prepared or are near the final stage. As a result, the audit process will increase the time for financial reports to be submitted to the capital market authorities and have an impact on increasing the time for submission or delays in the submission of reports.

Audit report lag is a delay in submitting financial statements due to additional time for the completion of the audit process and the issuance of an audit opinion. Audit report lag (ARL) is the periods needed by the auditor to complete the audit process (Carslaw & Kaplan, 1991) (Bamber, Bamber, & Schoderbek, 1993). The lag was measured by the number of days, counted from the day after the closing date (January 1) up to the date of the independent auditor's report.

On one hand, literature states that the higher company size is one of the factors that might cause the process of collecting audit evidence to take longer, thereby increasing the length of the ARL. On the other side, some argue that company size does not always represent the complexity of the audit process. While Jaggi and Tsui (1999) documented that audit delay tends to be longer in companies that have a low level of Return on Assets (ROA), companies that have high business risk, and companies with relatively small total assets.

Total assets, total revenue and number of employees can be used as a proxy for company size. Previous research has revealed a relationship between firm size and ARL, although no agreement has been reached regarding the direction of the association between the two variables (Abbott, Parker,, & Peters, 2012); (Pizzini, Lin, & Ziegenfuss, 2015); (Khoufi & Khoufi, 2018); (Durand, 2019). This study used the total assets as the proxy of company size, taking into account the availability of total assets data in the company's financial statements.

Large firms are monitored by regulatory agencies, financial analysts, trade unions, and investors; they face high external pressure to shorten ARL (Davies & Whittred, 1980). With many parties paying attention to the company's performance, it encourages management to choose and force the accounting firm to immediately issue an audit report.

In this study, we tend to use the findings and reasons that support the ability of large companies to use their available financial resources to assign professional auditors so as to provide assurance that the audit process can be carried out within the time limit without compromising audit quality. Based on previous studies and the disagreement on their results underlies the development of the first hypothesis that firm size has a negative effect on ARL

2.2. Audit Report Lag and Audit Firm Size

Larger audit firms are able to finish audits faster than small one for various reasons. The first reason is big accounting firms (big four) have more capable human resources with various client industry fields so they have flexibility in allocating their staff to each audit team and work on the audit process more quickly. The second reason, big four accounting firms have sophisticated audit systems and procedures to facilitate and speed up them in searching and processing or analyzing data and making conclusions on various findings. Third, big four firms are more capable to possess stronger quality control systems, have assets and good reputations which encourage them to finish their work timely and submit audit reports on-time.

Big four audit firms tend to be more professional and always maintain their reputation so that their work is completed more on time than non-big four audit firms (Kusmayanti, 2020). Based on the above arguments, the second hypothesis is that audit firm size has a negative effect on ARL.

2.3. Audit Report Lag and Financial performance.

Profitability has been examined in literature as a determinant of ARL that reflects the performance of the company. Income number and return on assets (ROA) usually used as indicator of financial performance (Oussii & Taktak, 2018); (Durand, 2019). This study focuses on using ROA since it measures the overall capability of the company, it represents measurement of the level of capital use, product, sales, and company efficiency. In addition, ROA also serves to assess effectiveness, comparing between realization and planned targets.

Previous studies argued that profitable companies have incentives to publish financial reports timely, while bad performers in the opposite directions. High profitable companies tend to have more resources to assign big four audit firms to audit their financial statements so that they can be published immediately and are perceived to be of higher quality.

Moreover, publishing financial reports with higher ROA is perceived as "good news" by the stakeholders (Khoufi & Khoufi, 2018), so profitable companies tend to have more incentives to publish their financial statements sooner in order to take advantage of the good market perception. Meanwhile, companies that report less than budgeted targets tend to delay or postpone publishing the report due to devoting extra time to verify the current outcomes or to figure out the problems. This, in turn, can be perceived as a signal of the existence of a bad situation within the reporting company. Based on these arguments the third hypotheses was profitability have a negative effect on ARL

3. RESEARCH METHODS

This study used secondary data taken from audited financial statements published in the Indonesian Stock Exchange website (www.idx.co.id). Quantitative method using univariate multiple regression statistics was used to analyze the data and test the hypotheses proposed.

3.1. Population and Sample

Population in this study were all service companies listed on the Indonesia Stock Exchange (IDX) in 2019. Purposive sampling method was used to select the samples. The criteria set in the sample selection were: Service companies listed on the IDX in 2019, publish financial audited reports in 2019 period, using rupiah as the reporting currency, and audited financial statements dated December 31 with complete notes to financial statements.

Table 3.1 Population and sample selection

No	Criteria	Total
1	Service company listed	151
2	Company not publish FS	(22)
3	Reporting currency other than Rupiah	(6)
4	Company with Unaudited FS	0
	Number of companies	123

3.2. Variables and Variable Measurement

This study used audit report lag (ARL) as a dependent variable and three independent variables. Two independent variables represented internal factors of the company characteristics, while one independent variable represented external factors. Company size as the first independent variable was calculated using the total assets owned by the company as stated in the company's financial statements at the end of each period.

Measurement of company size using natural logarithm was needed in order to obtain smoother company size data for the regression analysis. Company financial performance or profitability as the second independent variable was measured using the company's ability to generate returns on all its assets. While the accounting firm size variable was measured using a dummy variable, 1 for companies audited by the big four and 0 for companies audited by non-big four audit firms.

1113.3 Analysis Methods and Techniques

3.3.1 Descriptive Statistics

Descriptive statistics used to analyze data in order to describe the research variables (Algifari, 2013). The mean, minimum and maximum data also the standard deviation were presented.

Table 3.2 Descriptive Statistics

Descriptions	N	Min.	Max.	Mean	Std. Dev.
Company Size	123	23,01	34,89	30,03	1,95
Profitability	123	-0,27	0,24	0,04	0,077
ARL	123	20,00	331,00	74,96	32,83

Table 3.2 documented the shortest audit report lag was 20 days (BBNI) and the longest audit report lag was 331 days (ELTY). This describes that the majority of the company need around 90 days to submit their audited financial statements. Company size data (Ln of total assets) with a minimum value of 23.01 (Rp. 9.890.847.326) and a maximum value of 34.89 (Rp. 1.416.758.840.000.000), an average of 30.03 (±Rp. 14.500.500.000.000) and a standard deviation of 1.95.

The smallest company size was Clipan Finance Indonesia Tbk (CFIN) and the largest company size was Bank Rakyat Indonesia (BBRI). This data shows that the sample was dominated by large companies.

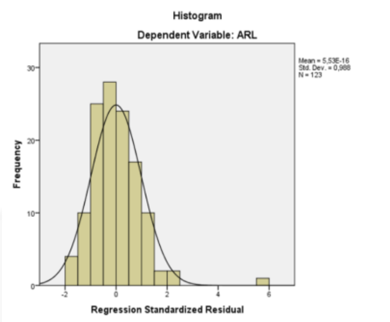
The company's profitability was measured using ROA with a minimum of -27%, and maximum of 24%, an average of 0.04 and a standard deviation of 0.08. Minna Padi Investama Sekuritas (PADI) has the lowest profitability (loss rate up to 27% of its total assets) and Industri Jamu dan Farmasi Sido (SIDO) as the highest profitable company. Statistical analysis of the frequency distribution of the audit firm size data was carried out and the results show that 61% of companies use non-big four audit services and the rest (39%) of companies use the big four audit services.

3.3.2 Normality test

Normality test was needed as a requirement when using regression analysis. Regression analysis assumes the existence of a linear relationship between independent variables and dependent variables. When the data are not normally distributed we cannot use parametric statistical analysis, and in other words when the data is normally distributed then parametric statistical tests can be used.

The estimation regression equation used is expected to be obtained from the least squares method (OLS) which is expected to be the best linear unbiased estimator (BLUE). In order to produce a BLUE estimate, several assumptions must be met and one of the assumptions is that the observed data must be normally distributed. Since this study uses multiple linear regression therefore, the assumption of normality is not for each variable, but the normality of the residuals. The results of the normality test using a histogram (as seen on the Figure 1 below), the residual distribution forms a bell-like pattern, therefore it can be concluded that the normality assumption is fulfilled.

Figure 1. Normality Histogram



3.3.3 Heteroscedasticity Tests

To satisfy the regression assumptions, the residuals should have a constant variance. The results of Glejser heteroscedasticity test indicated that the regression model has a constant residual variance inter-observation. The significance of the test for all variables was greater than 0.05 means no symptom of heteroscedasticity problems, see details on table 3.3 below:

Table 3.3. Heteroscedasticity test results

Variables	Sig	Conclusions
Firm size	0,752	Non Heteroscedasticity
Auditor firm size	0,281	Non Heteroscedasticity
Profitability	0,091	Non Heteroscedasticity

3.3.4 Multicollinearity test

Multicollinearity between independent variables in a regression model are correlated. This correlation is a problem because independent variables should be *independent*. If the degree of correlation between variables is high enough, it can cause problems when you fit the model and interpret the results.

The problem of multicollinearity in the regression equation must be avoided so that the regression model can be used to estimate parameters properly—fulfilling the principle of best linear unbiased estimator (BLUE). Multicollinearity tests were used to detect correlation between independent variables. The test indicated the value of tolerance > 0.1 and the value of the variance inflation factor (VIF) < 10 for all variables, so it can be concluded that there is no multicollinearity problem and can be used to produce BLUE estimates.

Table 3.4 Multicollinearity test results

Variables	Tolerance	VIF	Conclusions
Company size	0.901	1.110	Non multicollinearity
Auditor firm size	0.896	1.116	Non multicollinearity
Profitability	0.993	1.007	Non multicollinearity

regression analysis. That technique is used to estimate the influence of independent variables (company size, company profitability, auditor firm size) on the dependent variable audit report lag (ARL). The MRA expression of this study as follows:

$$ARL_{i,t} = \alpha+\beta_1 CS_{i,t}+\beta_2 ROA_{i,t}+\beta_3 AFS_{i,t}+\varepsilon_{i,t}$$

In order to fulfill the requirements using a linear regression test, the classical assumption test is carried out. The data to be used in the analysis must first be ensured to pass the classical assumption test (normality, heteroscedasticity, multicollinearity, autocorrelation). The test results show that the data has passed all classical assumption tests (see attachment) so that it can produce a "blue" estimate.

4.1 Goodness of fit test

The goodness of fit test is very important because the test indicates the compatibility or goodness of fit between certain observations and the expected value (theoretical value).

Table 4.1. Goodness of Fit Test results

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	36.198,643	3	12.066,214	8,031	0,000ª
Residual	178.803,227	119	1.502,548		
Total	215.001,870	122			

The results of the F-test above indicates F value of 8.031 significance at 0.05. This test describes that the sample data represents the data of the actual population. In other words, the model can be used to estimate the effect of profitability, firm size and audit firm size on ARL.

4.2 Coefficient of Determination (R^2)

The power of the regression model to explain the relationship between company profitability, firm size and audit firm size variables on ARL is shown in the following table.

Table 4.2 Coefficient of Determination (R^2)

R	R. Square	Adjusted R Square
0,410	0,168	0, 147

The coefficient of determination above indicates that 16.8% variability of ARL can be explained by the variability of company profitability, company size and audit firm size.

4.3 Hypotheses Testing

Independent t test was used to determine the effect of each independent variable on the ARL variable. The test results show that the hypothesis which states that firm size and audit firm size is supported, while the hypothesis which states that profitability affects ARL is not supported. See table below for details:

Table 4. 3 Independent t-test Results

Variable	B	t-value	Sig	Conclusions
Company Size	-4.109	-2.193	0.030	Supported
Audit Firm Size	-24.351	-3.217	0.002	Supported
ROA	-70.089	-1.181	0.240	Not supported

4.4 Discussions

The first hypotheses negative effect of company size on ARL based on data statistically supported. It means that big size companies have more resources and motivation to encourage auditors or accounting firms to plan and conduct their audit on time, since they have a reputation and are followed by many financial analysts. Big size companies do not want to sacrifice their reputation due to the lateness of the auditor's report. Moreover, big size companies have better accounting systems and good corporate governance which will have better control upon the preparation of the financial statements. They have more eagerness to obey the rules set by any authority body in order to maintain their legitimacy (Suchman, 1995).

The second hypothesis is that audit firm size has a negative effect on ARL based data statistically supported. The results of this test confirm the arguments that big four audit firms have sophisticated audit software, more resources, more experienced and specialized staff and reputation which is worth the sacrifices. This rational condition make the big four audit firm to plan better and finish their field work shorter than non-big four firms.

The last hypotheses that company profitability has a negative effect on ARL is not supported. The results of this study are consistent with facts that every auditor has a minimum standard audit procedure that must be followed when carrying out an audit, regardless of differences in the ability of clients to generate profits (Modugu, Eragbhe, & Ikhatua, 2012). Differences in the company's profitability does have an impact on the risks faced by auditors. Therefore, adjustments to audit procedures are still needed even though the impact on the length of time for completion of the audit and the issuance of the audit report is not significant.

Additional testing by removing a sample of companies that report losses to test the effect of profitability on ARL shows relatively the same results. In other words, research in this context is not sensitive to profitability (profit/loss).

5. CONCLUSIONS, LIMITATIONS AND SUGGESTIONS

5.1 Conclusions

The aim of this study is to identify the determiners of ARL is achieved. The results of this study confirms the negative effect of company size and audit firm size on the length of time required to complete the audit, thereby reducing audit report lag. However, the negative effect of profitability on ARL is not in line with some previous research findings. Additional findings in this study confirm that the reported profit or loss factor has no significant impact in the analysis of the effect of profitability on ARL.

5.2 Limitations

Caution and discretion are needed in generalizing the findings of this study by considering the existing limitations, such as: the amount of variables used, the geographical area of sample analyzed, and the time constraints inherent to the chosen sample. Despite the advantages of using cross-sectional data, there are still limitations because the amount of data that can be observed is less and analysis between companies over time cannot be carried out.

5.3 Suggestions

Given the above limitations, it would be worth for future research to focus on the dissimilar or heterogeneous and classified company sizes to improve the comparability of between firms. Further research is suggested to expand the sampling time range, expand the industry and add variables that have not been covered in this study. The use of pooled data is expected to increase the power of the test and conduct a more comprehensive analysis.

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