

## The Effect of Profitability, Leverage, Firm Size, Firm Reputation and Institutional Ownership on Audit Report Lag

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**Abstract** – Financial statements are one important instrument in supporting the sustainability of a company, because financial statements have a role in the process of measuring and evaluating the performance of a company. Financial statements must be of high quality before being submitted to users of financial statements because users of financial statement information require reports that are complete, transparent, and presented on time. The financial statements aim to provide information about the company's financial position, performance and cash flow that is beneficial for most users of financial statements in the context of making economic decisions and shows management's responsibility in the use of company resources. The auditor's timeliness in completing the audit report will affect the timeliness of the publication to the public. The length of time (number of days) from the date of closing the book to the date stated on the audit report is called the audit report lag. The purpose of this study was to obtain empirical evidence about the effect of Profitability, Leverage, Firm Size, Firm Reputation and Outsider Ownership influence on Audit Report Lag. This research was conducted at manufacturing companies listed on the Indonesia Stock Exchange (IDX) with a research period of 2014-2018. The method used is explanatory research, which explains the position of the variables studied and tests the effect of one or several variables on one or several other variables. The results showed that firm size had a significant negative effect on audit report lag, leverage variable does not have a significant negative effect on audit report lag, profitability has no negative effect on audit report lag, Public Accounting Firm (KAP) has no negative influence on audit report lag and institutional ownership does not have a negative effect on audit report lag.

**Keywords:** profitability, leverage, firm size, firm reputation, institutional ownership, audit report lag

### Introduction

Financial statements are structures that present the financial position and financial performance. The general purpose of this financial statement for the public interest is the presentation of information about financial position, financial performance, and cash flow of the entity that is very useful for making economic decisions for its users [1]. Financial statements are information that can be used for decision making, by investors, and the management of the company itself. Financial statements will provide information about profitability, risk, cash flow timing, all of this will affect the expectations of the parties concerned [2] .

The qualitative objectives of financial statements include relevance, namely choosing information that can really help users of financial statements in the decision making process, understandability, which is information can be understood by users, verifiability, which is information must be able to be examined by other parties which will produce the same opinion, neutrality, which is neutral to the parties concerned, timeliness which is useful for decision making if submitted at the right time, comparability that is information must have the same principles both for the company concerned and for other companies, and completeness ie the information reported must cover all the needs that are worthy of the users.

Starting September 30, 2003, BAPEPAM tightened regulations by issuing an attachment to the Decree of the Chairman of BAPEPAM Number: Kep-36 / PM / 2003 which states that the financial statements accompanied by accountants' reports with the usual opinion must be submitted to BAPEPAM no later than the end of the third month (90 days) after the date of annual financial statements. If an issuer experiences a long delay, this can lead to information asymmetry and can create opportunities for the circulation of rumors regarding the financial health and performance of a company. Therefore financial statements must be submitted as early as possible to prevent the



emergence of information asymmetry between management and owners.

Research of financial statement has been widely carried out in Indonesia and abroad. Several previous researchers examined the factors that influence the accuracy and delay of the delivery of financial statements. Timeliness of financial reporting can affect the value of the financial statements [3]. [4] mentions that timeliness contributes to the efficient and fast performance of the stock market in their pricing evaluation function. Timeliness in financial statements is a significant characteristic of accounting information, outdated information is of little use to market participants in the process of making their investment decisions. Outdated information will be of no use because it is no longer relevant to the decision-making action to be chosen. An information is categorized as relevant information if the information is available on time to decision makers before they lose the opportunity or ability to influence the decisions taken. Information is relevant if the information has predictive value, the value of feedback and is available on time [5].

Company size, reputation (KAP), and probability are thought to affect the timeliness of the delivery of financial statements. In addition to these factors audit report lag is also thought to influence the timeliness of financial statement submission. If a large company wants to maintain its image to the public by trying to submit its financial statements appropriately time, but independent auditors who audit their financial statements require a long time, then the submission of the company's financial statements is delayed. The length of the completion of the audit report is caused by the fulfillment of auditing standards by the auditor regarding fieldwork standards. The implementation of audits that are increasingly in accordance with the standards requires more time old. Conversely, the more incompatible with audit work standards the shorter the time required. This condition can create a dilemma for the auditor [6].

The reputation of a public accounting firm can be proxied by the size of a public accounting firm [7]. [7] classify large-scale KAP if included in the big four firm, whereas for small-scale KAP if not included in the big four firm. [8] states that large-scale KAPs are internationally well-known KAPs that provide higher quality audit services than small-scale KAPs. [9] states that large-scale KAPs tend to be more independent. Statements This supports the statement of [10], that the big six audit firm is more capable in revealing and reporting fraud committed by client companies. This becomes the auditor's attention, because if the public discovers corporate fraud that is not disclosed by the auditor, then it can threaten their reputation, in addition according to [11] states that the Large Accountant Office (the big four) is perceived to be auditing with more quality than with a small KAP (non the big four), this is because large KAPs have more resources and more clients so they are not dependent on just one or a few clients, other than that because their reputation has been considered good by the public causing them to conduct audits more carefully. But the existence of accounting scandals such as Enron, caused the public, especially investors, to re-question the quality of audits conducted by a KAP, especially large KAPs that already have names and good reputation so that there is currently a skeptical assessment from the public that large KAPs do not guarantee the audited financial statements do not contain material errors [11].

Based on the description above, this study will review the determinants of audit report lag. As for these factors, they are: Firm Size, Leverage Ratio, Profitability, KAP Reputation, and Outsider Ownership. The samples in this study are: companies that fall into the manufacturing sector category, with an observation period from 2014 to 2018. The reason for using manufacturing sector companies as populations in this study is to avoid differences in the characteristics of companies that are members of an industrial sector.

## LITERATURE REVIEW

Audit report lag is the length of time a company financial statement audit is measured, starting from the closing date of the financial year to the date the auditor's report is issued. During the completion of the audit work on the financial statements, the auditor makes and collects a schedule to record the results of the test control and substantive tests carried out, and makes adjusting journals that will be proposed to the client if in the work there is a difference between journals or working papers made by the client with transaction documents. Prior to the preparation of the auditor's report, all audit work on the financial statements is reviewed whether the completion of the work affects the audited financial statements of the company. If at the time the completion of the audit work affects the company's financial statements, it must make an adjusting entry.

Profitability is the company's ability to generate profits during a certain period at a certain level of sales, assets and share capital. The profitability of a company can be assessed in various ways depending on the profits and assets or capital that will be compared with one another. Efficient or not a company can be known by comparing the profits



obtained with wealth or capital that generates profits (profitability). Thus what must be considered by companies is not only to increase profits but more importantly to increase profitability [11].

The leverage ratio which is also called the solvency ratio serves to measure the comparison of funds provided by the owner with loan funds from creditors. This ratio measures how far the company's assets are financed by debt with an indication of the level of security of the lenders (banks) according to accounting principles. This ratio shows the company's ability to pay all short-term and long-term obligations if the company is liquidated. Leverage is the use of assets and sources of funds by companies that have fixed costs (fixed costs) with a view to increasing potential shareholder profits [12].

Firm size or company size is a scale where large and small companies can be classified according to various ways, where the size of the company is only divided into 3 categories, namely large companies, medium size companies, and small companies [13]. Company size is proxied by using the Natural Log of Total Assets with the aim of reducing excess data fluctuations. By using a natural log, the amount of assets with a value of hundreds of billions or even trillions will be simplified, without changing the proportion of the actual amount of assets.

A reputable KAP generally has greater resources (competence, expertise, and ability of auditors, facilities, systems and auditing procedures used) compared to a reputable KAP. Company financial reports published to BAPEPAM certainly require the services of a public accounting firm (KAP) so that the information conveyed to the public is accurate and reliable. Therefore the company uses the services of a public accounting firm in carrying out audit work on the company's financial statements. To ensure the credibility of the financial statements, companies tend to use the services of large public accounting firms and have a reputation or good name. Large and reputable public accounting firms are usually represented by KAPs that are affiliated with universally accepted KAPs known as the Big Four Worldwide Accounting Firm (Big 4).

The structure of share ownership owned by outside parties usually has a ownership percentage of more than 50% so that company ownership from outside parties has a great power in influencing the conditions and results of the company's work. With the concentration of ownership of outsiders, it will change the management of the company that initially runs at will to be a company that runs with supervision. As a result, the flexibility of management is limited. Empirical research that supports the theory is according [14] which examines the relationship of timeliness with the concentration of company ownership by outsiders. The results of his research showed that the reporting timeliness significantly affected the concentration of company ownership by outsiders.

## Research Method

The method used is explanatory research, which explained positions of variable studied and test the effect one or some variables to other variables. Population of this research is all of the manufacture company in Indonesia Stock Exchange, 2014-2018. The research sample was determined by using purposive sampling, with some criteria: 1) Consecutively entered the manufacturing category, year 2014-2018; 2) Published annual report year 2014-2018; 3) Published financial statements for 2014-2018. This research is using one dependent variable such as: Firm Size (SIZE), Leverage Ratio (LEV), Profitability (ROI), KAP Reputation (KAP), and Outsider Ownership (OSP). This research used multiple regression analysis, which is the OLS (Ordinary Least Square) model.

## Result and Analysis

The effect of X1, X2, X3, X4, and X5 to Y is showed in table 4.1 below:

Table 1. Estimated Firm Size, Leverage, Profitability, KAP Reputation, and Institutional Ownership Estimates on Audit Lag Report.

Dependent Variable = Audit Report Lag

Variable Dependent	Coefficient	Std. Error	t-statistic	Prob
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Firm Size	-0.134	1.297	-2.695	0.007
Leverage	-0.072	0.743	-1.541	0.124
Profitability	-0.067	0.074	-1.394	0.164
KAP Reputation	-0.012	4.361	-.232	0.817
Institutional Ownership	0.000	9.189	-.001	0.999

Based on table 1. the firm size has a significant negative effect on audit report lag. This showed that emiten who have large company will have the urge to show audit report lag. This is consistent with [1] and [15] research.

Company with internal controlling system efectively can reduce the level of error in presenting the financial statements, so the auditing proof will be more trusted than if the internal controlling is weak [15]. Companies that listed in Bursa Efek Indonesia are being watched by investors, capital supervisors, the government and the public, so the company with large or small total assets will have the same possibility in facing pressure of presenting financial statements [16].

The profitability variable has a regression coefficient that is negative and the value of the significance level is 0.164 (greater than 0.05), so it can be concluded that profitability has no negative impact on audit report lag. This means that emiten who has lower profotability won't make the auditors be more careful in processing audit that they do, causing quicker audit report lag. But, this result is not consistent with [1] research.

Profitability ratio is a ratio that used to measure company's capability in earning profit from other normal business activity. Profitability, measured with return on assets, is ratio that showed how much assets's contribution in creating net income. In other words, this ratio used to measure how much net income that earned from every rupiahs that planted in total assets.

The fourth hypothesis in the research stated that Public Accountant Office (KAP) has no negative impact on audit report lag. This showed on table 1. The KAP reputation variable has a negative direction that is showed by beta value of -.232 at a significance level of 0.817. It is likely that the auditor considered that in the auditing process, whatever amount of assets owned by each company would be examined the same, under the same procedure in the professional standards of public accountants. The higher existence of the auditor's reputation implies the higher level of audit delay. Just the opposite, the lower existence of the audit comitee causes the lower level of audit delay.

Institutional ownership variable has a regression coefficient that is negative and a significance level value of 0.999 (greater than 0.05), so it can be concluded that the institutional ownership variable has no negative effect on audit report lag. This is showed in table 1, institutional ownership has a negative direction indicated by a beta value of -.001 at a significance level of 0.999.

Public ownership owned by public (not a significant institution) of sharing the public companies. This variable is measured by looking at how much shares are owned by the public at a publicly listed company thait being listed on the Indonesia Stock Exchange (IDX). The Indonesian Capital Market Directory (ICMD) has stated how much ownership owned by public. Public ownership affects the timeliness of financial statement submission. With the concentration of public ownership, the management will be more pressured by outside parties or shareholders to be more timely in the delivery of the company's annual financial statements.

## Conclusion

The practical implications of the results of this study is to provide guidelines for managers in carrying out the functions of corporate financial management. The functions of corporate financial management in question are the investment function and the funding function which includes the function of carrying out dividend policy, with the aim of improving company performance. Recommendations for investing in the shares of companies sampled in this study, of course, are given by first having to pay attention to the condition of the fundamental factors and non-fundamental factors of these companies. The fundamental factor intended primarily is the level of profitability (return on investment) that a company can achieve, the higher the better. Companies that are chosen to buy shares certainly do not have the size (total assets) and the level of leverage (debt to asset ratio) is excessive. The non-fundamental factors intended primarily are that investors or potential investors should invest in companies as follows: a) These companies should have the results of auditing public accountants with unqualified opinion; b) The unqualified opinion should be given by the Public Accounting Firm (KAP) affiliated with the big-4 KAP; and c) These companies should not have the



high complexity of operations indicated by the presence of subsidiaries or scattered branch offices.

The results of this study are expected to provide input to related parties, namely the Government so that they can better anticipate the actions of managers who are not proportional in determining the source of funds and can better direct the use of these funds in more productive sectors so that the benefits can be felt at the magnitude by investors in particular and society in general. The findings of this study also provide input to banks or other financial institutions to be more careful in providing investment credit. Institutional ownership variable has a regression coefficient that is negative and a significance level value of 0.999 (greater than 0.05), so it can be concluded that the institutional ownership variable has no negative effect on audit report lag. This is showed in table 1. namely institutional ownership has a negative direction indicated by a beta value of -.001 at a significance level of 0.999.

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