
EARNINGS MANAGEMENT, COMPANY SIZE, LEVERAGE AND PROFITABILITY ON AUDIT RISK AND AUDIT REPORT LAG

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Abstract

The research objective is to determine the effect of Earnings Management, Company Size, Leverage and Profitability Against Audit Risk and Audit Report Lag. The research method uses descriptive research, namely a contextual research that makes humans as instruments and adapted to reasonable situations in relation to data collection which are generally qualitative in nature. Analysis technique using the triangulation method. Earnings management has a positive and negative influence on audit report lag. Profitability has no negative effect on audit report lag. Company size has a positive and negative effect on audit report lag. Leverage has a positive effect on audit report lag. Audit risk positively mediates the relationship between earnings management on audit report lag and on firm size and profitability. Audit risk is not able to mediate. The auditor's business risk has a positive relationship with audit report lag.

Keywords: Earnings Management, Company Size, Leverage, Profitability, Audit Risk, Audit Report Lag

INTRODUCTION

Financial report information is very useful if it is presented accurately and on time, but financial report information becomes useless if it is not presented accurately and on time (Rachmawati, 2008). The company's delay in reporting financial reports affects the level of investor confidence in the company. Some investors consider the company's delay in reporting its financial statements as an indication of something bad in the company. Providing timely information often requires reporting before all aspects of a transaction or other event are known, thereby reducing the reliability of the information. If reporting is delayed until all aspects are known, the resulting information may be very reliable but less useful, decision making. One of the obligations of a public listed company is to publish financial statements, have prepared financial accounting standards and audited public accountants registered with the Capital Market Supervisory Agency (BAPEPAM).

The Indonesian Stock Exchange still finds companies defaulting on their obligation to submit audited financial reports. Based on the records of the Indonesia

Stock Exchange (IDX) as of June 30 2014, 26 companies were penalized for late submission of audited financial reports for the 2013 and 2015 periods, 52 companies were late in reporting audited finances. Then, the IDX noted that as of May 2 2016 there were 63 companies that had not submitted financial reports for the 2015 period. This indicates that almost at the end of each year closing the books, there are still public companies that are late in submitting audited financial reports. Delays are considered to result in uncertainty in making investment decisions, while investors need financial report data quickly.

The period of completion of the audit, financial statements is a factor influencing the timeliness of submission of financial reports. Timeliness of completion of the audited financial statements, seen from the closing date of the company's financial statements until the date of the independent auditor's report. The difference in time between the closing date of the company's financial statement books, the date of the independent auditor's report illustrates the length of time it takes to complete the financial statement audit process carried out by an independent auditor. The time span between the book closing date and the independent auditor's reporting date is called the audit report lag.

Audit report lag is an important aspect of financial reporting, maintaining the relevance of company information, is required by users of financial reports. Delay in the publication of financial reports is an indication that there is a problem with the company's financial statements so that it will affect the audit report lag period.

There are several factors that influence audit report lag. Factors affecting audit report lag are earnings management, audit risk and public accounting firms, so the aim of this research is to determine the effect of Earnings Management, Firm Size, Leverage and Profitability on Audit Risk and Audit Report Lag.

Theoretical Framework

Agency theory is useful in explaining why companies regulate monitoring costs in order to reduce agency conflicts (Jensen & Meckling, 1976). Agency theory explains the importance of boards and external auditors protecting the interests of shareholders from decisions that are detrimental to management (Fama & Jensen, 1983). It has a bad impact on both shareholders and users of financial statements, by manipulating profits by increasing maximum profits. Management can mislead the understanding of shareholders, disclose back confidential information, support financial targets is required, hence, increase management rewards (Lee & Lue, 2015). Audit as an independent check, the work of the agent and the information provided by the agent, helps to maintain confidence and trust. After lengthy negotiations, the auditors disagreed on several critical accounting issues, high level of audit risk (Dabor & Uyagu, 2018). The auditor takes steps. needed to address the problem and reduce its association with litigation and bad reputation (Heninger, 2001).

Signal Theory (Signalling Theory)

Signal theory, information gives a sign or signal regarding the condition of the company to stakeholders, making decisions (Zebriyanti, 2016). Signals are

given in the form of disclosure of accounting information such as the publication of audited financial statements. Managers publish financial reports providing information to trigger market reactions. The company has an obligation to provide information to external parties in the form of its financial reports due to information asymmetry between the company and external parties. Information asymmetry occurs because the company knows more about information in the company from external parties, especially investors and management, does not convey all information to external parties. The market will react to signals issued by companies in the form of issuance of financial reports.

Risk audits

Audit risk is the risk of giving an inappropriate audit opinion when the financial statements are materially misstated (Tuanakotta, 2013: 89). Audit risk is the risk that the auditor may accidentally fail to modify opinions appropriately regarding financial statements, containing material misstatements (Boynton, Johnson, and Kell, 2002:202).

Audit Report Lags

Audit report lag is the time span of completing audit work until the date of issuance of the audit report (Greta, 2012). Measured based on the number of days required to obtain an independent auditor's report on the company's annual financial statement audit, from the closing date of the company's books, namely December 31, until the date the independent auditor's report appears. The longer the Audit Report Lag, the longer it will affect the reporting of financial statements.

Public accounting firm

The Public Accounting Firm is a business entity that has obtained permission from the Minister of Finance as a forum for public accountants to provide their services (Saemargani and Mustikawari, 2015). UU NO. 5 of 2011 states, KAP is a business entity founded under the provisions of laws and regulations and obtains permits based on laws.

Earning Management, Company Size, Leverage and Profitability Against Audit Report Lag

Earnings management affects the audit delay of financial reporting to achieve certain interests. Managers cover opportunistic behavior such as production managers providing financial records, not clear (Seifzadeh et al., 2021). Management speeds up the announcement of financial statements, gets several privileges, such as the disposition of share ownership. Management chose to speed up the announcement of financial reporting in order to delay some of the negative effects of earnings. Management negotiations, auditor clients regarding the contents of financial statements and/or audit reports are a substantive source of audit delay (Salterio, 2012; Habib, 2013). Audit report lag promotes a higher level of earnings management (Lee et al., 2009; Habib & Huang, 2019). Audit report lag decreases when earnings management is high (Asthana, 2014; Ezat, 2015; Luypaert et al., 2016; Lambert et al., 2017).

Company size is a description of the size of the company determined based on nominal size, for example the amount of assets owned by the company, total

sales or market capitalization (Kurniawan, 2015). Company size is a function of the speed of submission of financial reports because large companies tend to have shorter audit report lag than smaller companies, because large companies are considered by investors, creditors and the public, requiring financial reports on their business decisions so that large companies are required to report their financial reports more quickly.

Pramaharjan and Cahyonowati (2015) and (Lianto & Kusuma, 2010) profitability affects the company's Audit Report Lag. This happens because the large value of the profitability of the company is the ease with which the auditor carries out the audit process, there is no litigation risk. Companies earning profits tend to report financial statements faster because companies want to convey good news contained in financial reports to investors. The company provides everything the auditor needs so that the audit process is completed quickly.

Leverage is based on the use of the company's assets and financial resources. Leverage is the ratio of debt to equity. The lower the leverage, the shorter the audit time is required because it does not require a lot of testing, then the higher the leverage level, the longer it takes to complete the audit process. Companies that have higher levels of debt will make auditors more careful, because it affects the delay in the presentation and publication of annual financial statements. When a company has a high level of debt it results in an increase in Audit Report Lag (Abernathy et al., 2017). Based on the theory, the hypothesis proposed is

H1 =Earning Management, Company Size, Leverage and Profitability Significant Against Audit Report Lag

Audit Risk Mediation Variables Earning Management, Company Size, Leverage and Profitability Against Audit Report Lag

Agency theory explains that agency problems arise when each party has different goals, making it possible to take opportunistic actions to cause information asymmetry, which has both positive and negative impacts on the company. Fraudulent financial reports are one of the emerging problems. Incorrect financial reports not only harm stakeholders, but the company, possibly causing bankruptcy. Auditors spend more time and effort completing audit procedures, suspected earnings management or high audit risk. The extra time spent increases the delay in audit reports. Earnings management positively affects audit risk, in turn, positively affects audit report lag (Bae & Woo, 2015). Going Concern Opinion, Audit Tenure and Accountant Firm Size affect Audit Quality through Audit Report Lag (Siahaan and Arthur, 2020).

The auditor's assessment of audit risk (the risk of issuing a clean opinion on materially misstated financial statements) is positively related to their assessment of the auditor's business risk, and increased audit risk results in more audit work (Johnstone, 2000). The relationship between auditor business risk and audit report lag Bamber et al. (1993), because there was more audit work, extended breaks in field work. Gul (2006), auditors perceive greater risk, being attached to politically connected companies leads to extra audit work.

The size of the large company, the higher the level of disclosure of financial statements because large companies meet public demand to maintain the company's image and choose big four affiliated KAPs, speeding up the completion of the audit process thereby reducing audit report lag (Krismayanti and Anak Agung, 2017).

The selection of a public accounting firm is one of the ways used by corporate management to mitigate agency problems. The audit process provides company benefits, such as increasing effectiveness and efficiency, increasing compliance with applicable securities regulations, and reducing information asymmetry in company financial statements (Fransiska, 2020). Organizations need a supervisory function through external auditors, reducing the danger of fraud and ensuring that financial reports are presented accurately so as to reduce audit risk and have an impact on accelerating financial reports (Suratman, 2022). Large KAPs affiliated with the Big Four have an audit strategy to quickly collect adequate evidence, reveal mistakes in companies experiencing financial distress thereby reducing audit report lag (Krismayanti and Anak Agung, 2017).

Large KAPs usually carry out shorter audit processes, because they are considered to have high efficiency and flexibility, completing audits on time so as to help speed up the audit process. The company experienced financial distress. Because large KAPs have a large number of employees, can audit more efficiently and effectively, have timely audit schedules, and have a stronger incentive to complete audits more quickly in order to maintain their reputation (Utami, 2006). The relationship of financial distress to audit report lag will be further weakened by selecting big four affiliated KAPs thereby reducing audit report lag. Based on the theory above, the hypothesis proposed is

H2 = Audit Risk Significantly Mediates Earning Management, Company Size, Leverage and Profitability Against Audit Report Lag

METHOD

Research design

The research design is in the form of explanatory research, namely the research aims to analyze the relationship between one variable and another

Variable

Research variables based on research Fakhfakh and Anis (2022) is audit report lag is the span of time for the completion of the audit report is measured based on the number of days from the closing date of the company's books to the date the financial statements are signed by the auditor. Earning management is the behavior of managers who tend to manage earnings through accruals, because it is difficult to detect outsiders and managers artificially inflate or deflate. Earning management using discretionary accruals (DA), increases or decreases earnings, involves making estimates and opportunistic judgments. Company size is the size of the company from the total assets owned by the company. Leverage is the use of borrowed funds or capital to increase profits for the company. Profitability is a company's ability to earn profits by using the resources owned by a company. The profitability variable is proxied using the Return On Assets ratio. The formula for measuring Return On Assets.

Audit risk is the risk that the auditor fails to accurately translate the opinion regarding the financial statements/material misstatements. Audit risk seen from ISPA in the company from all items. Audit risk is measured using a dummy variable, where if there are 17 high-risk factors coded 1 (one), if there are not 17 high-risk factors coded 0 (zero). A public accounting firm is a business entity established based on statutory provisions and obtaining a license in accordance with statutory regulations which operates in the field of providing professional services in the practice of public accounting. Public accounting firms are measured using a dummy variable, where the big four public accounting firms are coded 1 (one), non-big four public accounting firms are coded 0 (zero).

Statistic analysis

The data analysis technique used is the triangulation method. Triangulation is a technique for checking the validity of data that uses something other than that for the purposes of checking or a comparison of the data. The data used will be reviewed with several sources and check the research results with theories. The use of triangulation is to track dissimilarities between data obtained from one informant (the informant) and other informants.

RESULTS AND DISCUSSION

Earning Management, Company Size, Leverage and Profitability Significant Against Audit Report Lag

Lee et al., (2009) and Habib & Huang, (2019) proved that earnings management has a positive effect on audit report lag. This means that if earnings management is higher it can increase the audit report lag. Fakhfakh and Anis, (2022) added that the results of their research proved that earnings management had a positive effect on audit report lag. In contrast to research (Asthana, 2014; Ezat, 2015; Luypaert et al., 2016; Lambert et al., 2017) audit report lag decreases when earnings management is high, meaning that there is a negative relationship between earnings management and audit report lag.

Fakhfakh and Anis, (2022) it is proven that profitability does not have a negative effect on audit report lag, meaning that the size of the profit the company gets does not have an impact on accelerating audit report lag. The results of research by Fujianti and Indra (2020) show that profitability has a negative effect on audit report lag, meaning that the size of the company's profits has an impact on accelerating audit report lag.

Fakhfakh and Anis, (2022), Fujianti and Indra (2020) it is proven that company size has a negative effect on audit report lag, meaning that the larger the size of a company, the reporting time span decreases. Unlike the research of Suratman., Hamilah., and Rahmawati (2022), it is proven that company size has a positive effect on audit report lag. Companies with large total assets have shorter ARL than companies with low total assets. Company assets have an influence on the time span for submitting financial reports.

Abernathy et al., (2017) and Fakhfakh and Anis, (2022) state that leverage has a positive effect on Audit Report Lag, meaning that when a company has a high level of debt it results in an increase in audit report lag. In contrast to Fujianti and

Indra's research (2020), leverage has no positive or negative effect on Audit Report Lag, meaning that when a company has a high level of debt it results in an increase in audit report lag. Ibadin et al (2012) proved that leverage has a negative effect on audit report lag, meaning that companies that have a lot of debt provide financial reports more quickly so that debtors are sure of the company's ability to pay debts.

Audit Risk Significantly Mediates Earning Management, Company Size, Leverage and Profitability Against Audit Report Lag

Audit risk mediates positively the relationship between earnings management and audit report lag (Fakhfakh and Anis, 2022). Earnings management positively affects audit risk, in turn, positively affects audit report lag (Bae & Woo, 2015). Large KAPs affiliated with the Big Four have an audit strategy to quickly collect adequate evidence, reveal mistakes in companies experiencing financial distress thereby reducing audit report lag (Krismayanti and Anak Agung, 2017).

Audit risk is not able to mediate the relationship between firm size and profitability on audit report lag (Fakhfakh and Anis, 2022). Audit risk positively mediates the relationship between leverage and audit report lag (Fakhfakh and Anis, 2022). Bamber et al. (1993) The relationship between auditor business risk and audit report lag, meaning that more audit work can extend the gap in field work.

Audit risk has a significant and positive effect on audit report lag (Fakhfakh and Anis, 2022), meaning that the more audit risk increases, the longer the audit report lag. KAP can strengthen the relationship between firm size and audit report lag (Suratman, Hamilah, and Rahmawati, 2022).

Public accounting firms (non big four) have a significant negative effect with the abnormal audit report lag fast probability. This means that non-big four KAPs report audited financial reports longer than affiliated KAPs (Umam., and Yudhi, 2023). The big four KAPs have tighter supervision, especially international partners, due to the low quality of services provided. Standard policies and affiliated partners complied with. Supported by Yeo, (2016) significantly negative KAP on abnormal audit report lag, meaning that the big four KAPs have a short time to complete audits and produce good quality audit reports. Abernathy et al., 2017; Imen and Jarboui, 2016; Mazkiyani and Handoyo, 2017; Nhung and Okuda, 2015; Ocaak and Ozden, 2018 KAP size has a significant negative effect on audit report lag.

CONCLUSION

In conclusion, various earnings management studies have had a positive and negative effect on audit report lag. Profitability has no negative effect on audit report lag. company size has a positive and negative effect on audit report lag. leverage has a positive effect on audit report lag. Audit risk positively mediates the relationship between earnings management on audit report lag and on firm size and profitability. Audit risk is not able to mediate. The auditor's business risk has a positive relationship with audit report lag. Creditors have not put pressure on companies to present financial reports on time and lower ARLs. Suggestions for

future research to examine KAP mediate audit risk on audit report lag because there has been no research and research on other variables used as mediation.

Limitations of research, only focused on research results so that it can describe all the conditions of the variables studied about audit report lag. The research variables used four independent variables, earnings management, company size, profitability, leverage, and KAP size.

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