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The Effect of Profitability, Leverage, Company Size, and Public Accounting Office Size on Audit Delay: an Investigation on IDX-Listed Manufacturing Companies

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ABSTRACT

This study aims to examine the effect of profitability, leverage, firm size, and size of public accounting firm on audit delay in manufacturing companies on Indonesia Stock Exchange. This Study provide on explanation of lateness of audit report thus effect on inapproriate financial statement report to Indonesia Stock Exchange. The sample of this study is manufacturing companies listed on Indonesia Stock Exchange from 2016 to 2019 as many as 80 observations from 168 manufacturing companies in total. This study used multiple linear regression to analysed data. The type of data used in this research is secondary data. The paper conclude that there are companies have lateness in submitting audited financial statement to Indonesia Stock Exchange as resulted of audit delay. This study only examine manufacturing companies listed on Indonesia Stock Exchange thus the result of this paper could not used to represent all companies in Indonesia Stock Exchange. The novelty of this research occur on population characteristic and industry type used

INTRODUCTION

Demands for public accounting services continue to increase along with Indonesia's business and economic growth. A professional public accountant, usually known as an auditor, is expected to handle the global impact on a company in order to improve the company's business growth. Auditors are known to be able to increase a company's profit by increasing the company's income or reducing the company's cost, including minimizing error and fraud through operational control presented in the auditor's report. (Arens et al., 2015:2).

According to Lubis and Dewi (2020:33), the auditor's report serves as a means to express auditors' opinions and findings on audited finance. Through their reports, auditors are expected to provide valuable information for the users to help their decision-making process.

Information in audit report can be useful when they are presented in an accurate and timely manner (Kartika, 2011). As the benefit of the report fades over time, earlier information could be extremely helpful for the users to help them make decisions. Auditors are responsible for delivering their reports on time. Their responsibility is indicated by the timeliness of their audit report (Christine, 2012). "Auditors' failure in timely delivering their report is known as audit delay, a term defined as time distance between the end of a fiscal year and the date of the audit report" (Ashton et al., 1987).

Wirakusuma (2006) states that audit delay is measured from the time between the date of the end of a company's fiscal year and the publication of financial statements at the Indonesia Stock Exchange (IDX). A prolonged audit process can cause the information becomes less beneficial and accurate. Audit delay may indicate problems in the financial statement, i.e., a longer time required to finish the audit process (Verawati and Wirakusuma, 2016).

PT. Nipress Tbk was among the company that had not published the audit report on 31 December 2019 and had not paid the fine. In this regard, IDX sent a written notification III and imposed a 150 million rupiah fine for the delay. This delay can be accounted for by the company branches' difference in financial report time, in addition to the vast evidence required to support the auditor's opinion. This timing difference may affect the audit report timeliness and result in audit delay. Audit delay can ultimately lead to late financial statement publication.

Audit delay is likely to indicate problems in the financial statement, i.e., a longer time is required to finish the audit process (Verawati and Wirakusuma, 2016). Audit delay can be affected by a range of factors. Previous studies have empirically proven some of these factors, while other factors are still underresearched.

Among these factors is profitability, which is known to positively affect audit delay. Companies with higher profitability require shorter audit time. Thus they are not likely to postpone the financial statement publication. As reported in Mustikawati and Saemargani's (2015) study, a company's profitability positively affects audit Delay. However, this finding is still inconsistent since Putri and Asyik (2015) report that profitability does not affect audit delay. The audit process of companies with low and high profitability is virtually indifferent, as they tend to expedite the audit process.

The second factor known to affect audit delay is leverage. Higher leverage tends to indicate a company's financial distress, i.e., a condition in which it fails to meet its financial obligation. Companies with higher leverage tend to minimize the risk by postponing the financial statement publication and elongating the audit process, as reported in Hermawati and Rahayu's (2014) study. Janartha and Suprasto (2016) report a different finding, that the leverage does not affect audit delay since a high debt rate does not push the company to publish their audited financial statement earlier.

The third factor examined in this study was company size, which is known to negatively affect audit delay. Bigger company size tends to exhibit faster audit process. The company's net worth is found to negatively affect audit delay, meaning that companies with larger assets tend to exhibit lower audit delay (see Muhammad and Suzan, 2016;

Kartika, 2011). Nevertheless, a different finding is reported by Barkah and Pramono (2016), who found that company size does not significantly affect audit delay. The audit process is carried out using the same procedure, regardless of the company assets.

The fourth factor investigated in this study is the public accounting office size, which is found to negatively and significantly affect the audit delay. Auditors affiliated with the Big Four accounting firms tend to exhibit effective and efficient audit processes and complete the process in a timely manner. Puspitasari and Sari (2012) and Mawardi (2017) state "that the big four accounting firms are encouraged to complete the audit faster than other firms to maintain their reputations". This is different from Apriani and Basuki (2017), "who argue that accounting firm size does not significantly affect the audit delay, considering that companies Experiencing audit delay are not affected by the public accounting firm size". Both big four and non-big four accounting firms have their standard in exercising the audit.

Many variables have been studied to see their effects on audit delay. However, some variables still exhibit inconsistent results. The novelty of the present study lies in the characteristics of the population and industrial sector being investigated. The previous study conducted by Hilda (2016) employed predetermined population and industry types and reported different findings. Therefore, the present study employed all manufacturing companies listed in IDX in the 2016-2019 period. The industries were classified into good and service industries to represent all types of industries listed in IDX in the 2016-2019 period.

METHODS

The population of this study was manufacturing companies listed on the Indonesian Stock Exchange (IDX) between the 2016-2019 period. The sample of the study was selected using the purposive sampling technique. Eighty companies were selected and observed for four years period, resulting in a total of 320 observations. This study used secondary data, i.e., audited financial statements of manufacturing companies Listed in IDX from 2016 to 2019 www.idx.co.id. The data were collected using documentation and analyzed using multiple linear regression analysis.

Variables used in this study were operationalized as follows:

a. Audit Delay (Y) was measured based on the time between the end of the company's fiscal year (i.e., 31 December and the date the independent audit report is signed.

b. Profitability (X1) was a ratio to measure a company's profit-making ability in a certain period (Kasmir, 2015:114). When making an investment, ROA is among the factor to consider to see the efficiency of a company's overall operation (Dewi and Wiratmaja, 2017). ROA in this study was used to measure profitability.

c. Leverage (X2) is a ratio used to measure the extent to which a company asset is funded using a loan (Kasmir, 2015:132). Leverage can be seen by comparing the company's total debt to total equity using the Debt to Equity Ratio (DER).

d. Company Size (X3) is a scale to classify companies based on total assets, stock market value, and other factors (Hery, 2017:11). Company size can be measured using a log of the company's total assets stated in its financial statement (Putra and Pande, 2016).

e. Public accounting firm size (X4) in this study was seen from the accounting firms' affiliation with the Big Four. Small public accounting firms are defined as those not affiliated with the Big Four. The public accounting firm size in this study was measured using dummy variables, in which companies audited by the Big Four were scored 1, while those audited by non-Big Four were scored 0.

RESULTS

This section presents the descriptive analysis of variables used in this study, namely profitability (X1), leverage (X2), company size (X3), public accounting firm size (X4,), and audit delay (Y). The following table presents the descriptive statistical value of each variable.

Table 1. Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
Profitability	0.09%	92.10%	8.1616%	9.06166%
Leverage	8.33%	544.26%	90.3104%	78.51215%
Company Size	1.13	14.55	10.2421	2.43711
Accounting Firm Size	0	1	47	500
Audit Delay	29	178	79.95	18.952
Valid N (listwise)				

As shown in the table above, five variables used in this study have not exhibited a stable data distribution. Consequently, the range between minimum and maximum values of these variables were too far.

Table 2. Hypothesis Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	84.025	4.476		18.773	000
	Profitability	-,209	122	-,102	-1.719	087
	Leverage	-,028	014	-,113	-2.024	044
	Company Size	-1.242	436	-,160	-2.846	005
	Accounting Firm Size	-6.953	2.247	-,185	-3.094	002

The following multiple linear regression equation was obtained:

$Y = 84.025 + (-0,209)\ X1 + (-0.028)\ X2 + (-1.242)\ X3 + (-6.953)\ X4 + \varepsilon$

The profitability regression coefficient is -0.209, a negative sign indicates that the profitability variable has the opposite relationship with audit delay. This means that every increase in the profitability variable will decrease by 0.209. The profitability variable has a t-count value of -1.719 with a significance level of 0.087 which is greater than a significance level of 0.05 (5%). This shows that profitability does not have a positive effect on audit delay. Thus the hypothesis that profitability has a positive effect on audit delay in manufacturing companies listed on the Indonesia Stock Exchange is rejected.

The leverage coefficient is -0.028, a negative sign indicates that the leverage variable has the opposite relationship with audit delay. This means that every increase in the leverage variable will decrease by 0.028. The leverage variable has a t-count value of -2.024 with a significance level of 0.044 which is smaller than a significance level of 0.05 (5%). This shows that leverage has a negative effect on audit delay. Thus the hypothesis which states that leverage has a positive effect on audit delay in manufacturing companies listed on the Indonesia Stock Exchange is rejected.

The coefficient of firm size is -1.242, a negative sign indicates that the firm size variable has the opposite relationship with audit delay. This means that every increase in the company size variable will decrease by 1.242. The firm size variable has a t-count value of -2.846 with a significance level of

0.005 which is smaller than a significance level of 0.05 (5%). This shows that firm size has a negative effect on audit delay. Thus the hypothesis which states that firm size has a negative effect on audit delay in manufacturing companies listed on the Indonesia Stock Exchange is accepted.

The coefficient of the size of the public accounting firm is -6.953, a negative sign indicates that the variable size of the public accounting firm has an opposite relationship with audit delay. This means that every increase in the accounting firm size variable will decrease by 6.953. The variable size of the public accounting firm has a t value of -3.094 with a significance level of 0.002 which is smaller than a significance level of 0.05 (5%). This shows that the size of the public accounting firm has a negative effect on audit delay. Thus, the hypothesis which states that the size of the public accounting firm affects audit delay in manufacturing companies listed on the Indonesia Stock Exchange is accepted.

DISCUSSION

The regression coefficient of -.209 indicates that profitability is negatively related with audit delay. In other words, Every increase in profitability may decrease the audit delay by 0.209, assuming that other independent variables are constant. The t-count value of profitability was -1.719, which means that higher audit delay is associated with lower profitability. Profitability does not affect audit delay since companies with both high and low profitability are required to publish their financial statements on time. Companies are required to publish their annual statements followed by an independent auditor's report no later than 90 days after the end of the fiscal year. Companies with high or low profitability tend to expend the audit process. This finding is consistent with Putri and Asyik's (2015) study, which found an insignificant effect on profitability on audit delay. This study contradicts Saemargani and Mustikawati's (2015) study, which found that profitability affects audit delay.

The regression coefficient of -.028 indicates that profitability is negatively associated with audit delay. In other words, every increase in leverage may lower the audit delay by 0.028, assuming that other independent variables are constant. The t-count value of leverage was -2.024 with a significance value of 0.044 (< 0.05), indicating that leverage significantly and negatively affects audit delay in IDX-listed manufacturing companies. This means that companies with lower leverage are likely to exhibit a faster audit process. As companies with higher leverage ratios tend to exhibit poor conditions, the auditor should collect more competent proof of the fairness of the financial statement (Ukago, 2006). In this regard, the auditor needs more time to complete the audit process.This finding matches the study conducted by Janartha and Suprasto (2016), who found that leverage does not affect audit delay. It contradicts Hermawati and Rahayu (2014), who report a positive, significant effect of leverage on audit delay.

The regression coefficient of -.1.242 indicates that company size is negatively associated with audit delay. In other words, Every increase in company size variable may lower the audit delay by 1.242, assuming that other independent variables are constant. The t-count value of company size was -2.846 with a significance value of 0.005 (< 0.05), indicating that company size significantly and negatively affects audit delay in IDX-listed manufacturing companies. This finding supports Dyer and McHugh (1975), who suggest that bigger companies tend to consistently publish their financial statements more on time than smaller companies. Big companies are known to complete their audit process faster than smaller companies since they are supervised tightly by the users of financial statements. This study matches Muhammad and Suzan's (2016) and Kartika's (2011) works, which report the negative, significant effect of company size on audit delay. The bigger the company size, the lower the audit delay tendency. However, this finding contrasts with Barkah and Pramono (2016), who found that company size does not significantly affect audit delay.

The regression coefficient of -.6.953 indicates that public accounting firm size is negatively associated with audit delay. In other words, every

increase in public accounting firm size variable may lower the audit delay by 6.953, ceteris paribus. The t-count value of the public accounting firm size was -3.094 with a significance value of 0.002 (< 0.05), indicating that the public accounting firm size significantly and negatively affects audit delay in IDX-listed manufacturing companies. Apriani and Basuki (2017) suggest that public accounting firm size determines its quality, which affects the time needed to complete the audit process. Bigger public accounting firm size is likely to relate to good credibility. As bigger public accounting firms tend to maintain their public image and retain their clients, they are likely to complete the audit report as early as possible. This finding supports previous studies reporting the negative, significant effect of public accounting firm size on audit delay (e.g., Puspitasari and Sari, 2012; Mawardi, 2017). Public accounting firms affiliated with the Big Four are likely to exhibit effective and efficient audit processes and deliver timely reports. However, this finding contradicts Apriani and Basuki's (2017) work, which reports that public accounting firm size does not significantly affect the audit delay.

CONCLUSION

Based on the results of the research described above, the conclusions of research of effect of profitability, leverage, firm size, size of public accounting firms on audit delay in manufacturing companies listed on the Indonesia Stock Exchange in 2016-2019 in this research are as follows: (1) Profitability does not have a positive effect on audit delay in manufacturing companies listed on the Indonesia Stock Exchange in 2016-2019. It is because audit process of companies with a low level of profitability has no distinction to audit process of companies with a high level profitability, they will tend to speed up the audit process. (2) Leverage does not have a positive effect on audit delay in manufacturing companies listed on the Indonesia Stock Exchange. It is because the high amount of debt owned by the company does not put pressure on the company to publish the audited financial statements faster. Companies with low levels of profitability has no difference to the audit process of companies with high levels of profitability, they will tend to speed up the audit process. (3) Company size has a negative effect on audit delay in manufacturing companies listed on the Indonesia Stock Exchange. This is because companies that have large assets, the faster the time to complete the audit. (4) The size of the public accounting firm has a negative effect on audit delay in manufacturing companies listed on the Indonesia Stock Exchange. It is because large public accounting firms have more effective and efficient time in completing audits on time. The size of public accountants who use the services of the big four tends to be more trusted in auditing the company's financial statements, so they can audit more efficiently and effectively, and have more flexible time in completing audits on time. It can be concluded that profitability and leverage have no effect on audit delay, while firm size and public accounting firm size and negatively affect audit delay.

This paper suggest that future studies use more variabels affect to companies audit delay. The legth of next study can be extended this can be used to predicting company's audit delay. Auditors are also suggested to improve their effectiveness and efficiency in performing the audit so that the audited financial statement can be delivered in a timely manner

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