

Original Article

Impact of Company Size, Political Connections, Audit Opinion and Fees on Audit Report Lag in Indonesia

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Abstract - This study aims to analyse whether the factors of company size, political connections, audit opinion, and audit fees affect the Audit Report Lag (ARL). The research method used is quantitative with secondary data in the form of financial and non-financial data from financial reports and annual reports of industrial business and property sectors. The population in this study are companies listed on the Indonesia Stock Exchange (IDX). The research period is between 2013 and 2017. The test results found that Company Size, Political Connections and Audit Fees have negative influences on ARL, while Audit Opinion is identified no effect on ARL.

Keywords - Company Size; Political Connections; Audit Opinion; Audit Fee; Audit Report Lag.

I. INTRODUCTION

The financial statements are a communication tool between the company and the stakeholders. The use of information in financial statements is beneficial for economic decision making as well as disclosure of financial results and related information to management's activities for the purpose of company resources entrusted to them. According to the Financial Accounting Standard Board (FASB) in the Conceptual Framework for Financial Reporting, it states that one of the qualitative characteristics of financial statements is relevance, meaning that useful financial information must be relevant and reliable. To achieve it, the company's published financial statements must be disclosed in a timely manner and sent to users as a means of analyzing financial projections immediately after the end of the fiscal year (Hassan 2016).

This research is motivated by the fact that there are still many companies going public that exceed the given timeliness in submitting audited financial statements. Such time differences are called audit report lag. According to Abernathy et al. (2017), financial reporting timeliness is an area of interest to investors, managers, regulators, auditors, and academics. To determine the factors that cause audit report lag has been carried out in several countries, for example, in the US by Ashton et al. (1987), in Canada by

Ashton (1989), in New Zealand by Carslaw and Kaplan (1991).

There have been various discussions surrounding the issue that has mainly concentrated on identifying determinants of the audit report lag. For example, Dyer and McHugh (1975) state that large companies are closely watched by investors, which is intended to reduce audit delays. They also show companies that have a larger size tend to have a shorter audit report lag compared to companies that have smaller sizes. In separate studies, Wang and Song (2006) prove that the larger the size of the company, the higher number of days needed to complete the audited financial statements. Hossain and Taylor (1998) also state that companies that have larger total assets take longer to complete an audit than companies that have smaller total assets. Surprisingly enough, the Oladipupo (2011) study suggests company size does not have a significant influence on the audit delay. Then, Onwuchekwa (2013) shows that company size does not affect audit completion length.

Habib and Muhammadi (2018) investigate the association between political connections and the audit report lag in Indonesian firms. The study draws the issue of timely reporting to policymakers. This finding shows that the company that has good political relations in the management of the company, ownership of shares and other unique relationships have the opportunity and strength to utilize these relationships in conducting business operations transactions of the company, compared to companies that are not politically connected. In turn, it may affect the audit report lag. Another empirical study completed by Abernathy et al. (2017) also claims that political connections strongly influence the value of some companies in Indonesia. It is rational to argue that having political connectedness is the importance of timely reporting to investors and other pressure groups. It is also commonly used as an economic assessment of a company, such as productivity, and the degree of political connectedness can change investor decisions.



This study contributes to the factors that significantly influence the audit report lag. Importantly, this study provides an interesting research agenda for future research. As we see in the existing literature, there are variables that are still problematic and have a strong influence on timely financial reporting. Those variables are clustered around company size, political connections, audit opinion, and audit fees. As such, those variables are reexamined in this current study.

II. LITERATURE REVIEW

A. Effect of Company Size and Audit Report Lag

The company's size is one of the company's characteristics. It is measured based on total assets, total sales, market capitalization, and the number of workers (Meckfessel and Sellers, 2017). Yendrawati and Mahendra (2018) find a pattern suggesting companies with large total assets may speed up the audit process. He argues that it is because the company's management was able to control the delay in completing the audit report. As Yendrawati and Mahendra (2018) explained, the role of investors and stock exchange authorities cannot be isolated from the timely audited financial reporting. It is because those parties have an interest in the audited financial statements.

Similarly, Habib (2015). state that management in large category companies has a strong drive to minimize audit delays. Besides, they also explain that large companies certainly have adequate internal control systems to maintain the reliability of financial statements and compliance with regulations from the stock exchange authority. So, it can facilitate the auditor in completing his audit report. Habib, A., (2015) research is also strengthened by the results of Yendrawati and Mahendra (2018) research, which revealed that large companies try to maintain their company's image in the community by maintaining the time limit for submitting financial statements so that they are always on time and avoid sanctions due to the delay in submission of financial statements. Therefore, the following hypotheses are presented:

H1: Company size influences the Audit Report Lag

B. Effects of Political Connections and Audit Lag Report

Several previous studies have produced different conclusions about the impact of political connections on ARL. Faccio (2010) found that politically connected companies tend to choose the big four accountant firms since the big four accountant firms and industry have empirically been known to reduce audit reporting delays. Rusmin and Evans (2017) empirically examine the relation between two dimensions of auditor quality, namely, auditor industry specialization and auditor reputation and the audit report lag. The study finds a negative and significant association between industry-specialist auditors and audit report timeliness. Habib and Muhammadi (2018) synthesize the empirical research on the relationship between political connections and financial reporting quality, audit outcomes and financial analyst forecast characteristics. The study appears to provide strong

evidence for the poorer financial reporting quality of politically connected firms compared to their non-connected peers. Therefore, the following hypotheses are presented:

H2: Political Connection influences Audit Report Lag

C. Effects of Audit Opinion and Audit Lag Report

The provision of audit opinions on financial statements given by public accountants is based on a series of audit processes. Such processes are broadly divided into risk assessments, which respond to material risks affecting financial reporting. The final stage of the audit process is reporting. It is the riskiest stage for public accountants because the auditor is faced with professional judgment. Auditors are responsible for making sure that all line items on financial statements are presented fairly.

Simamora, and Hendarjatno (2019), in their research, explained that the independent auditor's report must contain a definite opinion. To express a good impression, the auditor takes a long time in the audit process. This result is because the company will negotiate with clients, consult with more senior auditor partners, and broaden the scope of its audit, thus thereby taking longer and causing delays in audit reports, and this is terrible news for the stakeholders and firm. Ho-Lee Young and Jahng's (2008) study entitled the determinants of the Audit Lag Report in Korea found that the use of big four public accounting firms had a negative influence on Audit Report Lag. Therefore, the following hypotheses are presented:

H3: Audit Opinion influences Audit Report Lag

D. Effect of Audit Fee and Audit Report Lag

Hiring an audit partner who is more experienced and specialized in the industry of the client being audited is a strategy to reduce the delay in completing the audit report. It is undoubtedly in line with the increased audit fees charged for engaging highly skilled audit team members (Matthews and Peel 2003). Large companies also have extensive financial capabilities in providing audit fees, compared to small companies financially. Therefore, audits at large companies require greater hours of auditor personnel, certain audit techniques, and technology, resulting in high audit fees. That is why the results of research from Ashton et al. (1987) reinforce the notion that the timeliness of audit completion of financial statements is determined by the number of audit fees received by public accounting firms - the higher the audit fees, the time needed to complete the audit financial statements becomes short. For this reason, audit fees are one of the variables that are linked as a cause of an audit delay.

H4: Audit fees affect the Audit Report Lag

III. RESEARCH DESIGN

This study uses secondary data sourced from information elements presented in the published financial statements and annual reports of listed companies listed on the Indonesia Stock Exchange from 2013-2017. Secondary data used in the study is determined based on industrial business sectors, property, consumer goods that it can be

obtained by downloading from the official website at www.idx.co.id. The research period is between 2013 and 2017. The sampling method used is the purposive sampling method, which is a sample selection method that is based on specific criteria.

A. Measurement of Variable

a) Company Size (SIZE)

The size of the company is defined based on the size of the asset. Companies that have a larger size tend to have a shorter audit report lag compared to companies that have a smaller size. Company size will be measured by the natural logarithm of the total assets recorded on the company's financial statements.

b) Political Connection (PCON)

Political connections will be measured by a dummy variable, 1, if it is indicated to have political connections and 0, does not. Political connections are seen from the presence or absence of direct ownership from the government in companies.

c) Audit Opinion (OPINI)

Audit opinions will be measured by a dummy variable, 1 if the type of audit opinion is reasonable without modification, and 0 if not.

d) Audit Fee (FEE)

Measurement of audit fee variables uses the natural logarithm of professional fees following previous research conducted by Calderon et al. (2018).

e) Audit Report Lag (ARL)

Audit Report Lag will be measured by the difference between the date of the opinion signing by the independent auditor and the date of the company's financial statements.

B. Analysis Techniques

The analysis technique used in this study uses multivariate analysis. Specifically, the analysis model in this study uses multiple linear regression analysis. The model used in this study is presented as follows:

$$ARL = \alpha + \beta_1SIZE + \beta_2PCON + \beta_3OPINI + \beta_4FEE + e$$

Where:

ARL: Natural Log the amount of the difference in calendar days from the date of the independent auditor's report less the date of issuance of the financial statements in the fiscal year

SIZE: Log Natural rupiah total assets

PCON: 1 if the company is indicated to have political connections (political parties, retired bureaucrats, central/regional government employees) that can be described as a political intervention, 0 otherwise

OPINI : 1 if the audit opinion is unmodified / opinion without modification, 0 otherwise

FEE : Natural log of rupiah value professional audit services fee

IV. RESULT

A. Descriptive statistic

The variables in this study consisted of company size, political connections, audit opinion and audit fees, with audit report lag as the dependent variable. Table 1 provides information about the amount of sample data analyzed in this study. Based on the results of descriptive statistical tests obtained as many as 875 observational data (n x 5 years / 2013-2017). Based on table 1, it can be explained that the company size variable (SIZE) from 2013 to 2017 in the four sectors of the company has the lowest value of 0 and the highest value of 29564600000000.0 with the standard deviation in the amount of 21207425209831.510.

Table 1. Descriptive Statistic

	N	Min	Max	Mean	Std. Deviation
SIZE	875	0	29564600000000	6793287526159.44	21207425209831.510
PCON	875	0	1	.17	.376
OPINI	875	0	1	.99	.095
FEE	875	0	1250000000	173558962.66	290562982.951
ARL	875	-282	414	80.04	26.530
Valid N (listwise)	875				

Source: processed with SPSS

Table 2. Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	74,693	9,220	
	SIZE	-1,203E-13	,000	-,096
	PCON	-7,739	2,397	-,110
	OPINI	9,341	9,278	,034
	FEE	-1,020E-8	,000	-,112

a. Dependent Variable: ARL

Source: Processed with SPSS

Table 3. Determination Coefficient Test

Model	R	R Square	Adjusted R Square	Std. An error of the Estimate	Durbin-Watson
1	,200 ^a	,040	,35	26,071	1,458

Dependent Variable: ARL

Source: processed with SPSS

Table 4. Statistical Test T

Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.
		B	Std. Error	Beta			
1	(Constant)	74,693	9,220			8,101	,000
	SIZE	-1,203E-13	,000	-,096		-2,893	,004
	PCON	-7,739	2,397	-,110		-3,228	,001
	OPINI	9,341	9,278	,034		1,007	,314
	FEE	-1,020E-8	,000	-,112		-3,290	,001

Source: processed with SPSS

The political connection variable (PCON) was measured by the presence or absence of direct ownership of the government in the company. It is a dummy variable, 1 if it is indicated to have political connections and 0 does not. Based on table 1, it can be explained that the political connection variable (PCON) during 2013 to 2017 in the four sectors of the company has the lowest value of 0, the highest value of 1 and a standard deviation of 0.376. then, the result for the audit opinion variable (OPINI) during 2013 to 2017 in all four sectors suggests that the company had the lowest value of 0, the highest value of 1 and a standard deviation of 0.95. Variable audit fees (FEE) from 2013 to 2017 had the lowest value of 0, the highest value of 1250000000.

Based on the results of the multiple linear regression test in table 2 above, the equation can be formulated as follows:

$$ARL = 74,693 - \beta_1 1,203E-13 - \beta_2 7,739 + \beta_3 9,341 - \beta_4 1,020E-8 + e$$

A constant value of 74,693 states that all independent variables are considered constant, so the ARL value is 74,693. Firm size regression coefficient (SIZE) of -1,203E-13 states that for every 1 unit increase in the firm size variable, the ARL value will decrease by 1,203E-13

Political connection regression coefficient (PCON) of -7,739 states that for every 1 unit increase on the political connection variable, the ARL value will decrease by 7.739. The audit opinion regression coefficient (OPINI) of 9,341 states that for every 1 unit increase in the audit opinion variable, the value of the ARL will increase by 9,341. The audit fee regression coefficient (FEE) of -1.02DE-8 states that for every 1 unit increase in the variable, the ARL value will decrease by -1.022E-8. Thus, a positive regression coefficient indicates the direction of a positive/aligned relationship between the independent variable and the dependent variable. At the same time, the negative coefficient indicates the direction of a negative/opposite relationship between the independent variable and the dependent variable.

The coefficient of determination test results in the table shows that the adjusted R2 is 0.35. This means that 35% of the variation in the audit report lag is explained by the variation of the four independent variables consisting of company size, political connections, audit opinion and audit fees. At the same time, 65% is explained by other reasons outside the regression model. Furthermore, based on table 4, the T statistical test can be seen that the significant values of firm size variables, political connections, audit opinion and audit fees are different.

Based on table 4, it shows: H1 = company size variable in the table has a significant value of $0.004 \leq 0.05$, so rejecting H0 or H1 is accepted. It can be concluded that company size has an effect on audit report lag. H2 = political connection variable in the table has a significant value of $0.001 \leq 0.05$, so rejecting H0 or H2 is accepted. It can be concluded that political connections affect audit report lag. H3 = audit opinion variable in the table has a significant value of $0.314 \leq 0.05$, so accept H0 or reject H3. It can be concluded that the audit opinion does not affect the audit report lag. H4 = audit fee variable in table 4 has a significant value of $0.001 \geq 0.05$, so rejecting H0 or H4 is accepted. It can be concluded that audit fees affect audit lag reports.

V. DISCUSSION

A. Company Size (SIZE) has a negative effect on Audit Report Lag (ARL)

The test results are known that Company Size (SIZE) has an influence with the direction of a negative relationship to Audit Report Lag (ARL). Analysis of the sample data of this study is known that large-scale company categories such as the property business sector, among other characteristics, have the greatest value for fixed assets in the form of machinery and heavy equipment for construction purposes and are supported by active stock trading. Large asset and financial resources also contribute greatly to supporting needs in accelerating the audit process carried out by the auditor. The resources can be in the form of an integrated financial reporting system infrastructure using applications based on Enterprise Resources Planning (ERP) with the ability of information technology that quickly and accurately produces the data needed in the preparation of financial statements. And of course, it has an expensive investment value also, besides having competent and knowledgeable human resources in the process of preparing financial reports in accordance with the latest accounting standards and related policies or regulations.

In addition, this result is also supported by the principle of maintaining the reputation of the corporate image of using the Big Four, which indicated to carry out more thorough audit work and is able to fulfil commitments when completing audit reports that have been agreed with the client. Companies that have greater total assets sometimes also have active stock trading characteristics, so one of the signal theories related to this means that companies that trade active shares have a tendency to keep investors' responses to information presented in a timely manner and have relevance to the objectives of business decision making.

B. Political Connections (PCON) has a negative effect on Audit Report Lag (ARL)

Based on the test results, it is also known that Political Connection (PCON) has an influence on the direction of the negative relationship to Audit Report Lag (ARL). The Public Accounting Firm becomes an important aspect in assessing the performance of the management of the

construction business sector companies. In addition, the company's management is committed to always reporting its financial performance on time, both annual financial reports and financial reports audited by the KAP due to tighter supervision by shareholders, the Ministry of SOEs, regulators, and independent commissioners so that it is possible to reduce the time delay in reporting results audit of its financial statements.

C. Audit Opinion (OPINI) has no effect on Audit Report Lag (ARL)

The results of testing the Audit Opinion (PCON) do not produce an influence on Audit Report Lag (ARL). Some aspects which require additional time to complete the audit report are the disagreement with the management of the company regarding the findings and the proposed correction journal from the auditor, which will certainly affect the conclusions of the audit results. However, the results of this study contradict the hypothesis and the results of previous studies in which the audit opinion variable has no influence on the audit report lag. These results cannot be separated from the fact that companies listed on the stock exchange try to always keep the opinions received from an independent auditor at a public accounting firm. The existence of a demand to maintain the reputation and image of the company has an impact on obtaining audit opinion.

D. Audit Fee (FEE) has a negative effect on Audit Report Lag (ARL)

Audit fee (FEE) influences Audit Report Lag (ARL) negatively. It supports the various previous empirical studies. It is argued that the financial capability of the company will certainly affect the timeliness of audit completion. Companies having large resources will have the financial ability to pay audit fees. But there are many interventions during the audit process, and the large audit fee would affect the auditor psychologies.

VI. CONCLUSION

Company Size (SIZE) has an influence with the negative direction to Audit Report Lag (ARL). Then we also identified Political Connections (PCON), showed influential results to Audit Report Lag (ARL). Surprisingly, enough Audit Opinion (PCON) has no effect on Audit Report Lag (ARL). This is because the companies seek to maintain their reputation and image. Then we also documented that the audit fee (FEE) has a negative influence on the Audit Report Lag (ARL) which means that the ability of a company's finances to pay a public accounting firm has a good signal to complete a shorter audit time.

It is very interesting to note here that at the time auditors negotiate with the management regarding the tariff fee which must be paid by the management, it is most likely that there will be a reciprocal concession that will reduce the quality of the report audited. This action may be led to actions that override professionalism. As a consequence, such reciprocal concession will reduce the

importance of points for the quality of auditors. The things that should be maintained by public accountants is professionalism and independence. Independent here means that public accountants prioritize the public interest above the management interests or the interests of the auditor itself in making an audit report.

Therefore, the alignments of auditors, in this case, should take precedence over the public interest. Furthermore, we also note that companies that have political relationships are more likely to do real profit management versus accrual profit management to meet the targeted profit because real profit management is not easily detected by public or political associates compared to accrual profit management.

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