

THE INFLUENCE OF FINANCIAL DISTRESS AND PROFITABILITY ON AUDIT REPORT LAG IN CONSUMER CYCLICALS SECTOR COMPANY LISTED ON THE INDONESIA STOCK EXCHANGE IN 2020-2022

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ABSTRACT

This study aims to examining the effect of Financial Distress and Profitability on Audit Report Lag in companies operating in the Consumer Cyclical sector listed on the Indonesia Stock Exchange and S&P Capital IQ platform. The independent variables used in this study are Financial Distress and Profitability. The dependent variable in this study is Audit Report Lag. The sample collected and used in this study is secondary data from the financial statements of Consumer Cyclical companies available on the official website of the IDX from 2020–2022. The technique for collecting samples was using the purposive sampling method and analyzed using the multiple regression method with a total sample of 276 data using STATA software. The results of this study indicate that Financial Distress has a positive effect on Audit Report Lag and Profitability has no effect on Audit Report Lag in Consumer Cyclical companies listed on the IDX during 2020–2022.

Keywords - **Audit report lag, financial distress, profitability, company size, company age, audit quality, COVID-19**

INTRODUCTION

Financial reports provide important information about a company's financial position, performance and cash flow, which is useful for internal and external users in decision making. To be relevant and reliable, financial reports must meet the characteristics of PSAK 1, including timeliness. Timeliness is important because delayed reports reduce their usefulness. Audit report lag, namely the time difference between closing the books and the audit report, is an important indicator in this case. External auditors play a key role in ensuring the timely publication of audited financial reports.

In Indonesia, one way to increase the relevance of a financial report is for the regulator, namely the OJK, to set a time limit regarding the submission of financial reports. In 2022, the Financial Services Authority issued OJK regulation number 14/POJK.04/2022 concerning Submission of Periodic Financial Reports for Issuers or Public Companies. In this regulation, the regulator stipulates that annual financial reports must be submitted to the OJK and announced to the public no later than the end of the third month (90 days) after the date of the annual financial report. Policies or regulations issued regarding time limits for submitting financial reports can reduce the quality of audit reports because auditors are under pressure regarding the time or period in carrying out the audit process. Audit Report Lag in companies can be reduced because of this policy, but the results of the company's audit quality can also be reduced. The Financial Services Authority as the regulator needs to understand what factors influence Audit Report Lag before issuing regulations and policies aimed at reducing Audit Report Lag.

Audit Report Lag is influenced by several factors, one of which is Financial Distress. The company's financial condition is an important factor in the audit process, because this is a factor the auditor considers in determining an opinion on the audit of the company's financial statements. The company's financial condition is stated to be important because it is related to the survival (going concern) of a company after the company has been audited. Research conducted by Deliana et al. (2022) stated that Financial Distress affects Audit Delay or Audit Report Lag. Pingass & Dewi (2022)

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also conducted research and the results of this research stated that Financial Distress had an effect on Audit Delay. However, according to Parahyta & Herawaty (2020) Financial Distress has no influence on Audit Report Lag.

The next factor is Profitability, Amalia & Sugianto Yusuf (2023) conducted research and the results of this research stated that Profitability has a significant influence on audit delay. Profitability affects audit delay because a company's high level of profitability will tend to experience shorter audit delays, so that good news can be quickly conveyed by interested parties. However, based on research conducted by Gustiana & Rini (2022), the results of their research state that profitability has no effect on audit delay.

Based on several previous studies, there are differences in results on independent variables, so this research is still relevant to study by providing additional variables, replacement variables and a different scope. From the explanation above, researchers are motivated to analyze more deeply the determinant factors of audit report lag. In this research, the author will look at and test the factors that influence audit report lag in companies in the Consumer Cyclical Sector listed on the Indonesia Stock Exchange in the 2020–2022 period.

The selection of companies with the Consumer Cyclical Sector is based on the fact that this sector is a stock category that is very dependent on the business cycle and economic conditions. Because this research period was carried out in the period affected by the 2019 Corona Virus Disease Pandemic, where this Pandemic had an impact on economic conditions in Indonesia, the Consumer Cyclical Sector is an interesting sector to research. This research also uses the most recent period compared to previous studies. Based on the background explanation above, the author proposes the research title "The Influence of Financial Distress and Profitability on Audit Report Lag in Consumer Cyclical Sector Companies Listed on the Indonesian Stock Exchange in 2020-2022".

LITERATURE REVIEW

Agency Theory

Agency theory according to Jensen and Meckling (1976) explains agency theory, a theory that can be used to understand the relationship between owners and management (Idawati et al., 2023). In agency theory, the relationship between agents, namely management and company owners, is explained. In agency theory, there is a contract between one or more people (principal) and another person (agent) to perform a service on behalf of the owner of the company (principal) by giving authority to the agent to run the business and make the best decisions for the owner (principal). Financial reports are a communication medium between the agent and the principal to convey information contained in the company. Presenting reliable and relevant financial reports is a measure that the principal expects of the agent as the party running the company. Relevant financial reports also function to reduce information asymmetry between management and the principal (Khamisah et al., 2021). The agent of course expects the best feedback from the principal, of course the agent should also be given incentives and carry out proper supervision so that he can carry out his work optimally. If these things have been fulfilled, the agent will certainly present a comprehensive report so that there is a good response from the principal.

Financial Statements

Financial reports are part of the financial reporting process, whereas according to PSAK 1 revised 2014, financial reports are performance reports aimed at meeting the needs of report users (Bagaskara et al., 2023). Based on the two definitions above, financial reports published by companies are the basis for stakeholders and shareholders in making business decisions. A good

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financial report is a financial report that is able to provide a complete picture of the company's performance and can be used to make economic decisions for company owners. Financial reports based on PSAK No. 1 revision 2014, aims to provide data relating to the financial position, performance and changes in the financial position of an entity that can be used or utilized when making decisions. The benefits and objectives of financial reports will vary depending on the stakeholders who use them. Financial reports can also be used and used as a measure to see management's accountability for the resources entrusted to them in making economic decisions for company owners.

Based on the SAK (Financial Accounting Standards) Statement Number. 1 revision of 2014, which was ratified on 27 August 2014 and became effective for the financial year period after 1 January 2015, financial statements can be said to be complete if the financial statements have the following components:

1. Report of financial position at the end of the period
2. Comprehensive income statement
3. Report on changes in equity
4. Cash flow report
5. Notes to financial reports and comparative information regarding the nearest previous period
6. Report of financial position at the beginning of the comparative period which is presented when the company applies policies retrospectively or restates financial reporting items, or when the entity or company reclassifies items in the financial statements.

According to PSAK No.1, paragraph 10, other information can be presented in order to produce fair financial reports even though the disclosure is not required by accounting standards.

Profitability

Profitability is a description of a company's performance in generating profits, both from sales activities and investment activities. Stakeholders, especially potential investors, will closely observe the company's business performance and ability to generate profits (profitability). This is because investors expect dividends and the market price of their shares. Profitability measurement is intended to measure the efficiency of using company assets (Sihombing & Aldanny, 2023).

Profitability describes the effectiveness capabilities possessed by company operations. The greater the level of profitability of a company, it can indicate that the company is managed well in generating profits. When a company experiences profits, company management usually wants to report its financial reports more quickly compared to companies that have a higher level of profitability (Mardjono & Astutie, 2022).

METHODOLOGY

In this study the dependent variable is audit report lag. Audit report lag is the time difference between the date of the financial report and the date the audit opinion is issued, which indicates the length of time for the auditor to complete the audit. Audit report lag is measured by calculating the length of time between the date the financial report ends until the audited financial report is signed. The formula used for the audit report lag variable is formulated as follows:

Audit Report Lag = Audit Report Date - Financial Report Date – 1

In this research, the author uses two independent variables that influence audit report lag, namely:

- a. Financial Distress

In this research, the probability of bankruptcy is used as a proxy in assessing the company's

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financial condition which is estimated from the bankruptcy prediction model using the modified Altman Z Score model, namely:

$$Z = 6,56X1 + 3,26X2 + 6,72X3 + 1,05X4$$

b. Profitabilitas

Profitability is used to measure the overall effectiveness of management as indicated by the size of the profits obtained by the company in relation to sales, profits and investments. This research uses ROA (Return on Assets) as a reference for calculating company profitability. ROA is used to see the company's ability to efficiently use total assets for company operations. Measurement for profitability uses a ratio with the following formula:

$$\text{Return on Assets} = \text{Net Income} : \text{Total Assets}$$

In this research, the author uses four control variables that influence audit report lag, namely company size, company age, audit quality, and the COVID-19 pandemic

RESULTS

A. Descriptive Statistical Analysis

Descriptive statistics is data processing that is used to provide a general description of the number of observations (Obs), highest value (maximum), lowest value (minimum), average value (mean) and standard deviation (standard deviation) of each variable that is used. chosen. Below is a table of Descriptive Statistics for this research, which has been processed by the author using the STATA application:

<i>Variables</i>	<i>Obs</i>	<i>Mean</i>	<i>Standard Deviation</i>	<i>Minimum</i>	<i>Maximum</i>
ARL (Aktual)	276	105,945	57,098	33,000	784,000
LARL (Ln)	276	4,594	0,334	3,496	6,664
FINDISS	276	0,322	0,468	0,000	1,000
ROA	276	-0,120	0,782	-7,883	0,240
SIZE	276	14,243	1,610	9,122	17,866
AGE	276	16,217	11,808	1,000	42,000
QUALITY	276	0,206	0,405	0,000	1,000
COVID	276	0,666	0,472	0,000	1,000

Table 1. Descriptive Statistics

Source: Stata Data Processing Output Results that have been processed by the Author (2023)

Correlation Analysis

VARIABLES	ARL	FINDISS	ROA	SIZE	AGE	QUALITY	COVID
ARL	1,000						
FINDISS	0,143**	1,000					
	0,017						
ROA	-0,088	-0,245***	1,000				
	0,146	0,000					
SIZE	0,013	-0,162***	0,335***	1,000			
	0,833	0,007	0,000				
AGE	-0,088	0,045	0,093	0,155***	1,000		
	0,145	0,462	0,122	0,010			
QUALITY	-0,095	-0,065	0,093	0,444***	0,232***	1,000	
	0,114	0,284	0,124	0,000	0,000		
COVID	0,335***	-0,022	-0,003	-0,016	-0,060	0,000	1,000
	0,000	0,717	0,962	0,788	0,321	1,000	

*** Signifikan pada tingkat 1% atau 0,01
 ** Signifikan pada tingkat 5% atau 0,05
 * Signifikan pada tingkat 10% atau 0,10

Table 2. Variable Correlations

Based on the table above, Financial Distress (FINDISS) has a positive correlation with Audit Report Lag with a correlation coefficient (r) of 0.143 and has a significance level of 0.017 (1.7%) which means it is significant at a significance level of 0.05 (5%). The relationship between FINDISS and Audit Report Lag has a positive correlation, meaning that for companies that have poor financial conditions or are bankrupt, they have a high probability of being late in submitting audited financial reports (audit report).

The ROA (Profitability) variable has a negative correlation with Audit Report Lag with a correlation coefficient (r) of -0.088 with a significance level of 0.146, which means it is not significant because it is more than 10%. The ROA variable also has a negative correlation with Financial Distress with a correlation coefficient (r) of -0.245 with a significance level of 0.000, which means it is significant at the 0.01 (1%) level. The relationship between ROA and ARL and FINDISS has a negative correlation, meaning that the higher the level of ROA a company has, the less likely the company will experience problems in Audit Report Lag or Financial Distress.

B. Hypothesis Testing

The test results in Stata by default software are two-tailed tests. Based on table 3 which presents the results of the individual parameter significance test (t test) in this study, hypothesis testing can be interpreted as follows:

Table 3 Hypothesis Test (t Test)

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Linear Regression					
ARL	Coefficient	Robust Std. err.	t	P> t	[95% conf. interval]
FINDISS	0,106	0,045	2,33	0,021	0,016 0,195
ROA	-0,033	0,042	-0,79	0,432	-0,117 0,050
SIZE	0,028	0,016	1,72	0,087	-0,004 0,059
AGE	-0,002	0,001	-1,18	0,240	-0,004 0,001
QUALITY	-0,102	0,047	-2,19	0,030	-0,194 -0,010
COVID	0,238	0,034	7,00	0,000	0,171 0,305
CONSTANT	4,053	0,238	17,05	0,000	3,585 4,521

Table 3. Hypothesis Result

Source: Stata Data Processing Output Results that have been processed by the Author (2023)

a. Financial Distress has a positive influence on Audit Report Lag

The t-test results for the Financial Distress variable (FINDISS) have a t-test value of 2.33 with a significance of 0.021 or 2.10%, meaning it is significant at the 5% level. From the significance value of the FINDISS variable, it can be concluded that the FINDISS variable has a significant effect on Audit Report Lag because the significance value is $0.021 < 0.050$, which means it is significant at the 5% level (0.050). The first hypothesis (H1) in this research states that Financial Distress has a positive influence on Audit Report Lag. The results of the t test in this study show that the coefficient value for the Financial Distress variable is positive at 0.106 with a significance of $0.021 < 0.05$. From the results of testing this hypothesis, it can be concluded that the First Hypothesis (H1) is accepted, which means that Financial Distress has a positive and significant influence on Audit Report Lag.

Based on the results of hypothesis testing which are presented in table 3 in this research, it can be concluded that Financial Distress partially has a positive influence and has a significant effect on Audit Report Lag. This proves that companies experiencing financial distress have the potential to have a longer audit report lag. Companies whose financial condition is bad or not good often take quite a long time (slow) in communicating various information about the situation within the company.

Companies that have financial reports with good cash flow conditions over a long period of time can show that the company is able to pay its debts or various obligations. Financial reports with good cash flow also show that this is a good sign for users of financial reports. However, on the other hand, if a company's financial report shows negative profits (loss) and has low (bad) cash flow over a long or consecutive period, then this is a warning to the company that the company is in a bad financial condition. or it could be said that they are experiencing a financial crisis. If a company experiences a financial crisis and has difficulty paying its debts or obligations, then this can also hinder or slow down the auditor from completing the audit process.

The conclusions from the results of this research are in accordance with the results of research conducted by Angelia & Mawardi (2021) which also states that Financial Distress has a positive effect on Audit Report Lag because the higher the Financial Distress ratio value, the company is considered to be experiencing financial difficulties, this condition can increase audit risk. especially control risk and detection risk. Determining high audit risk will cause the auditor to collect more and more accurate audit evidence, which of course has an impact on the length of the Audit Report Lag.

b. Profitability has a negative influence on Audit Report Lag

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The t-test results for the Profitability (ROA) variable have a t-test value of -0.79 with a significance of 0.432 or 43.20%. This hypothesis has a direction but is negative and not significant, because the significance value is $0.432 > 0.10$. From the significance value of the ROA variable, it can be concluded that the ROA variable does not have a significant effect on Audit Report Lag.

The second hypothesis (H2) in this research states that Profitability has a negative influence on Audit Report Lag. The results of the t test in this study show that the coefficient value for the Profitability variable (ROA) is negative at -0.033 with a significance of $0.432 > 0.10$. From the results of testing this hypothesis, it can be concluded that the Second Hypothesis (H2) is not accepted, because this variable does not have a significant influence on Audit Report Lag.

Based on the results of hypothesis testing which are presented in table 3 in this research, it can be concluded that Profitability (ROA) does not have a negative influence and does not significantly influence Audit Report Lag. Whether a company reports profit or loss in a certain period, it is still hoped that it can minimize Audit Report Lag by the regulator. Therefore, it can be concluded that there is no relationship between Audit Report Lag and companies reporting profits or losses.

Whether a company has good news or bad news, there is no difference between the auditors when undergoing the audit process. The duration of the audit process remains the same and has no differences. The level of profitability of a company will not affect the time span in carrying out the audit process, so profitability has no effect on Audit Report Lag.

The conclusion from the results of this research is in accordance with the results of research conducted by Gustiana & Rini (2022) which also states that Financial Distress has no influence on Audit Report Lag, this is because the audit process carried out in companies that have a low level of profitability has no difference. with an audit process carried out on companies with a high level of profitability. The high or low level of profitability owned by an entity will not affect the time span in carrying out the audit process.

CONCLUSION

Based on the results of hypothesis testing and also the discussion presented by the author in CHAPTER IV, this research will answer the problem formulation at the beginning with the following conclusions:

1. Financial Distress partially has a positive effect on Audit Report Lag.
2. Profitability has no influence on Audit Report Lag.

Based on the benefits of the research, the results of this research have the following implications: (1) For the Public Accounting profession, it can help formulate significant factors for Audit Report Lag, so that the audit process can run optimally. (2) For companies, it can provide awareness for companies to complete their audit reports in a timely, accountable and transparent manner in order to attract investor interest. (3) For Regulators, Can assist the Financial Services Authority (OJK) in determining policies and regulations related to the timeliness of submitting financial reports.

In conducting this research, the author was not free from several limitations. The author hopes that, for future studies, researchers will be able to minimize or even overcome the limitations that exist in this research. The following are some limitations and suggestions in this research: (1) In this research, the author did not carry out special testing for Financial Distress which is in the Gray Area category, so that companies that are included in the Gray Area category are considered to be companies that have not experienced bankruptcy. The author's suggestion for further research is that researchers might add the Gray Area category to be discussed in a study. (2) The data that has been

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processed with Stata in this research has been proven not to be normally distributed, so it experiences a skew, where skewness should be ≈ 0 . The author has carried out Box-Cox treatment on the Dependent variable, namely Audit Report Lag, but the data still cannot be recovered, so the author continues to use initial data before treatment. If you face the same problem, the author's suggestion for future researchers is that if possible, researchers can replace the analysis by using non-parametric statistical tests which do not require a normality test. If the number of observation samples is more than 30 and it turns out that the data is still not normally distributed, then you can use the opinion of the central limit theorem which states that for research that has more than 30 samples, the data is still considered normally distributed because it has all the characteristics of a normal distribution.

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