

DETERMINANTS OF AUDIT REPORT LAG (EMPIRICAL STUDY ON CONSTRUCTION AND REAL ESTATE COMPANIES INDEXED TO INDONESIAN SYARIAH STOCKS)

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Abstract

The purpose of the study is to conduct an analysis and answer the research gap that occurs among researchers and the phenomenon that occurs where Audit Report Lag as a problem needs to be re-examined using Company Performance as an intervening variable. This type of research is quantitative descriptive with a panel data multiple regression analysis method using the research object of Construction and Real Estate companies indexed by Indonesian Sharia Stocks (ISSI) on the Indonesia Stock Exchange. By using the purposive sampling method, a total of thirty-three cross sections were obtained which were observed in this study and by using a time series for eleven years (2011-2021). The results of this study can conclude that Return On Assets (ROA) as an intervening variable has a significant effect on Audit Report Lag (ARL), thus the acceleration of financial reports will greatly depend on the results of the company's performance which is also an exogenous variable with the highest level of sensitivity to company performance. These results are expected to help company management in preparing financial report data in order to be able to make the time for preparing financial reports more efficient.

Keywords: Audit Report Lag, Audit Committee, Audit Opinion, Firm Size, Independent Commissioner, Leverage, Return on Asset.

1. INTRODUCTION DAN LITERATURE REVIEW

In the professional standardization of public accountants number 1, the audit of financial reports has a general purpose of providing an opinion on the fairness, in all material matters, of the financial condition and results of the business, and cash flow based on accounting principles (Indonesian Institute of Accountants / IAI, (2013)). Audited financial reports are needed, namely in increasing the confidence of users of financial reports, today increasing trust in financial reports Halim, (2003). The purpose of the audit of financial reports is carried out, namely in determining that the financial reports have been declared relevant based on several general accounting principles Arens (2009).

At the stage of completing the audit of financial reports, on the one hand the auditor is required to complete it on time, but on the other hand the auditor must continue to carry out the audit with accuracy, precision, careful planning, and collect several existing evidence. Due to this work standardization, it is possible for public accountants to organize publications related to audited financial reports and even extend the audit period. In addition, the Auditor must consider the potential audit risk when applying standards. Therefore, auditors need additional time at the completion stage to ensure compliance with standards and anticipate risks that may

affect the accuracy of financial reporting. In this case, the timeliness of completion related to audit tasks shows that auditors need to work efficiently without neglecting the reliability of the information obtained in the financial statements.

Hossain & Peter (1998) stated that the time period required by the auditor in auditing has an impact on the timeliness of the published financial report information contained therein. The number of days from the end of the company's financial year to the date in the audited financial report is known as the Audit Report Lag (ARL), Lee and Jahng (2008). Audit Report Lag (ARL) is the key to examining the need for audit information in the stock market. Even Audit Report Lag (ARL) is one of the basic indexes of audit efficiency so it must be on time, Afify (2009). Audit Report Lag (ARL) that passes the deadline for submission of the annual report of a Public Company based on the provisions of Bapepam-LK (Capital Market & Financial Institution Supervisory Agency), which is a maximum of 4 months after the end of the financial year, of course results in a delay in the publication of a financial report.

Long Audit Report Lag (ARL) occurs in companies that indicate that something has happened at the stage of completing an audit report, in terms of the report or the public accountant is problematic. The longer the Audit Report Lag (ARL) can certainly increase the chances of delays in the publication of audited financial reports to the public. In fact, the longer the financial report and audited financial report are published, the more detrimental it is to shareholders. In addition, the delay in presenting audited financial reports also shows that there are problems with the financial reports of a company. The duration of time in the audit completion process affects the timeliness during the publication process of information related to audited finances, today it has an impact on the market reaction to the delay in information Givoly & Palmon (1992). Thus, the longer the delay in audited financial reports can create doubts for shareholders and prospective shareholders in investing capital and it is possible that this can cause public companies to lose their shareholders. Sultana et al. (2015) said that Audit Report Lag (ARL) is a fundamental component of the timeliness of financial reporting, increasing information content, influencing company value, and as a result, increasing the importance of examining the determinants of Audit Report Lag (ARL).

Empirical studies investigating the determinants of Audit Report Lag (ARL) have been conducted by many previous researchers using various factors both internal and external to the company. Research findings still provide contradictory results in explaining the occurrence of the Audit Report Lag (ARL) phenomenon. This study focuses on internal factors, namely the company's financial performance and corporate governance which are the main causes of the length of the Audit Report Lag (ARL). The company performance factors that are further explored in this study include; profitability, capital structure, and company size, while corporate governance variables are proxied by independent commissioners, audit committees and auditor opinions. Habib et al.'s (2019) research uses meta-analysis to estimate the determinants of Audit Report Lag (ARL) which are divided into three categories: (a) audits and audit-related determinants, (b) determinants related to corporate governance, and (c) company-specific determinants. The results of the study found that the audit opinion and audit season variables improved Audit Report Lag (ARL), while Big 4 affiliation, non-audit services

and auditor tenure decreased Audit Report Lag (ARL). In determining each governance of a company, the presence of financial expert members on the audit committee, as well as concentration that becomes ownership to minimize Audit Report Lag (ARL). Finally, examining firm-level characteristics reveals that firm complexity increases Audit Report Lag (ARL), while profitability reduces it. Durand (2019) also proves the influence of auditor-related, firm-specific, and governance factors on Audit Report Lag.

Iyoha's (2012) research proves that the size of a company and profitability have a negative impact on the company, the age of a company has a positive impact and the size variable of the related public accounting firm has no effect on the Audit Report Lag (ARL). Karami and Mohammadvand's (2016) research found that company size, debt to equity ratio, profitability, type of auditor's opinion provided in financial statements and the company's life cycle have a significant effect on the duration of audit implementation and completion. Meanwhile, Alkhatib and Marjib (2012) found that the profitability ratio, the type of audit firm and the size of a company have a negative relationship based on the Audit Report Lag (ARL). Hassan's (2016) research revealed that the Audit Report Lag (ARL) is influenced by the size of the board of directors, the status of the audit firm, the size of a company, the complexity of a company, the existence of an audit committee, and the dispersion of ownership. In contrast to the research of Aljaaidi et al. (2015) the size of a company, the type of auditor, the debt ratio, and extraordinary items in financial reporting have no impact on the Audit Report Lag (ARL). Mukhtarudin et al. (2015) revealed that the size of a company, the auditor's opinion has an effect on the significance and has a positive impact on the Audit Report Lag (ARL).

Research by Ilaboya and Iyafekhe Christian (2014) suggests that the size of the board, the type of audit firm, the size of a company have a significant impact, while the one independence and the size of an audit committee have no significant effect on the Audit Report Lag (ARL). Research by Ahmed and Ahmad (2016) found no significant relationship between board expertise, the size of the risk committee and the size of an audit committee on the Audit Report Lag (ARL). However, in the research by Ojeka et al. (2014) found that the size of the company, the type of audit, the age of the company, the audit committee meeting and the size of the audit committee, that the financial expertise of the audit committee showed a negative coefficient for Total Accrual Quality and Audit Report Lag (ARL). Based on these studies, research problems were found in the form of inconsistencies in the disclosure of the influence of the size of an audit committee on the Audit Report Lag (ARL). Therefore, researchers are interested in re-examining the audit committee size variable as an independent variable in this study, in providing evidence that the audit committee carries out its responsibilities to help carry out the duties and functions of the Board of Commissioners so as to shorten the Audit Report Lag.

Mukhtaruddin et al., (2015) the size of a company, the auditor's opinion has a significant and positive influence on the Audit Report Lag (ARL). Owusu-ansah and Leventis (2006) companies whose audit reports meet the qualifications and companies that have a larger proportion of equity shares do not immediately release audited financial statements. This is different from the research of Al Daoud et al., (2014) which states that companies with

unqualified auditor opinions release their financial statements earlier than companies that do not receive a clean opinion. Based on these studies, research problems were found in the form of differences in the disclosure of the direction of the relationship in the influence of auditor opinion on the Audit Report Lag (ARL). Thus, researchers are interested in re-examining the auditor's opinion variable which is an independent variable in this study, in proving that there is a negative influence between auditor opinion and Audit Report Lag (ARL).

Researchers are interested in studying the Audit Report Lag (ARL) in Indonesia, because the Audit Report Lag (ARL) which has a long time span can cause delays in the submission and publication of annual reports of public companies, it turns out to get attention from the state and has been anticipated based on the enactment of the Law in Indonesia, namely through Government Regulation (PP) No. 45 of 1995 concerning the Implementation of Activities in the Capital Market Sector in Article 63 letter e, which provides administrative sanctions and fines for every delay in the submission and publication of annual reports of issuers and public companies, amounting to IDR 1,000,000.00 (one million rupiah) and a maximum fine of IDR 500,000,000.00 (five hundred million rupiah). It is hoped that with this regulation there will be no issuers or public companies that are late in submitting and publishing annual reports, let alone neglecting to report at all. However, it turns out that in October 2018 there were still 15 (fifteen) issuers or public companies that were negligent in providing financial reports and audited financial reports in mid-2018 so that they had to be given administrative sanctions and fines of IDR 50,000,000.00 (fifty million rupiah) to IDR 150,000,000.00 (one hundred and fifty million rupiah) by the Indonesia Stock Exchange. Based on the published data from the IDX, 7 (seven) of the 15 (fifteen) public companies that were sanctioned were public companies listed on the Indonesian Sharia Stock Index (ISSI) and 4 (four) of the 7 (seven) public companies that had been registered with ISSI were Construction and Real Estate companies. Then in the period 2019-2021, another 4 (four) Construction and Real Estate companies that had been registered with ISSI were suspended by the Indonesia Stock Exchange (IDX). Even one of the four companies has the potential to leave the stock exchange because it has received a warning letter of delisting from the IDX. Based on the findings of this phenomenon, the researcher intends to conduct research in construction service companies and Real Estate in ISSI.

Researchers focus on the real estate and construction services business because this type of business usually takes longer to prepare financial statements and verified reports. This is because their work depends on previous contracts in the sector. Unlike costs that are recorded when incurred, revenue is recognized after installments are received. Oematun (1997) emphasized that real estate and construction businesses often encounter difficulties in preparing financial statements, especially income statements. In addition, although development activities do not always correspond to the accounting period, PSAK 34 (2014) highlights the challenges in recognizing revenue and costs of construction contracts. The purpose of construction contract accounting is to group revenue and expenses according to the time of task implementation. Therefore, the completion and reporting of financial statements and audits tend to take longer than other service sectors. In addition, researchers are interested in making Construction and Real Estate Services companies the object of research because the

Construction and Real Estate Services sector is an important sector needed to meet the needs of the Indonesian people. Currently, the need for shelter or housing which is a primary human need must be faced with the increasingly limited land conditions for housing and residential areas, thus increasing the community's need for public housing. The increasing need for public housing has also driven rapid development in the Construction Services and Real Estate sectors. This includes sharia property, which has also been driven increasingly rapidly due to the increasing trend of migration and the need for Islamic housing.

Furthermore, the implementation of Law No. 2 of 2017 concerning Construction Services is expected to strengthen the prospects for the property and construction business in Indonesia. Research subjects related to Audit Report Lag (ARL) must be considered in public companies in this sector, especially considering the increasing interest of the Indonesian people as consumers and investors in the construction and property sectors.

This research selects companies listed on ISSI in the Construction Services and Property sector as objects because, based on Google Scholar searches between 2011–2021, there has been no previous research examining Audit Report Lag (ARL) in this industry. Thus, this research is expected to enrich theoretical understanding of ARL in the Indonesian context while providing new insights. Previous studies related to sharia entities in the Construction and Real Estate Services sector in ISSI are still minimal, so this research is motivated to dig deeper into the factors that influence ARL "Determinants of Profitability and Its Implications for Audit Report Lag (ARL) empirical study of Construction & Real Estate Services companies in the ISSI list".

In Ilaboya et.al. (2014), conducted a study with the object of companies in Nigeria. The results of the study are the number of boards of directors, company size, Type of Audit company have a significant effect on Audit Report Lag (ARL), while the Independence of the Board of Directors, Size of the Audit Committee, Independence of the Audit Committee have an insignificant effect on ARL. Another study was conducted by M. Ishaq Ahmed et.al (2016) where the results were exogenous variables consisting of, Audit Quality, Board of Directors Meetings, Number of Board of Directors Total Assets, Gender of the Board of Directors, Expertise of the Board of Directors, Size of the Risk Committee and Size of the Audit Committee, have a significant effect on Audit Report Lag (ARL), except for the exogenous variables of Board of Directors Expertise, Size of the Risk Committee.

In addition to the above studies, there are other researchers, namely Arifuddin et.al. (2017) using exogenous variables of Company Size, Profitability Level, Auditor Opinion. The results of their study found that all exogenous variables have a significant effect on Audit Report Lag (ARL). Different research results were conducted by Mukhtaruddin et.al. (2015), that Company Size, Auditor Opinion have an insignificant effect on Audit Report Lag (ARL). Other different research results by Stephen Owusuansah and Stergios Leventis (2026), the results of their research found that Financial Report Quality, Company Specifications have an insignificant effect on Audit Report Lag. In Ho-Young Lee et.al. (2008), which uses exogenous variables of Audit Fees, Auditor Tenure, Auditor Type, Auditor Opinion, it has been shown that only Auditor Opinion and Auditor Tenure have a significant effect on Audit Report Lag (ARL). Regarding the company performance variable, researcher Massimo Spisni, et.al (2014), using

research objects of companies in the European Union in the period 2004-2011, produced an ideal company size that needs to be considered because it has a significant influence on company performance, p

2. HYPOTHESIS

- H1: There is an influence of Leverage (SM) on Return On Assets (KP).
- H2: There is an influence of Firm Size (UP) on Return On Assets (KP).
- H3: There is an influence of Independent Commissioner (KI) on Return On Assets (KP)
- H4: There is an influence of the Audit Committee (KA) on Return On Assets (KP)
- H5: There is an influence of Audit Opinion (OA) on Return On Assets (KP)
- H6: There is an influence of Leverage (SM) on Audit Report Lag (ARL).
- H7: There is an influence of Firm Size (UP) on Audit Report Lag (ARL).
- H8: There is an influence of the Independent Commissioner (KI) on the Audit Report Lag (ARL).
- H9: There is an influence of the Audit Committee (KA) on the Audit Report Lag (ARL)
- H10: There is an influence of Audit Opinion (OA) on Audit Report Lag (ARL)
- H11: There is an influence of Return On Assets (KP) on Audit Report Lag (ARL)

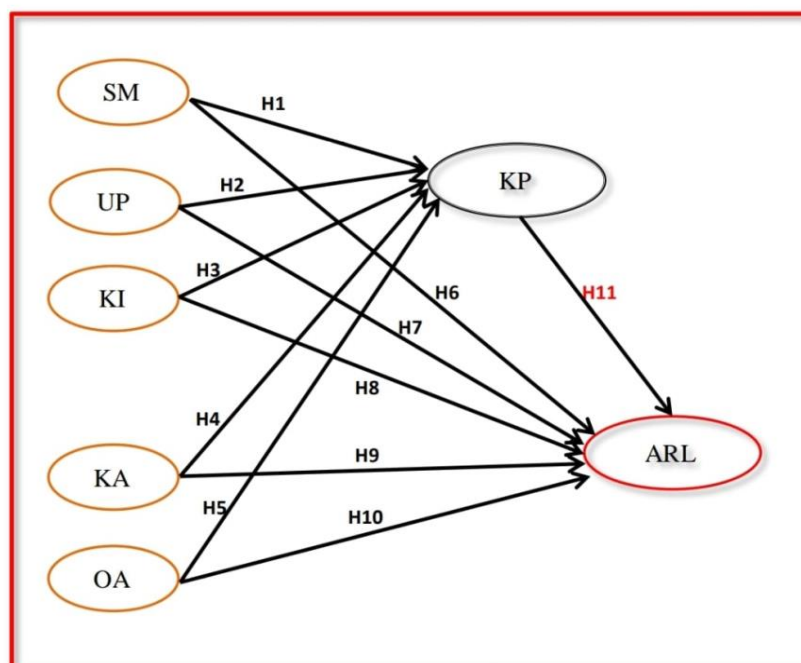


Figure 1: Research Framework

3. RESEARCH METHODS

The approach used in this study is quantitative descriptive using multiple linear regression analysis method of panel data using a combination of eleven-year time series data or the period 2011-2021 and a cross section of 33 selected companies as research samples. The objects of the study are Construction and Real Estate companies indexed by Indonesian Sharia Stocks (ISSI) on the Indonesia Stock Exchange with a population of all companies listed in the Construction and Real Estate sectors.

Operational Variables:

Table 1: Operational Variables

No	Variables	Notation	Formulas
1	Leverage	SM	$\frac{\text{Debt}}{\text{Equity}}$
2	Firm Size	UP	Log Total Assets
3	Independent Commissioner	KI	$\frac{\text{Independent Commissioner}_{it}}{\text{Total Board of Commissioners}_{it}}$
4	Audit Committee	KA	Number of Meetings During a Years
5	Audit Opinion	OA	1= Fair Without Modification 2= Fair Without Modification with explanatory paragraph 3= Fair with Modification 4= Unfair 5= Does Not Provide Opinion
6	Return on Asset	KP	$\frac{\text{Earnings After Tax}}{\text{Total Assets}}$
7	Audit Report Lag	ARL	$ARL = TLA - TLK$
	TLA= Audit Report Date TLK= Company Financial Report Date		

Panel Data Multiple Regression Estimation

Multiple linear regression estimation of panel data first ensures the availability of a combination of cross-section data and time series data. Between cross-section data and time series data, analysis can be used:

1. Common Effect Model (CEM)
2. Fixed Effect Model (FEM)
3. Random Effect Model (REM)

Model Selection Test:

Chow Test

F-statistic as a standard used to determine the choice between the Common Effect model or the Fixed Effect model. Acceptance or rejection of the hypothesis is based on the level of $\alpha = 5\%$ on the null hypothesis (H_0) and alternative hypothesis (H_a). Each of the two models above will technically compare the calculation of the *F-statistic* with the *F-table*. The results of the *F count* < from the *F table* will reject the null hypothesis (H_0) and vice versa will accept the alternative

hypothesis (H_a). Thus the appropriate model to be used is the Fixed Effect Model, the decision will be taken otherwise if the results will be different

Hausman Test

The Hausman test will determine the choice of Fixed Effect Model or Random Effect Model. The use of the Chi-Square statistical distribution with a degree of freedom of k as the number of exogenous variables as the basis for testing.

The result will accept the null hypothesis (H_0) and reject the alternative hypothesis (H_a) for the next model will be said to be fit and use the Random Effect Model, but on the contrary will use the Fixed Effect Model if the statistical hypothesis rejects the null hypothesis (H_0) and accepts the alternative hypothesis (H_a)

Lagrange Multiplier Test (LM)

Determining the fit model in Lagrange Multiplier (LM) through the selection process between the Common Effect Model or Random Effect Model. The basis of the test uses the Chi-Squares distribution with a degree of freedom equal to the number of exogenous variables. If the result of the LM statistic value is greater than the critical value of the Chi-Squares statistic, it will reject the null hypothesis (H_0) and accept the alternative hypothesis (H_a), so it means that the fit estimate to use is the Random Effect Model. Conversely, if the LM statistic value is smaller than the critical value of the Chi-Squares statistic, it will accept the null hypothesis (H_0) and reject the alternative hypothesis (H_a), this means that the use of the Common Effect Model is more appropriate

Panel Data Regression Model

Structural Equation of Research Model I,

$$KP_{it} = \alpha + \beta_1 SM_{it} + \beta_2 UP_{it} + \beta_3 KI_{it} + \beta_4 KA_{it} + \beta_5 OA_{it} + \varepsilon_{it} \dots\dots\dots(1)$$

$i = 1, 2, \dots, N; \quad t = 1, 2, \dots, T$

Structural Equation of Research Model II,

$$ARL_{it} = \alpha + \beta_1 SM_{it} + \beta_2 UP_{it} + \beta_3 KI_{it} + \beta_4 KA_{it} + \beta_5 OA_{it} + \beta_6 KP_{it} + \varepsilon_{it} \dots\dots\dots(2)$$

$i = 1, 2, \dots, N; \quad t = 1, 2, \dots, T$

Notes:

SM	=	Leverage		ε	=	Error component
UP	=	Firm Size		β	=	Slope
KI	=	Independent Commissioner		α	=	Intercept
KA	=	Audit Committee		N	=	Number of Observations
OA	=	Audit Opinion		T	=	Lots of time
KP	=	Return On Assets		NxT	=	Number of Panel Data
ARL	=	Audit Report Lag				

4. RESEARCH RESULTS

A. Descriptive Statistics and Model Fit Test

Table 2: Descriptive Statistics

	ARL	KP	SM	UP	KI	KA	OA
Mean	12.71056	0.365311	118.6053	297.7829	7.442377	8.867370	2.133098
Median	83	0,038190	0,807080	29,54402	0,40	4	2
Maximum	182	0,630370	5,833217	35,10293	1	41	3
Minimum	24	-0,375160	0,001600	23,77853	0	2	1
Std. Dev.	23,83948	0,069935	0,962432	1,496388	0,135019	5,824676	0,740072
Skewness	0,849510	1,135416	2,426142	-0,712440	0,476092	3,073392	0,542100
Kurtosis	4,876261	20,09001	10,41693	5,503392	7,074477	14,56345	1,996364
Jarque-Bera	96,90626	4495,530	1188,152	125,4960	264,8087	2593,882	33,01442
Sum	29826	16,26921	379,7020	10674,72	145,2257	2571	617
Sum Sq. Dev.	205732,1	1,770504	335,3116	810,5821	6,599300	12281,52	198,2700
Observations	363	363	363	363	363	363	363

Source: Processed data

B. Return on Assets and Firm Value as Endogenous Variables in the Suitability Testing of Research Models I & II.

Table 3: Chow Tests

Research Model 1 Common Effect Vs Fixed Effect Endogenous Variable: Return on Assets				Research Model 2 Common Effect Vs Fixed Effect Endogenous Variable: Audit Report Lag			
Effects Test	Statistic	d.f.	Prob.	Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.675351	(32.325)	0.00	Cross-section F	3.786321	(32.324)	0.0000
Cross-section Chi-square	84.87728	32	0.00	Cross-section Chi-square	115.323409	32	0.0000

Source: Processed data

The statistical hypothesis of the research in the Chow-test on Research Model-1 and Research Model-2 states: rejecting the null hypothesis (H_0) and accepting the alternative hypothesis (H_a) at the level of $\alpha = 5\%$, so it can be said that **the Fixed Effect Model** is more appropriate to use than the Common Effect Model. (Table-3)

Table 4: Hausman Tests

Research Model 1 Fixed Effect Vs Random Effect Endogenous Variable: Return on Assets				Research Model 2 Fixed Effect Vs Random Effect Endogenous Variable: Audit Report Lag			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.29400	5	0.0381	Cross-section random	12.181688	6	0.0080

Source: Processed data

The statistical hypothesis of the research in the Hausman-test on Research Model-1 and Research Model-2 states: rejecting the null hypothesis (H_0) and accepting the alternative hypothesis (H_a) at the level of $\alpha = 5\%$, so it can be said that **the Fixed Effect Model** is more appropriate to use than the Common Effect Model. (Table-4)

C. Multiple Linear Regression Panel Data Using Fixed Effect Model

Table 5: Endogenous Variable: KP

Total pool (balanced) observations: 363

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.0869	0.0755	-1.1518	0.2501
SM	-0.0060	0.0048	-1.2480	0.2128
UP	0.0057	0.0025	2.2195	0.0270
KI	-0.0362	0.0272	-1.3277	0.1850
KA	0.0001	0.0008	0.0996	0.9206
OA	-0.0098	0.0050	-1.9528	0.0516
Adjusted R-squared	0.14701			

Source: Processed data

Table 6: Endogenous Variable: ARL

Total pool (balanced) observations: 363

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	59.67415	35.83330	1.665326	0.096814
SM	-0.10963	2.21995	-0.04938	0.96064
UP	0.55559	1.193168	0.465642	0.641783
KI	3.15563	10.69192	0.295142	0.768074
KA	0.65556	0.314022	2.087654	0.037609
OA	3.35933	1.891545	1.775974	0.076675
KP	-119.3254	16.52288	-7.22182	0.00000
Adjusted R-squared	0.348681			

Source: Processed data

- 1: Leverage has an insignificant effect on Return On Assets (Table 5).
- 2: Firm Size has a significant effect and is positively correlated to Return On Assets (Table 5).
- 3: Independent Commissioner has an insignificant effect on Return On Assets (Table 5).
- 4: Audit Committee has an insignificant effect on Return On Assets (Table 5).
- 5: Audit Opinion has an insignificant effect on Return On Assets (Table 5).
- 6: Leverage has an insignificant effect on Audit Report Lag (Table 6).
- 7: Firm Size has an insignificant effect on Audit Report Lag (Table 6).
- 8: Independent Commissioner has an insignificant effect on Audit Report Lag (Table 6).

- 9: Audit Committee has a significant effect and is positively correlated to Audit Report Lag (Table 6).
- 10: Audit Opinion has an insignificant effect on Audit Report Lag (Table 6).
- 11: Return On Assets significantly influences Audit Report Lag and is negatively correlated (Table 6).

5. CONCLUSION

Findings: The results of this study conclude that Return On Assets (ROA) as an intervening variable has a significant effect on Audit Report Lag (ARL) which means that the speed of financial reports is greatly influenced by company performance. In addition, among the exogenous variables used and the highest level of sensitivity also occurs in company performance.

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