

The Effect of Complexity of Company Operation, Solvency, Company Size, and Profitability on Audit Report Lag (Empirical Study of Food and Beverage Companies Listed on the Indonesia Stock Exchange for 2019-2021)

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Abstract: Every year many companies are late or have not submitted financial reports and independent auditor reports. The length of time for completion of the audit causes the company to not be on time in submitting financial reports. The complexity of company operation, solvency, company size, and profitability are parts of the variable that affect audit report lag. This study aims to determine the effect of the complexity of company operation proxied by dummy variable (KOP), solvency by Debt to Asset Ratio (DAR), company size proxied by the natural logarithm of a total asset (SIZE), and profitability proxied by Return on Equity (ROE) on audit report lag. The population in this study were 65 food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period. The data is secondary for annual financial reports obtained from the company's official website and the IDX. The sample was selected using a purposive sampling method and obtained 22 sample companies that met the criteria. The techniques used are descriptive analysis, classical assumption test, and multiple regression test. The study's results show that company size affects audit report lag simultaneously. In contrast, the complexity of company operation, solvency, and profitability do not affect audit report lag.

Keywords: Complexity of Company Operation, Solvency, Company Size, Profitability, Audit Report lag

Introduction

Companies listed on the Indonesia Stock Exchange are public companies. Public companies or companies going public are required to report their company's financial statements in the capital market. In the attachment to the Financial Services Authority (OJK) Regulation Number 29/POJK.04/2016 article 7, it is stated that issuers or public companies are required to submit annual financial reports accompanied by independent accountant reports with a customary opinion and submitted to OJK no later than the end of the fourth month (120 days) after the financial year ends.

Every year the number of listed companies that are late or have not even submitted audited financial statements and financial reports in the capital market is increasing. The length of time to complete the audit causes the company to be late or not on time in submitting financial reports and has an impact on the uncertainty of decisions based on published information. This is called the audit report lag. Audit report lag can be influenced by many factors. Some of the factors examined by researchers in this study are the complexity of company operations, solvency, company size, and profitability.

The first factor is the complexity of the company's operations. The greater the number of operating subsidiaries owned by a company, the longer it will take to audit the financial statements. The next factor is solvency. The high amount of debt owned by the company will affect the time required by the auditor in auditing the financial statements which will extend the audit report lag (Hanafi and Halim, 2012: 79). The next factor is company size. Research conducted by Dyer and McHugh (1975) and Widiastuti and Kartika (2018) states that the management of large companies has a greater incentive to reduce audit report lag and reporting delays because they are closely monitored by investors, labor unions, and regulators. So that companies that have a large company size are more effective because they have a relatively shorter time for implementing audit procedures when compared to small company sizes. The next factor is profitability. The profitability ratio is used as an assessment of the company's performance in utilizing assets to generate profits. Companies with low levels of profitability tend to experience longer issuance of audited financial statements when compared to companies that have high levels of profitability.

Literatur Review and Hypothesis

Compliance Theory

Compliance theory is pressure made to comply with timeliness in the submission of annual financial information of companies in Indonesia, companies that have been listed on the Indonesia Stock Exchange are

required to apply standards to current financial reports, namely the International Financial Reporting Standard (Putri and Abidin, 2022). According to Sulistyo (2012), the relationship between compliance theory in this research is that it aims to motivate companies to submit financial reports on time and pressure an audit to comply with legal regulations to be useful for users of financial reports.

Audit Report Lag

Audit report lag is the period measured in the number of days elapsed from the financial year-end until the date of the auditor's report (Peter J. Baldacchino et al., 2016). The IASB framework (2008) considers the timeliness of financial statements as one of the main concerns for users of accounting information (IASB, 2008). The timeliness of financial reporting can be influenced by how long it takes to complete an audit. Annual reports can only be issued after the auditor expresses an audit opinion on the truth and fairness of the financial statements. As a result, auditors are often under pressure to minimize the time it takes to complete their work.

Complexity of Company Operation

The complexity of the company's operations is seen from how many subsidiaries operate and are owned by the company. The large number of subsidiaries owned by the company causes the process of presenting financial statements to take longer. According to Putri and Abidin (2022) the higher the complexity of the company's operations will indicate that the company has far more work elements to correct in each transaction in the financial statements, thus causing the auditor to require a relatively longer period to carry out his audit duties.

The complexity of company operation is one of the factors that cause audit report lag, where the auditor must audit the parent company and subsidiaries so that it takes longer in the audit process. The more complex a company is, the longer it will take auditors and complete their work (Darmawan and Ni in Sanova et al., 2022).

H1: Complexity of company operation affects audit report lag

Solvency

High solvency indicates if there is an increased risk of bankruptcy of the company and an alert signal for auditors to pay more attention because the company's financial statements may be less reliable than under normal circumstances. This can be due to errors or management fraud that will cause further examination. A high Debt to Asset Ratio can potentially lead to company failure so that auditors will increase their attention to the possibility of fraud or unreliable financial statements (Juanita and Rutji, 2012). Companies that have a high amount of debt can be a sign that there will be a delay in the preparation of audited financial reports because the level of debt that is too high implies that there are problems within the company and it is not running effectively so it can slow down the audit report lag (Ningsih and Widhiyani in Wijayanto, 2016).

H2: Solvency affects audit report lag

Company Size

Company size is a level where the size of the company can be calculated by various methods expressed in total assets, stock market value, and others (Amani, 2016 in Siregar and Sujiman, 2021). Larger companies tend to have higher external demands to complete their audit reports on time due to the strict supervision carried out by investors, the government, and capital regulatory agencies (Gantino and Susanti, 2019). Company size is a scale that can be classified as large and small of a company in various ways, including using total assets, log size, stock market value, and so on. The size of the company indicates the size or size of a company and the ownership structure owned by the company. Companies that have a larger amount of assets can be trusted to affect the timeliness of financial statement submission (Jogiyanto, 2013).

H3: Company size affects audit report lag

Profitability

Profitability shows the company's success in making a profit. So that the high and low levels of profitability are considered to have an effect on audit report lag. This is related to the influence that the market can have on the announcement of losses by the company announcement of losses by the company. Companies that are able to generate profits will tend to experience a shorter audit report lag, so that the good news can be immediately conveyed to investors and other interested parties. Profitable companies have an incentive for superior public performance by publishing annual reports quickly. Profitability is the company's ability to generate profits using the company's resources such as assets, capital, sales, number of employees, number of company branches, and so on (Harahap, 2009). According to Kashmir (2021: 198), the profitability ratio is a ratio used to describe the company's ability to seek profit. Companies that have a high profitability

value, the company's financial statements contain good news and companies that have good news will tend to submit their financial reports on time (Sulistyo, 2012).

H4: Profitability affects audit report lag

Methodology

Population and Sample

This research uses a type of research with a quantitative approach. The population used is food and beverage companies listed on the IDX in 2019-2021. The data used is a secondary data type. The data source in the study comes from the www.idx.co.id website and the official website of related companies. The population in this study were 34 food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period. The sample was selected using a purposive sampling method and obtained 22 sample companies that met the criteria. The sampling technique used uses purposive sampling techniques, namely sampling following specified criteria, namely:

1. Food and beverage subsector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2019-2021 period.
2. Food and beverage subsector manufacturing companies that have annual reports for 2019-2021 period.
3. Food and beverage subsector manufacturing companies on the Indonesia Stock Exchange (IDX) that earned profits in the 2019-2021 period.
4. Food and beverage subsector manufacturing companies that display data and related information to be used in the research of factors affecting the audit report lag.

Operational Definition and Variable Measurement

Dependent variables are variables that are influenced or that become a result, because of the existence of independent variables (Sugiyono, 2018: 59). While the independent variable is a variable that affects or causes changes or the emergence of dependent variables (Sugiyono, 2018: 59). The dependent variable in this study is the audit report lag and independent variables used in this complexity of company operation, solvency, company size, and profitability.

Audit Report Lag (Y)

Financial reports submitted to Bapepam must be accompanied by an independent auditor's report which is then announced to the public no later than the end of the third month or 90 days after the book closing year ends. This means that after the company has finished compiling the financial statements, then an audit process must be carried out by an independent auditor on the financial statements. The time span required by the auditor to complete the audit of financial statements is called audit report lag. It can be concluded that audit report lag is the length of time for audit completion starting from the closing date of the financial year until the date of issuance of the audit report.

Audit report lag is the period for completing the audit of annual financial statements, starting from the closing date of the book until the date listed in the independent auditor's report (Siregar dan Sujiman, 2021). The audit report lag is proxied using the formula:

$$\text{ARL} = \text{date of audit report} - \text{date of financial report}$$

Complexity of Company Operation (KOP)

Complexity is measured by comparing the existence of operating subsidiaries, where it will take a long time to audit the financial statements and the greater the risk of error if there are subsidiaries. This study uses dummy variables to find the complexity of company operations as follows:

- a. Value 1 = Company that gets fair opinion without exception / WTP
- b. Value 0 = Companies that get opinions other than fair without exception

Solvency (DAR)

DAR is a debt ratio used to measure the ratio between total liabilities and total assets. The amount of company assets financed by debt or how much the company's debt affects the management of assets (Kasmir, 2014). Debt to Asset Ratio is a comparison between the total liability and the total asset that shows how able the company is to cover the debt in the financial statements so that it can be immediately paid by the auditor (Sunarsih et al., 2021). The solvency is proxied using the formula:

$$DAR = \frac{\text{total liability}}{\text{total assets}} \times 100\%$$

Company Size (SIZE)

Company size is a measure that shows the size of a company. Size can be measured based on total assets, number of sales, average total sales, average total assets, and equity.

Company size is a representation of the large or small ratio of a company determined by the nominal scale such as the amount of wealth and total sales of the company during the accounting period (Dura, 2017). The company size is proxied using the formula:

$$SIZE = \ln(\text{total asset})$$

Profitability (ROE)

According to Hery (2016), ROE is a ratio that shows how much equity contributes to creating net income. The higher the return on equity means the higher the amount of net profit generated from each fund embedded in the company's equity. The profitability is proxied using the formula:

$$ROE = \frac{\text{net profit}}{\text{total equity}} \times 100\%$$

Data Analysis Method

This study uses several analytical methods, namely descriptive analysis and classical assumption testing, including the Kolmogorov-Smirnov normality test, multicollinearity test, heteroscedasticity test with Spearman Rank, and autocorrelation test with durbin watson. Model conformity test using F test and R 2 determination coefficient test, hypothesis test with t-test, and multiple linear regression analysis using path analysis. Path analysis is an extension of multiple linear regression analysis, basically path coefficients are standardized regression weights or compare indirect effect coefficients with direct effect coefficients. The regression equation can be formulated as follows:

$$Y = \alpha + \beta_1KOP + \beta_2DAR + \beta_3SIZE + \beta_4ROE + e$$

Information:

Y: Audit Report Lag

α : Constant

$\beta_1 - \beta_4$: Regression Coefficient

KOP: Complexity of Company Operation

DAR: Solvency

SIZE: Company Size

ROE: Profitability

e: Error

Result and Discussions

Descriptive Statical Analysis

Table 1 Descriptive Statistical Test Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ARL	65	56	225	96,54	29,632
KOP	65	0	1	0,72	0,451
DAR	65	0,108	0,697	0,38072	0,159535
SIZE	65	26,121	32,82	28,72975	1,616697
ROE	65	0,001	0,606	0,13605	0,093816

Source: SPSS 22 results, 2023

Descriptive analysis is a research method by collecting data in accordance with the truth then the data is compiled, processed and analyzed to be able to provide an overview of the existing problem. The audit report lag variable proxied by ARL has a minimum value of 56 days and a maximum value of 225 days. The average ARL owned by 65 companies is 96.54 days, this shows that the average company in the research sample experienced a reporting lag or exceeded three months from the end of the accounting period as of December 31 of the current year.

The variable complexity of company operations proxied by a dummy variable (KOP) has a minimum value of 0 and a maximum value of 1. The average KOP owned by 65 companies is 0.72, this indicates that the average company in the research sample has 72 subsidiaries that assist in completing the auditor's duties.

The solvency variable proxied by the Debt to Asset Ratio (DAR) has a minimum value of 0.108 and a maximum value of 0.697. The average DAR owned by 65 companies is 0.38072, this shows that the average company in the research sample can finance debt of Rp 0.38072 from the company's assets.

The company size variable proxied by the natural logarithm of total assets (SIZE) has a minimum value of 26,121 and a maximum value of 32.82. The average SIZE owned by 65 companies is 28.72975, this indicates that the average company in the research sample has total assets of Rp 28.72975.

The profitability variable proxied by return on equity (ROE) has a minimum value of 0.001 and a maximum value of 0.606. The average ROE owned by 65 company data is 0.13605, this shows that the average company in the research sample company can generate profit of 13.61 percent.

Classical Assumption Test Normality Test

The data normality test is a test of the distribution of data to be analyzed, whether the spread is under the normal curve or not. The normality test results using Kolmogorov-Smirnov exact monte carlo showed equation 1 has a Monte Carlo Sig. (2-tailed) as big 0.246 ones mean data the distributed normally because of Monte Carlo Sig. (2-tailed)>0.05.

Multicollinearity Test

Table 2 Multicollinearity Test Results

Variable	Tolerance	VIF	Information
KOP	0,699	1,43	No multicollinearity occurs
DAR	0,848	1,18	No multicollinearity occurs
SIZE	0,733	1,364	No multicollinearity occurs
ROE	0,945	1,059	No multicollinearity occurs

Source: SPSS 22 results, 2023

The test of multicollinearity aims to determine whether there is a correlation among independent variables in the regression model. To show the results of the multicollinearity test in this research, we can observe the values of tolerance and VIF (Variance Inflation Factor). The results of the multicollinearity test indicate no correlation in equation 1. This is supported by the fact that all variables included in both equations have a VIF value of less than 10.

Heteroscedasticity Test

Table 3 Heteroscedasticity Test Results

Variable	Sig. (2-tailed)	Information
KOP	0,817	No heteroscedasticity occurs
DAR	0,819	No heteroscedasticity occurs
SIZE	0,262	No heteroscedasticity occurs
ROE	0,572	No heteroscedasticity occurs

Source: SPSS 22 results, 2023

Good regression should not occur heteroscedasticity. To determine whether heteroscedasticity occurs or not using the Spearman row method. Based on the test results show that each variable has a significance value of more than 0.05. Based on these results, it can be concluded that the model of Equation 1 in this study did not occur symptoms of heteroscedasticity.

Autocorrelation Test

Table 4 Autocorrelation Test Results

4-dU	dL	dU	Durbin-Watson
2,2689	1,4709	1,7311	2,207

Source: SPSS 22 results, 2023

Based on the table of multicollinearity test results, it can be seen that the Durbin-Watson (DW) value is 2,207, the dL value is 1,4709, the dU value is 1,7311 and the 4-dU value is 2,2689. This shows that $1,7311 < 2,207 < 2,2689$. It can be concluded that the research data did not auto correlate.

Hypothesis Test

Table 5 Multiple Linear Regression Test Results

Variable	Standardized Coefficients Beta	tcount	Sig.
Constant	277,55	4,052	0
KOP	13,304	1,432	0,157
DAR	5,691	0,239	0,812
SIZE	-6,417	-2,534	0,014
ROE	-62,106	-1,616	0,111
Test F		0,030b	
Adj R²		0,105	

Source: SPSS 22 results, 2023

From the table above, it can be concluded that the regression equation of this study is:

$$Y = 277,550 + 13,304KOP + 5,691DAR - 6,417SIZE - 62,106ROE + e$$

The output of SPSS equation 1 is a constant value of 277.55 indicating that the variable value of Company Operations Complexity, Solvency, Company Size, and Profitability is constant. The company's Audit Report Lag value will increase by 27.755%. The coefficient of the company's operating complexity variable (KOP) is 13.304, and the solvency variable (DAR) has a value of 5.691. This shows that the company's operating complexity variable and the dividend policy variable have a positive effect on the company's operating complexity variable. solvency variable has a positive effect on the audit report lag (ARL) variable. The company size (SIZE) and profitability (ROE) variables have a value of -6.417 and -62.106 which shows a negative value. This shows that the company size variable and the profitability variable do not have a positive effect on the ARL variable.

Based on the table, the Adjusted R² value in the above equation is 0.105. This means that the dependent variable in the equation can be explained by the variables of company operating complexity, solvency, company size, and profitability by 10,5%. While other variables outside the model can explain 89.5%.

The result of the fit test in equation 1 shows a significance value of 0.030 where the significance value of F is smaller than the predetermined significance value of 0.05. This indicates that equation 1 has a significant effect. Independent variables, including complexity of the company's operations, solvency, company size, and profitability which audit report lag influences, may be stated to fit regression models since the significance value produced by the F test is less than 0,05.

Based on the results of the t-test that has been done, it can be concluded that the complexity of company operation (KOP) has a t-count of 1,432 and has a significance value of 0,157, greater than 0.05, so it can be concluded that complexity of company operation does not affect the audit report lag (H1). Then solvency (DAR) has a t-count of 0,239 and a significance value of 0,812, greater than 0.05, so it can be concluded that solvency does not affect the audit report lag (H2). The third hypothesis (H3) shows that the company size (SIZE) to audit report lag has a t count of -2,534 and has a significance value of 0,014 or less than 0.05, so it can be concluded that company size affects audit report lag. The fourth hypothesis (H4) shows that the value of profitability to audit report lag has a t count of 1,616 and has a significance value of 0,111 or greater than 0.05, so it can be concluded that solvency does not affect the audit report lag.

Conclusion

Based on the results of tests that have been regarding the effect of the complexity of company operation, solvency, company size, and profitability on audit report lag in this study, it can be concluded that only company size variables affect the value of audit report lag, while the complexity of company operations, solvency, and profitability does not affect the audit report lag. Some of the shortcomings in this study are the use of a limited company population which only uses the food and beverage sub-sector and only uses 3 years so the data produced is limited.

Based on the conclusions and limitations above, several suggestions are expected to be carried out by future researchers. Further researchers are expected to be able to use more population and data from studies that have been done and can use other variables other than the variables that have been used in this study.

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