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The Effect of Auditor Opinion, Solvency, Company Size and Audit Tenure on Audit Delay

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ABSTRACT

This study aims to test and analyze the effect of audit opinion, solvency, company size, and audit tenure on audit delay in manufacturing companies listed on the Indonesia Stock Exchange in 2017-2021. This study uses a quantitative method with multiple linear regression analysis tools using a purposive sampling method of 86 companies during 2017-2021. The results of this study indicate that partially audit opinion and company size have a positive effect on audit delay, while solvency and audit tenure have no effect on audit delay.

Introduction

Every company listed on the Indonesia Stock Exchange (IDX) is required to submit an annual report every year. This is because financial reports act as a channel of information between company management and its investors. Financial statements must be presented without engineering and material errors and provide information that is in accordance with the facts that are in the interests of many parties, especially users of financial statements (Ikatan Akuntan Indonesia, 2004). The timeliness of the company in issuing financial reports to the general public and to the Capital Market Supervisory Agency (Bapepam) also depends on the timeliness of the auditor in completing his audit work. Audit delay is the period required during the process of presenting financial statements and the time required from the end of the financial year to the day of issuance of the financial statements that have been signed by the auditor (Chandra, 2020). The longer the delay in the publication of audited annual financial statements will lead to potential economic uncertainty that has been expected by the market. The phenomenon of the number of Indonesian public companies that still release annual reports on time is the background for this research.

In the 2017 IDX announcement there were 70 companies and in 2018 there were 44 companies, a decrease of 2.6% which until 2 April 2018 had not submitted audited financial reports ending 31 December and were subject to written warning I. Then in 2019 there were 42 companies that had not submitted audited financial reports until 30 June 2020 and were subject to written warning II and a fine of IDR 50 million. Then in 2019 there were 42 companies that had not submitted audited financial reports until 30 June 2020 and were subject to written warning II and a fine of IDR 50 million. Meanwhile, in 2020 the delay increased by 46-49%, there were 88 companies and in 2021 there were 91 companies that had not submitted audited financial reports until 30 June and 31 May and were subject to written warning I.

Based on this phenomenon, it is important to know what factors cause audited financial reports to be released late to the public. Several factors that influence audit delay have been widely studied by previous researchers, including (Kartika, 2011) which reveals that the factors that influence audit delay include company size, operating profit and loss, profitability, solvency, auditor opinion and auditor reputation. According to (Catur, F & Ilham, F, 2022) the factors that influence audit delay include company size, audit tenure, and audit opinion. In addition, there are still many studies conducted such as (Santiani, N & Muliartha, 2018), (Amalia, H et al., 2021) and others. In the context of this study, researchers will only take several factors that influence audit delay including auditor opinion, solvency, company size, and audit tenure. Given that previous research findings are inconsistent, these variables are considered to be re-examined.

This research is a replication of Kartika's (2011) research which includes a sample of 256 manufacturing companies for four years (2006-2009) using six independent variables, namely company size, operating profit and loss, profitability, solvency, auditor opinion and auditor reputation. Researchers took three independent variables which are similar to this study, namely (auditor opinion, company size, and solvency). This is because researchers take factors from two sides, namely from the company side and from the auditor side. From the company side, researchers take company size and solvency to see how the company manages a company's assets, while from the auditor side, the researcher takes audit opinion and adds one independent variable, namely audit tenure, as a development of this study in order to prevent fraud reported in the report between the auditor and the client (Haliah et al., 2021), and also previous research proves the effect on audit delay. Likewise, the addition of a longer time period of five years (2017-2021) which can produce different results from previous research.

Literature Review

Agency theory or commonly called agency theory explains the relationship between the two parties involved in an agency relationship, namely the owner (principal) and management (agent). According to (Jensen, M & Meckling, W, 1976) agency theory is a relationship in which one or more people (principal) direct another (agent) to take action on behalf of the principal and allow the agent to make decisions that are in the best interests of the principal. Auditors are considered as parties who are able to bridge the interests of principals and agents in managing the company (Nicolin & Sabeni, 2013). In this auditing, the completion of the long or fast process in making audit decisions is one way to reduce information asymmetry.

Audit delay is the period required during the process of presenting financial statements and the time required from the end of the financial year to the day of issuance of the financial statements that have been signed by the auditor (Chandra, 2020). Audit opinion is a means by which auditors can express their opinion on the state of the financial statements (Aryaningsih, 2021), laverage ratio or solvency is a measure of the extent to which the company's assets are financed with debt (Kasmir, 2017). Firm size describes the size or size of a company. Company size is divided into three parts, namely large companies, medium companies and small companies. Company size can be seen from Total assets, total sales and also seen from the number of employees of the company (Jaya, 2020). Audit tenure refers to the length of time the auditor has been employed with a company under a specific contract (Nicolin & Sabeni, 2013).

Method

This study uses quantitative research methods based on the philosophy of positivism which are used to research on certain populations or samples with the aim of testing predetermined hypotheses where data collection uses research instruments and data analysis is quantitative / statistical (Sugiyono, 2020). In this study, researchers want to know how the effect of auditor opinion, solvency, company size and *audit tenure* on *audit delay* in this case *audit* financial reports in Manufacturing companies listed on the IDX in 2017-2021. The data sources used are all secondary data sources, with the type of data taken in the form of annual company financial reports and the *websites of* each company. In this study, researchers used two types of variables, namely independent variables and dependent variables. The independent variables in this study are focus on audit opinion (X_1), solvency (X_2), company size (X_3), and *audit tenure* (X_4). The dependent variable used is *audit delay*. The data analysis used is multiple regression analysis techniques. This study also uses the classical assumption test and hypothesis testing in the form of the R2 coefficient of determination test and partial test (t test) to test the significance of the independent variable on the dependent variable. Based on the description described, the conceptual framework in this study is described as follows.

Results

Overview of Research Objects

The research object used in this study is manufacturing companies listed on the Indonesian Stock Exchange (BEI) in 2017-2021 with a total 178 companies. Sample selection in this study was carried out using purposive sampling method using selection of samples using certain criteria so as to obtain 394 samples (86 companies x 5 years). Thus, the sample data used in this study were 394 samples.

Descriptive Statistical Analysis

Descriptive statistical analysis displays an overview of the variables used in the study by presenting the mean, minimum, maximum and standard deviation values. The following are the results of descriptive analysis of the variables in this study.

Table 1. Statistics Descriptive

Descriptive Statistics

	N	Minimum	Maximum	Means	std. Deviation
Audit Opinion	394	0	1	. 01	. 100
Solvency	394	5. 61	50959. 27	181. 6545	41. 05701
Company Size	394	12. 51	31. 43	23. 3997	5. 37695
Audit Tenure	394	0	1	. 87	. 333
Audit Delay		45. 00	179. 00	83. 33	17. 535
Valid N (listwise)	394				

Source: Research Results, 2023

From this table, it is obtained that the maximum value of audit opinion of 1 is a company that gets an unqualified opinion, while the minimum value of 0 company that gets an opinion other than unqualified. For the solvency variable, there is a maximum value of 50959.27 owned by the company PT Waskita Beton Precast Tbk in 2017, while the minimum value is 5.61 owned by the company PT Aneka Gas Industri Tbk in 2021. For the company size variable, there is a maximum value of 31.43 owned by the company PT Indomobil Sukses International Tbk, while the minimum value is 12.58 owned by the company PT Multi Bintang Indonesia Tbk in 2019. For the audit tenure variable, there is a maximum value of 1, which is a company that has an engagement period with the same independent auditor, while the minimum value of 0 is a company that has change in the engagement period with the previous years independent auditor. For the audit delay variable, the maximum value of 179 is obtained by the company PT Panasia Indoe Resources Tbk in 2020 which has the most delayed audit delay value, while the minimum value of 45 owned by the company PT Fajar Surya Wisesa Tbk in 2018 and 2021 has the fastest audit delay value to publish its audit financial statements.

Multiple Linear Regression

Table 2 Multiple Linear Regression Test

Coefficients [a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients std. Error	Standardized Coefficients Betas	t	Sig.	Collinearity Statistics tolerance	Collinearity Statistics VIF
1 (Constant)	63. 445	4. 151		15. 285	. 000		
Audit Opinion	89. 900	7. 554	. 515	11. 901	. 000	. 990	1. 010
Solvency	. 002	. 019	. 005	. 105	. 917	. 982	1. 018
Company Size	. 773	. 140	. 237	5. 519	. 000	. 991	1. 009
Audit Tenure	. 909	2. 248	. 017	. 404	. 686	. 981	1. 020

a. Dependent Variable: Audit Delay

Source: Research Results, 2023

Based on Table 2 above, results equality multiple linear regression are as follows:

Audit Delay = 63.445 + 89.900 OA+ 0.002 SV + 0.773 UP + 0.909 AT + e

The equation regression the said have meaning as follows.

1. The constant value (a) of 63.445 shows the positive effect of the independent variables (X1, X2, X3, X4). If the independent variable increases or has an effect in one unit, the dependent variable (audit delay) will

increase or be fulfilled. The regression coefficient value of the audit opinion variable (X) of 89.900 indicates that for each increase in audit opinion by one unit, the audit delay will increase or be fulfilled.
2. Variable Audit Opinion (X1) has value positive effect on audit delay. Obtained t count 11.901 with a significance value of 0.000 which indicates that the Sig. Value >0.05 (0.000 <0.05). The regression coefficient value is 89.900 which indicates that there is a positive influence. This means that H_1 is accepted, so it can be concluded that auditor opinion has a positive and significant effect on audit delay.
3. Variable Solvency (X2) has a positive effect on audit delay. Obtained t count 0.105 with a significance value of 0.917 which indicates that the Sig. value >0.05 (0.917 > 0.05). The regression coefficient value is 0.002 which indicates that there is no effect. This means that H_2 is rejected, so it can be concluded that solvency has no positive effect on audit delay.
4. Company Size (X3) has a positive effect on audit delay. Obtained t count 5.519 with a significance value of 0.000 which indicates that the Sig. value <0.05 (0.000 <0.05). The regression coefficient value is 0.773 which indicates that there is a positive influence. This means that H_3 is accepted, so it can be concluded that company size has a positive and significant effect on audit delay.
5. Audit Tenure (X4) has a positive effect on audit delay. Obtained t count .404 with a significance value of 0.686 which indicates that the Sig. value> 0.05 (0.686> 0.05). The regression coefficient value is 0.909 which indicates that there is no effect. This means that H_4 is rejected, so it can be concluded that audit tenure has no effect on audit delay.

Discussion

The Effect of Audit Opinion on Audit Deiay

The effect of audit opinion on audit delay indicates that it is very important for companies to fulfil the conditions under which the auditor can issue an unqualified opinion, namely that the financial statements have been prepared in accordance with generally accepted accounting principles in Indonesia, changes in the application of generally accepted accounting principles from period to period have been adequately explained, and the scope of the audit is not limited. If the auditor issues an unqualified opinion, the potential for audit delay will not occur so that the company complies with the regulations to submit audited financial reports on time.

This research intersects with agency theory which explains the relationship between the two parties involved in an agency relationship, namely the principal as the party who authorizes and the agent as the party who receives and carries out the authority. The principal party (shareholders) of course wants to get good news information for the continuity of the company in order to get a greater return on investment. Likewise, the agent (management) wants a large compensation from the performance that has been carried out. If the company gets other than an unqualified opinion, of course the two parties each get bad news for the continuity of the company. Therefore, an independent party is needed, namely an auditor in auditing financial statements to produce an opinion that is in accordance with the continuity of the company.

The results of the first hypothesis test in this study are in line with research conducted by (Kartika, 2011), (Prabowo, P, P & Marsono, 2013), (Averio, 2020), which states that receiving an opinion other than an unqualifted opinion is an indication of a conflict between the auditor and the company which ultimately extends the audit delay. So, companies that do not receive a standard unqualified opinion experience a long audit delay.

The Effect of Solvency on Audit Delay

The effect of solvency on audit delay indicates that both companies that are on time and companies that are not on time in financial reporting ignore information about solvency. This is because these companies can solve their debt problems through the debt restructuring process. In addition, debt problems are considered normal and not an extraordinary problem as long as there is still a possibility of settlement, so information about debt is ignored by companies.

The results of the second hypothesis test of this study are in line with research conducted by Nai im (1999) indicating that the debt to ratio does not significantly affect the timeliness of financial reporting. (Che-Ahmad & Abidin, 2008), Che-Ahmad and Abidin (2008), (Boritz, J & Guoping, 2006) found that solvency is not related to audit delay, regardless of the value of solvency, audit delay will not change quickly or experience delays.

The Effect of Company Size on Audit Delay

The effect of company size on audit delay indicates that it is very important for large and small companies to maximise their internal management system, especially in the preparation and presentation of financial statements. The size of the company can be determined based on the amount of assets, stock market value and others. This indicates that if the total assets are high, it can also increase the number of days of delay in submitting financial reports because the larger the size of the company, the more the audit process will be carried out.

This research intersects with agency theory that management (agents) carrying out good control can reduce the level of errors in the preparation of financial reports making it easier for auditors to audit the company's financial statements more quickly and large-scale companies tend to be supervised by investors, supervisors, and the government so that they experience higher external pressure which causes auditors to be required to accelerate the completion of financial reports in accordance with predetermined agreements and companies will submit their financial reports on time. The timeliness of the company in submitting its financial statements is of course positive information desired by both parties (principals and agents).

The results of the third hypothesis test in this study are in line with research conducted by (Gaol, R & Duha, K, 2021) which states that large companies have many more complex transactions with large total assets so that the audit process will take longer. Therefore, small companies have a faster audit delay than large companies. Companies with small and large scales are naturally supervised by both the government and other regulatory bodies, so the attention of all parties to large-scale companies cannot be used as an assessment for companies to accelerate the submission of their financial reports.

The Effect of Audit Tenure on Audit Delay

The effect of audit tenure on audit delay indicates that the absence of the effect of audit tenure on audit delay is due to auditors, both those who have just received an assignment for the first time and repeated assignments, having an independent attitude both in the profession and mentally, which means that auditors have a mentality that is free from influence, not controlled or cannot be intervened by clients. In addition, auditors with short audit tenure have anticipated completing the audit on time by preparing audit planning carefully, selecting senior staff to assist them in facing the first assignment and increasing the number of auditors.

This research intersects with compliance theory. In Indonesia, there are regulations governing the period for submitting financial reports, so auditors who audit manufacturing companies with both short and long tenure are required to comply with these regulations. The demand to comply with applicable regulations in the perspective of compliance theory causes auditors to prepare various effective and efficient ways to ensure that audit assignments can be completed in a timely manner so that audit delay does not occur.

The results of the fourth hypothesis test are in line with research conducted by (Praptika, P, Y & Rasmini, N, 2016), Fajar et al (2022), (Pratiwi, C, I & Wiratmaja, I, D, 2018) which prove that audit tenure has no effect on audit delay. These results indicate that the length of time the KAP and company are engaged does not affect audit delay or the delay in submitting the auditor's report. The length of the engagement still cannot streamline the auditor's performance.

Conclusion

The results of this study indicate that partially audit opinion and company size hace a positive effect on audit delay, while solvency and audit tenure have no effect on audit delay. The weakness in this study is that there are limited costs in accessing audited financial reports on manufacuring companies on the Indonesian Stock Exchange so that it is not enough to interpret the audit delay that occurs in manufacturing companies. Future research plans are expected to increase the number of independent variables such as auditor gender, liquidity or other financial ratios.

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