The Audit Quality and Audit Delay: Evidence from Indonesia

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Research Article

Abstract

Purpose: This study specifically aims to identify the impact of Audit Quality on Audit Delay. Audit Quality is measured by the proxy log natural fee audit (LNFE).

Methods: This is a causal research with quantitative analysis. This study involves six companies listed in the sub-sectors of Cable under the manufacturing sector in the Indonesia Stock Exchange for the period of 2013-2019. It applied panel data set in a regression model using STATA MP - Parallel Edition Ver14.00 application.

Results: The findings show that the Audit quality has a significant negative impact on the Audit Delay with an average delay of 83.62 days.

Implications: This study could be extended further by considering all manufacturing firms of IDX which may provide more insight into the audit quality with other proxies.

Keywords: Audit Quality; LNFE; Audit Delay

1. Introduction

The financial information, such as analyzing investments, deciding whether to provide a loan or not, and deciding other matters related to business activities are very much important to the stakeholders. Audit organizations are facing considerable pressure to submit the financial reports due to increasingly fierce business competition. The application of information technology-based auditing is increasingly needed, especially in developed and developing countries (Husain, 2017). Under the terms of the Company and Allied Matter Act (CAMA) 2004 in Indonesia, every company requires that financial reports are presented to shareholders within no more than fifteen months after the last annual general meeting (Modugu, Eragbe, & Ikhatua, 2012). Timeliness of financial reporting is a fundamental element of an adequate recording of financial statements. Users of accounting information need not only have relevant financial information for prediction and decision making, but the data must also be of recent origin (Lee, Mande, & Son, 2009; Wiyantoro & Usman, 2018).

The Government Accounting Standards Board (GASB) released a survey in 2011, stating that

stakeholders' financial information would be decreased to 45-90 days. The information provided in 45 days is beneficial for the stakeholders (Henke & Maher, 2016). Furthermore, several regulations in the last seven years were governing the issuance of audited financial reports for the period. Simultaneously, the Security and Exchange Commission (SEC) stipulates a maximum of 60 days, which was previously 90 days (Lehtinen, 2013). The Securities and Exchange Commission released Form 10-Q, which requires a period after the end of the state territory reporting year to release independent auditor reports with a classification of 3 categories within 60 days, 75 days, and 90 days to the legislature (Fischer & Marsh, 2018).

The Security and Exchange Commission (SEC) in Nigeria reduced the delay in financial statements from 6 months to 3 months to meet the demands of the stakeholder (Dabor & Uyagu, 2018). The General Auditing Commission (GAC) Act, 2014 in Liberia in clause 37 (sub-section of 2), and the Public Financial Management (PFM) Act, 2009 mandate the Ministry of Finance and Development Planning that no later than four (4) months after the end of the fiscal year associated with the audit statement in its final calculation (Fully & David, 2020). The Securities and Exchange Commission in Indonesia (referred to as "OJK") through the OJK Regulation Number 29 / POJK.04 / 2015, in section III of the clause, states that announcement and reporting determines the Issuer or Public Companies for the first time no later than 3 (three) months (OJK Regulations, 2015), and the responsibility of APF through the OJK Regulation Number 13 / POJK.03 / 2017, in clause 20 (3) states that PAF submits a report on the provision of PAF services accompanied by supporting evidence no later than April 15th of every year (OJK Regulations, 2017). The above regulations will have a significant impact, especially for public companies and the timeliness of releasing independent auditors' reports to improve audit quality and shorten audit delays.

The Government of Indonesia in the 2015-2019 National Medium-Term Development Plan (RPJMN) documents the need for community electricity with a capacity of 35,000 megawatts (MW) (Brama, 2019). Several national cable companies have started to develop their businesses and are playing an active role in supporting the government program. They are actively participating in every tender held for the construction of new projects for the procurement of goods and services in the development of electricity and telecommunications infrastructure in Indonesia. This certainly opens up opportunities for companies to continue to improve their performance and transparency in releasing their audit reports promptly, as stipulated in OJK regulations. Until the end of July 31th, 2020. Several Cable sub-sector companies listed on the IDX and found to delay in submitting their financial reports in 2019, even though they always meet other requirements/provisions of OJK.

Table 1: Audit Delay Data on Sub-Sector of Cable Companies in Indonesia

Ticker Code	Audit Opinion, Date	Audit Delay
CCSI	March 20th 2020	**80 days**
IKBI	July 10th, 1990	**101 days**
JECC	April 27th, 2020	**118 days**
KBLI	April 6th, 2020	**97 days**
KBLM	March 27th, 2020	**87 days**
SCCO	March 20th 2020	**80 days**
VOKS	April 27th, 2020	**100 days**

Source: Processed data from IDX, 2020

This condition will certainly much disturb the master plan of RPJMN in Indonesia, which, of course, will require good audit quality and speed up audit reporting to the public. This study specifically aims to identify the audit quality and audit delay in the Cables companies listed in the Indonesia Stock Exchange (IDX), that have implemented IFRS-based reporting standards for the period of 2013 to 2019. This study uses the audit honorarium (LNFE proxy) as an audit quality.

2. Literature Review

2.1 Audit Quality

The Audit Quality is an applied concept derived from the Theory of Reasoned Action (TRA) introduced by Martin Fishbein and Icek Ajzen in 1975. TRA theory states that attitude toward behavior refers to the degree to which a person has a favorable or unfavorable evaluation of the action in question. This theory is used extensively to predict the belief factors that influence knowledge sharing behavior (Ryu, Ho, & Han, 2003; Tandiontong, 2016, hal. 29).Audit Theory (Auditing Theory) deals with the audit of financial statements (general audit). This needs to be differentiated from other audit services performed by an independent auditor or public accounting firm (PAF) (p. 31). In the practical literature, audit quality is how well the audit conforms to the auditing standard.

Audit quality is tough to define and measure, which sparks a lot of debate in academia (Francis, 2011; Svanström, 2013; Donovan, Frankel, Lee, Martin, & Seo, 2014; Qi, Li, & Tian, 2015; Raak & Thürheimer, 2016; Husain, 2020). Audit quality is the probability that auditors will discover the company's accounting system's transgression and report them (DeAngelo, 1981). Audit quality is measured based on the audit engagement indicators, and the accounting firm's characteristics regularly reported to the Advisory Committee on the Auditing Profession (ACAP) (Bedard, Johnstone, & Smith, 2010). Audit quality is determined comprehensively by PAF, auditors, and regulators entanglement (Francis, 2011). Audit quality has a relationship with good corporate governance, internal control, and longer audit tenure factors (Hay, 2013).

Audit quality reflects the rule view that higher audit quality will be better concerning client financial reporting quality (Donovan, Frankel, Lee, Martin, & Seo, 2014). Audit quality depends on the judgments based on evaluation of evidence, audit testing, and audit report formulation as determined by the auditor (Qi, Li, & Tian, 2015). It is determined based on the audit's input, the audit process, and the outputs arising from the audit process and the characteristics and relationships with the client (Raak & Thürheimer, 2016). Audit quality needs to emphasize the audit function's effectiveness to stakeholders and other investors to maintain its quality and avoid future corporate scandals (Ukoma, 2020).

The broad definition, measurement, and output of audit quality are mostly determining the amount of honorarium received by PAF or external auditors, as stated in the audit engagement and its terms and conditions. Furthermore, the measurement of audit quality under the PAF (Big-4 non-Big-4) category and audit fee does not significantly differ in the context of public companies in Indonesia (Husain & Syniuta, 2020).

2.2 Audit Delay

Audit delay is the delay in timeliness of delivering information that may affect the reported data's usability for decision-making (Ashton, Willingham, & Elliott, Autumn, 1987). In Cambridge Dictionary, a delay is when a person has to wait for more than what is expected to happen to a condition. Givoly (1982) states that audit delay is caused by a material mismatch between the auditor and the client regarding accounting practices and accounting numbers calculation, called abnormal audit delay. Abnormal audit delay is a measurement of audit delay that cannot be identified by reviewing the determinant factors (Dabor & Uyagu, 2018). Audit delay is the constraint that occurs during the audit process, such as inefficiency in issuing financial reports (Super & Shil, 2019).

2.3 Hypotheses Development and Research Model

2.3.1   Hypotheses Development

Audit delay is the period required for PAF to process audit activities in releasing independent auditor reports. This report is essential to various stakeholders such as regulators, investors, creditors, shareholders, tax authorities, potential investors, and others. The delay in releasing the independent auditor's report is inseparable from the PAF audit's good or bad quality. It can be seen that companies generally tend to delay releasing audited financial statements when they predict the audit results. This condition is caused by many factors, such as the findings of previous studies viz.: (1) Audit lag has positive dealings with the amount of audit work required, where a higher audit effort has an impact on improving the quality of a better audit (Bryant-Kutchera, Peng, & Weber, 2013); (2) Postponement of the prior audit with an essence of the timeliness of the audit report that is not only predicted by financial variables, but also non-financial variables (Fischer & Marsh, 2018); (3) Deadlines can reduce audit delays by the regulatory board, and PAF must accommodate a lot of work in the early period of the year by hiring more staff to handle the audit workload (Super & Shil, 2019). The factors above have been included in the audit engagement guided by the General Acceptance Audit Standards (GAAS). They are contained in the honorarium required to complete the audit period and its terms and conditions. The hypothesis of the study is stated below:

> *Ha: Audit quality has a significant impact in the context of audit delay.*

2.3.2   Research Model

This study aims to investigate the impact of audit quality on audit delay. Thus, the research model includes audit quality as the independent variable (X) and audit delay as the dependent variable (Y) which is shown in the following diagram.
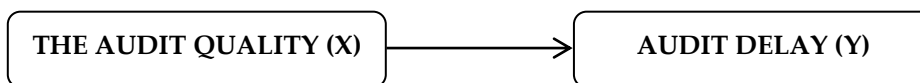

Fig.1. The Research Model

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3. Methodology

This research tests a hypothesis that explains a causal relationship between dependent and independent variables (Supranto & Limakrisna, 2019, p. 3). This research uses a quantitative research approach. The population of this research includes the manufacturing sub-sectors of Cables (6 companies) listed in the Indonesia Stock Exchange (IDX) in 2019. One more company was added to the list in the latter half of 2019. But it was excluded for the study. The data were collected from all 6 companies for the period of 2013-2019. The number of observations were calculated by multiplying the number of samples across the research period, namely, seven years multiplied by six company samples, i.e., forty-two observation data.

Table 2: Research Sample

Ticker Code	IPO Date	Issuer Name
CCSI	June 18th 2019	PT Communication Cable Systems Indonesia Tbk
IKBI	January 21th 1990	PT Sumi Indo Cable Tbk
JECC	November 18th 1992	PT Jemblo Cable Company Tbk
KBLI	July 6th 1992	PT KMI Wire and Cable Tbk
KBLM	July 1st 1992	PT Kabelindo Murni Tbk
SCCO	July 20th 1982	PT Supreme Cable Manufacturing and Commerce Tbk
VOKS	December 20th 1990	PT Voksel Electric Tbk

Source: Saham OK, 2020

The independent variable (X) in this study is the audit quality using the LNFE proxy, namely the log natural fee audit (Chung & Lindsay, 1988; Bedard, Johnstone, & Smith, 2010; DeFond & Zhang, 2014; Sarhan, Ntim, & Al-Najjar, 2019; Husain & Syniuta, 2020) while dependent variable (Y) is audit delay, i.e., a difference of days between the end of the firm's financial year and the date of the independent auditor's report letter (Cohen & Leventis, 2013; Fischer & Marsh, 2018).

This research method uses a panel data set in the regression model with the STATA MP - Parallel Edition Ver14.00 application. The regression model formulated as follows:

$$Y = \alpha + \beta X + e$$

Explanation:

Y : *The Audit Quality*

X : *Audit Delay*

α : Constant

β : Coefficients

ε : *Error*

4. Findings and Analysis

4.1 Descriptive Statistics

Create PLS-Table, which proceeds the following output:

```
. xtsum Y X

Variable              Mean    Std. Dev.        Min        Max     Observations

Y        overall   83.61905    11.80317         45        118      N =      42
         between               6.331435   72.71429   89.57143      n =       6
         within                10.25154   55.90476   112.1905      T =       7

X        overall   20.05245    .6935116   18.45024   21.15505      N =      42
         between               .6253639    19.1433   20.74933      n =       6
         within                .3835487   19.35939   21.26554      T =       7
```

Fig.2. The descriptive test results per variable

The Audit Quality (X) with the LNFE proxy has an average value of 20.05245 squads, with a standard deviation of 0.6935116 squads. In other words, the six companies had relatively high LNFE's. Audit Delay (Y) has an average value of 83.62 days, with a standard deviation of 11.80 days. In other words, the six companies included in the research had relatively short audit delay as per the provisions required by the OJK.

4.2 Display of Balance Panel Data

PLS model provides the following output:

```
. regress Y X

    Source        SS         df       MS         Number of obs  =        42
                                                  F(1, 40)       =      1.53
     Model    210.939061      1   210.939061      Prob > F       =    0.2228
  Residual     5500.9657     40   137.524143      R-squared      =    0.0369
                                                  Adj R-squared  =    0.0129
     Total    5711.90476     41   139.31475       Root MSE       =    11.727


        Y      Coef.    Std. Err.      t     P>|t|    [95% Conf. Interval]

        X   -3.270641    2.64085    -1.24    0.223   -8.607998    2.066717
    _cons    149.2034   52.98643     2.82    0.008    42.11384     256.293
```

Fig.3. The PLS Model

The panel data provides the following regression equation:

$$Y = 149.2034 - 3.270641X + e$$

4.3 Estimation of Panel Data Regression

The Chow test is used of paired data regression model testing between *Common-Effect* Model (CEM) and *Fixed-Effect* Model (FEM). If the probability F > 0.05, H0 is supported (choose Common-Effect Model or vice versa). The test result provides the following output:

```
. xtregar Y X, fe rhotype(dw) lbi

FE (within) regression with AR(1) disturbances  Number of obs      =        36
Group variable: ID                              Number of groups   =         6

R-sq:                                           Obs per group:
    within  = 0.0147                                         min =         6
    between = 0.2349                                         avg =       6.0
    overall = 0.0465                                         max =         6

                                                F(1,29)            =      0.43
corr(u_i, Xb)  = 0.1002                         Prob > F           =    0.5160


         Y        Coef.    Std. Err.      t    P>|t|    [95% Conf. Interval]

         X    -4.492603    6.832166    -0.66   0.516   -18.46595     9.480746
     _cons     176.4345    84.50041     2.09   0.046    3.611783     349.2573

    rho_ar    .38649515
   sigma_u   6.3187761
   sigma_e  11.544207
   rho_fov   .23053079    (fraction of variance because of u_i)

F test that all u_i=0: F(5,29) = 0.71                       Prob > F = 0.6212
modified Bhargava et al. Durbin-Watson = 1.2639072
Baltagi-Wu LBI = 1.7510925
```

Fig.4. Chow Test Result

Interpretation: H_0 is supported, with a significant probability of F is 0.5160 (more than 0.05), then select the *Common-Effect Model*.

The Hausman's method is used for paired data regression model testing between *Fixed-Effect Model* (FEM) and *Random-Effect* Model (REM). If the probability F *Chi-Square* > 0.05, H0 is supported (choose Random-Effect Model or vice versa). The test result provides the following output:

```
. xtregar Y X, re rhotype(theil) lbi

RE GLS regression with AR(1) disturbances       Number of obs      =        42
Group variable: ID                              Number of groups   =         6

R-sq:                                           Obs per group:
    within  = 0.0007                                         min =         7
    between = 0.2454                                         avg =       7.0
    overall = 0.0369                                         max =         7

                                                Wald chi2(2)       =      1.26
corr(u_i, Xb)      = 0 (assumed)                Prob > chi2        =    0.5338


         Y        Coef.    Std. Err.      z    P>|z|    [95% Conf. Interval]

         X    -3.259938    2.909519    -1.12   0.263    -8.96249     2.442614
     _cons     149.2293    58.38163     2.56   0.011     34.8034     263.6552

    rho_ar    .14349003    (estimated autocorrelation coefficient)
   sigma_u   1.5715132
   sigma_e  10.863637
   rho_fov   .02049705    (fraction of variance due to u_i)
     theta    .0519534

modified Bhargava et al. Durbin-Watson = 1.2639072
Baltagi-Wu LBI = 1.7510925
```

Fig.5. Hausman's Test Result

<u>Interpretation:</u> H₀ is supported, with a significant probability of *Chi-Square* is 0.5338 (more than 0.05), then select the *Random-Effect Model*.

The Lagrange Multiplier (LM) test was used to confirm the paired data regression model selection between the *Random-Effect* Model (REM) and the *Common-Effect* Model (CEM). If probability chibar2 > 0.05, H0 is supported (choose Random-Effect Model or vice versa). The test results give the following output: The test result provides the following output:

```
. xttest0

Breusch and Pagan Lagrangian multiplier test for random effects

        Y[ID,t] = Xb + u[ID] + e[ID,t]

        Estimated results:
                                Var        sd = sqrt(Var)

                    Y       139.3148          11.80317
                    e       123.0286          11.09183
                    u       20.23872          4.498747

        Test:   Var(u) = 0
                            chibar2(01) =       0.56
                      Prob > chibar2 =      0.2269
```

Fig.6. Lagrange Test Result

<u>Interpretation:</u> H₀ is rejected, with a significant probability of chibar2 is 0.2269 (more than 0.05), then select the *Random-Effect Model* (**Final Model**).
Because of REM model is chosen, then *Random-Effect* Generalized Least Squares (GLS) regression (derived from Fig.5), which proceed as follow:

```
RE GLS regression with AR(1) disturbances      Number of obs     =        42
Group variable: ID                             Number of groups  =         6

R-sq:                                          Obs per group:
    within  = 0.0007                                      min =         7
    between = 0.2454                                      avg =       7.0
    overall = 0.0369                                      max =         7

                                               Wald chi2(2)      =      1.26
corr(u_i, Xb)      = 0 (assumed)               Prob > chi2       =    0.5338

         Y |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]

         X | -3.259938    2.909519   -1.12   0.263    -8.96249    2.442614
     _cons |  149.2293    58.38163    2.56   0.011     34.8034    263.6552
```

Fig.7. *Random-Effect* GLS Regression

The result of alternative hypothesis (Ha) analysis from research model independent variable (X) has a significant probability is more than 0.05 and holds the chi2 score, viz. 0.5338, so the Ha is Supported. This means The Audit Quality have a substantial effect in the context of audit delay.

4.4 Analysis

The results of the alternative hypothesis study above proved to have a significant effect. In other words, this study empirically states that audit quality is a factor that impacts audit delay, where audit quality with the proxy LNFE (audit honorarium), can predict audit delays with kind of non-financial variables (Fischer & Marsh, 2018), with a category of filers less than 90 days, i.e., 83.62 days from descriptive analysis (Fig.2), while the average delay was considerably longer of 228 days in the Greek municipal studies (Cohen & Leventis, 2013) and audit lag is positively related to the improvement of better audit quality based on the amount of audit work required (Bryant-Kutchera, Peng, & Weber, 2013). Besides that, the audit report lag in reviews on manufacturing companies of the Nigerian stock exchange (NSE) for the 2010-2012 period shows that audit firm type has no a significant effect on audit delay with an average score is 111.042 days (Azubike & Aggreh, 2014). In the context of industrial goods companies in Nigeria shows that audit quality has a significant negative effect on audit report delay, which is in line with the findings of this study (Ukoma, 2020). Furthermore, deadlines can reduce audit delays by the supervisory board, and PAF must improve audit quality in handling the audit workload (Super & Shil, 2019).

5. Conclusions and Recommendations

Audit Quality has a significant negative impact on the Audit Delay with an average delay of 83.62 days, it means that the better the audit quality, the shorter the audit delay. The company's evaluation of audit delays must be paid close attention to considering the regulation of the OJK, which requires a deadline for the release of audited financial statements each year. Regulators in Indonesia (OJK) can also evaluate the deadline for submitting reports to the public, who function as monitors.

Future research regarding the audit quality can use alternative measurements such as the "Big-4" category public accounting firm (PAF), audit tenure, auditor change, industry specialization (client), and subsidiary.

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