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Audit Delay Determinants and the Moderating Role of Audit Firm Reputation in Indonesia

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Abstract

Indonesian issuers must submit audited annual reports within 120 days of fiscal year-end, yet lengthy audits, audit delay continue to trigger trading suspensions on the Indonesia Stock Exchange (IDX), and prior studies disagree on what drives this delay and whether auditor reputation moderates it. This study examines how profitability, solvency, firm size, and audit committee financial expertise affect audit delay, and whether public accounting firm (KAP) reputation moderates these relationships, extending prior research by adding the audit committee as a predictor, broadening the sample to all IDX-listed firms, and covering the 2020–2024 period. Using purposive sampling, 934 firm-year observations were analyzed with panel data regression; the Chow and Hausman tests indicated that a fixed-effects model was most appropriate. Profitability had a significant negative effect on audit delay, while solvency, firm size, and audit committee expertise showed no significant effect, and KAP reputation did not moderate any of the four relationships; the model explained 57 percent of the variance in audit delay. These results indicate that timely reporting among Indonesian issuers is driven mainly by profitability rather than firm size, leverage, committee composition, or auditor reputation, suggesting audit tenure, audit opinion, and financial distress as promising variables for future research.

Keywords Audit Committee; Audit Delay; Firm Reputation; Firm Size; Profitability.

INTRODUCTION

Financial statements exist to communicate a company's financial position and performance, and the Indonesian Institute of Certified Public Accountants treats this communicative function as their defining purpose (Ikatan Akuntan Indonesia [IAI], 2012). Prospective investors read these statements before committing capital, while existing shareholders use them to track how their investment is performing and what dividend they can expect. That reliance only holds, however, if the statements arrive while the information is still useful.

Indonesian regulation recognizes this. Otoritas Jasa Keuangan (OJK, 2016), through Regulation No. 29/POJK.04/2016, gives listed issuers no more than 120 days after fiscal year-end to submit their annual report. Because an independent audit is required before publication, and a thorough audit takes time, a gap almost always opens between the closing of the books and the release of audited statements a gap the literature calls audit delay (Yulianti, 2011). When that gap grows too large, exchanges act on it: CNBC Indonesia (2020) reported that the IDX suspended trading in the shares of 26 listed companies for failing to submit audited statements for fiscal year 2019 on time, alongside a Rp150 million fine, which shows that audit delay remains an active enforcement issue rather than a theoretical concern.

Elvienne and Apriwenni (2019) linked audit delay to profitability, solvency, and firm size, and treated the reputation of the public accounting firm (KAP) as a moderator on the reasoning that Big Four firms, with deeper staffing and technical resources, tend to close audits faster than non-Big Four firms. Profitability captures how effectively a company converts its assets, capital, or sales into earnings (Sudana, 2011); firms performing well have an incentive to report quickly so that the market hears the good news without delay. Yet the evidence is mixed: Elvienne and Apriwenni (2019) found a negative relationship between profitability and audit delay, while Utami et al. (2018) found a positive one, moderated upward by KAP reputation.

Solvency the extent to which a company can meet its short- and long-term obligations (Munawir, 2007) works through a different channel. Highly leveraged firms carry more downside risk, so auditors typically need more evidence before signing off, which should lengthen the audit. Elvienne and Apriwenni (2019) found exactly that positive relationship, strengthened by KAP reputation, whereas Prakoso et al. (2017) found the opposite, a negative one. Firm size, usually proxied by total assets, adds a third layer of ambiguity: larger, exchange-listed firms are watched more closely by regulators, analysts, and the public, which should push them toward faster reporting, yet Elvienne and Apriwenni (2019) reported a positive association between size and delay, while Prabasari and Merkusiwati (2017) and Murti and Widhiyani (2016) reported a negative one, again moderated by KAP reputation.

This pattern of contradictory findings is itself the motivation for the present study. We replicate Elvienne and Apriwenni (2019) with three modifications. First, we add the audit committee as a fourth independent variable, since its statutory role is to monitor internal control and flag financial-reporting problems before they cause delay a mechanism also examined by Afriliana and Ariani (2020) in relation to committee composition. Second, we widen the sample from ten mining companies to every

company listed on the IDX, which lets us see whether delay is concentrated in particular sectors rather than assuming mining is representative. Third, we extend the observation window from 2016–2018 to 2020–2024, adding a full additional fiscal year of data.

Positioned this way, the study offers three contributions. Theoretically, it tests agency theory and signaling theory jointly against a single, cross-sector panel, rather than relying on a single-industry sample, which allows the two frameworks' predictions to be compared under more general conditions. Empirically, it is among the first Indonesian studies to model audit-committee financial expertise and KAP reputation together as, respectively, a direct predictor and a moderator of audit delay across the full population of IDX-listed firms. Practically, the findings give regulators, audit committees, and public accounting firms an evidence base for judging which levers client profitability, auditor prestige, or committee composition actually move audit timeliness, and which do not.

Two theoretical lenses motivate our hypotheses. Agency theory (Jensen & Meckling, 1976) frames the auditor as a third party engaged to verify what an agent (management) reports to a principal (owners and creditors); the longer the audit takes, the more the resulting information asymmetry costs the principal, since a stale audit conveys less than a timely one (Anita & Cahyati, 2019). Signaling theory (Spence, 1973), by contrast, treats the timing of disclosure itself as a signal: investors tend to read a long delay as bad news about the company's condition, which can depress its share price (Anggradewi & Haryanto, 2014; Estrini & Laksito, 2013), giving well-performing firms a reason to report quickly and poorly performing firms a reason to stall.

METHODS

This study uses a quantitative, explanatory design intended to test causal hypotheses derived from agency theory and signaling theory (Sugiyono, 2019), using secondary data drawn from the official IDX website (www.idx.co.id) and the audited financial statements published there. The unit of analysis is the firm-year, which allows the panel structure of the data to be exploited through panel data regression rather than a single cross-section or time series.

The population comprises every company listed on the IDX that published financial statements for fiscal years 2020 through 2024. A purposive sampling procedure narrowed this population to firms that (a) were listed continuously across 2020–2024, (b) published financial statements in each of those years, (c) reported in rupiah throughout the period, (d) recorded a profit in every year of the period, and (e)

had complete data together with a published independent auditor's report for the year in question. Applying these criteria yielded 934 firm-year observations.

Figure 1 sets out the conceptual framework linking the four independent variables to audit delay, with audit firm reputation positioned as a moderato r on all four paths.

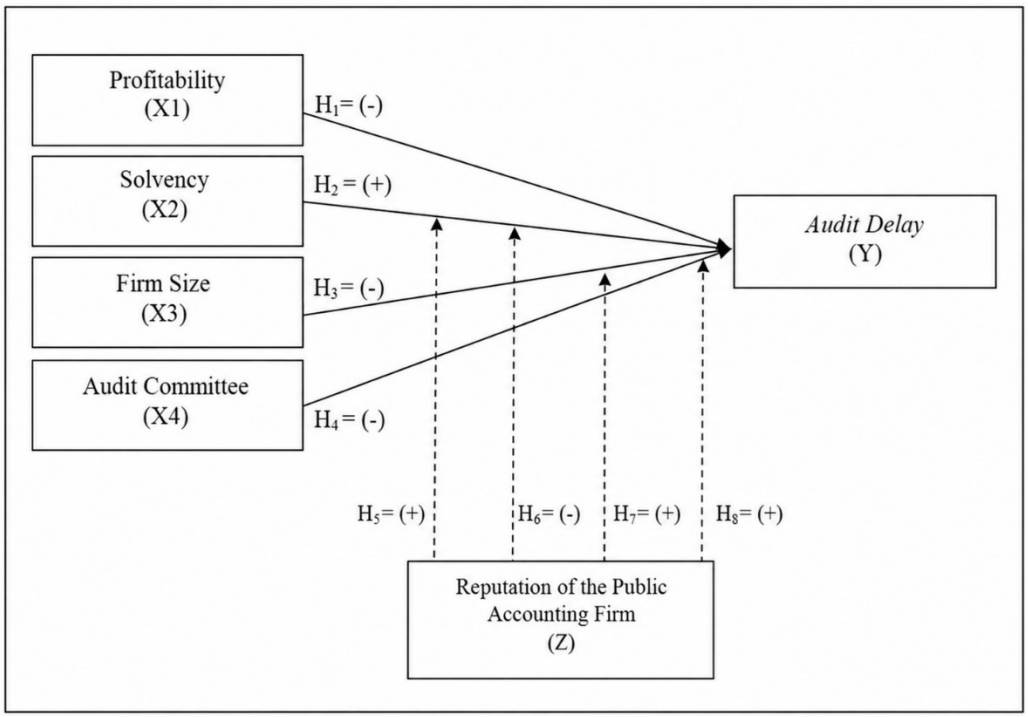

Figure 1. *Conceptual Framework of the Study*

Operational Definition and Measurement of Variables

Table 1 defines how each construct is operationalized and measured.

Table 1. Operational Definitions and Measurement of Variables

Variable	Measure	Formula
Profitability (X1)	Return on Assets (ROA)	Net Income / Total Assets × 100%
Solvency (X2)	Debt Ratio (DR)	Total Debt / Total Assets × 100%
Firm Size (X3)	Natural logarithm of total assets	Ln (Total Assets)
Audit Committee (X4)	Share of members with financial expertise	Members with financial expertise / Total members × 100%
Audit Delay (Y)	Days to complete the audit	Audit report date − Financial statement date
Audit Firm Reputation (Z)	Dummy variable	1 = Big Four; 0 = non-Big Four

Source: adapted from Asnawi and Wijaya (2005), Estrini and Laksito (2013), Tugiman (2005), Indra and Arisudhana (2012), and Saputri (2019).

Data were analyzed with panel data regression in EViews. The Chow and Hausman tests were used sequentially to choose among the common-effects, fixed-effects, and random-effects specifications; multicollinearity was assessed through tolerance and variance inflation factor (VIF) values, and heteroscedasticity through the Breusch-Pagan-type test built into the software, following the diagnostic procedures outlined by Ghozali (2016), with logarithmic transformation applied where needed. Hypotheses were then tested using the adjusted R^2 for explanatory power, the F-test for joint significance, and t-tests for the significance of each individual coefficient, including the four interaction terms representing the moderating role of KAP reputation.

FINDINGS AND DISCUSSION

Table 2 summarizes the minimum, maximum, mean, and standard deviation of each variable across the 934 observations.

Table 2. Descriptive Statistics

Variable	Min	Max	Mean	Std. Dev.
Profitability (X1)	0.00	0.53	0.06	0.07
Solvency (X2)	0.00	1.16	0.47	0.23
Firm Size (X3)	4.33	5.20	2.21	2.77
Audit Committee (X4)	0.00	1.00	0.81	0.23
Audit Delay (Y)	7.00	180.00	74.05	21.58
Audit Firm Reputation (Z)	0.00	1.00	0.46	0.50

Source: processed secondary data, 2022.

Two patterns stand out. Profitability and firm size have means that fall below their own standard deviations (0.066 vs. 0.070, and 2.21 vs. 2.77, respectively), which signals wide dispersion the sample includes both barely profitable firms and highly profitable ones such as Multi Bintang Indonesia Tbk (ROA of 0.53 in 2022), and both small issuers such as Danasupra Erapacific Tbk and giants such as Bank Rakyat Indonesia. Solvency, audit-committee composition, audit delay, and KAP reputation, by contrast, have means above their standard deviations, indicating that the sample average is a reasonably representative summary for those four variables. Audit delay itself ranged from a low of 7 days (Bank Pembangunan Daerah Jawa Timur Tbk, 2015 and 2016) to a high of 180 days (Anabatic Technologies Tbk, 2019), with an average of about 74 days well inside the 120 day regulatory ceiling, though the maximum shows that some firms come close to breaching it.

Panel data can be estimated as a common-effects, fixed-effects, or random-effects model, and choosing among them requires the Chow and Hausman tests, summarized in Table 3.

Table 3. Chow and Hausman Test Results

Test	Probability	Criterion	Model Selected
Chow (cross-section Chi-square)	0.0000	< 0.05	Fixed-Effects Model
Hausman (cross-section random)	0.0016	< 0.05	Fixed-Effects Model

Source: EViews output, 2022.

Both tests reject the null hypothesis ($p < 0.05$), first in favor of the fixed-effects model over the common-effects model, and then in favor of the fixed-effects model over the random-effects model. The fixed-effects model (FEM) is therefore used for hypothesis testing.

Classical Assumption Test

Every variable returned a tolerance above 0.10 and a VIF below 10, so multicollinearity is not a concern (Ghozali, 2016). The first heteroscedasticity check flagged profitability and the audit committee variable (both significant below 0.05); a logarithmic transformation of those two variables resolved most of the problem but left solvency significant, so solvency was log-transformed as well. After this second transformation, all four probability values cleared the 0.05 threshold (profitability = 0.24, solvency = 0.20, firm size = 0.87, audit committee = 0.54), indicating a homoscedastic model.

Fixed-Effects Model Regression Results

Table 4 reports the FEM coefficients

Variable	Coefficient	Direction
Constant	83.44	—
Profitability (X1)	-83.48	Negative
Solvency (X2)	10.88	Positive
Firm Size (X3)	-1.28	Negative
Audit Committee (X4)	-9.89	Negative
Profitability × Reputation	16.75	Positive
Solvency × Reputation	-2.96	Negative
Firm Size × Reputation	3.02	Positive
Audit Committee × Reputation	9.16	Positive

Source: EViews output, 2022.

These coefficients produce the estimated equation:

$$Y = 83.44 - 83.48(X1) + 10.88(X2) - 1.28(X3) - 9.89(X4) + 16.75(X1Z) - 2.96(X2Z) +$$

$$3.02(X3Z) + 9.16(X4Z) + e$$

Coefficient of Determination and Simultaneous Significance (F-Test)

The adjusted R^2 is 0.57, meaning profitability, solvency, firm size, and the audit committee moderated by KAP reputation jointly explain 57 percent of the variance in audit delay, leaving 43 percent to factors outside the model. The F-test returns a calculated F of 7.22 against a critical value of 2.22 (df1 = 5, df2 = 928) with p = 0.00, confirming that the predictors are jointly significant.

Hypothesis Testing (t-Test)

Table 5 reports the t-test results for each hypothesis.

Table 5. Hypothesis Test Results (t-Test)

Hyp.	Relationship	t-value	t-table	Prob.	Result
H1	Profitability → Audit Delay	-4.571	1.6465	0.000	Accepted
H2	Solvency → Audit Delay	1.377	1.6465	0.169	Rejected
H3	Firm Size → Audit Delay	-1.088	1.6465	0.277	Rejected
H4	Audit Committee → Audit Delay	-1.458	1.6465	0.145	Rejected
H5	Reputation moderates Profitability	0.592	1.6465	0.554	Rejected
H6	Reputation moderates Solvency	-0.278	1.6465	0.778	Rejected
H7	Reputation moderates Firm Size	1.259	1.6465	0.509	Rejected
H8	Reputation moderates Audit Committee	0.999	1.6465	0.318	Rejected

Source: processed secondary data, 2022.

Discussion

Effect of profitability on audit delay (H1). Profitability is the only variable that behaves as hypothesized: its coefficient is negative and significant (t = -4.571, p = 0.000), so H1 is accepted. =This tracks signaling theory in the expected direction profitable firms report quickly to broadcast good news (Spence, 1973), but the pattern is broader than that theory alone predicts, since firms with weak profitability in this sample also tended to report promptly, arguably to reassure the market that their competitive position remains intact rather than to hide bad news. This result is consistent with Elvienne and Apriwenni (2019) but contrasts with Utami et al. (2018), who found a positive relationship, suggesting that the direction of the profitability effect may itself be sample- and period-dependent.

Effect of solvency on audit delay (H2). Solvency shows no significant effect (t = 1.377, p = 0.169), so H2 is rejected. Signaling theory would expect heavy leverage to read as bad news and slow disclosure, but the data do not support that here: firms at both ends of the leverage spectrum appear equally motivated to report on time, most

plausibly to keep creditors and shareholders confident regardless of the underlying debt position. This finding aligns with Prakoso et al. (2017), who likewise found no significant solvency effect, but diverges from Elvienne and Apriwenni (2019).

Effect of firm size on audit delay (H3). Firm size is likewise non-significant (t = -1.088, p = 0.277), so H3 is rejected. A plausible explanation is that every company on this list, however large or small, already clears the bar for exchange listing meaning it has the accounting staff and information systems needed to close an audit reasonably quickly, so total assets stop being a meaningful differentiator once a firm is public. This result is consistent with Prabasari and Merkusiwati (2017) and Murti and Widhiyani (2016), who also reported no significant size effect once other factors were controlled.

Effect of the audit committee on audit delay (H4). The audit committee variable is also non-significant (t = -1.458, p = 0.145), so H4 is rejected. This suggests that committees carry out their oversight role fairly uniformly whether or not a majority of their members hold financial-expertise credentials, which would blunt any measurable effect of that specific credential on audit timing. A similar pattern was reported by Afriliana and Ariani (2020), who found that committee characteristics including financial expertise did not significantly shorten audit delay among manufacturing firms.

Moderating role of audit firm reputation (H5–H8). KAP reputation fails to moderate any of the four relationships (H5–H8 all rejected, with p-values of 0.554, 0.778, 0.509, and 0.318, respectively). Read together, these results imply that Big Four and non-Big Four firms in this sample apply comparably diligent, independent audit standards regardless of a client's profitability, leverage, size, or committee composition reputational tier, in other words, does not translate into a detectably different audit timeline once these client characteristics are controlled for.

Theoretical and Practical Implications

Theoretically, the results favor signaling theory (Spence, 1973) over agency theory (Jensen & Meckling, 1976) as the more useful lens for explaining audit delay in this setting: the one significant relationship profitability is the one signaling theory predicts most directly, while agency theory motivated variables such as audit-committee expertise and auditor reputation do not show the monitoring effect that theory would suggest. Practically, the findings imply that regulators and investors evaluating an issuer's likely reporting timeliness should weight profitability more heavily than firm size, leverage, or which KAP tier audits the company; for audit committees themselves, the results suggest that formal financial-expertise credentials

alone are not sufficient to demonstrably speed up reporting, and that other mechanisms of committee effectiveness may deserve more attention

CONCLUSION

Among the four hypothesized determinants of audit delay, only profitability shows a significant effect, and it is negative, consistent with H1. Solvency, firm size, and audit-committee expertise do not significantly affect audit delay in this sample, and audit firm reputation does not significantly moderate any of the four relationships tested. Substantively, this points to a capital market in which the pace of reporting is driven mainly by a firm's incentive to signal profitability, rather than by its balance-sheet risk, its size, its committee composition, or the prestige tier of its auditor.

The study has two main limitations. First, the model's adjusted R^2 of 57 percent leaves 43 percent of the variance in audit delay unexplained, indicating that other, unmeasured factors are also at work prior-year audit opinion is one candidate the present model does not capture (Setyarno et al., 2006). Second, measuring KAP reputation with a Big Four/non-Big Four dummy is a blunt instrument, particularly given that non-Big Four observations dominate the sample; this imbalance may itself have prevented the moderation hypotheses from reaching significance.

Future studies could add audit tenure or prior-year audit opinion as predictors to close part of the unexplained variance, and could replace the reputation dummy with a continuous proxy such as a KAP's total audit revenue or client count. Financial distress is also worth testing as an alternative moderator, since it may condition the profitability-delay and solvency-delay relationships more precisely than a simple auditor-prestige indicator does.

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