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Effects of Company Size, Profitability and Auditor's Reputation on Audit Delay and its Impact on Abnormal Return

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Many listed companies on the capital market find it difficult to publish their financial reports on time. This research's purpose is to study the effect of company size, profitability, auditor's reputation for delays in audit completion and its effect on abnormal returns in listed companies on the LQ45 Index with a descriptive quantitative approach. Secondary data for 2017-2019 from 25 companies used in this study were selected using a purposive sampling method according to research needs by selecting companies as samples. The technique of analyzing data in this study uses two regressions, namely multiple linear regression and standard linear regression which is processed using SPSS version 25. This study gives the results that company size (X1) and profitability (X2) partially have negative and significant effect on the delay in audit completion of -10,160 and -86.299 with a significance level of 0.000 and 0.013, while the reputation of the auditor (X3) in a partial way does not affect the delay in the completion of the audit (AD). Simultaneously, the three independent variables have significant effects on the delay in audit completion. This study also provides results that the delay in audit completion has no effect on abnormal returns (Y) on LQ45 index companies in 2017-2019.

Keywords: Abnormal Return, Audit Delay, Auditor's Reputation, Company Size and Return on Assets

Introduction

The era that is currently popular in the Indonesian economy is the new era of the capital market. The popularity of the capital market in Indonesia can be proven by the development of the overall capital market capitalization from 5.7 trillion rupiah to 7.3 trillion, with a growth of 1.6 trillion rupiah in just 4 years, from 2016 to August 2021. The increasing number of single investor identification (SID) has also increased drastically from 894 thousand, to 5.6 million investors overall in the Indonesian capital market (Indonesia Stock Exchange, 2021). This is because many people are starting to understand that investing in the capital market is the best way to protect their assets and make a profit.

The implementation of the audit that has been carried out by the external auditor can last a long time due to the obstacles found in the implementation, one of which is a bad internal audit. The length of time used to complete the audit is defined as audit delay. The calculation of the delay in audit completion is determined based on the range date between independent auditor's report and the closing date for the 31 December period (Manuel & Sutandi, 2018).

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The audit completion delay affects stock returns as happened to the price of one of the LQ45 index companies, namely SCMA (PT Surya Citra Media, Tbk.). It can be seen in 2017, 2018 and 2019 with the number of completion days of 74, 86 and 100 days which resulted in a decrease in stock prices by -24.60% in 2019 and -24.60% in 2020.

This study tends to understand the phenomenon of late audit completion and its effect on the investors decision making by company's financial statements. In the era of modernization of sophisticated technology, the phenomenon of late audit completion should not occur again for public companies on the IDX. Due to advances in information system technology in this new era, companies can record transaction records with an application-based and online accounting information system, which will greatly reduce the time required to submit financial reports automatically and will facilitate timely completion of audits.

Related Works/Literature Review

Company Size

Company size is the number of assets owned by the company, calculated using natural logarithm of whole assets. This formula is used in research (Lestari & Nuryatno, 2018) on audited financial statements in order to reduce excessive data fluctuations.

Profitability

Profitability is the capability of a company to generate operating profit by utilizing existing assets. With return on assets (ROA) to measure the value of profitability (Karina & Jannah, 2017).

Auditor's Reputation

Auditor's reputation is a measure of the size of the auditors by grouping them into big-four and non-big-four (Lestari & Nuryatno, 2018).

Audit Delay

Delay in audit completion is the intervals date required to complete the audit by calculating the number of days required to receive a report from an independent auditor from the closing date (Manuel & Sutandi, 2018).

Abnormal Return

Abnormal return or abnormal stock return is the difference between the actual return and the investor's expected return. The capital market reaction will be reflected by abnormal stock returns (Lestari & Nuryatno, 2018).

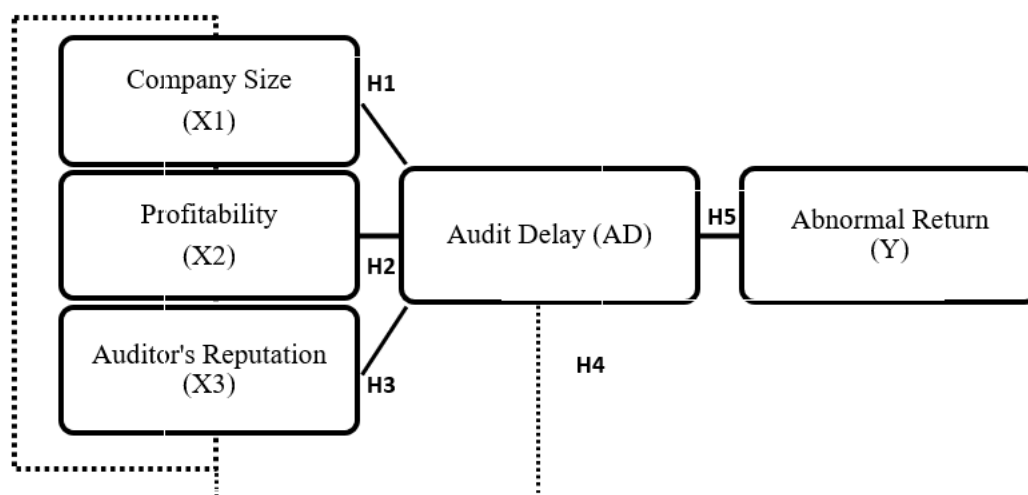


Figure 1. Framework

Based on the framework, so can can be made a research hypothesis as follows:

H1 = Company size has a negative effect on audit delay.

H2 = Profitability has a negative effect on audit delay.

H3 = Auditor’s Reputation has a negative effect on audit delay.

H4 = Simultaneously company size, profitability and auditor’s reputation have a negative effect on audit delay.

H5 = Audit Delay has a negative effect on abnormal Return

Methods

The study uses a quantitative descriptive analysis approach. The surveyed data is a secondary data using annual financial statements of LQ45 Index companies for the 2017 - 2019 period. 64 sample data were obtained from LQ45 index companies for 7 semesters, namely August 2016 - January 2020. The criteria for selecting samples using the purposive sampling method are as follows:

Table 1. Criteria Sample Selection

No	Criteria	Number
1	LQ45 Index Companies listed on the IDX (August 2016 to January 2021)	64
2	Companies that do not remain in LQ45 on the IDX (August 2016 to January 2021)	(34)
3	Companies that don't use Rupiah unit in financial statements	(4)
4	Number of company's outlined	(1)
5	Number sampled companies	25
	Number sampled data for 3 years (2017-2019)	75

Source: Processed IDX Data

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Table 2. Researched LQ45 Index Company Sample List

No	Code	Company Name
1	AKRA	AKR Corporindo Tbk.
2	ANTM	Aneka Tambang Tbk.
3	ASII	Astra International Tbk.
4	BBCA	Bank Central Asia Tbk.
5	BBNI	Bank Negara Indonesia (Persero) Tbk.
6	BBRI	Bank Rakyat Indonesia (Persero) Tbk.
7	BBTN	Bank Tabungan Negara (Persero) Tbk.
8	BMRI	Bank Mandiri (Persero) Tbk.
9	BSDE	Bumi Serpong Damai Tbk.
10	GGRM	Gudang Garam Tbk.
11	ICBP	Indofood CBP Sukses Makmur Tbk
12	INDF	Indofood Sukses Makmur Tbk.
13	INTP	Indocement Tunggul Prakarsa Tbk.
14	JSMR	Jasa Marga (Persero) Tbk.
15	KLBF	Kalbe Farma Tbk.
16	LPPF	Matahari Department Store Tbk.
17	PTBA	Bukit Asam Tbk.
18	PTPP	PP (Persero) Tbk.
19	SCMA	Surya Citra Media Tbk.
20	SMGR	Semen Indonesia (Persero) Tbk.
21	TLKM	Telkom Indonesia (Persero) Tbk
22	UNTR	United Tractors Tbk.
23	UNVR	Unilever Indonesia Tbk.
24	WIKA	Wijaya Karya (Persero) Tbk.
25	WSKT	Waskita Karya (Persero) Tbk.

Source: Processed IDX Data

Operational Definition of Variable

Company Size

This research measure company's size with the parameters of the total assets of a company which will later be converted into logarithmic values. This logarithm value is used to minimize excessively fluctuating data on variables and equalize the size at the time of regression with the formula:

$$\text{Size} = \ln(\text{Total Assets})$$

Source: Lestari & Nuryanto, 2018

Profitability

The rate of return used in this study is ROA (Return on Assets) by comparing after taxed net profit for that period with the company's total assets in that period with the formula:

$$\text{Return On Assets} = \frac{\text{Profit after tax}}{\text{Total Assets}}$$

Source: Karina & Jannah, 2017

Auditor's Reputation

The reputation of the auditor in this study was made into 2 group, namely the group of auditors belonging to KAP The Big Four and those who are not. These are 4 local KAPs that are members or affiliates of the Big Four, (1) Purwanto, Suherman & Surja, (2) Osman Big Satrio & Eny, (3) Siddharta & Widjaja, (4) Tanudireja, Wibisana & Fellow Public Accountants. So that auditors can compare a report finance is The Big Four or not measured by a dummy variable.

- 0 = Auditor is not included in The Big Four
- 1 = Auditor is included in The Big Four

Delay in Audit Completion

Delay in audit completion is the period of audit completion which is calculated from the closing date of the financial year to the date of issue of the audit report. With the calculation formula used as follows:

$$\text{Audit Delay} = \text{Date of Audited Reports} - \text{Company's Closing Date}$$

Source: Lestari & Nuryanto, 2018

Abnormal Return

Abnormal return is an investor's reaction to the capital market which is shown by the intervals between the actual and expected return. This variable is measured using the following formula:

$$\text{Abnormal Return} = R_{it} - R_{mt}$$

OR

$$\text{Abnormal Return} = \left(\frac{P_{it} - P_{i,t-1}}{P_{i,t-1}} \right) - \left(\frac{IHS G_t - IHS G_{t-1}}{IHS G_{t-1}} \right)$$

Source: Karina & Jannah, 2017

Description:

- R_{it} = Stock return i period t
- R_{mt} = Market return period t
- P_{it} = Stock price i in period t
- $P_{i(t-1)}$ = Stock price i in period t-1
- JCI_t = Composite stock price index period t
- $JCI_{(t-1)}$ = Composite stock price index period t-1

Descriptive Statistical Analysis

This analysis describe the summarize data as a representation of the entire population (Ghouzali, 2018).

Partial Effect Test (t test)

Partially test to determine the effect of one independent variable individually on the dependent variable. By using a regression equation Model 1 and Model 2 the hypotheses are tested, also the effects of audit delay against abnormal return.

1. Multiple Linear Regression Analysis (Model 1)

$$AD_{it} = \beta_0 + \beta_1 X1_{it} + \beta_2 X2_{it} + \beta_3 X3_{it} + e_{it}$$

The formula above will be used to measure factors effect on audit delay individually.

2. Standardized Linear Regression Analysis (Model 2)

$$Y_{it} = \beta_0 + \beta_1 AD_{it} + e_{it}$$

The formula above will be used to measure audit delay's effect on abnormal return.

Where: AD = audit delay, X1 = Company Size, X2 = Profitability, X3 = Auditor's Reputation, Y = Abnormal Return, β_0 = constant, $\beta_1 \dots \beta_3$ = regression coefficient, e = error.

Simultaneous Effect Test (F test)

Simultaneously test the determine independent variables effect on dependent variable. Independent variables simultaneously affect the dependent variable when the value of significant < 5% (Ghouzali, 2018).

Results

Descriptive Statistical Analysis

Descriptive statistical tests are described in Table 3.

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X1_Size	75	29.21	34.89	31.9825	1.50671
X2_ROA	75	.00	.47	.0933	.09578
X3_Auditor's Reputation	75	0	1	.87	.342
AD_AuditDelay	75	15	146	62.23	24,529
Y_AbnormalReturn	75	-1.00	-.0804	.85	.8530785
Valid					

Source: results of Output SPSS 25, 2021.

In Table 3 based on column N the number of samples used in the study were 75 samples of data in the research period during 2017 - 2019. The conclusions based on the results of descriptive statistics are:

1. The Minimum value of company size (X1) which is worth 29.21, while the maximum value of company size is 34.89. With the average size of the company is 31.9825 with a standard deviation of 1.50671.
2. The minimum value of profitability (X2) is 0.00, while the maximum value of profitability is 0.47. With an average profitability of 0.0933 with a standard deviation of 0.09578.
3. The minimum value for delay in audit completion (AD) is 15 days, while the maximum value for delay in audit completion is 146 days. The average delay in audit completion is 62.23 with a standard deviation of 24,529.
4. The minimum abnormal return (Y) value is -1.00, with the maximum value of audit completion delay which is 0.85. The average delay in audit completion is -0.0804 with a standard deviation of 0.30785.

Partial Effect Test Results (t test)

Multiple Linear Regression Analysis

Table 4. Partial Multiple Linear Regression Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	385,167	68,571		5,617	.000
	X1_Size	-10,160	2,115	-.624	-4.804	.000
	X2_ROA	-86.299	33,822	-.337	-2.552	.013
	X3_Auditor's Reputation	11,591	7,657	.162	1,514	.135

aDependent Variable: AD_AuditDelay

Source: Output SPSS 25, 2021

Table 4 describes the regression equation model described in this study to be:

$$AD=385.167-10.160 X1-86.299 X2+11.591 X3$$

Based on the equation model above, it can be concluded that:

The value of the constant intercept is 385,167. These results explain that if all independent variables have value of 0.00, the value of late audit completion will be 385,167.

The value of the firm size regression coefficient is – 10,160. These results can be explained, if the size of the company increases by one point, the value of late audit completion will decrease by 10,160 assuming there are no changes in other variables.

The value of the profitability regression coefficient is – 86,299. These results can be explained, if profitability increases by one point, the delay in audit completion will decrease by 86,299 assuming there is no change in other variables.

The regression coefficient value of the auditor's reputation is 11,591. These results can be explained, if the auditor's reputation increases by one point, the delay in audit completion will increase by 11,591 assuming there is no change in other variables.

Partial testing uses the t test to determine the effect of one independent variable individually on the dependent variable. The results of this test can be seen in Tables 4 and are concluded to be:

1. H-1

The variable in the first hypothesis is the size of the company which is considered to have a negative effect on the delay in audit completion. In table 4, the regression coefficient of firm size is – 10,160 with a significance value of 0.000 less than = 5% as the significance level. Shows that company size has a negative effect on audit completion delays, so the first hypothesis in this study is "accepted".

2. H-2

The variable in this hypothesis is profitability which is considered to have a negative influence on the delay in audit completion. In table 4, the profitability regression coefficient is -86,299 with a significance value of 0.013 which is less than = 5% as the significance level. Shows that profitability has a negative effect on audit completion delays, so the second hypothesis in this study is "accepted".

3. H-3

The variable in this hypothesis is the auditor's reputation which is considered to have a negative influence on the delay in audit completion. In table 4, the profitability regression coefficient is 11,591 with a significance value of 0.135 which is more than = 5% as the significance level. Shows that the auditor's reputation has a positive and insignificant effect on the delay in the completion of the audit, so the third hypothesis in this study was "rejected".

Standardized Linear Regression Analysis

Table 5. Standardized Linear Regression Test Results

		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Model	B	Std. Error	Beta		
1	(Constant)	-.096	.098		-.977	.332
	AD_AuditDelay	.000	.001	.020	.170	.866

a. Dependent Variable: Y_Abnormal Return
Source: Output SPSS 25, 2021

Table 5 describes the regression equation model described in this study to be:

$$Y = -0.096 + 0.000 AD$$

Based on the equation model above, it can be explained that the value of the intercept constant is -0.096. These results explain, if the value of all independent variables is 0.00, the value of late audit completion will be – 0.096. The regression coefficient value for the late audit completion variable is 0.000. These results explain that, if the audit completion delay variable increases by one

point, the abnormal return will remain with the assumption that there is no change in other variables.

4. H-5

The variable in this hypothesis is the delay in the completion of the audit which is considered to have a positive effect on abnormal returns. In table 5, the regression coefficient for late audit completion on abnormal returns is 0.000 with a significance value of 0.805 which is more than = 5% as the significance level. Shows that the delay in audit completion does not have a positive effect on abnormal returns, so the fifth hypothesis in this study is "rejected".

Simultaneous Effect Test Results (F)

The results of the simultaneous influence test (f) are described in table 6.

Table 6. Simultaneous Effect Test Results (F)

		ANOVA ^a				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11151,572	3	3717,1917,909	.000	b ^{Residual}
		33371,574	71	470.022	Total	
		44523,147	74	a		

. Dependent Variable: AD_AuditDelay

b. Predictors: (Constant), X3_Auditor’s Reputation, X1_Size, X2_ROA

Source: Output SPSS 25, 2021.

Discussion

Effect of Firm Size (X1) on Audit Completion Delay (AD)

The theory which states that increasing the value of a company's size results in reduced audit completion delays because good news owned by the company will soon be published according to research (Istika, 2019; Lestari & Nuryatno, 2018; Normalita et al., 2020; Pradiva & Adi, 2021; Sumantri et al., 2018) prove that firm size has a negative effect on audit completion delays.

The Effect of Profitability (X2) on Audit Completion Delay (AD)

With high profitability as good news, it is likely that the company will accelerate the reporting of financial statements according to research (Istika, 2019; Livy & Sutandi, 2016), which explains the negative significant effect of the size on the delay in audit completion.

The Effect of Auditor's Reputation (X3) on Audit Completion Delay (AD)

This study provides an explanation that auditor reputation has no influence on audit completion delay with a regression coefficient value of 11,591 and a significance level of 0.135. It can be concluded that to maintain the company's image, big four and non-big four KAPs will complete reports on time according to research (Istika, 2019; Karina & Jannah, 2017; Sumantri et al., 2018; Syafitri, 2020) which explains that there is no influence audit reputation for delays in audit completion.

The Effect of Firm Size (X1), Profitability (X2) and Auditor Reputation (X3) on Audit Completion Delay (AD)

This study resulted in an explanation that firm size, profitability, and auditor reputation had a significant influence on audit completion delays, with a significance level of 0.000. Shows that the fourth hypothesis which states that company size, profitability and auditor reputation simultaneously have a significant effect on the delay in audit completion is accepted.

The Effect of Audit Completion Delay (AD) on Abnormal Return (Y)

The results of the study explain that audit completion delay has no effect on abnormal returns with a regression coefficient value of 0.000 and a significance of 0.805. Therefore, good

news or bad news owned by a company as measured by the accuracy of the submission of audited financial statements is not the primary factor considered by investors. These results support research (Istika, 2019; Karina & Jannah, 2017; Lestari & Nuryatno, 2018; Syafitri, 2020) in the statement, delays in checking.

Conclusion

Based on the results and discussion of hypothesis testing, it can be concluded that company size and profitability partially have a negative effect on delays in the completion of the audit. This explains that the increasing value of firm size and the increasing value of return on assets (RoA) will result in the value of the audit completion delay being reduced so that the first and second hypotheses can be accepted. The results of this study also show that auditor reputation has no effect on audit completion delays, this explains that auditors affiliated with the big four or not they will submit reports on time to maintain the good name of the company so that the third hypothesis is not accepted, but simultaneously the variables independent significant effect on the delay in the completion of the audit so that the fourth hypothesis can be accepted.

The results of this study also explain that the delay in audit completion has no effect on abnormal returns, in contrast to the hypothesis in this study. Then it can be concluded that the length of time required to complete the audit has no effect on the abnormal return value because the company's ability to publish reports quickly is not the primary factor considered by investors so that the fifth hypothesis can be accepted.

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