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Contingencies and auditor turnover on audit report lag

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Abstract

This study aims to examine the effect of contingencies, and auditor turnover on audit report lag. The population of this study are property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the period 2020-2023. A sample of 32 companies with 128 observations was obtained using purposive sampling method. The research data is secondary data and is obtained by non-participant observation method. The analysis technique used is multiple regression analysis using the MRA (Moderated Regression Analysis) test. The results showed that contingencies had a positive effect in causing a longer audit report lag, while auditor changes had no effect on audit report lag.

Keywords: Audit Report Lag; Contingency; Auditor Turnover; Real Estate

1. Introduction

One of the steps taken by companies to obtain funding sources from investors is to be listed on the Indonesia Stock Exchange (IDX) and become a go public company. As a go public company, companies listed on the IDX have an obligation to publish financial reports that have previously been audited by a public accountant. The submission of financial reports to the public has the aim of conveying information about the condition and performance of the company to users of financial statements who need this information, one of which is for decision making. For decision-making needs, good financial reports should meet the relevant criteria, so that the submission of financial reports must be timely.

Research by Hariza, et al (2012) states that the accuracy of a company in publishing its report depends on the timeliness of the auditor in completing his audit work. The time or date difference between the financial statements and the date of the independent auditor's report indicates the length of time for completion of the audit by the auditor. This time difference is often referred to as audit report lag.

Audit report lag is the time span for completing the audit from the closing date of the financial year to the date the independent auditor's report is finalized (Ashton et al., 1987). The length of the audit completion is based on the time difference between the date of the financial statements, namely as of December 31 to the date of the audit opinion in the financial statements. The longer the auditor completes the audit, the longer the audit report lag. Users of financial statements, especially investors, can consider this delay as bad news and assume the company is experiencing problems. There are several factors that cause audit report lag, including contingencies and audit changes.

Several studies have found that audit report lag is influenced by the change of auditors in the company. The change of auditor is indicated when the end of the engagement period between the client (company) and the auditor. Changing auditors can lead to a longer audit report lag because there is a possibility that the new auditor has not been able to complete the audit process in a timely manner (Rustiarini and Sugiarti, 2013). The existence of a change of auditors results in when compared to the previous auditor, the new auditor lacks in-depth knowledge of the client's business.

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Previous research conducted by Rustiarini and Sugiarti (2013), Kusuma (2011), Ettredge et al. (2005), Ratnaningsih and Dwirandra (2016) found empirical evidence that auditor changes made by companies affect audit report lag. However, different results were found in the research of Widhiasari and Budiartha (2016), Sitanggang and Ariyanto (2015), Megayanti and Budiartha (2016).

Companies that report contingencies will tend to be slower in publishing financial reports when compared to companies that do not report contingencies (Owusu and Ansah, 2000). Contingency submission is part of the information system in the company's financial reporting. Contingency information includes information that is qualitative or cannot be expressed in quantitative monetary units). Qualitative information will be more difficult to evaluate both the materiality and relevance aspects (Saleh, 2004). Saleh (2004) and Tedja (2011) prove that contingencies affect audit report lag. There are quite several procedures performed by auditors to audit and identify contingencies, so this can have an impact on a longer audit report lag.

H1: Contingencies have a positive effect on audit report lag

A change of auditor can cause an audit report lag because there is a possibility that the new auditor may not be able to complete the audit task in a timely manner which can be due to several factors. New auditors tend to take time to identify the business characteristics and systems used by the company, this can take up the auditor's time during the auditing process which can have an impact on the submission of audited financial statements being late. Ratnaningsih and Dwirandra's research (2016) found that auditor changes have a positive effect on audit report lag. Similar results were also found in the research of Ettredge et al. (2005), Kusuma (2011), Rustiarini and Sugiarti (2013), and Hartanti Praptika (2015). The change of auditors causes an increased risk of audit failure and start-up costs which causes the audit financial report to be delayed (Myers et al., 2003).

H2: Auditor turnover has a positive effect on audit report lag.

2. Methods

This research uses a quantitative approach with an explanatory level in the form of associative research. Audit report lag as the dependent variable is measured by calculating the number of days from the company's closing date, namely December 31, to the date stated in the independent auditor's report. The Indonesia Stock Exchange (IDX) is the location in this study, and to obtain audited financial reports for the 2020-2023 period, access to the IDX official website, namely www.idx.co.id. This study uses quantitative data types, while the research data is secondary data. The research data was collected using the non-participant observation method. The population in this study were all property and real estate companies on the IDX for the 2020-2023 period. The sample was selected using nonprobability sampling technique and purvosive sampling method. The data analysis used in this study consists of descriptive statistics, classical assumption tests, and multiple regression analysis.

3. Results and discussion

3.1. Multiple Linear Regression

Table 1 Multiple Linear Regression Test Results

		B	T	*Sig.*	Result
(Constant)		77.428	56.962	0.000	-
Contingencies (X_1)		4.255	2.328	0.022	H1 accepted
Auditor Turnover (X_2)		0.408	0.152	0.879	H2 rejected
R *Square*	=	0.470			
F	=	8.135			
Significant	=	0.000			

Secondary Data. 2023

Table 1. shows that the R Square value is 0.470 or 47.0%. This value indicates that 47.0% of the audit report lag can be explained by contingency variables. and auditor turnover and the remaining 53% is explained by other factors outside this regression model.

The F significance value of 0.000 is smaller than 0.05. indicating that the research model is suitable for use as an analytical tool to test the effect of independent and moderation variables on the dependent variable.

3.2. Contingency on Audit Report Lag

The first hypothesis (H1) states that contingency has a positive effect on audit report lag. The test results show that the contingency variable has a regression coefficient value of 4.255 and a significance value of 0.022 which is smaller than 0.05. This means that contingencies have a positive effect on audit report lag. and thus H1 in this study is accepted. This study supports the signal theory where companies that have longer audit report lags are considered to have bad news and give negative signals to report users (Givoly and Palmon. 1982). Contingent information such as legal cases experienced by the company can be considered a negative signal by users of financial statements. Owusu and Ansah (2000) found that contingency reporting has a positive effect on the delay in audit completion. The results of this study are supported by research by Saleh (2004) and Tedja (2011).

Auditors during the assignment are required to evaluate the accounting treatment and disclosure of contingencies made by the company. Contingency is one of the information that is qualitative or cannot be expressed in monetary units (quantitative). so it is more difficult to evaluate both the materiality and relevance aspects. This can slow down the auditor in completing the audit process (Saleh. 2004). Therefore. contingent reporting can lead to a longer audit completion process and audit report lag.

3.3. Auditor Turnover on Audit Report Lag

The second hypothesis (H2) states that auditor turnover has a positive effect on audit report lag. Based on the regression test results. the auditor turnover variable has a regression coefficient of 0.408 and a significance value of 0.879 which is greater than 0.05. These results indicate that auditor turnover has no effect on audit report lag. therefore H2 is rejected. This research is consistent with the research of Widhiasari and Budiartha (2016). Sitanggang and Ariyanto (2015). Megayanti and Budiartha (2016). The results of this study are not the same as the research of Rustiarini and Sugiarti (2013). Kusuma (2011). and Ratnaningsih and Dwirandra (2016).

Usually client acceptance decisions are made by auditors within six to nine months before the client's fiscal year ends (Tambunan. 2014). Client acceptance and audit planning are carried out before the fiscal year so that auditors have plenty of time to prepare careful planning before testing (Megayanti and Budiartha. 2016). Utami (2014) in Julianto and Suputra (2016) states that good audit planning indirectly makes auditors carry out the audit process better and on time. Therefore. the change of auditors will not affect the length of the audit completion process.

In addition. each auditor will try to maintain his personal and KAP reputation in auditing a company. Even though they are new auditors for the company. auditors will tend to try to complete the audit as soon as possible. Because if not. the auditor's reputation may go down and will affect client confidence.

4. Conclusion

Based on the research that has been done. it can be concluded that first. contingencies have a positive effect on audit report lag. Second. auditor changes have no effect on audit report lag. Future research is expected to use audit report lag proxies other than those used in this study. such as by calculating the days of audit completion by the auditor based on the date stated in the engagement contract between the client and the auditor. If the auditor completes the audit past the date agreed upon in the engagement contract. then this can be considered a delay in completing the audit. In addition. auditors and company management can be contingent if they want the audited financial statements to be completed more quickly. because according to this study. these two factors have an influence on the longer audit report lag.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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