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Original Research Article

Determinants of Audit Report Lag with Company Size as Moderating Variable: Evidence from Real Estate and Property Sector in Indonesian

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Abstract

This study aimed to examine and analyze the influence of the characteristics of Corporate Governance, profitability, and reputation of KAP on audit report lags in Real Estate and Property Companies in Indonesia. This study also tested and analyzed the moderating influence of company size in the relationship between the characteristics of Corporate Governance, profitability, and the reputation of the KAP on audit report lag. This type of research is causal research. The population in this study are Real Estate and Property companies listed on the Indonesia Stock Exchange in the period 2012-2016 with 61 companies. The sampling technique used was purposive sampling based on certain criteria. Based on these criteria, the number of observations was 170 units of analysis. The results of the research show that the characteristics of corporate governance, profitability, and reputation of KAP simultaneously influence and are significant for audit report lag. Institutional ownership, independent commissioners and profitability have a negative and significant effect on audit report lag. While the reputation of KAP has a positive and significant effect on audit report lag. Managerial ownership and audit committees influence and are not significant to the audit report lag in real estate and property companies on the Indonesia Stock Exchange. Company size is proven to not be able to moderate (strengthen) the relationship between corporate governance characteristic variables, profitability and KAP reputation with audit report lag variables on real estate and property companies.
Keywords: Corporate Governance Characteristic, Managerial Ownership, Institutional Ownership, Commissioner of Independent, Audit Committee, Profitability, KAP Reputation, Company Size and Report Lag Audit.

INTRODUCTION

Financial statements are products of management in order to be accountable (stewardship) in using of resources and sources of funds entrusted to it. In general, this report provides information about financial positions, activities and cash flows in one period intended for users of financial statements to assess and make decisions related to the company [1].To obtain relevant information, the timeliness of presentation is required. Timeliness is particular important for the level of benefits and value of the report. Timeliness is an important factor in presenting relevant information [2].

If there is delay in the financial statements, the information will lose its relevance to users of financial information, especially investors in making investment decisions. Management often have problems when having to present financial statements on a timely, one of financial statements must be audited first by a public accountant before being submitted to the public. Collection of evidence as the basis of the audit will have an impact on the length of completion of audit reports and quality. If it is more in line with the audit standards, the audit will take longer [3].

Issuers or public companies are required to submit annual reports including audited financial statements to the financial services authority no later than the end of the fourth month after the financial year ends. That is, financial report audits must be completed in less than 120 days. Management must think of strategies to complete the report in a timely manner [4].

Companies that are late in submitting financial reports in accordance with the provisions stipulated by the Financial Services Authority will be subject to administrative sanctions in the form of written warnings, penalties, restrictions and suspension of business activities, revocation of business licenses, cancellation of approvals, and cancellation of registration. Administrative sanctions can be imposed with or without prior administrative sanctions in the form of written warnings. Penalties can also be imposed alone or jointly with the imposition of sanctions limiting business activities, freezing business activities, revoking business licenses, canceling approvals, and canceling registration [4].

Many issuers are late in submitting financial statements. Based on data released by the Indonesia Stock Exchange in 2012, there were 52 companies that were late in submitting financial statements. In 2013 there was a decrease to 45 companies (decrease 8.2 percent). Furthermore, in 2014 companies that were late in submitting financial reports increased again to 52 companies (increase 9.2 percent) while in 2015 it fell again to 18 companies [5]. In 2016 there were 17 companies that were late in submitting audited financial statements as of 31 December 2016 [6].

Researches that analyze the causal factors that influence the timeliness of financial reporting have been carried out in several countries and the results are inconsistent. Independent commissioners have a negative influence on audit report lag [7]. Different things were obtained in the research conducted by the stated that independent commissioners have no significant effect on audit report lag.

Research on audit committees has been carried out by several researchers, such as Wardhani and Raharja [8] which stated that audit committees have no effect on audit report lag. Whereas research conducted by Apadore and Noor [9] Audit committee size has a significant negative effect on audit report lag.

Many researches on profitability and audit report lag have been conducted, one of which is research conducted by Hariani and Darsono [10] which stated that profitability has a significant negative effect on audit report lag. However, the results of this study contrast with the research conducted by Hapsari, *et al.* [11] which showed that profitability does not effect on audit report lag.

Research on audit report lag. One of the variables in the research is the public accounting firm. The results of the study Pramaharjan, *et al* [12] stated that the quality of KAP affects audit report lag. To increase the credibility of financial statements, companies use the services of a public accounting firm that has a reputation or prestige. And it is not in line with research Mutiara, *et al.* [13] which stated that KAP size does not effect on audit report lag.

The sample of this study was real estate and property companies, because it’s potential for a large population in Indonesia with a relatively low ratio of home ownership. Furthermore, the increasing market absorption of property products to attract investors by the government. It is evident from the number of real estate and property companies listed on the Indonesia Stock Exchange increasing annually. The company size greatly influences management decisions in carrying out its operational activities, so the company can determine the level of company obtains funds from the capital market. Company size is also influenced by the operational complexity, variability, and intensity of the company's transactions which of course will affect the speed in providing financial statement to the public.

Based on the explanation above, the researcher is interested in conducting research with the title "The Influence of Corporate Governance Characteristic, Profitability and KAP Reputation on audit report lag with company size as a moderating variable in real estate and property companies in Indonesia".

RESEARCH METHODS

The location of this study was conducted in real estate and property companies listed on the Indonesia Stock Exchange in 2012-2016. The population used in this study was real estate and property companies listed on the Indonesia Stock Exchange from 2012 to 2016, which amounted to 61 companies. The sampling method used is purposive sampling method, which is a sampling technique based on some certain criteria with consideration. The criteria to be considered in taking the sample in this research are:

- Real estate and property companies registered on the IDX in 2012-2016
- The company was not delisted in 2012-2016
- The company has published audited financial statements regularly during 2012-2016

Based on these criteria, 34 sample companies were obtained for the period 2012-2016 with the number of observations was 170 units of analysis (34 x 5 years).

This research used quantitative research which emphasized causal effects. This study aimed to test hypotheses and was a study that explained phenomena in the form of relationships between variables. The main objective of this study was to identify causal relationships between various variables [14]. In this study, researchers want to test and analyze the influence of corporate governance characteristics, profitability and KAP reputation on audit report lag with company size as a moderating variable in real estate and property companies in Indonesia. Time dimension used in this study is time series, which involves several specific times with many samples. Data collection techniques used with documentation. The data used in this study was the secondary data in the form of annual reports on all companies that were the research sample. Research data is presented in time series (between times) and cross sections (between companies). The analytical method in this study was descriptive statistics, multiple regression analysis and multiple residual tests for moderating variables. Multiple regression analysis intends to predict the relation of the dependent variable when associated with two or more independent variables [15]. To test the moderating variable was chosen using the residual test. With the multiple regression equation in model I and residual test in model II.

Model I : $Y = b_0 + b_1 X_{1.1} + b_2 X_{1.2} + b_3 X_{1.3} + b_4 X_{1.4} + b_5 X_2 + b_6 X_3 + e$

Model II : $Z = b_0 + b_1 X_{1.1} + b_2 X_{1.2} + b_3 X_{1.3} + b_4 X_{1.4} + b_5 X_2 + b_6 X_3 + e$ (1)

$|e| = b_0 + b_1 Y$ (2)

Results and Discussion

Determination Coefficient Test Results (R2)

Table-1: Determination Coefficient Test Results (R2)

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.587[a]	.344	.320	10.12220	1.231
a. Predictors: (Constant), Ln_X3, X13, Ln_X11, Ln_X2, X12, X14					
b. Dependent Variable: Y					

Source: Research Results, 2018

Based on Table 1 the value of the Coefficient (R) is 0.344 which showed the magnitude of the relationship between variables, with the coefficient of determination (Adjusted R square) of 0.320 or 32%. It means that the characteristic variables of corporate governance (measured through managerial ownership, ownership institutional, independent commissioners, and audit committees), profitability, and KAP reputation can explain audit report lag variables by 32%. While the remaining 68% is explained by other variables outside of this estimation model.

Test Results

Table-2: F Test Results

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8765.090	6	1460.848	14.258	.000[b]
	Residual	16700.798	163	102.459		
	Total	25465.888	169			
a. Dependent Variable: Y						
b. Predictors: (Constant), Ln_X3, X13, Ln_X11, Ln_X2, X12, X14						

Source: Research Results, 2018

Based on Table 2 it is known that a significant value of 0,000 is smaller than 0.05 so that it can be concluded that simultaneously the characteristic variables of corporate governance (measured through ownership independent commissioner and audit committee), KAP's profitability and reputation have an effect on audit report lag variables.

Table-3: Partial Test (t – Test)

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	100.491	10.742		9.355	.000
	Ln_X11	-1.944	1.499	-.108	-1.296	.197
	X12	-.125	.041	-.218	-3.062	.003
	X13	-8.627	1.144	-.503	-7.540	.000
	X14	.180	3.166	.005	.057	.955
	Ln_X2	-30.534	14.506	-.141	-2.105	.037
	Ln_X3	10.007	2.904	.229	3.446	.001

Source: Research Results, 2018

Based on Table 3, it can be seen that the significant value of the leverage variable is less than 0.05, so that institutional ownership, independent commissioners, profitability and KAP reputation have a significant effect on audit report lag, while managerial and audit committee variables are higher than 0.05 so that partially, managerial ownership and audit committee variables have no significant effect on audit report lag. From the coefficient values, the regression equation can be arranged as follows:

$$Y = 100.491 – 1,944\ X_{1.1} – 0.125\ X_{1.2} – 8.627\ X_{1.3} + 0,180\ X_{1.4} – 30.534\ X_2 + 10.007\ X_3$$

Based on the regression equation can be explained as follows:

a. A constant of 100,491 means that the company still have an audit report lag of a constant even though the independent variable is zero.

b. Managerial ownership (X1.1)
Based on the significant value with alpha 0.05 the managerial ownership variable has a significant value of 0.197 higher than alpha 0.05 so that partially the managerial ownership variable has a negative and no significant effect on audit report lag. Negative influence showed that the increasing managerial ownership of 1% will decrease the audit report lag by 1.944.

c. Institutional Ownership (X1.2)
Based on the significant value with alpha 0.05 the institutional ownership variable has a significant value of 0.003 smaller than alpha 0.05 so that partially institutional ownership variables have a negative and significant effect on audit report lag. The negative effect showed that every increase in institutional ownership by 1% will decrease the audit report lag by 0.125.

d. Independent Commissioner (X1.3)
Based on the significant value with alpha 0.05 the independent commissioner variable has a significant value of 0,000 smaller than alpha 0.05 so that partially independent commissioner variables have a negative and significant effect on audit report lag. The negative effect indicated that the increasing number of independent commissioners is 1%, the audit report lag will decrease by 8,627.

e. Audit Committee (X1.4)
Based on the significant value with alpha 0.05 the audit committee variable has a significant value of 0.955 higher than alpha 0.05 so that partially the audit committee variable has a positive and not significant effect on audit report lag. Positive effect shows that the increasing competence of the audit committee is 1%, the audit report lag will increase by 0.180.

f. Profitability (X2)
Based on the significant value with alpha 0.05 the profitability variable has a significant value of 0.037 smaller than alpha 0.05 so partially the profitability variable has a negative and significant effect on audit report lag. The negative effect showed that the increasing profitability of 1%, the audit report lag will decrease by 30,534.

g. KAP (X3) reputation
Based on the significant value with alpha 0.05, the KAP reputation variable has a significant value of 0.001 smaller than alpha 0.05 so that partially the reputation variable KAP has a positive and significant effect on audit report lag. The positive effect shows that the increasing of KAP reputation by 1% will increase audit report lag by 10.007.

Residual Test Results

Table-4: Residual Test Results (Moderating)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	37.996	2.559		14.850	.000
	Ln_X11	-1.183	.357	-.302	-3.312	.001
	X12	-.052	.010	-.422	-5.390	.000
	X13	-.129	.273	-.035	-.475	.635
	X14	-2.135	.754	-.265	-2.831	.005
	Ln_X2	-1.811	3.455	-.039	-.524	.601
	Ln_X3	-1.220	.692	-.129	-1.763	.080

a. Dependent Variable: Z

Source: Research Results, 2018

Table-5: Residual Test Results (Moderating)

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.539	.729		3.480	.001
	Y	-.009	.009	-.075	-.973	.332
a. Dependent Variable: Moderating						

Source: Research Results, 2018

Based on Table 4 and Table 5, we can see the equation of the Residual Test Results:

$Z = 37.996 – 1.183\ X_{1.1} – 0{,}052\ X_{1.2} – 0.129\ X_{1.3} – 2.135\ X_{1.4} – 1.811\ X_2 – 1.220\ X_3$

$| e | = 2.539 – 0{,}009\ Y$

Table 5 illustrated a significant value of 0.332 higher than alpha 0.05 with a negative parameter coefficient value of -0.009, then the company size variable is not significant and does not moderate the relationship between characteristic corporate governance variables (measured by managerial ownership, institutional ownership, independent commissioners, competence audit committee), profitability and KAP reputation with audit report lag variables.

Discussion of research results

The results of hypothesis testing can be concluded that institutional ownership variables, independent commissioners and profitability have a negative and significant effect on the audit report lag variable. KAP reputation variables have a positive and significant effect on audit report lag variables. While the managerial ownership variable, the audit committee has an effect and is not significant to the report lag audit variable. Meanwhile, company size variables are proven to be unable to moderate the influence of characteristics of corporate governance (measured by managerial ownership, institutional ownership, independent commissioners and audit committee competencies), profitability and KAP reputation with audit report lag.

The effect of managerial ownership on audit report lags

The results of testing managerial ownership variables on the audit report lag in this study indicate, managerial ownership, has a negative and no significant effect. Negative seen from regression coefficient value -1.944 and non-significant value 0.197 higher than 0.05. The results of this study are in line with Latrini and Swami [7] stating that managerial ownership has no effect on the timeliness of corporate financial reporting. Because the percentage of managerial ownership is relatively small which will affect voting rights and its role becomes not too important in determining company policies, especially those concerning financial reporting aspects. And this research is not in line with Philo [16] which revealed that managerial ownership has a negative influence on audit delay and Sutikno and Hadiprajitno [17] managerial share ownership will spur them to maximize profits by increasing efforts. The business was improved through improving and improving performance and improving the company's internal control system. Companies with good performance are sure to immediately disclose their financial statements to enhance a positive impression for the company. Therefore, the higher the percentage of shares held by management is expected to reduce audit report lag.

The effect of institutional ownership on audit report lags

The results of testing institutional ownership variables on the audit report lag in this study indicate that institutional ownership has a negative and significant effect on audit report lag with a significant value of 0.003 smaller than alpha 0.05. The results of this study are in line with research Latrini and Swami [7] indicating that institutional ownership has a negative effect on audit report lag. The existence of shares owned by other institutions can require the completion of audited financial statements immediately because institutional investors who invest their shares have the potential to influence management activities directly through their share ownership in the company.

The effect of independent commissioners on audit report lags

The results of testing the independent commissioner variables on the audit report lag in this study indicate that independent commissioners have a negative and significant effect on the audit report lag with a significant value of 0,000 less than 0.05. The results of this study are in line with the results of the study Latrini and Swami [7] indicating that the independent board of commissioners has a negative influence on audit report lag. Because a major proportion of independent commissioners are thought to limit opportunistic management behavior, disclose the quality of disclosure in financial statements and reduce the benefits of concealing information as a form of agency problems. But it is not in line with Wardhani and Raharja [8] and Butar - butar and Hadiprajitono [18] which stated that independent commissioners have no significant effect on the timeliness of financial reporting.

The effect of audit committee on audit report lags

The test results of the audit committee competency variable on the audit report lag in this study indicated that the audit committee has a positive and not significant effect on the audit report lag with a significant 0.955 higher than 0.05. The results of this study are in line with Latrini and Swami [7], Wardhani and Raharja [8], Butar - butar and Hadiprajitono [18] and Jensen and Meckling [19] which stated that audit committees do not affect audit report lag. Whereas research conducted by Apadore and Noor [9] Audit committee size has a significant negative effect on audit report lag.

This is due to the fact that most members of the audit committee still have a relationship of intimacy with the company's internal parties. The quality of audit committee members is one of the causes of the ineffectiveness of audit committees in public companies. The existing regulations in Indonesia are still carried out as a formality and to maintain the image of the company, so the selection of audit committee members in Indonesia is only to fulfill the requirements of Bapepam regulations. This certainly has a negative impact on corporate governance so that the company is not on time in delivering financial reports.

The effect of profitability on audit report lags

The results of testing the profitability variable on the audit report lag in this study indicated, profitability has a negative and significant effect on the audit report lag with a significant value of 0.037 smaller than 0.05. The results of this study are in line with research Hariani and Darsono [10] and Pramaharjan and Cahyonawati [12] examining the effect of several variables on audit report lag and getting the results of company size and profitability have a significant negative effect on the timeliness of financial statement submission. But it is not in line with the research conducted by Hapsari, *et al* [11] and Apadore and Noor [9] which showed that profitability does not have a significant effect on the timeliness of financial statement submission.

Companies that announce the company's low or loss of profitability to the public will get a negative reaction from the market and decrease the assessment of the company's performance. While companies that announce their profits to the public will get a positive impact on the other party's assessment of the company's performance. Companies that have low profitability can be said that they have bad news and will tend to publish their financial statements not on timely manner.

The effect of KAP reputation on audit report lags

The results of testing KAP reputation variables on financial distress in this study indicated that the reputation of KAP has a positive and significant effect of 0.001 smaller than 0.05. The results of this study are in line with the research conducted by Pramaharjan and Cahyonawati [12] which stated that the quality of accounting firms influences the timeliness of financial statement submission. To increase the credibility of financial statements, companies use the services of a public accounting firm that has a reputation or go prestige. And it is not in line with research Mutiara, *et al* [13] which stated that KAP size does not affect audit report lag. But in this study has a positive effect which means that the higher of KAP reputation, the longer the audit report lag. It is possible that with more international affiliated KAPs for the audit process that it takes longer.

Company size as a moderating variable

Company size is more due to the availability of published information. The amount of information published for the company increases with the size of the company. Large companies are highlighted more by investors than small companies and get a lot of pressure to provide information faster [20].

Based on the residual test results it is known that the variable of the company size has a significant value of 0.332 higher than 0.05 and has a negative parameter coefficient value of -0.009. So it can be concluded that company size variables are not able to moderate the relationship between the characteristics of corporate governance (measured through managerial ownership, institutional ownership, independent commissioners and audit committee competencies), profitability, and KAP reputation with audit report lag.

CONCLUSIONS

From the results of the research conducted, conclusions can be taken as follows:

- The corporate governance characteristic that are proxied by (managerial ownership, institutional ownership, independent commissioner, audit committee), profitability, and KAP reputation simultaneously influence and are significant for audit report lags in real estate and property companies on the Indonesia Stock Exchange.
- Institutional ownership, independent commissioners and profitability have a negative and significant effect on audit report lag in real estate and property companies on the Indonesia Stock Exchange. While KAP reputation has a positive and significant effect on audit report lags in real estate and property companies on the Indonesia Stock

Exchange. Managerial ownership and audit committee have an influence and are not significant to the audit report lag in real estate and property companies on the Indonesia Stock Exchange.

- Company size is proven not to moderate (strengthen) the relationship between the corporate governance characteristic variables (measured through managerial ownership, institutional ownership, independent commissioners, audit committee competencies), profitability and KAP reputation with audit report lag variables in real estate and property companies on the Indonesia stock exchange.

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