The Influence of Financial Distress, Auditor Switching, Profitability, Audit Quality on Audit Delay

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ABSTRACT

Audit delay is the period for completing the annual financial report audit, namely from the date the company's books are closed to the date stated in the independent auditor's report. The length of the audit delay affects the value of the audited financial statements. This research aims to find out whether Financial Distress, Auditor Switching, Profitability, and Audit Quality affect Audit Delay. The data used in this research is secondary data in the form of audited financial reports. This research population was obtained using methods from non-cyclical consumer sector companies listed on the IDX during the 2020-2022 period. Based on predetermined criteria, a sample of 129 companies was obtained. The analytical method used is multiple linear regression analysis with the STATA 17 software tool. The research results show that financial distress affects audit delay. Meanwhile, auditor switching, profitability, and audit quality do not affect audit delay.

Keywords: Financial Distress, Auditor Switching, Profitability, Audit Quality, Audit Delay

Introduction

Companies that have gone public on the Indonesia Stock Exchange (BEI) are required to submit audited financial reports to the Financial Services Authority (OJK) promptly. Based on Financial Services Authority regulation Number 14/POJK.04/2022, issuers or public companies are required to submit annual reports to the Financial Services Authority no later than the end of the third month after the financial report date for the financial year ends (90 days). Thus, there are consequences that a company will receive if the company violates or does not comply with the existing provisions for submitting financial reports.

In recent years, namely in 2020-2022, there have been several issuers that have not published financial reports, including PT Tiga Sejahtera Food Tbk (AISA) 117 days, PT Estika Tata Tiara Tbk (BEEF) 158 days, and PT Siantar Top Tbk (STTP) 129 days. Quoted from Rahmawati (2018) AISA share trading has been stopped in all markets by the Indonesia Stock Exchange since July 5, 2018.

The Indonesia Stock Exchange still finds that many companies are experiencing delays in submitting financial reports until 2020. This is proven by the issuance of the Announcement of Submission of Audited Financial Reports which ended As of 31 December 2020, 88 companies had not submitted audited financial reports as of 31...
Audit delays can be caused by internal and external aspects of the company. Some of these factors include financial distress, auditor change, profitability, and audit quality. Financial distress is a condition when a company experiences financial difficulties which will have an impact on the length of the audit delay because companies that are experiencing financial difficulties tend to have a high audit risk and can cause a company to go bankrupt.

Companies that carry out auditor switching will appoint a new auditor, so it will take a long time for the new auditor to recognize the characteristics of the client’s business and the client’s company accounting system. (Praptika & Rasmini, 2016) Therefore, auditor switching is one of the factors that can influence delays in submitting financial reports.

Companies that have a good level of profitability will usually have a faster audit time for their financial reports because they are required to be able to report to the public more quickly to provide a positive signal for stakeholders in decision-making.

The final factor that can influence audit delay is audit quality. This research uses audit quality with the measurement model used in the research (Kothari et al., 2005) namely using discretionary accruals as a proxy for earnings management. Earnings management can occur if the company manipulates profits, which means an auditor needs to confirm with a third party so that the auditor needs more time to examine the financial reports and this can cause audit delays (Afifah, 2020).

**Agency Theory (Agency Theory)**

Jansen and Meckling (1976) developed agency theory which explains an agency relationship when the principal employs an agent to provide a service and delegates decision-making authority to the agent. Describing an appropriate contract to equalize or harmonize the interests of the principal and agent in the event of a conflict of interest. Concerning agency theory and audit delay, the two have a very close relationship. Where audit delay is related to accuracy in publishing financial reports because the benefits of financial reports will be reduced if they are not submitted on time and will not be able to add value to the company (Sawitri & Budiartha, 2018).

**Audit Delay**

Audit delays are interpreted as a delay in presenting financial reports to the public as seen from the length of time required to complete the audit which is calculated from the closing date of the financial year to the date of publication of the audit report to the public (Fauziah & Adi, 2021). Based on Financial Services Authority decision Number 14/POJK.04/2022, company financial reports that have been audited and signed by an independent auditor must be submitted to the OJK no later than the end of the third month (90 days) of the company's closing year.

**Financial Distress**

According to (Sawitri & Budiartha, 2018) financial distress is a condition where a company is facing financial difficulties regarding the company's ability to fulfill its obligations. Financial distress is bad news that will affect the company's condition in the eyes of the public. The characteristics of a company experiencing financial distress are that there is a significant change in the composition of assets and liabilities where a high ratio of assets and liabilities appears. If a decline in the financial condition of a company is allowed to drag on, it will result in the company going bankrupt and the risk experienced by the company is that the audit delay will be longer.

**Switching Auditors**

Rozi (2019) stated switching auditors is the termination of the old auditor's relationship with the company and then being replaced by a new auditor. Changing auditors (auditor switching) can be done compulsorially (mandatory) or voluntarily (voluntary). The purpose of changing auditors in a company is to maintain the independence of auditors so that they remain objective in carrying out their duties as auditors (Maria, 2012).
Based on the framework above, the hypothesis in this research is as follows:

H1: Financial Distress has a positive effect on Audit Delay
H2: Auditor Switching has a positive effect on Audit Delay
H3: Profitability has a positive effect on Audit Delay
H4: Audit quality has a positive effect on audit delay

**Methods**

The type of method used in this research uses quantitative methods. Quantitative research methods are methods that are expressed using numbers, can be measured and calculated, and need to be interpreted first to become information (Dyah Rezky, 2021). This research data is in the form of annual financial reports of non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (BEI) for the 2020-2022 period. Sampling was taken using purposive sampling technique, with the following criteria:

1. Companies listed on the Indonesian Stock Exchange (BEI) during the 2020-2022 period
2. Companies that do not experience suspension during the 2020-2022 period.
3. The company has data related to research variables published during the 2020-2022 period.
4. The company uses the reporting currency rupiah so that the measurements in the research are the same.

The research sample consisted of 43 companies over three years of research so the total research sample was 129. The panel data regression analysis used in this research is multiple regression with the equation written as follows:

\[
AUDELAY = \alpha + \beta_1 FD + \beta_2 AUD + \beta_3 ROA + \beta_4 KA + \varepsilon
\]

**Information:**

- \(AUDELAY\) = Audit delays
- \(\alpha\) = Constant
- \(\beta_1 - \beta_4\) = Regression coefficient
- \(FD\) = Financial Distress
- \(AUD\) = Switching auditors
- \(ROA\) = Profitability
- \(KA\) = Audit Quality
- \(\varepsilon\) = Standard error

**Result and Discussion**

Descriptive statistical analysis aims to describe data from each variable in the research. Descriptive statistics provide an overview or description of data seen from the average value (mean), middle value (median), highest value (maximum), lowest value (minimum), and standard deviation. Table 4.2 is the result obtained from descriptive statistical analysis as follows:
Table 1. Descriptive statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUDELAY</td>
<td>129</td>
<td>85.51938</td>
<td>23.89139</td>
<td>34</td>
<td>150</td>
</tr>
<tr>
<td>FD</td>
<td>129</td>
<td>.4185911</td>
<td>.1952337</td>
<td>.0005149</td>
<td>.8855187</td>
</tr>
<tr>
<td>AUD</td>
<td>129</td>
<td>.4341085</td>
<td>.4975716</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>ROA</td>
<td>129</td>
<td>.0915638</td>
<td>.0771897</td>
<td>.0000536</td>
<td>.4983511</td>
</tr>
<tr>
<td>KA</td>
<td>129</td>
<td>.0611039</td>
<td>.0603003</td>
<td>.0003943</td>
<td>.2774644</td>
</tr>
</tbody>
</table>

Source: STATA data processing, 2024

Correlation Matrix

This test is carried out to see the direction and strength or magnitude of the relationship between variables. If the correlation coefficient has a negative sign, it means the relationship is in the opposite direction, where an increase in one variable is also followed by a decrease in the other variable, conversely, a decrease in the value of one variable is followed by an increase in the other variable. The results of correlation testing in this research are as follows:

Table 2. Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>AUDELAY</th>
<th>FD</th>
<th>AUD</th>
<th>ROA</th>
<th>KA</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUDELAY</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FD</td>
<td>-0.1315</td>
<td>1.0000</td>
<td>0.1374</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUD</td>
<td>-0.1414</td>
<td>-0.1029</td>
<td>1.0000</td>
<td>0.1181</td>
<td>0.2461</td>
</tr>
<tr>
<td>ROA</td>
<td>-0.1151</td>
<td>0.0748</td>
<td>-0.0921</td>
<td>1.0000</td>
<td>0.1940</td>
</tr>
<tr>
<td>KA</td>
<td>0.1063</td>
<td>0.0840</td>
<td>-0.1450</td>
<td>0.1497</td>
<td>1.0000</td>
</tr>
<tr>
<td></td>
<td>0.2387</td>
<td>0.3437</td>
<td>0.1011</td>
<td>0.0905</td>
<td></td>
</tr>
</tbody>
</table>

Source: STATA data processing, 2024

Model Selection Test

In panel data model analysis there are three approaches consisting of the common effect model (CEM), fixed effect model (FEM), and random effect model (REM). To determine the choice of the best estimation technique to be used in panel data regression, the Chow test, Hausman test, and Lagrange multiplier test will be carried out. Processing is carried out using the STATA17 application with the following explanation:

Table 3. Test Chow

| F(4,82) | = | 2.36 |
| Prob > F | = | 0.0599 |

Source: STATA data processing, 2024

Based on Table 2, the Chow test results show a Probability F value of 0.0599 > 0.05, so the model chosen is the common effect model (CEM).
Table 4. Lagrange Test (LM)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>chibar2(01)</td>
<td>31.00</td>
</tr>
<tr>
<td>Prob &gt; chibar2</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Source: STATA data processing, 2024

Based on Table 4, the Lagrange test results obtained a probability value of 0.0000 < 0.05 so the model chosen was the random effect model (REM).

Table 5. Hausman test

| ch2(4) = (b-b)’[(V_b-V_b)^(-1)](b-b) | 28.30 |
| Prob > ch2 = 0.0000                  |      |

Source: STATA data processing, 2024

Based on Table 5, the results of the Hausman test show that the chi2 probability value is 0.0000 < 0.05, so the model chosen is the fixed effect model (FEM).

Multiple Linear Regression Analysis Test

Table 6. Multiple Linear Regression Analysis Test

<table>
<thead>
<tr>
<th></th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUDELAY</td>
<td></td>
</tr>
<tr>
<td>FD</td>
<td>34.03586</td>
</tr>
<tr>
<td>AUD</td>
<td>-3.468581</td>
</tr>
<tr>
<td>ROA</td>
<td>-14.42631</td>
</tr>
<tr>
<td>KA</td>
<td>38.49341</td>
</tr>
<tr>
<td>_cons</td>
<td>49.25785</td>
</tr>
</tbody>
</table>

Source: STATA data processing, 2024

The results from STATA in Table 6 show that this research model has a linear regression equation for panel data which is processed by applying standard error code clusters (locking commands). This was stated by Gujarati (2009) in his book that for regression models with fixed effect models cluster codes were applied to eliminate heteroscedasticity and multicollinearity in "year" and "id' in the research sample.

AUDELAY = 49.25785 FE + 3403586FDit FE – 3.468581AUDit FE – 14.42631ROAit FE + 38.49341Hook FE

The coefficient of the multiple linear regression equation above for a constant of 49.25785 is a variable whose value is fixed. This means that if the dependent variable (FD, AUD, ROA, and KA) is 0, then the audit delay value is 49.25785.

t-test

Table 7. t-test

| AUDELAY | Coefficient | Std. err. | t     | P>|t| |
|---------|-------------|-----------|-------|------|
| FD      | 34.03586    | 18.62962  | 1.80  | 0.063|
| AUD     | -3.468581   | 2.974372  | -1.17 | 0.247|
| ROA     | -14.42631   | 43.31985  | -0.33 | 0.748|
| KA      | 38.49341    | 52.07339  | 0.73  | 0.475|

Source: STATA data processing, 2024
Based on the results of the t-test, the influence of financial distress, auditor switching, profitability, and audit quality on audit delay in this research model can be explained as follows:

1. Based on the results of the t-test, financial distress has a t-value of 1.89 with a positive relationship less than the table t-value 1.66 and a significance of 0.063 < 0.10, this shows that financial distress affects audit delay.

2. Based on the t-test results, switching auditors has a t-value of -1.17 with a negative relationship less than the table t-value 1.66 and a significance of 0.247 > 0.10, this shows that auditor switching does not affect audit delay.

3. Based on the t-test results, profitability has a t-value of -0.33 with a negative relationship less than the table t-value 1.66 and a significance of 0.740 > 0.10, this shows that profitability does not affect audit delay.

4. Based on the t-test results, audit quality has a calculated t-value of 1.20 with a positive relationship direction less than the table t-value 1.66 and a significance of 0.234 < 0.10, this shows that audit quality does not affect audit delay.

Model feasibility test (F test)

Table 8. F test

<table>
<thead>
<tr>
<th>Number of obs</th>
<th>129</th>
</tr>
</thead>
<tbody>
<tr>
<td>F(48, 88)</td>
<td>5.29</td>
</tr>
<tr>
<td>Prob &gt; F</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Source: STATA data processing, 2024

Based on table 8 which shows the calculated F value is 5.29 > the table f value is 2.44 and the probability value chi-square is 0.0000 where this value means <5% significance level (0.05). This indicates that financial distress (FD), switching auditors (AUD), profitability (ROA), and audit quality (KA) as independent variables have a joint effect on audit delays (AUDELAY).

Determinant Coefficient (Adjusted R2)

Table 9. Determinant Coefficient

| R-squared | 0.7603 |
| Adj R-squared | 0.6165 |

Source: STATA data processing, 2024

Table 9 shows the value results Adjusted R-square in this research model it is 0.6165. meaning the dependent variable i.e. audit delays (AUDELAY) can be explained by variations in variables financial distress (FD), switching auditors (AUD), profitability (ROA), and audit quality (KA) amounted to 61.65% while the remaining 38.35% was explained by other variables.

The Effect of Financial Distress on Audit Delay

Based on the test results, shows that financial distress affects audit delay. This indicates that the higher the financial distress ratio value, the company is considered to be experiencing financial difficulties. Praptika & Rasmini (2016) in their research said that financial distress conditions that occur in companies can increase audit risk for independent auditors, especially control risk and detection risk. With this increasing risk, auditors must carry out a risk assessment before carrying out the audit process, precisely in the audit planning phase. These results are consistent with research conducted by Praptika & Rasmini (2016) and research by Sawitri & Budhiarta (2018) who stated in their research that financial distress affects audit delay. However, the results of this research contradict the research of Sihombing & Ka Hing (2021) and Pricilia's
The Effect of Auditor Switching on Audit Delay

Based on the test results, shows that auditor switching does not affect audit delay, so hypothesis two is rejected. Companies changing auditors will not affect the length of time for audit completion. Listyaningsih (2018) stated that new auditors in accepting clients involve important elements regarding business and industry understanding, materiality, audit risk, and consideration of value-added services. After accepting the client and planning the audit, the new auditor will carry out audit testing and report findings starting from the end of the client’s fiscal year. Therefore, changing auditors will not affect audit delay, because client acceptance and audit planning are carried out before the client’s fiscal year ends. A change of auditor in the company will not affect the length of time for audit completion. This research supports the results of research conducted by Rozi et al. (2022). However, these results contradict research by Praptika & Rasmini (2016) which states that auditor switching has a positive effect on audit delay.

The Effect of Profitability on Audit Delay

Based on the research results, shows that profitability has no significant effect on audit delay, so hypothesis three is rejected. Large or small return on assets (ROA) value does not affect audit delay. The results of this research are consistent with research conducted by Anita (2018), which states that profitability has no significant effect on audit delay. This happens because companies with low or high profitability still have the same responsibility in submitting financial reports on time. The results of this research are not in line with research by Setyowati & Januarti (2022) which revealed that profitability influences audit report lag.

The Influence of Audit Quality on Audit Delay

Based on the research results, shows that audit quality does not affect audit delay, so hypothesis four is rejected. This research is not in line with agency theory which states that when an agent (auditor) is faced with an audit task, high competence and expertise will speed up the audit completion process because it can detect quickly and optimally if earnings management occurs, thereby reducing conflict between the agent and the principal. The results of this research are supported by research by Romli, et al (2020) which states that auditors must be responsible to management for completing audit financial reports before the specified deadline by following the rules of accounting methods regarding earnings management so that it will support producing good audit quality.

Conclusion

Based on the results and discussion related to research on financial distress, auditor switching, profitability, and audit quality on audit delays in non-cyclical consumer sector companies listed on the Indonesia Stock Exchange in the 2020-2022 period, the conclusions from the research can be obtained as follows:

1. financial distress has distress affects audit delay, meaning that hypothesis one is accepted.
2. Switching auditors does not affect audit delay, meaning that hypothesis two is rejected.
3. Profitability does not affect audit delay, meaning that hypothesis three is rejected.
4. Audit quality does not affect audit delay, meaning that hypothesis four is rejected.

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