



# The Role of Company Size on the Influence of Audit Tenure, Public Accounting Firm Size and Company's Performance on Audit Delay

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**Abstract.** Despite regulations requiring public companies in Indonesia to submit financial reports within 90 days (OJK regulation No.44/PJOK.04/2016), audit delays remain common. This study examines how factors like length of service by the same auditor (audit tenure), accounting firm size, company financial health (profitability and solvency), and company size itself, influence these delays. Using data from LQ45 index companies on the Indonesia Stock Exchange between 2017 and 2021, the research finds that longer audit tenure, higher profitability, and larger company size are all linked to shorter audit delays. The size of the accounting firm and the company's solvency were not found to be significant factors. Interestingly, company size also didn't moderate the impact of other variables on audit delays. These findings suggest that investors seeking to avoid audit delays might prioritize larger, more profitable companies with a long history of working with the same auditor. This could indicate stronger company management practices.

**Keywords:** Company Size, Audit Delay, Financial Service Authority.

## 1 Introduction

Financial audits involve examining and verifying information to ensure it meets established standards. Publicly traded companies in Indonesia are required by Financial Services Authority (OJK) regulation No.44/PJOK.04/2016 to submit annual financial reports and independent auditor reports within 90 days of the closing date [1]. However, despite regulations mandating timely reporting, many companies still experience delays. For example, data from the Indonesia Stock Exchange (BEI) shows that a significant number of companies failed to submit their annual reports on time in 2020 (88 companies), 2021 (91 companies), and even in 2022 (143 companies) [2].

One example of an audit delay case occurred at PT. Krakatau Steel Tbk (KRAS) will be subject to suspension by the IDX if it does not submit its 2022 financial report by the end of the month. KRAS has received warning letters twice. The IDX even issued a second written warning along with a fine of Rp. 50,000,000 to issuers who have not submitted their annual financial reports by May 2 2023 [3].

One of the factors that influences audit delay is high debt ownership in the company /solvency [4]. Low debt shortens the auditor's time in carrying out re-examinations so that audit delays can also be avoided [5].

Profitability is a parameter of management's success in managing the company [6]. High profits will make companies avoid audit delays. Companies that have a high level of profitability tend to want to immediately publish their financial reports because it will increase the company's value in the eyes of stakeholders [7].

Audit tenure refers to the length of time a company works with the same auditor (KAP) without switching to another firm [8]. Some believe that longer audit tenure can lead to increased audit delays. The idea is that if a company uses the same auditor for a long time, the auditor might gain too much familiarity with the company's operations, potentially leading to less scrutiny and longer audit times [9].

Before a company reports its company performance results to the public, the report must first be audited by an independent auditor (Public Accounting Firm) so that the report can provide and also obtain accurate and independent information so that the credibility of the report can be maintained. The larger the audit company (KAP), the smaller the possibility of the company carrying out audit delays. This is because large KAPs such as the big four KAPs have adequate resources and quality that must be maintained so that KAPs will try to provide financial reports on time [10].

The auditor's opinion is the auditor's opinion regarding the fairness of the audit report in all aspects that are material or can influence shareholder decisions regarding the company's sustainability [11]. When a company obtains an unqualified opinion, it is good news for the company and the process of submitting financial reports will be faster [12]. An unqualified audit opinion must state that the audited financial report is in accordance with financial accounting standards and there are no material deviations that could influence decision making [13].

Company size determines the probability of a company experiencing audit delays. The bigger a company, the better the company's internal control so that the company's error rate in reporting financial reports will be lower [14]. This will make it easier for auditors to carry out the auditing process. Companies that do not experience audit delays will provide a positive signal to stakeholders so that the company's reputation and value will increase. Large companies are more consistent in publishing audited financial reports due to several factors, namely providing incentives for management to complete audits more quickly and supervision from various parties [15].

This research aims to examine the influence of solvency, profitability, audit tenure, hood size on audit delay, with audit opinion as a control variable, as well as the role of company size as a variable that moderates the relationship between solvency, profitability, audit tenure and hood size on audit delay. Based on this description, this research hypothesis is: H1: Solvency has a negative effect on audit delay. H2: Profitability has a negative effect on audit delay. H3: Audit tenure has a negative effect on audit delay, H4: KAP size has a negative effect on audit delay. H5: Company size has a negative influence on audit delay. H6: Company size can strengthen the negative influence of solvency on audit delay. H7: Company size can strengthen the negative influence of

profitability on audit delay. H8: Company size is able to strengthen the negative influence of audit tenure on audit delay. H9: Company size is able to strengthen the negative influence of public accounting firm size on audit delay.

## 2 Method

### 2.1 Population and Research Sample

This study focused on companies listed on the LQ45 index of the Indonesia Stock Exchange (BEI) between 2017 and 2021. To select a representative sample that aligns with the research goals, a purposive sampling approach was used. This method involves carefully choosing companies based on specific criteria. The final sample size was 115 companies.

**Table 1.** Sample Criteria

| No | Sample Criteria  |
|----|--|
| 1  | LQ-45 company listed on the Indonesia Stock Exchange for the 2017-2021 period consecutively. |
| 2  | Companies that were not delisted during the research period.                                 |
| 3  | Companies that publish audited financial reports.  |
| 4  | Companies that publish financial reports in rupiah (IDR).                                    |
| 5  | Published financial reports can provide all the data that will be used in research.          |
| 6  | Companies that made a profit during the research period.                                     |
| 7  | <i>Audit tenure is determined from 2015 – 2021</i>   |

### 2.2 Variables and Measurement

Table 1 describes the variables and measurements used in this study

**Table 2.** Variable and Measurement

| Variable        | Variable Type        | Measurement   | Scale   |
|-----------------|----------------------|---|---------|
| Audit Delay     | Dependent Variable   | Financial Report Date –Book Closing Date  | Ratio   |
| Solvability     | Independent Variable | $(Total\ Debt / Total\ Assets) \times 1$  | Ratio   |
| Profitability   | Independent Variable | $ROA = Net\ Income / Total\ Assets$   | Ratio   |
| Audit Tenure    | Independent Variable | The length of the audit engagement period. The first year of the engagement starts with the number 1 and is increased by one for subsequent years | Ratio   |
| Audit Firm Size | Independent Variable | Variable dummy variable where:<br>1= KAP <i>big four</i><br>0= KAP <i>non-Big 4</i>   | Nominal |
| Company Size    | Independent Variable | $Ln (Total\ Assets)$  | Ratio   |
| Audit Opinion   | Control Variable     | Dummy variables “1” for companies with an unqualified opinion,  | Nominal |

and “0” for other opinions

**2.3 Data analysis technique**

This study employed descriptive statistical tests, traditional assumption tests, and hypothesis testing to determine if the independent factors' effects on the dependent variable were significant. The equation for moderated regression analysis of data in this research is:

$$AD = \alpha + \beta_1SOLV + \beta_2ROA + \beta_3AT + \beta_4KAP + \beta_5UP + \beta_6SOLV*UP + \beta_7ROA*UP + \beta_8AT*UP + \beta_9KAP*UP + e$$

Where: AD = Audit Delay,  $\alpha$  = Constant,  $\beta_1 - \beta_{10}$  = Regression Coefficient, SOLV= Solvency, ROA= Profitability, AT= Audit Tenure, KAP = Public Accounting Firm Size, UP= Company Size, OA= Audit Opinion, e= error

**3 Result and Discussion**

**3.1 Operation Data**

The study followed specific guidelines to select a sample of 115 companies (presented in Table 3). Descriptive statistics summarizing the characteristics of the variables used in the analysis are shown in Table 4.

**Table 3.** Descriptive Statistics

|      | N   | Minimum | Maximum  | Mean    | Std.Dev |
|------|-----|---------|----------|---------|---------|
| SOLV | 115 | 0.1492  | 0.8897   | 0.5150  | 0.2200  |
| ROA  | 115 | 0.0007  | 0.4666   | 0.8431  | 0.0868  |
| AT   | 115 | 1.0000  | 5.0000   | 1.8782  | 0.9285  |
| UP   | 115 | 29.7722 | 35.0844  | 32.1677 | 1.4234  |
| AD   | 115 | 15.0000 | 147.0000 | 63.6521 | 25.5624 |

Source: Processed data source, 2023

The KAP size with a value of "0" with the Non Big Four KAP category being 18 and a value of "1" with the Big Four KAP category being 97. For a value of "0" with the NonBig Four KAP category the percentage is 15.66% and value "1" with the KAP BigFour category, the percentage is 84.34 %. Audit opinion with a value of "1" with an Unqualified Opinion category of 115 and a value of "0" with the other opinion categories.

**Table 4.** Dummy Variable

|     | N   | Dummy = 0 | %     | Dummy = 1 | %     |
|-----|-----|-----------|-------|-----------|-------|
| KAP | 115 | 18        | 15,66 | 97        | 84,34 |

Source: Processed data source, 2023

KAP = Public Accounting Firm Size, OA= Audit Opinion,

### 3.2 Hypothesis Testing Results

Before analyzing the main hypotheses, the study ensured the data met specific statistical assumptions. These assumptions include normality (data distribution), absence of heteroscedasticity (unequal variance), lack of autocorrelation (independence of errors), and no multicollinearity (excessive correlation between independent variables). The results confirmed that all these assumptions were satisfied. Following this confirmation, multiple regression analysis was employed to test the research hypotheses. The specific regression model used is presented below

$$AD = \alpha + 74,777SOLV - 28.601ROA - 3.850AT + 0.106KAP - 2.307UP + 0.030SOLV*UP + 0.022ROA*UP + 1.411AT*UP + 1.144KAP*UP$$

**Table 5.** Partial Tests (T Test)

| Model   | Predictions | Beta    | Sig (One Tailed) | Decision    |
|---------|-------------|---------|------------------|-------------|
| SOLV    | -           | 74.777  | 0.0000           | H1 Rejected |
| ROA     | -           | -28.601 | 0.0350           | H2 Accepted |
| AT      | -           | -3.850  | 0.0400           | H3 Accepted |
| KAP     | -           | 0.106   | 0.0050           | H4 Rejected |
| UP      | -           | -2.307  | 0.0020           | H5 Accepted |
| SOLV_UP | -           | 0.030   | 0.0000           | H6 Rejected |
| ROA_UP  | -           | 0.022   | 0.0009           | H7 Rejected |
| AT_UP   | -           | 1.411   | 0.0140           | H8 Rejected |
| KAP_UP  | -           | 1.144   | 0.0080           | H9 Rejected |
| F sign  |             | 0.000   |                  |             |
| R2      |             | 0.457   |                  |             |

### 3.3 Discussions

The study identified several factors influencing audit delays. Companies with a longer history with the same auditor (audit tenure), higher profitability, and larger size experienced shorter audit delays.

**Solvency.** Contrary to expectations, a company's financial health (solvency) didn't significantly impact audit delays. The research suggests that regardless of solvency, management will prioritize resolving issues promptly to avoid delays in submitting financial reports for audit. This finding aligns with a previous study [16].

**Profitability.** As expected, higher profitability led to shorter audit delays. This suggests companies with strong financial performance are more likely to prioritize timely publication of their financial reports [11].

**Audit Tenure.** Companies with a shorter auditor tenure experienced longer delays. This is because new auditors require more time to understand the company's operations before completing the audit [17].

**Public Accounting Firm Size.** Interestingly, the size of the public accounting firm (Big Four or non-Big Four) didn't affect audit delays. Both types of firms are expected

to adhere to professional standards (SPAP) during audits, resulting in similar completion times [18].

**Company Size and Moderating Effect.** While larger companies generally experienced shorter audit delays due to potentially stronger internal controls and easier access to data for auditors [19, 20], company size did not significantly influence the impact of other factors (solvency, profitability, audit tenure, and public accounting firm size) on audit delays.

This means that regardless of company size, solvency issues still have no impact on audit delays. Similarly, company size doesn't affect how profitability or audit tenure influence audit delays. Auditors with shorter tenures plan and staff audits carefully to meet deadlines regardless of company size. Finally, company size doesn't affect the performance of Big Four or non-Big Four accounting firms. Both types of firms aim to maintain their reputation by completing audits on time, irrespective of the company size they audit.

## 4 Conclusions

The study revealed that three factors contribute to shorter audit delays: a longer history with the same auditor (audit tenure), higher company profitability, and larger company size. Interestingly, the size of the public accounting firm and the company's financial health (solvency) did not seem to influence audit delays. Additionally, company size itself did not affect how other factors impacted audit delays.

Some limitations in this research include: (1). The low Adjusted R Square value is due to the many influencing variables outside the research. As is known, the Adjusted R Square value is 0.457. This means that the dependent variable (audit delay) is influenced by the independent variables (solvency, profitability, audit tenure, KAP size and company size) only by 45.7%, so there are still 54.3% of other variables that have not been included in this research, (2). It is not possible to calculate tenure from the first year of the audit engagement due to the limited research period.

Based on the results of the limitations, several suggestions for further interest are put forward, namely: (1) It is recommended that future researchers consider other variables besides the variables used in this research which may have an influence on audit delay, such as auditor characteristics, company age, operational complexity, liquidity, etc, (2) It is recommended that further research use accumulative tenure calculations calculated from the first year of the audit engagement. This can be done by increasing the coverage of research data sources and providing good results.

It is recommended that further research ensure the data the company has for processing in research before determining the population and sample.

The implications of the research are: (a). stakeholders need to carry out an analysis of that performance by indicating the company's ability to generate high profits, (b). Stakeholders need to observe the company's level of discipline and timeliness in conducting audit reporting, and (c). Shareholders are expected to choose a large company in the sense of having a lot of assets before investing.

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