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The Effect of External Auditor, Financial Distress, and Audit Committee on Audit Report Lag

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ABSTRACT

This study aims to analyze the effect of audit tenure, auditor industry specialization, financial distress utilizing the proxy of the Altman Z-Score formula, and audit committee measured by audit committee competence on audit report lag. The population includes property and real estate companies listed on the Indonesia Stock Exchange in 2020 – 2022, from which the samples of 128 data free from outlier are selected through purposive sampling. The secondary data involved in this study are derived from the companies' financial reports and annual reports accessed from the official websites of the Indonesia Stock Exchange and respective companies, and are analyzed by multiple linear regression processed by SPSS 25 software. The research results exhibit that audit tenure and audit committee competence have no effect on audit report lag; financial distress with the proxy of Altman Z-Score formula has a positive effect on audit report lag; and auditor industry specialization has a negative effect on audit report lag.

INTRODUCTION

A listed company is a company listed on the stock exchange that offers shares to investors. (Ristia Ilyas, 2022). Companies going public have an obligation according to Financial Services Authority (OJK) regulation No. 29/POJK.04/2016, which is to publish annual financial reports that have been audited by a public accountant and made in accordance with financial accounting standards periodically and announce them to the public. Information in the financial statements in the form of the company's financial condition that can be used by users as a basis for implementing economic decisions (Dewi & Putra, 2016). In the entity reporting concept, there are qualitative characteristics of financial statements so that the financial information produced becomes qualified, one of which is timeliness (Kieso et al., 2018). Based on the Decree of the Board of Directors No. Kep-00015/BEI/01/2021, the deadline for the publication of audited annual financial reports for listed issuers on the stock exchange must be reported at the end of the third month after the closing date of the financial year. Timeliness in submitting financial reports in a timely manner is important because when the company publishes financial reports beyond the specified time limit, it will be subject to sanctions. In addition, delays in financial reporting will reduce the essence of the value of the information in it, thereby affecting the quality of the users' decisions. (Ania Dufrisella & Sri Utami, 2020).

Delays in submitting financial reports will also result in a loss of its relevance (Silalahi & Malau, 2020). In order for financial reports to have reliability, it is necessary to conduct an audit regarding the fairness and suitability of the resulting financial information. Audits conducted by independent parties can provide users with confidence and increase the reliability of information in financial statements. (Sulistiani et al., 2022). However, conducting an audit is also not free from risk and takes a lot of time. This has the potential to result in delays in the publication of financial reports called audit report lag (Silalahi & Malau, 2022).

According to Agustina & Jaeni (2022), audit report lag is a period of time for the auditor to complete the audit process of financial statements which can be projected from the number of days from the closing date of the book until the date listed in the auditor's report. The longer the auditor completes the auditor's report, the longer the audit report lag will be. For companies, especially shareholders, the existence of an audit report lag will have a negative impact and will be bad news for them. In Indonesia, audit report lag is a phenomenon that always exists every year. Based on data from the Indonesia Stock Exchange as of May 31, 2021, there were 88 issuers that were late in reporting their 2020 annual financial statements. The trend of late publication of financial statements continued in the following year. Based on stock exchange data as of May 9, 2022, there were 91 issuers that were late in reporting their 2021 annual financial statements. Of the companies that were late in publishing the financial statements, there were 16 listed companies in the property and real estate sector that were late in submitting annual financial reports in 2020 and 2021. The high occurrence of audit report lag in the property and real estate sector is in line with the significant decline in sales, especially in the housing segment. The decline in sales of the housing segment can be described as follows:

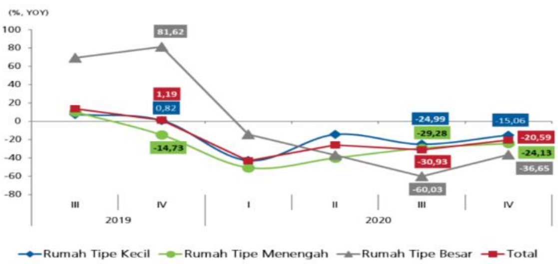

FIGURE 1. ANNUAL GROWTH OF HOME SALES
Source: SHPR Bank Indonesia 2020

In addition, demand for commercial properties also experienced a significant decline in 2020, especially in particular segments, such as apartments, hotels, and convention halls as follows:

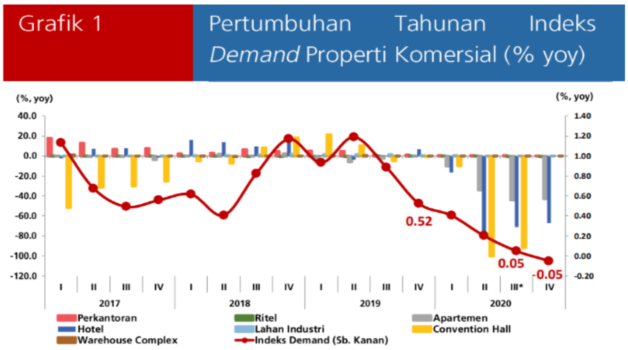

FIGURE 2. ANNUAL GROWTH IN COMMERCIAL PROPERTY DEMAND
Source: PPKOM Bank Indonesia 2020

The existence of this condition can have an impact on the decline in the company's financial performance which has an impact on the company's delay in submitting financial reports in a timely manner. The timeliness of the publication of financial reports for listed issuers in accordance with the provisions in the OJK regulations can be explained by agency theory. Companies use agency theory to see how the relationship between agents and principals interact with each other in carrying out business activities. In this agency relationship, an obligation arises for the agent to provide information to the principal in a timely manner, namely in the form of financial reports. The timeliness of the agent in reporting and presenting financial reports is important for the principal so that the relevance of the information in it is not reduced. Untimely publication of financial reports by agents can lead to information asymmetry (Hasiana Margaretha, 2021).

This study uses audit report lag as a dependent variable and the independent variables based on two factors. The first factor is external factors in the form of external auditors proxied by audit tenure and auditor industry specialization. The other factor is internal factors in the form of financial distress and audit committee as measured by audit committee competence. There are several previous studies on factors that have an influence on audit report lag. However, of these factors there are still inconsistencies in research results. Previous research related to audit report lag shows that audit tenure and auditor industry specialization negatively affect audit report lag. (Arumningtyas & Ramadhan, 2019). However, the research results from Abdillah et al. (2019) show that audit tenure and auditor industry specialization have no effect on audit report lag. Different research results are also shown by Susandya & Suryandari (2021) that audit committee competence has a negative effect on audit report lag, but research by Fakri & Taqwa (2019) found that audit committee competence has no effect on audit report lag. Inconsistencies in research results are also shown by Ekaputri & Apriwenni (2021) that financial distress has a positive effect on audit report lag. However, the research results from O. Sari et al. (2019) shows that financial distress has no effect on audit report lag. The inconsistency of the results of previous studies and the phenomenon of high audit report lag, researchers have an urge to reexamine with reference to research by Arumningtyas & Ramadhan (2019) and Farumi et al. (2023). The novelty of this research lies in the combination of the addition of the independent variable financial distress; audit committee variables measured based on the competence of the audit committee; the object of research, namely issuers listed on the property and real estate sector exchange; and the research period, namely the period 2020 – 2022 which was chosen by researchers because in that period there was a policy of relaxing the financial reporting deadline due to the coronavirus pandemic. This study aims to test audit tenure, auditor industry specialization, financial distress, and audit committee competence that can affect audit report lag in property and real estate sector companies. This research is expected to be useful for: a) listed issuers on the stock exchange as evaluation material when there is a lag in the publication of annual financial reports; b) regulators to see the level of compliance and effectiveness of regulations regarding the governance of a company; and c) universities as collective material supporting academic activities.

LITERATURE REVIEW

Agency Theory

According to Jensen & Meckling (1976), agency theory is the involvement of agents and principals in a contract with an agreement that there is a delegation of authority by the principal to the agent in terms of decision making. The delegation of authority results in information inequality between the agent and the principal. The agent manages the company directly so that it has more information and is not comparable to that obtained by the principal which results in information asymmetry (Adams, 1994). Based on agency theory, it is possible that the objectives of the agent and the principal have differences. With authority, managers have the authority to make decisions that have the potential to benefit themselves more than prioritizing the interests of the principal. Managers can act as they wish with the authority they have. When the manager's decision is more favorable to himself, it can cause problems called agency problems. Agency problems that occur between agents and principals lead to agency costs. (Arumningtyas & Ramadhan, 2019). Jensen & Meckling (1976) divides agency costs into three types, namely: 1) monitoring costs that are designed to supervise the activities carried out by the agent; 2) bonding costs or costs incurred by the agent to ensure that the agent acts in the interests of the principal; and 3) residual loss or loss as a result of differences in agent decisions and principal decisions. According to Adams (1994), agency costs to resolve these conflicts can be in the form of monitoring costs by a third party, namely an external auditor to carry out the audit function of financial statements with the aim of minimizing abuse of authority by agents. The external auditor will verify the value of the financial statements that the financial information submitted has been presented fairly. In addition, to improve supervision in monitoring management performance effectively can be done by the audit committee. With its competence, the audit committee is also important to ensure that the auditor's work is carried out competently and become the mediator when there is disagreement between the auditor and the company (Sultana et al., 2014).

Signaling Theory

According to Spence (1973), signal theory explains the impetus for management as the owner of information to provide a signal in the form of information on the company's condition to external parties as the recipient of information. The urge to provide information to external parties arises because of the asymmetry of information obtained between management and external parties (Bergh et al., 2014). Signals in the form of information are important because they can reduce information asymmetry (Morris, 1987) so that the information provided by management will be responded to by the public as a basis for decision making (Brigham & Houston, 2011). In general, the public will respond to the information as a good news or bad news signal. The company's financial condition will provide a signal to the users of financial statements. When the company is experiencing financial difficulties, the company tends to experience delays in its financial reporting due to a longer audit process, which can indicate bad news because the public will assume that the company is experiencing problems. Conversely, when the company is in good financial condition, the company will complete its audit report more quickly so that it can indicate good news for investors and potential investors to be interested in investing in the company (Rosharlianti & Hanifah, 2023).

Audit Report Lag

The period of time to complete the audit process of the company's financial statements from the closing date of the book until the date of publication of the audited financial statements is called the audit report lag (Abdillah et al., 2019). According to Dyer and McHug (1975) in Whittred (1980), there are three lag classifications, namely: 1) preliminary lag, which is the interval of days from the end of the year to the receipt of the preliminary final report by the stock exchange; 2) auditor's signature lag, which is the number of days from the end of the year to the date of signing the opinion on the auditor's report; 3) total lag, which is the span of days from the end of the year to the receipt of the audited annual report and publication on the stock exchange. The financial statements of companies listed on the Indonesia Stock Exchange must be audited before being published to the users to a predetermined time limit, which is the third month after the date of the financial statements. Financial statement information requires timely submission of reports so as not to reduce the usefulness of the information to be used as a basis for decision making (Krisyadi & Noviyanti, 2022). The timeliness of the company in publishing financial reports to the public and OJK depends on the timeliness of the auditor in completing their audit report. The completion of the audit report is marked by the date of the audit opinion which is the last day of the audit report completion process (Knechel & Payne, 2001). The level of effectiveness of auditor performance can be assessed from the audit report lag, the higher the quality of the auditors, the shorter the process of completing the audit report (Susianto, 2017).

Audit Tenure and Audit Report Lag

Audit tenure is defined as the time span of the engagement between the public accountant and the company regarding financial statement audit services (Sanjaya, 2017). According to Adams (1994), the use of external auditor services based on agency theory is an effort to reduce agency problems between agents and principals. When the cooperation bond between the auditor and the company is established in the long term, the auditor will have a deeper understanding of the industry and the company's financial condition so that it can facilitate detection when there are problems (Octaviani, 2017). In addition, the length of the audit engagement can create business knowledge for auditors so that the audit program design becomes more effective which can shorten the time to complete the audit report (Lestari & Saitri, 2017). In Indonesia, the audit engagement between the auditor and his client is regulated in POJK No. 13/POJK.03/2017 Article 16 that the use of audit services for the company's financial statements from the same public accountant can only be carried out for a maximum of three consecutive financial years with the same public accountant. Based on research results Arumningtyas & Ramadhan (2019) and W. O. I. Sari et al. (2019), which states that audit tenure has a negative effect on the audit report lag. The longer the auditor's assignment with the client allows the auditor to better recognize the client's business industry so that it can have an impact on the shorter completion time of the audit report and the timely submission of the company's audited financial statements. However, the results of this study are different from research by Abdillah et al. (2019), Farumi et al. (2023), and Ekaputri & Apriwenni (2021) which proves that audit tenure has no effect on audit report lag. This is because auditors in agency theory who play a role in reducing agency problems have demands in their work so that auditors will carry out their work professionally by completing the audit process on time so as not to harm stakeholders who want to use financial reports as a basis for decision making. In addition, this is also supported by the existence of regulations governing the length of audit engagements that the maximum time auditors perform audit services is three consecutive years so it can be concluded that longer audit tenure does not create a shorter audit report lag.

Auditor Industry Specialization and Audit Report Lag

Companies listed on the stock exchange have different business lines and accounting issues from other companies which have an impact on the inequality of audit needs between companies. The inequality of audit needs makes companies have certain qualifications when entering into a service contract with an auditor. Based on agency theory, auditors who perform the function of examining information presented by management have an important role in reducing agency problems that occur. Auditors who focus on an industry and are experienced in conducting audits in that industry can be referred to as specialist auditors (Octaviani, 2017). Auditor industry specialization can be known from the competence of auditors who have a specific understanding of certain industries, namely a more comprehensive understanding of the special characteristics of a particular industry or company (Farumi et al., 2023). The amount of experience and understanding in the industry is considered to affect the audit completion process because the auditor has understood the company's transaction and operational patterns (Aurely et al., 2021). Industry specialization makes auditors better and more careful in detecting misstatements or fraud and auditors are considered to be more experienced in conducting audits of company financial statements (Budiarto & Suhardjo, 2021). Based on research results by Aurely et al. (2021) and Arumningtyas & Ramadhan (2019) prove that auditor industry specialization has a negative effect on audit report lag. This is in accordance with agency theory because specialist auditors with their expertise can minimize agency problems between agents and principals and are able to perform inspection functions and detect misstatements in financial statements better, resulting in the time period required for auditors to complete audit reports being shorter. However, the results of this study are different from research conducted by Abdillah et al. (2019) and Putri & Mayangsari (2024) which proves that auditor industry specialization has no effect on audit report lag. This is because the auditor's industry specialization status cannot be identified explicitly. In determining the auditor's industry specialization, there are several methods such as determining auditor specialization which can refer to the company's total assets, based on the number of clients in the industry, or can use a market share approach. The difference in these methods results in the absence of consistency in the results of determining the auditor's industry specialization in whatever method is used so that it becomes the cause of the lack of effect of auditor industry specialization on audit report lag. Different research results are also found in research by Muchlish & Iskak (2024) and Farumi et al. (2023) which prove that auditor industry specialization has a positive effect on audit report lag. This is because specialist auditors have a better business understanding of the scope of the audit, understanding of the client's business operations, and audit risks in the industry so that they make auditors more careful in carrying out the audit process which has an impact on the time it takes auditors to complete the audit report longer. This is not in accordance with agency theory that auditors can reduce agency problems between principals and agents by overcoming information asymmetry due to longer completion of audit reports.

Financial Distress and Audit Report Lag

Financial distress is a situation when a company is experiencing financial difficulties due to various factors, such as ineffective management performance, decreased revenue in several periods, and the company's inability to pay off debt (Handoko et al., 2020). Financial distress can occur due to the company's inability to maintain the financial stability of the company so that there is a decrease in profits (Pratama & Rustam, 2023). According to O. Sari et al. (2019), financial distress is characterized by a negative company accounting value (loss) in its financial statements. This information indicates that the company is experiencing a decline in financial condition which can have an impact on the process of completing the audit report by the auditor. Based on research results by Rosharlianti & Hanifah (2023) and Ekaputri & Apriwenni (2021), the existence of financial distress has a positive effect on audit report lag. This can be caused by the company's financial distress condition resulting in an increase in audit risk so that the auditor must collect more audit evidence which can result in a longer time to complete the audit report. This is in line with signal theory that company management will provide signals to the users of financial statements. Companies experiencing financial distress are considered bad news for investors and companies tend to experience delays in their financial reporting due to a longer audit process. However, the results of this study are different from research conducted by Widharma & Susilowati (2020) and O. Sari et al. (2019) which states that financial distress has no effect on audit report lag because the company will conduct an audit engagement with the auditor immediately after closing the books at the end of the year without seeing the company's financial condition whether it is experiencing good or bad financial conditions. Good or bad information is not an obstacle for management to conduct audit engagements, complete audit reports, and conduct audited financial reporting in a timely manner. In addition, auditors will act objectively and maintain their professionalism by completing audit reports in a timely manner so as to provide quality and relevant audit results.

Audit Committee Competence and Audit Report Lag

The audit committee is an independent committee formed and responsible to the board of commissioners in assisting the supervisory function of the board of commissioners on the performance of the company's directors (Siahaan et al., 2019). In addition, the audit committee also has a role in carrying out the mediation function between management and the company's external parties so that one of the important factors in creating an effective audit committee is the right competence, both from formal qualifications and relevant experience (Junaidda & Rashidah, 2011). This is intended to create a balance between the expertise and experience of the audit committee so that it can carry out its duties properly (Susandya & Suryandari, 2021). The audit committee must have competencies such as understanding the company's financial statements and business, audit process, risk management, and applicable laws and regulations (Fakri & Taqwa, 2019). This is in line with POJK No. 55/POJK.04/2015 Article 7 that in the audit committee membership there is at least 1 (one) member with an educational background or expertise in accounting and finance. Audit committee members who are competent in finance will find it easier to establish communication with auditors, easy to understand, logical, and coherent when discussing the company's financial reporting. This reflects that experience in accounting, internal control, or auditing allows the audit committee to understand and overcome problems that exist in the company's financial reporting system (Junaidda & Rashidah, 2011). In line with agency theory that the existence of an audit committee with financial competence is important to reduce agency problems by increasing oversight of management performance effectively and ensuring the auditor's work is carried out competently, understanding audit considerations, and mediating when there is disagreement between the auditor and the company so that it can shorten the audit report lag (Sultana et al., 2014). This is supported by the results of research by Susandya & Suryandari (2021) and Maranjory & Tajani (2022) which proves that audit committee competence has a negative effect on audit report lag. This is because the audit committee with its competence can increase the effectiveness of the functions and roles of the audit committee so as to fasten up the process of examining financial statements. Auditors are considered capable of working together or providing direction to management regarding financial reporting so that the synergy between management and auditors is expected to facilitate the implementation of audits of financial statements by auditors. However, the results of this study are different from research conducted by Fakri & Taqwa (2019) and Santiani & Muliartha (2018) which proves that audit committee competence has no effect on audit report lag. This is because the task of the audit committee is only as an independent supervisor who is directly responsible to the board of commissioners so that the authority regarding the completion of the audit report lies with the external auditor who conducts an independent examination as the party that carries out the process of completing the audit report.

Research Framework

Research on factors that can affect audit report lag in this study is described in the following framework:

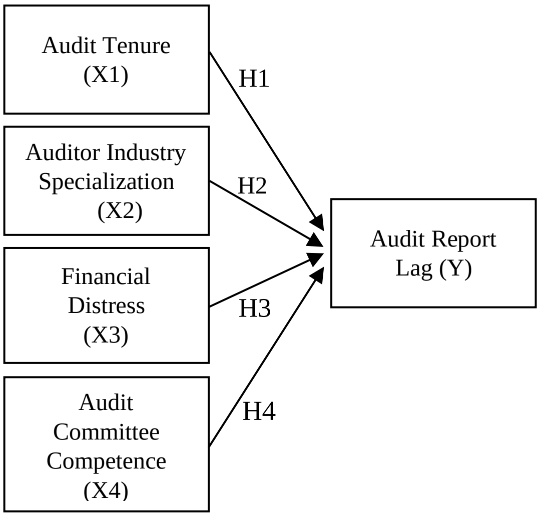

FIGURE 3. RESEARCH FRAMEWORK

Hypothesis Development

The Effect of Audit Tenure on Audit Report Lag

Audit tenure is the time span of the audit engagement between the auditor and the company regarding audit services for information in the financial statements (Sanjaya, 2017). The cost of audit services by external auditors in agency theory is included in agency costs used to minimize agency problems between principals and agents. Auditors play an important role in carrying out checks on information produced by management (Arumningtyas & Ramadhan, 2017). When the auditor has a long engagement with the client, the auditor can create business knowledge that has an impact on designing the audit program to be more effective so that it can shorten audit report lag (Lestari & Saitri, 2017). This is in accordance with research conducted by Arumningtyas & Ramadhan (2019) and W. O. I. Sari et al. (2019) which proves that audit report lag can be shorter when the audit tenure is longer. The longer the auditor's assignment with the client allows the auditor to recognize the client's business industry so that it can shorten the audit completion time and the submission of audited financial statements can be done in a timely manner. Based on this description, the following hypothesis can be formulated:

H1: Audit tenure has a negative effect on audit report lag

The Effect of Auditor Industry Specialization on Audit Report Lag

Each listed company on the stock exchange has a different line of business and accounting issues. This causes inequality in audit needs which makes companies have certain qualifications when contracting with auditors. Hiring auditors with particular specializations in agency theory is included in agency costs to reduce agency problems that occur between principals and agents. In this case, the external auditor as an independent party to perform the function of examining the information presented by management (Sawitri & Budiartha, 2018). Industry specialization in terms of experience and a deeper understanding of the business line owned by the auditor is a consideration for companies in choosing external auditors. According to Rusmin & Evans (2017), the audit report lag will be shorter when the company is audited by a specialist auditor. This is because specialist auditors are more able to develop specialized knowledge and expertise in an industry sector and are able to adapt more quickly to client business operations. This is in line with the results of research conducted by Aurely et al. (2021) and Arumningtyas & Ramadhan (2019) who found that auditor industry specialization has a negative effect on audit report lag. With a lot of experience and understanding in the industry, auditors are believed to have the ability to detect errors and perform the function of examining financial statements better so that this can have an impact on the shorter time period for completing the audit report. Based on this description, the following hypothesis can be formulated:

H2: Auditor industry specialization has a negative effect on audit report lag

The Effect of Financial Distress on Audit Report Lag

Financial distress is a condition when the company is faced with financial difficulties characterized by the company's inability to pay off its debts (Narayana & Yadnyana, 2017). Widharma & Susilowati (2020) states that the impact of a company when experiencing financial distress is not only the inability to pay debts, but even indications of bankruptcy. When the company's financial condition is not good or there is financial distress, it can increase the audit risk to be higher so that it has an impact on the increasing amount of audit support evidence that must be collected by the auditor, potentially extending the length of time for completing the audit report. This is in line with signal theory that companies experiencing financial distress are considered bad news for investors and companies tend to experience lags in their financial reporting due to a longer audit process. This is in accordance with research conducted by Rosharlianti & Hanifah (2023) and Ekaputri & Apriwenni (2021) that financial distress has a positive effect on audit report lag. Based on this description, the following hypothesis can be formulated:

H3: Financial distress has a positive effect on audit report lag

The Effect of Audit Committee Competence on Audit Report Lag

An audit committee with an accounting or financial education background will independently provide assessments and solutions to company problems based on accounting knowledge and understanding and ensure that financial reports have been published in accordance with applicable regulations (Shinta & Satyawan, 2021). In addition, the audit committee as a mediator between management and auditors has an important role in dealing with external auditors. Competent audit committee members will be able to establish good communication with auditors regarding the company's financial reporting. This reflects that experience in accounting, internal control, or auditing is fundamental to enabling the audit committee to understand and deal with problems in the company's financial reporting system (Junaidda & Rashidah, 2011). In accordance with agency theory that the audit committee with financial competence is important to reduce agency problems by increasing the supervisory function of management performance and becoming a mediator when there is disagreement between the auditor and the company so as to reduce audit completion time (Sultana et al., 2014). This is in accordance with the results of research by Susandya & Suryandari (2021) that the competence of the audit committee can make the function and role of the audit committee more effective so that it can shorten the audit report lag. Based on this description, the following hypothesis can be formulated:

H4: Audit committee competence has a negative effect on audit report lag

RESEARCH METHODS

This research is a quantitative descriptive approach. This approach is used to determine whether or not there is an effect of the relationship between variables expressed in numerical form. The data in this study are secondary data in the form of annual reports and financial reports of companies listed on the Indonesia Stock Exchange in the property and real estate sector for the period 2020 – 2022. The data collection technique in this study uses documentation techniques, namely sample collection by directly downloading the company's annual report through the official website of the Indonesia Stock Exchange and the official website of the company listed on the stock exchange. The population in this study are companies listed on the Indonesia Stock Exchange in the property and real estate sector for the period 2020 – 2022. Obtaining samples from the population in this study using purposive sampling technique, namely the sample is selected based on certain criteria according to the research objectives so that the sample can represent the population of property and real estate sector companies.

Variables

The dependent variable in this study is audit report lag. The size of this variable can be determined based on the number of days in the auditor's report date substracted by the company's closing date. Following research Sunarsih et al. (2021), the formula for calculating the audit report lag is as follows:

Audit Report Lag = Audit Report Date - Financial Report Date

This study uses four independent variables that will be tested to determine their effect on the dependent variable, namely:

1) Audit Tenure

   The audit tenure variable can be calculated by measuring the number of years when a company undergoes an audit engagement with the same external auditor (Ekaputri & Apriwenni, 2021). The engagement in the first year is given the number 1 and each additional engagement in the following year is added by 1. However, when the following year there is a change in auditor, it starts counting from the beginning since the year of engagement with the new auditor.

2) Auditor Industry Specialization
Measurement of industry specialization can use a market share approach, namely the percentage of total clients and total assets of certain sector companies audited by the auditor. The formula for the approach model follows research by Safriliana & Rahani (2019) as follows:

$$\mathrm{SPEC} = \frac{\sum \mathrm{ACI}}{\sum \mathrm{AFI}} \times \frac{\bar{X}\ \mathrm{ACI\ Assets}}{\bar{X}\ \mathrm{AFI\ Assets}}$$

Description:
ACI = Auditor Client in Industry
AFI = All Firms in the Industry
Measurement of industry specialization uses dummy variables. Value 1 is used for companies that use specialist auditor services with clients of at least 15% of the total companies in the industry group and value 0 for companies that use non-specialist auditor services.

3) Financial Distress
Measurement of financial distress variables can use the Altman model Z-score formula. This model can estimate the potential for bankruptcy and predict the company's financial condition with an accuracy of up to 72% two years before the incident in manufacturing companies in 1960 – 1965 (Altman, 1968). The model formula for measuring financial distress uses the Altman Z-Score which has been modified by Altman et al. (1998) as follows:

$$Z'' = 6{,}56X_1 + 3{,}26X_2 + 6{,}72X_3 + 1{,}05X_4$$

Description:
Z'' = Total Index
X_1 = Working Capital / Total Assets
X_2 = Retained Earning / Total Assets
X_3 = Earning before Interest and Taxes / Total Assets
X_4 = Book Value of Equity / Total Liabilities
The results of the Z-Score calculation can be categorized into the following zones:
a. Z" < 1.11 belongs to the distress zone
b. 1.11 < Z" < 2.6 belongs to the gray area (vulnerable)
c. Z" > 2.6 belongs to the healthy zone

4) Audit Committee Competence
Based on Siahaan et al. (2019), the competence of the audit committee can be measured by the number of audit committee members with accounting or finance backgrounds.

Analysis Model

The method for analyzing data in this study is descriptive statistical test, classical assumptions in the form of normality, multicollinearity, heteroscedasticity, and autocorrelation tests. Furthermore, for hypothesis testing multiple linear regression is used with IBM SPSS software version 25. The multiple linear regression model in this study can be formulated as follows:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e$$

Description:
Y = Audit Report Lag (ARL)
X1 = Audit Tenure (AT)
X2 = Auditor Industry Specialization (SPEC)
X3 = Financial Distress (FD)
X4 = Audit Committee Competence (ACC)
e = Regression Error (error)
β1, β2, β3, β4 = Regression Coefficient

RESULT AND DISCUSSION

Sample Characteristics

The characteristics of the sample of companies used in the study through a selection process based on certain criteria that have been determined by purposive sampling technique. The characteristics of the sample of companies in this study can be seen in Table 1.

TABLE 1. SAMPLE CHARACTERISTICS

Sampling Criteria	Total
Total property and real estate sector companies listed on the IDX as of December 31, 2022	84
Newly listed property and real estate sector companies on the IDX in 2020 – 2022	(6)
Property and real estate sector companies that do not publish annual reports consecutively for the period 2020 – 2022	(11)
Property and real estate sector companies whose annual report contents are incomplete during the period 2020 – 2022	(6)
Samples used	61
Year of Observation	3
Total Research Sample	**183**

Source: Research Data (2024)

Descriptive Statistical Analysis

This descriptive statistical analysis provides an overview of the distribution of research data characteristics in numerical form which is useful in hypothesis testing.

TABLE 2. DESCRIPTIVE STATISTICAL TEST

Variables	N	Mean	Std. Deviation
ARL	128	4.5100	.18198
AT	128	1.6641	.77640
SPEC	128	.1641	.37179
FD	128	4.6892	2.94411
ACC	128	2.4922	.67575

Source: Research Data (2024)

Based on the results of descriptive analysis, the audit report lag variable has an average value of 4.51 with a standard deviation of 0.18. This variable has been transformed with natural logarithm (Ln). The audit tenure variable has an average value of 1.66 with a standard deviation of 0.78. The auditor industry specialization variable has an average value of 0.16 with a standard deviation of 0.37. The financial distress variable has an average value of 4.69 with a standard deviation of 2.94. The audit committee competence variable has an average value of 2.49 with a standard deviation of 0.68.

Classical Assumption Test Results

In this study, a classic assumption test was carried out in the form of normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test with the aim of minimizing testing errors in the regression model so as to obtain valid and accurate results.

Normality Test

The data normality test is used to test the data in the study whether it is normally distributed or not. In this study, the normality test used a statistical test with Kolmogorov-Smirnov. The data in this study did not meet the assumption of normality so that first outlier detection and discarding outlier data were carried out in order to fulfill the assumptions of normality and other assumptions from the purposive sampling data. The data before removing outliers amounted to 183 data to 128 data free from outliers. The test results can fulfill the assumption of normality if they meet the requirements for the asymp. sig. (2-tailed) with the value of > 0.05 (Ghozali, 2016).

TABLE 3. KOLMOGOROV SMIRNOV TEST

	Unstandardized Residual
N	128
Asymp. Sig. (2-tailed)	.079[c]

Source: Research Data (2024)

Based on the results of the normality test analysis, the residual significance value is 0.079 > 0.05, this means that the data in the study is normally distributed. Thus, the normality assumption in the regression model has been fulfilled.

Multicollinearity Test

The multicollinearity test is used to test whether there is a correlation between independent variables in the regression model. There are several conditions so that the multicollinearity assumption can be met. The test results can fulfill the multicollinearity assumption if they meet the requirements for the Variance Inflation Factor (VIF) value is < 10 and tolerance is > 0.1. (Ghozali, 2016).

TABLE 4. MULTICOLLINEARITY TEST

Variables	Tolerance	VIF
AT	.991	1.009
SPEC	.989	1.011
FD	.992	1.008
ACC	.994	1.006

Source: Research Data (2024)

Based on the results of the analysis, it is known that the VIF value for each variable is below 10. This can be seen from the VIF value of the audit tenure variable of 1.009, the auditor industry specialization variable of 1.011, the financial distress variable of 1.008, and the audit committee competence variable of 1.006. In addition, the tolerance value for each variable is also above 0.1. This can be seen from the tolerance value of the audit tenure variable of 0.991, the auditor industry specialization variable of 0.989, the financial distress variable of 0.992, and the audit committee competence variable of 0.994. From this data it can be concluded that there is no indication of multicollinearity. This is in accordance with the criteria that multicollinearity does not occur if the VIF value is below the value of 10 or Tolerance is above 0.10. Thus, the assumption of multicollinearity has been met.

Heteroscedasticity Test

The heteroscedasticity test aims to test whether there is an inequality in the variance of the residuals between observations in the regression model. In this study, the Glejser test was used as a benchmark for fulfilling the heteroscedasticity assumption with the condition that the sig. value > 0.05 (Ghozali, 2016).

TABLE 5. GLEJSER TEST

Variables	Sig.
AT	.233
SPEC	.111
FD	.854
ACC	.649

Source: Research Data (2024)

Based on the results of the analysis, it is known that the results of the Glejser test show a significance value > 0.05 for each variable. This can be seen from the significance value of the audit tenure variable of 0.233, the auditor industry specialization variable of 0.111, the financial distress variable of 0.854, and the audit committee competence variable of 0.649. From the test results it can be concluded that the data is free from symptoms of heteroscedasticity so that the assumption of heteroscedasticity has been met.

Autocorrelation Test

The autocorrelation test aims to test whether there is a correlation between residuals on an observation and other observations in the regression model. In this study, the Durbin-Watson test (DW test) was carried out as a fulfillment of the autocorrelation test with the conditions du < dw < (4 - du) (Ghozali, 2016).

TABLE 6. AUTOCORRELATION TEST

R	R Square	Adjusted R Square	Durbin-Watson
.432[a]	.187	.161	1.812

Source: Research Data (2024)

Based on the results of the analysis, it is known that the dw value is 1.812. This value will be compared with the du value obtained from the Durbin Watson table for a total sample (n) of 128, the number of independent variables 4 (k = 4), and alpha 5%, then du is obtained at 1.7763 or smaller than dw. The value (4-du) or 4 - 1.7763 = 2.2237, then the obtained value (4-du) is greater than dw. From these results it is known that the regression model can fulfill the autocorrelation assumption du < dw < (4-du) (1.7763 < 1.812 < 2.2237). Thus it can be concluded that there is no autocorrelation so that the autocorrelation assumption in the regression model has been fulfilled.

Hypothesis Testing

Test Coefficient of Determination (R Square)

The coefficient of determination test is used to determine how much the independent variable explains the dependent variable. This study uses independent variables in the form of audit tenure, auditor industry specialization, financial distress, and audit committee competence to explain the dependent variable audit report lag.

TABLE 7. R SQUARE TEST

R	R Square	Adjusted R Square
.432[a]	.187	.161

Source: Research Data (2024)

Based on the test results, it is known that the coefficient of determination (Adjusted R Square) is 0.161. This means that the audit tenure variable (X1), auditor industry specialization (X2), financial distress (X3), and audit committee competence (X4) can jointly influence the audit report lag by 16.1%. While the remaining percentage of 83.9% is explained by other factors not examined.

Simultaneous F Test

The simultaneous F test is used to test whether the independent variables in the study jointly have an influence on the dependent variable. According to Ghozali (2016), the independent variable simultaneously affects the dependent variable if the value is F_{count} is greater than F_{table}.

TABLE 8. F TEST

Model	F	Sig.
Regression	7.072	.000

Source: Research Data (2024)

Based on the test results in Table 8, obtained F_{count} equal to 7.072, while F_{table} with df1 = 4, df2 = 123, and alpha 0.05, then obtained F_{table} (2,445) < F_{count} (7.072) or sig. 0.000 < 0.05, so it is concluded that the audit tenure variable (X1), auditor industry specialization (X2), financial distress (X3), and audit committee competence (X4) together have a significant effect on audit report lag.

T Statistical Test

The T statistical test is used to test whether each independent variable has an influence on the dependent variable in the study. According to Ghozali (2016), the independent variable has an influence on the dependent variable if it meets the conditions for the value of t_{count} with results greater than t_{table}.

TABLE 9. T STATISTICAL TEST

Variables	B	T	Sig.
(Constant)	4.604	66.127	.000
AT	.009	.482	.631
SPEC	-.130	-3.258	.001
FD	-.022	-4.318	.000
ACC	.006	.266	.791

Source: Research Data (2024)

Based on the test results in Table 9, the audit tenure variable has a significance value of 0.631 > 0.05 or t_{count} (0,482) < t_{table} (1.657), then it can be decided H_0 accepted and H_1 rejected, meaning that audit tenure has no effect on audit report lag. The auditor industry specialization variable has a significance value of 0.001 < 0.05 or t_{count} (-0,3258) < -t_{table} (-1.657), then it can be decided H_0 rejected and H_2 accepted, meaning that auditor industry specialization has a negative effect on audit report lag. The financial distress variable has a significance value of 0.000 < 0.05 or -t_{count} (-4,318) < -t_{table} (-1.657), then it can be decided H_0 rejected and H_3 accepted, meaning that financial distress proxied by the Altman Z-Score formula has an effect on audit report lag. The lower the Z-Score value of a company indicates the more potential for financial distress, thus indicating the higher the audit report lag that occurs so that financial distress has a positive effect on audit report lag. The audit committee competence variable has a significance value of 0.791 > 0.05 or t_{count} (0,266) < t_{table} (1.657), so it can be decided H_0 accepted and H_4 rejected, meaning that the audit committee has no effect on audit report lag. From the test results, a linear regression model is obtained as follows:

$$\mathbf{Y = 4.604 + 0.009\ AT + (-0.130)\ SPEC + (-0.022)\ FD + 0.006\ ACC + e}$$

Relationship between X and Y Variables

The Effect of Audit Tenure on Audit Report Lag

The first hypothesis in this study states that audit tenure has a negative effect on audit report lag. However, the results of data analysis provide different results that audit tenure has no effect on audit report lag. This means that the short length of time span of the cooperation bond between the auditor and the company does not guarantee a faster completion time of the audit report. The results of this study are in line with the results of research by Abdillah et al. (2019), Farumi et al. (2023), and Ekaputri & Apriwenni (2021) which proves that audit tenure has no effect on audit report lag. This can occur because in agency theory, the auditor as an independent party who examines the information produced by management to reduce agency problems is required to work professionally in completing the audit process in a timely manner so as not to harm users who want to use financial reports as a basis for decision making. In addition, the implementation of the length of time of the audit engagement that occurred in the property and real estate sector companies for the period 2020 - 2022 was within the maximum range of three consecutive years with the same public accountant and this indicates that there is not enough time for auditors to create good business knowledge (Aurely et al., 2021). This is supported by the regulations stipulated in the Financial Services Authority Regulation No. 13/POJK.03/2017 that the use of audit services for the company's financial statements from the same public accountant is only allowed for a maximum of three consecutive financial years. However, the results of this study contradict the results of research Arumningtyas & Ramadhan (2019) and W. O. I. Sari et al. (2019) which proves that audit tenure has a negative effect on audit report lag.

The Effect of Auditor Industry Specialization on Audit Report Lag

The second hypothesis in this study states that auditor industry specialization has a negative effect on audit report lag. This means that audit work performed by specialized auditors can shorten the completion time of the audit report so that it can shorten the audit report lag. The results of this study are in line with the hypothesis developed and supported by research from Aurely et al. (2021) and Arumningtyas & Ramadhan (2019) which found that auditor industry specialization has a negative effect on audit report lag. This can happen because in agency theory, conflicts of interest that occur between agents and principals can be minimized by agency costs by using the services of an external auditor as an independent party to carry out the function of examining the information presented by management. The selection of auditors with particular specializations, which are considered to have deeper experience and understanding of business lines in conducting audits, can quickly detect possible material errors that can occur in the presentation of financial statements. Specialist auditors have the capability to detect errors and perform inspection functions better, which has an impact on the time required for auditors to complete audit reports to be shorter. The results of auditor industry specialization which have a negative effect on audit report lag in the property and real estate sector listed on the Indonesia Stock Exchange for the period 2020 – 2022 result in companies requiring specialist auditor services in an effort to minimize the time period for completing audit reports. According to Aurely et al. (2021), the selection of specialist auditors can be an option for companies in choosing independent auditors because with their special abilities and expertise they can quickly read the situation and recognize client business operations so that the audit process can be completed quickly.

The Effect of Financial Distress on Audit Report Lag

The third hypothesis in this study states that financial distress has a positive effect on audit report lag. This means that when the company experiences financial distress proxied by the Altman Z-Score formula, the audit report lag that occurs will be longer. The results of this study are in line with the hypothesis developed and are supported by the results of research by Rosharlianti & Hanifah (2023) and Ekaputri & Apriwenni (2021) that financial distress has a positive effect on audit report lag. This can occur because a decrease in demand and a decrease in sales, especially in the property and real estate sector in several segments such as convention halls, apartments, and hotels, can affect the company's profit and loss in the current period so that the company's financial condition is not good. Companies that experience financial distress, it can result in an increase in audit risk to be higher, increasing the auditor's time to review the accounts in the financial statements. In addition, increased audit risk results in auditors having to collect more audit support evidence to increase the reliability of the audited financial statements. As a result, auditors need more time to collect audit support evidence, which has an impact on the completion of the audit report being longer. This is in accordance with the signaling theory that companies experiencing financial distress are considered bad news for investors and companies tend to experience lags in their financial reporting due to a longer audit process.

The Effect of Audit Committee Competence on Audit Report Lag

The fourth hypothesis in this study states that the competence of the audit committee has a negative effect on audit report lag. However, the results of data analysis provide different results that the competence of the audit committee has no effect on audit report lag. This means that the number of audit committees with accounting or financial backgrounds does not guarantee the fast completion time of the audited financial statements. The results of this study are in line with research by Fakri & Taqwa (2019) and Santiani & Muliartha (2018) which states that audit committee competence has no effect on audit report lag. This may occur because the property and real estate sector companies in this study meet the applicable regulations in POJK 15/2015, namely at least one audit committee member with an accounting or financial background, but this does not show a significant effect on faster completion of the audit report. In agency theory, the audit committee with its competence is important in improving supervision to effectively monitor management performance and assist in the process of preparing financial statements as well as mediating between company management and external auditors. However, the main task of the audit committee is only as an independent supervisor who is responsible to the board of commissioners so that the authority regarding the completion of the audit financial report is determined by the external auditor as the party that carries out the process of completing the audit report so that this is the cause of the audit committee competence having no effect on audit report lag. The results of this study contradict the results of Susandya & Suryandari (2021) and Maranjory & Tajani (2022) which states that audit committee competence has a negative effect on audit report lag.

CONCLUSIONS

The purpose of this study was to determine the effect of audit tenure, auditor industry specialization, financial distress, and audit committee competence on audit report lag in property and real estate companies for the period 2020 - 2022. Based on the research results, it is concluded that the audit tenure variable shows no effect on audit report lag because auditors will professionally complete the audit process in a timely manner and the audit engagement in the company under study has not indicated a long enough time to create better business knowledge for auditors which can shorten the completion of the audit report. The auditor industry specialization variable shows a negative effect on audit report lag, which means that specialist auditors have deeper experience and understanding of business lines so that the examination can be carried out more effectively which results in faster completion of the audited report. The financial distress variable proxied by the Altman Z-Score formula shows a positive effect on audit report lag. This means that companies that are in financial distress will increase audit risk so that auditors must collect more supporting evidence which has an impact on the longer completion time of the audited report. The audit committee competence variable shows no effect on audit report lag because the audit committee only acts as an independent supervisor of management performance and is not directly authorized to complete the audit report.

This research is not free from limitations, namely the Adjusted R Square test result is 0.161, which means that the explanation of the influence of the independent variable on the dependent variable can only be explained by 16.1%. Therefore, there are other factors that are not examined that have a greater influence on audit report lag. Thus, suggestions are needed so that future researchers can get better research results. This study only gets the Adjusted R Square test result of 16.1%, which means that there are other factors that can be investigated by future researchers that have an influence on audit report lag, for example audit opinion, auditor reputation, auditor switching, and audit complexity that affect audit report lag (Handoyo & Maulana, 2019).

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The results of this study provide implications regarding the importance for companies to maintain financial stability by carrying out debt management and increasing profits per year in order to avoid financial distress which has an impact on the completion of longer audited financial statements. In addition, the selection of specialist auditors is also an option that can be considered by management as an adaptive measure to minimize the lag in completing the audit financial statements so that financial reporting can be done on time.

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