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Review of Integrative Business & Economics Research

An Interdisciplinary Journal on Applied Business and Economics Research

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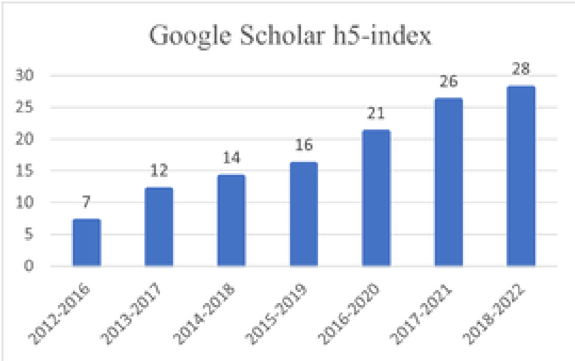

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The Role of the Reputable Auditor in Audit Report Lag and Firm Value: Empirical Evidence from Indonesia during the COVID-19 Pandemic

Review of Integrative Business & Economics Research

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ABSTRACT

This study explores the role of a reputable auditor in audit report lag to understand the antecedents and consequences of the audit report lag model. Additionally, this study includes economic conditions represented the pre-pandemic era (2017 – 2018) versus the pandemic era (2019 - 2020) and risk business factors represented by the two different sectors that had extreme market performance for sound evidence about the reputable auditor. The study generates empirical evidence from emerging markets, but the factors seem to be global issues regarding audit report lag. Based on 249 samples, this study concludes that the reputable auditor who performs audits of a high-financial-performance company has less audit report lag compared to a low-financial-performance company. The research enriches agency theory by setting an audit report lag model. Consecutive factors to understand the antecedents and consequences of audit report lag provide evidence about the joint role of auditor and auditee. This study also enlarges the practice of the local auditors to enhance higher professionalism and reduce dependency on auditees, such as collaboration with reputable auditors.

Keywords: Audit report lag, agency theory, pandemic COVID-19, reputable auditor.

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1. RESEARCH BACKGROUND

An effort to better understand the determinants of audit report lag (ARL) has stimulated research about factors that are related with ARL, such as the meta-analysis conducted by Durand (2019) concerning ARL. Based on prior research, the determinants of ARL can be categorized by at least two main factors: the auditee and auditor characteristics. Characteristics of the auditee include the internal factors of a firm, such as corporate governance implementation, size, financial status, or organs of the company, described for example, by Gontara et al. (2023); Draeger & Lohwasser (2023); Ebaid (2022); and Al-Mulla & Bradbury (2020). Meanwhile, recent research about the role of the auditor in audit report delay emphasized the auditor's knowledge, experience, tenure, and company size, such as described by Luo & Malsch (2022); Chen et al. (2022); Raweh et al. (2021); Al-Ebel et al. (2020);

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Simamora & Hendarjatno (2019); and (Rusmin & Evans, 2017). Those internal and external factors are based on the agency theory regarding transparency, high-quality audits, and reliability of financial reporting.

Based on the previous researches, first, it is urgent to formulate an accurate ARL model that combines the auditee's organization and the auditor's characteristics to better understand the sequence of determinants and impacts of ARL. Second, we argue that the strength of the auditee and auditor combined approach becomes a connected series in efforts aimed at decreasing audit delay or jointly shaping the ARL model. Third, while the results of research about the occurrence of ARL is a global issue, however, the majority of studies were previously conducted in the United States of America (Rusmin & Evans, 2017). The study of Rusmin & Evans (2017) extended this research to emerging industries within developing areas, such as Indonesia because of family ownership characteristics. This study enriches prior research about economics and industry perspectives by providing more empirical evidence in the global area concerning the role of reputable auditors, especially related to ARL.

During 2017 – 2020, this period indicates different economic challenges, namely 2017 – 2018 is the pre-pandemic era and 2019 – 2020 is the pandemic era. A significant decrease in economic performance occurred during the pandemic era compared to the pre-pandemic era and it deteriorated the economic situation globally. It implies that the pre-pandemic era, the pre-COVID-19 time represented a non-distress period, but during the pandemic era, COVID-19 represented a distressing period. Therefore, this study examines the ARL between the pre-pandemic era and during the pandemic era and also examines the ARL between reputable auditors and non-reputable auditors in the distress period. This study uses two company types, namely the healthcare and energy sectors that have a different performance during 2017 – 2020 (see Table 1). During 2018 – 2020, the energy sector had a negative return, but healthcare had a positive return. This study also compares the ARL between the energy and healthcare industries to enrich evidence about reputable auditors and ARL. The examinations show the consistency of a reputable auditor's role in decreasing ARL from two perspectives: economic conditions and industry characteristics.

The reputable auditor is the main point of view of the ARL model because an audited financial report by reputable auditors has a significant influence on the users' perspective, especially investment decisions (Lim et al., 2016). Francis et al. (2014) also revealed that the clients of the 'Big 4' auditors have higher comparable earnings than clients of non-Big 4 auditors. Additional empirical evidence provided by Wang & Xin (2011) stated that the companies which are audited by the Big 4 auditors have higher earnings quality compared to non-Big 4 auditors because the Big 4 auditors prevent auditee from income manipulation, namely income decreasing or income increasing. This study further indicated that the firms that are audited by the Big 4 auditors have better performance compared to those done by non-Big 4 auditors (Wang & Xin, 2011).

What firm characteristics can be considered triggers for a good opinion of a reputable auditor? Which firms deserve a good opinion of reputable auditors? Companies in distress will be likely connected to non-Big 4 auditors (Bhattacharya & Banerjee, 2020). Bhattacharya & Banerjee (2020) also stated that distressed firms tend to choose non-Big 4 auditors deliberately to avoid higher audit fees because of low financial quality and poor corporate governance. These findings are supported by the study of Rusmin & Evans (2017) which showed that companies operating at a loss or with low profit tend to delay financial reports because bad news will need more time to publish. Another study showed that auditors from the Big 4 commit to enhance their professional reputation, although their auditee's risk of bankruptcy is low, because reputable auditors tend to be conservative in the audit process (Mo et al., 2015). This pattern implies that companies that have problems with transparency, liquidity, and ethical

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values have less likelihood of selecting a Big 4 auditor (Louis, 2005; Houqe et al., 2015; Habib et al., 2017). Interestingly, the Big 4 auditor is helpful in a large target of the merger process (Louis, 2005) because they implement their audit style and audit programs differently in response to the auditee size (Blokdijk et al., 2006; Francis et al., 2014). According to prior research about performance and reputable auditors, the first conclusion is that the higher financial performance company seeks a reputable auditor to legitimate the company's performance. Therefore, this study formulates the first hypothesis (H1) that a higher financial performance firm that represents the profitability of a firm tends to choose a reputable auditor rather than a non-reputable auditor.

Professional reputation as well as professional human resources of reputable auditors that are represented by audit firm size have a significant role in supporting the process of the audit being done efficiently and effectively (Khoufi & Khoufi, 2018). Another recent study stated that the characteristics of auditors have an important role in decreasing ARL, such as in client-specific experience (Stewart & Cairney, 2019). In contrast, evidence from Abdillah et al. (2019) showed that a reputable auditor does not significantly affect the audit's lag because the Big 4 auditors maintain their reputation more than perform the audit process sooner. However, the local audit firm which has an affiliation with an international auditor (non-Big 4) firm implements the same value audit process as the Big 4. Abdillah et al. (2019) also stated that the local auditors can enhance a high-quality audit because they face high competition with auditors who are international or from the Big 4 in the reputation of the audit process.

The auditee characteristics also seem to be important factors in ARL, such as the characteristics of the audit committee (education or expertise background as part of governance implementation), which can influence the ARL (Raweh et al., 2021; Lajmi & Yab, 2022). Further evidence from research conducted by Zulfikar et al. (2020) indicated that the supervisory organ, such as the board of directors, board of commissioners, or audit committee, will decrease the lack of financial report publication. This premise is supported by the study conducted by Syofyan et al. (2021) that found a higher frequency of audit committee meetings has lower audit delay.

This study concludes three main points regarding the professionalism of reputable auditors. For the first point, the professionalism of a reputable auditor enhances the audit process which is done more efficiently than a non-reputable auditor. The second point, the reputable auditors who perform an audit of a high-financial performance company tend to decrease the ARL. The reputable auditor is not reluctant to use narrow audit samples because of good governance implementation. Therefore, this study has the second hypothesis (H2) that the reputable auditors tend to lower ARL compared to a non-reputable auditor and the third hypothesis (H3) that a reputable auditor mediates the effect of higher financial performance on ARL. This study also formulates the third point, which supports the lower ARL that resulted from the audit process of a reputable auditor will impress the financial report users because a reputable auditor does not implement a wide sample scope based on following the good quality standards of the financial reporting. Therefore, this study has the fourth hypothesis (H4) that ARL has a negative effect on firm value and the fifth hypothesis (H5) that ARL mediates the mediating role of the reputable auditor of higher financial performance's effect on firm value.

This study includes economic and industry characteristics in the influencing role of a reputable auditor on ARL. As mentioned in the prior paragraph, COVID-19 deteriorated the energy sector performance during the pandemic era and this performance record contrasted with the health-care sector. It indicates the energy sector had higher business risk compared to the healthcare sector. The research conducted by Sakka & Jarboui (2016) found that business risk has a positive effect on audit delay represented by the role of an independent commissioner on increasing days in publication date from the auditor's signature. Negotiation between the

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auditor and auditee influences the publication of the auditor's report. Omer et al. (2020) also revealed that the audit committee's duty in risk management has a positive effect on this ARL because of the longer time in the monitoring process. Choi & Ju Park (2021) also explored the business risk – low versus high - which can be part of the auditee's characteristics. Choi & Ju Park (2021) recently compared two characteristics of business risk in ARL. A prospector company that prefers a high-risk business strategy affects more audit procedures, so a higher-risk business has a higher audit delay. It contrasts with a defender company that performs a stable business strategy, which has a negative effect on audit lag. However, risk can also be implied by the value that is embraced by management. According to research by Toumi et al. (2022), national normative cultures, such as masculinity, long-term avoidance, or individualism, can trigger management to maintain less communication with the auditor or be aggressive in business decisions. Therefore, the auditor considers it a delay in the audit report because of the negotiation process and risk level. This study predicts that the pre-COVID-19 status that represented the non-distress period had less ARL than the distress period (during COVID-19). This study also predicts that the higher-risk sector has more ARL compared to the lower-risk sector. However, this study predicts that the professionalism and efficient audit process of a reputable auditor can enhance the less ARL more than the non-reputable auditor in a distress period.

The main contribution of this study is to enlarge ARL research through an integrated approach to the auditor and auditee characteristics because prior research does not yet draw firm conclusions about reputable auditors and ARL. Additionally, prior research mostly examines profitability directly in relation to ARL. Another contribution is to enrich audit practice because research in ARL is generally based on the agency theory. Therefore, this research examines the distress period and business risk factors to support the assumption about the importance of an efficient audit process of reputable auditors. Second, formulations about determinants of ARL that involve these two factors are important to explore because both contribute to audit delays simultaneously. Furthermore, the evidence about which factor has the main role or the order of factors in timelines of the audit report is important in a set of ARL models.

2. RESEARCH METHODS

2.1. Data and Sample

This study uses secondary data that were downloaded from companies' websites, such as profitability, auditor, market capitalization, and audit date. According to the distress period, these data employ the annual reports published in 2019 – 2020, which was during the pandemic era when many companies faced financial problems. Recent research by Ji & Zhang (2022) and Marjerison et al. (2023) stated that COVID-19 had an impact on uncertainty in investment and the death of e-commerce companies. For sound examination, we also used data generated from 2017 – 2018, which represented the non-distress period or the pre-pandemic era (non-pandemic). This study does not use data after the pandemic era because in 2021 – 2022, there were many companies which were still in recovery from the negative impacts of COVID-19 or the pandemic era. We assume that data that were taken during 2017 – 2018 are the best comparison for the distress period or 2019 - 2020.

We also consider two extreme financial performances by contrasting between two industry sectors, namely the healthcare and energy sectors (see Table 1). Both industries have significantly different market performances during 2019 – 2020 (in the pandemic era) based on the Indonesia index market. This study compares the three indexes of return, namely the energy return, healthcare return, and Indonesia Stock Exchange (IDX) return, and the three

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indexes have significant return differences. During 2017 – 2020, the healthcare sector achieved the best performance in the market compared to all stocks of other sectors. Moreover, it is also higher than the LQ 45 index, which is the 45 most liquid stocks in the Indonesian stock market, although the index of the health sector decreased in 2019. However, the energy sector had a minus return from 2018 – 2021 and the peak continued decreasing in 2020 (-17.3%). Therefore, positive versus negative returns for healthcare and energy sectors show extremely different results in the market performance, respectively.

Table 1: Year of Year Return: Healthcare Versus Energy Sector

Year	Energy Year of Year Return (%)	Healthcare Year of Year Return (%)	IDX return index (%)
2018	-0.4	6.3	4.2
2019	-17.3	4.7	1.7
2020	-0.05	17.8	-5.1

Source: Indonesia Stock Exchange (IDX).
Notes: IDX index is an index for all of the shares that are traded in IDX.

2.2. Variable Definitions

There are four variables: financial performance, reputable auditor, firm value, and audit report lag (ARL). First, financial performance that represents profitability shows the ability of a company to earn earnings after tax or return on equity (ROE). Second, a reputable auditor indicates the quality of an independent auditor represented by a Big 4 auditor or local auditor which affiliates with a foreign auditor. Affiliation has a positive meaning in performance because the across region scope needs more professionalism. Third, the firm value is measured by market capitalization, or Tobin's Q. The last variable is ARL which refers to the number of days between the end of the reporting period and the date of an audit report.

2.3. Research Model

We formulated a research model based on several hypotheses. The first of these hypotheses that emphasized the role auditor in audit report lag and firm value are stated in the model below:

1. H1: Higher financial performance firm tends to choose reputable auditors rather than non-reputable auditors,

$$AF\_PRFL = \alpha + \beta_1\ PROF + \varepsilon \quad (1)$$

2. H2: A reputable auditor tends to lower audit report lag compared to a non-reputable auditor,

$$ARL = \alpha + \beta_1\ AF\_PRFL + \varepsilon \quad (2)$$

3. H3: A reputable auditor mediates the effect of higher financial performance on audit report lag,

$$ARL = \alpha + \beta_1\ PROF + \beta_2\ AF\_PRFL + \varepsilon \quad (3)$$

4. H4: Audit report lag has a negative effect on firm value,

$$FIRM\_VAL = \alpha + \beta_1\ ARL + \varepsilon \quad (4)$$

5. H5: Audit report lag mediates the mediating role of the reputable auditor of higher financial performance's effect on firm value,

$$FIRM\_VAL = \alpha + \beta_1\ PROF + \beta_1\ AF\_PRFL + \beta_2\ ARL + \varepsilon \quad (5)$$

This study uses Warp PLS for the role of intervening variable detection.
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- FIRM_VAL = firm value represented by market capitalization or Tobin's Q;
- PROF = profitability represented by return on equity (ROE);
- AF_PRFL = reputable auditor represented by big four and affiliation local auditor and international auditor firm;
- ARL = audit report lag represented by the number of days from the end of the financial period to the auditor's date signature.

This study examines the differences in ARL in characteristic industries (health care versus energy) and economic conditions (before versus during the pandemic era). The second examination result will support the evidence about a reputable auditor's role. Therefore, the examination models for the second examination are described below:

1. The non-distress period has less ARL than the distress period (DISP < NDSP).
2. The higher-risk sector has more ARL than the lower-risk sector (HRSC< LRSC).
3. The reputable auditor has less ARL than the non-reputable auditor in a distressing period (AF_PRFL < NAF_PRFL).

Notes:

- DISP vs. NDSP = distress period vs. non-distress period represented by pandemic versus non-pandemic, respectively.
- HRSC vs. LRSC = high-risk sector vs. low-risk sector represented by energy vs. healthcare sector, respectively.
- AF_PRFL vs. NAF_PRFL = reputable auditor vs. non-reputable auditor represented by Big 4 and local auditors affiliated with international audit firm versus local auditors, respectively.

3. RESULTS

The non-distress period (non-pandemic era) represented by 2017 – 2018 has 121 samples and the distress period (pandemic era) represented by 2019 – 2020 has 128 samples (see Table 2). According to the energy and healthcare sectors, there are 204 and 45, respectively, so the total research sample was 249 companies. There are 80 companies audited by the non-reputable auditors and 48 companies audited by the reputable auditors. There are 121 companies audited by the local auditors that have an affiliation with international auditors other than the Big 4 auditors.

Table 2: Sample Characteristics

Items	n	Audit Report Lag (Days)	Prediction	Mean Difference (Significance)
NDSP	121	86.03		
DISP	128	109.44	DISP < NDSP	23.41 (0.000)***
HRSC	204	81.6		
LRSC	45	101.69	HRSC< LRSC	20.07 (0.023)**
Non-Reputable Auditor	80			
Reputable Auditor	169			

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Non-Reputable Auditor in Non-Distress Period	91.8		
Reputable Auditor in Non-Distress Period	77.4		
NAF_PRFL	122.98		
AF_PRFL	86.87	AF_PRFL < NAF_PRFL	14.6 (0.029)**

Source: own work.

Notes:

- NDSP or non-distress period from 2017 – 2018 (the pre-pandemic COVID-19 era)
- DISP or distress period from 2019 - 2020 (the pandemic COVID-19 era)
- HRSC or the high-risk sectors
- LRSC or the low-risk sectors
- NAF_PRFL or non-reputable auditor in distress period
- AF_PRFL or reputable auditor in distress period
- ** significance level < 0.05
- *** significance level < 0.01

The mean of the ARL represented by the number of days from the financial report's date to the auditor's date shows that health care has significantly less ARL than the energy sector, namely 81.6 and 101.69, respectively. The mean of AL is 86.03 for the non-distress period and 109.44 for the distress period. Non-reputable auditors spent 91.8 days in the non-distress period and 122.98 in the distress period, but reputable auditors spent 77.4 days in the non-distress period and 86.87 in the distress period. Financial performance shows the mean of profitability is 0.018 and the mean of market capitalization is 28.45.

First, this study examines the second prediction that implies understanding the effect of the business environment (non-distress versus distress period) and risk level of industry characteristics (healthcare sector versus energy sector) on ARL. The mean difference in audit delay between the distress period (109.44) and the non-distress period (86.03) is 23.41, so both periods have significantly different audit delays (significance level - 0.001). The sample in the distress period is 121 companies and the non-distress period is 128 companies. It supports the prediction that the non-distress period has less ARL than the distress period (DISP < NDSP) because the audit delay in the distress period is higher than in the non-distress period.

The difference in audit delay mean in the energy sector is higher by 20.07 days than the health care sector (the sample number is 204 versus 45 respectively), so both sectors (101.69 versus 81.6 respectively) have significantly different days of ARL (significance level – 0.023). This finding indicates that the level of business risk is considered by the auditor in the audit process. This result supports the prediction that the higher-risk sector has more ARL than the lower-risk sector (HRSC< LRSC). Both sectors also have significantly different sample numbers.

The third result is that the study examines the mean of ARL of reputable and non-reputable auditors in different economic periods (pandemic versus non-pandemic period). This study predicts that the reputable auditors have less ARL than the non-reputable auditors in the distressing periods (AF_PRFL < NAF_PRFL). The total sample in the pandemic era is 128 companies, namely 80 companies audited by non-reputable auditors and 48 companies audited by reputable auditors. The mean of audit delay is significantly different (36.11) in both auditor characteristics (significance level – 0.000). The mean of non-reputable auditors is higher than

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the reputable auditors (122.98 versus 86.87, respectively). The total sample in the non-pandemic era is 121 companies, namely 72 companies audited by non-reputable auditors and 49 companies audited by reputable auditors. The mean of audit delay is significantly different (14.6) in both auditor characteristics (significance level – 0.029). The mean of non-reputable auditors is higher than the reputable auditors (91.8 versus 77.4, respectively).

Second, this study examines the empirical evidence about the role of reputable auditors on ARL in times of economic distress. This study examines the intervening variable of reputable auditor (AF_PRFL) on profitability (PROF) and audit report lag (ARL) relationship (see Figure 1 and Table 3). This study also examines the relationships of ARL on reputable auditors (AF_PRFL) and firm value (FIRM_VAL).

The results show that the level of company profitability has a positive significant relationship to reputable auditors (PROF → AF_PRFL and coefficient: 0.32). This finding implies that the higher financial performance has a higher commitment to publishing higher quality financial reporting through higher quality audits. Companies with good financial performance prefer reputable auditors to support their good signals to consumers and uphold their image of good corporate fiscal responsibility to stakeholders. The hypothesis examination states that the higher financial performance firm tends to choose reputable auditors rather than non-reputable auditors, so the 1st hypothesis is supported (see Figure 1 and Table 3).

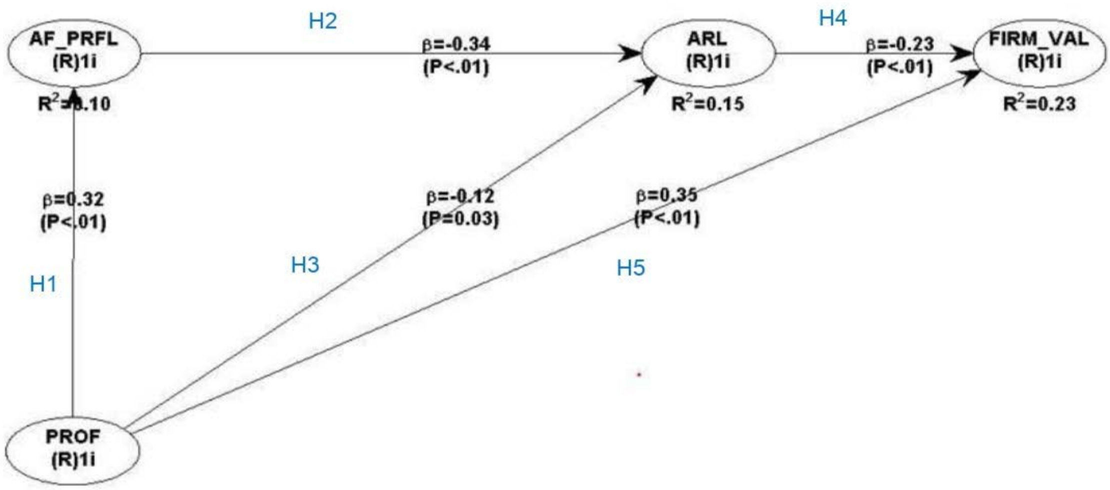

Figure 1: The Audit Report Lag Model.
Source: Own work

Table 3: Hypothesis Result

Hypothesis	Model	Coefficient# (Significance Level)	Expected Sign	Result
1	PROF → AF_PRFL	0.32 (0.01)**	+	H1: Accepted
2	AF_PFRL →ARL	-0.34 (0.01)**	-	H2: Accepted
3	PROF → AF_PFRL → ARL	-0.12 (0.03)**	-	H3: Accepted
4	ARL → FIRM_VAL	-0.23 (0.01)**	-	H4: Accepted
5	PROF → AF_PRFL → ARL →FIRM_VAL	0.35 (0.01)**	+	H5: Not Accepted

Note:
- # statistical results;
- ** significance level < 0.05;

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- PROF indicates profitability.
- AF_PRFL indicates reputable auditors represented by the Big 4 and affiliation local auditor and international auditor firms.
- FIRM_VAL indicates firm value represented by market capitalization or Tobin's Q.

The 2nd hypothesis states that a reputable auditor tends to lower ARL more than a non-reputable auditor, so this empirical evidence supports the 2nd hypothesis (AF_PFRL →ARL). This result supports the hypothesis (see Figure 1 and Table 3) that a reputable auditor has significantly lower ARL than a non-reputable auditor (coefficient: - 0.32). Therefore, the higher professionalism of auditors has higher efficiency in the audit process. Reputable auditors may have a higher standard for the audit process, such as represented by accurate internal control assessment or efficiency in evidence judgment.

The next examination is the effect of ARL on firm value as stated in hypothesis fourth (ARL → FIRM_VAL). This hypothesis states the ARL has a negative effect on firm value and the result supports this prediction (coefficient: - 0.23). The high quality of financial reporting impresses shareholders and investors through market capitalization (see Figure 1 and Table 3). It also implies that companies that have lower audit delays enhance the high quality of internal control or accounting information systems.

According to the research objective that aims at finding empirical evidence of the reputable auditor's role in ARL and firm value, this study examines the mediation role of the reputable auditor on the profitability and ARL relationship, as stated in hypothesis third (PROF → AF_PRFL → ARL). The test of profitability to ARL directly shows that profitability has a significantly negative effect on ARL (significance level – 0.03). However, the statistical examination reveals that the direct relationship of profitability to ARL has lower significance (significance level – 0.03) compared to direct testing of profitability to the reputable auditor (significance level – 0.01) and also compared to direct examination of the reputable auditor to the ARL (significance level – 0.01 - see Figure 1 and Table 3). This examination supports the 3rd hypothesis that a reputable auditor mediates the effect of profitability on ARL.

The statistical examination does not support the 5th hypothesis (PROF → AF_PRFL → ARL →FIRM_VAL) because the direct testing of profitability to firm value does not enhance the lower significant result (significance level – 0.01 - see Figure 1 and Table 3) compared to profitability to reputable auditor (significance level – 0.01), reputable auditor to ARL (significance level – 0.01), and ARL to firm value (significance level – 0.01). These findings indicate that profitability is not the main influencing factor in investor judgment, but management should show their financial performance generates high-quality audits through low ARL. This study results in a unity model of ARL through the mediating role of a reputable auditor.

4. DISCUSSION

This study shows that reputable auditors have consistent performance according to timelines and transparency, for illustration, reputable auditors have lower audit delays than non-reputable auditors before and during the pandemic era. However, the companies that were audited by both auditor characteristics during the pandemic era have higher audit report delays compared to companies that were audited by both before the pandemic era. The same situation also applies for high-risk sectors, indicating that the companies in high-risk sectors encourage reputable and non-reputable auditors to perform longer audit processes more than companies in low-risk sectors. However, reputable auditors need a longer audit process during the pandemic compared to the non-pandemic period. This empirical evidence supports the recent finding of Luo & Malsch (2022) and Harjoto & Laksmana (2022) that the pandemic era

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influenced the audit process because some audit techniques could not be implemented appropriately, such as travel restrictions, face-to-face interviews, or lockdown periods. Harjoto & Laksmana (2022) stated that lockdowns during COVID-19 increased audit fees and delays because of the higher audit risk. Harjoto & Laksmana (2022) suggested that audit firms should be adaptive to enhance high quality audits and financial reporting. Therefore, reputable auditors can hire more employees with different knowledge and experience or develop collaborations with the internal auditors, because reputable auditors have inherent characteristics, such as longer audit delays for complex firms (Meckfessel & Sellers, 2017; Oussii & Taktak, 2018; Chen et al., 2022). Hence, this result shows that reputable auditors may implement efficient and effective audit processes through integrated audit software, such as electronic data exchange and information sharing.

Regarding the ARL model, prior research stated that higher profitability lowers audit delay because good-performance companies will publish the achievement as soon as possible (Khoufi & Khoufi, 2018). Moreover, delays in financial publication will encourage useless rumors for large companies. This study also supports prior research directly examining reputable auditors and ARL, such as Khoufi & Khoufi (2018) or Abdillah et al. (2019). Research by Khoufi & Khoufi (2018) stated that the size of an audit firm has a negative effect on audit delay because this firm has enough resources to perform audit tasks efficiently. Auditors from reputable audit firms may implement well-organized audit processes to maintain their professional work and ultimately to support their reputation. Its enhancement has an effect on the efficient audit process, so reputable auditors have a significantly negative influence on audit report lag. This study concludes that a high-financial performance company that has been audited by a reputable auditor has less ARL because good corporate governance and financial quality encourage the reputable auditors to possibly perform a narrow audit scope.

This research supports the effort to generate empirical evidence from a global perspective as Rusmin & Evans (2017) stated that the majority of research about ARL were performed in the United States of America. Although this study was performed in a developing area, such as Indonesia, business risk and distress, especially during the COVID-19 pandemic, are challenging for any firm around the world. Corporate governance mechanisms can decrease ARL, such as engaging with independent commissioners (Sakka & Jarboui, 2016), clearly delineating the audit committee’s duty in risk management (Omer et al., 2020), and increasing the frequency of audit committee meetings (Syofyan et al., 2021). However, how organizations’ perspectives on risk applies to ARL needs to be given more attention as in the recent study conducted by Choi & Ju Park (2021), which also explored the preference of member organizations in business risk and the study conducted by Toumi et al. (2022) that explored national policies and aggressiveness in business decisions.

5. CONCLUSIONS

This study aimed to examine the characteristics of the auditor and auditee in unity to formulate an integrated model of ARL because prior research examines both characteristics separately. However, ARL research starts from the same theory, namely agency theory. A reputable auditor influences the transparency of the auditee’s financial reporting through professional judgment, so high-risk businesses consider the need for more time in the audit process, which has a consequence in increasing ARL. Therefore, this study assumes that a reputable auditor and financial performance relationship are captive factors in the ARL model.

A reputable auditor consistently maintains professional judgment; therefore, the higher financial performance has the lower ARL. This study considers the influence of business risk and economic conditions on the role of reputable auditors in the ARL. The higher business risk

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level results from economic pressure, requiring more attention in the audit process, so the ARL problem in this period is urgent to understand as a global issue post COVID-19 pandemic. Reputable auditors have been consistently professional during the pandemic period or distress period. For all samples, the audit delay in the distress period is higher than in the non-distress period, but notably, the reputable auditors have less audit report lag than the non-reputable auditors in the distressing periods.

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