

Examining the Role of Audit Quality, Corporate Governance, and Social Responsibility Disclosure in the Audit Report Lag Phenomenon in Indonesia

Francisca Reni Retno Anggraini
Economics Faculty, Sanata Dharma University, Indonesia

Yusef Widya Karsana
Economics Faculty, Sanata Dharma University, Indonesia

Fransiscus Asisi Joko Siswanto
Economics Faculty, Sanata Dharma University, Indonesia

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ABSTRACT

Auditor must adhere to the principle of professional competence and due care. When an auditor doubts the financial statements, they expand their examination to ensure qualified audit. It will lead to a delay in the issuance of the auditor's opinion. We examined the influence of corporate social responsibility (CSR) reports and corporate governance mechanisms on audit report delays. Then, it also examined the role of audit quality in cases of audit report delays. This empirical study used secondary data from annual reports of companies listed on the Indonesia Stock Exchange (IDX) for the 2022 reporting period. There were 118 companies had complete data and were therefore eligible for analysis. Hypothesis testing was conducted using a moderation test model with SEM-PLS. The results of the study indicate that corporate social responsibility has a negative effect on audit report delays, while foreign ownership has a positive effect on audit report delays. Big 4 public accounting firms had greater caution in issuing audit opinions than Non-Big 4 firms. The study implies that the application of ethical principles, namely professional competence and due care, is implemented by auditors in the firms.

Keywords: Audit report delay, corporate governance, corporate social responsibility, audit quality.

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1. INTRODUCTION

The complexity of negotiations between the auditor and the auditee can result in audit process. Auditor needs additional time to convince the client that financial report must be revised. The time required to reach an agreement between the auditor and the auditee, as well as the auditee's acceptance of the audit findings, contributes to the delay in issuing the audit opinion (i.e. Audit Report Lag - ARL). Disagreements between the auditor and the auditee occur when the auditor believes that the auditee has not presented the financial statements in accordance with generally accepted accounting principles, it is leading to delays in issuing the audit opinion. Auditor-auditee disagreements are often associated with the auditee's failure to implement the auditor's recommendations for improving financial reporting.

Delays in issuing audit opinions reduce the relevance of financial reports (Durand, 2019; Krismiaji et al., 2024). However, a higher reputation and greater expertise lead to a faster audit process, resulting in a lower ARL (Anggraini et al., 2024). This study expands previous ARL research models (Abdillah et al., 2019; Anggraini et al., 2024; Durand, 2019; Hananto Andreas & Lei Chang, 2020; Rusmin & Evans, 2017) by examine role of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) as antecedents of ARL.

Previous studies have found evidence that sustainability reports have value relevance (Buallay, 2019; Eriandani & Winarno, 2024). Financial report was insufficient in providing a complete picture of a company's activities. It tended to serve the interests of shareholders alone, whereas today, corporate stakeholders extend beyond shareholders. Sustainability reports have a broader scope than conventional financial reports. In addition to financial information, companies must also disclose environmental and social aspects. Consequently, companies require more time to prepare and report them. Therefore, businesses must consider whether the benefits of these reports for stakeholders, especially for shareholder and creditor.

This study aims to examine legitimacy theory and institutional theory in the context of audit report delays. Auditor professionalism, reflected in their cautious approach to issuing audit opinions, can be explained by these theories. Legitimacy theory posits that companies seek public legitimacy by aligning their operations with societal values and expectations. Companies striving for a good reputation engage more in social activities. A well-prepared CSR report enhances the auditor's confidence in the company's reputation. This trust reduces the auditor's hesitation in providing an opinion on the financial statements, lowering audit risk and expediting the audit process, thereby reducing ARL.

On the other hand, institutional theory emphasizes that organizations conform to prevailing norms, rules, and practices in their environment to gain legitimacy. Corporate governance and CSR serve as adaptations to institutional norms, which demand greater transparency, accountability, and adherence to societal expectations. Companies that adopt strong governance practices tend to comply with strict institutional standards, including transparency and effective risk management, enabling a smoother and faster audit process and consequently reducing audit report lag. Reputable auditors possess higher expertise and authority to require auditees to revise financial reports, leading to lower ARL (Anggraini et al., 2024; Anggraini & Siswanto, 2016). Hence, with high-quality audits, the audit process is more efficient.

This study extended on previous research indicating that auditor characteristics influence audit report lag (Anggraini et al., 2024). Auditors often face ethical dilemmas when issuing opinions on audited financial statements, necessitating additional time to ensure their opinions are accurate. The study confirms that the implementation of CSR and GCG practices by companies fosters auditors' confidence that businesses operate ethically and equitably towards all stakeholders. Consequently, auditors assign a lower audit risk, reducing the scope of audit work, which in turn shortens the audit duration and minimizes ARL

Furthermore, the study provides evidence that foreign ownership leads auditors to exercise greater caution when issuing opinions, resulting in a longer audit process and higher ARL. Lastly, the research highlights the role of audit quality in the context of companies with extensive CSR disclosures and higher foreign ownership. Big 4 public accounting firms, with their greater resources, conduct audits more efficiently, thereby lowering ARL.

However, to maintain their reputation with foreign investors, Big 4 firms tend to exercise greater caution when issuing audit opinions.

2. METHOD, DATA, AND ANALYSIS

2.1 The Type of Research

This study employs a quantitative approach to examine the role of legitimacy theory and institutional theory in explaining the phenomenon of audit report lag (ARL). The research utilizes secondary data obtained from the annual reports of publicly listed companies on the Indonesia Stock Exchange (IDX) for the year 2022. Out of the 998 companies listed on the IDX, only 118 companies provided complete data. Data analysis was conducted using a moderation model test with Structural Equation Modeling-Partial Least Squares (SEM-PLS) (Sholihin & Ratmono, 2013).

2.2 Research Variables

The operational definitions of each variable are as follows:

Good Corporate Governance (GCG)

Corporate governance refers to a set of relationships among management (board of directors), the board of commissioners, and shareholders. This study proxies the GCG variable with the following measures:

- Institutional Ownership (INS_OWN): the percentage of shares owned by institutions relative to the total outstanding shares.
- Foreign Ownership (FOR_OWN): the percentage of shares owned by foreign entities relative to the total outstanding shares.
- Independent Commissioners (INP_COM): the proportion of independent commissioners to the total number of board commissioners.

Corporate Social Responsibility (CSR)

CSR is measured based on compliance with the Financial Services Authority Regulation (POJK) Number 51/POJK.03/2017 regarding Sustainability Reporting for Issuers or Public Company (POJK, 2017). Each required disclosure item is assigned a value of 1 if disclosed and 0 if not. There are 61 required items under the regulation. The CSR variable is measured as the percentage of disclosed items. If company disclosed all 61 items, the CSR variable is valued 100%. Thus, the CSR variable ranges from 0% to 100%.

Audit Quality (AQ)

Audit quality is measured using a dummy variable: 1 if company is audited by big 4 firm and 0 is assigned otherwise.

Audit Report Lag (ARL)

ARL is measured as the number of days between the financial statement date (December 31) and the date the auditor's report is issued.

2.3 Hypothesis Formulation

2.3.1 The Effect of GCG on Audit Report Lag

Companies that implement GCG tend to obey institutional standards, including transparency and effective risk management. Companies that adopt corporate governance practices met institutional norms so they more transparent, accountable, and aligned with societal expectations. As a result, auditors are more likely to trust the financial statements prepared by well-governed companies, then the audit process is more smoothly and efficiently. In turn, it can reduce audit report lag. A strong corporate governance mechanism is achieved through the effective implementation of corporate monitoring functions. The monitoring function can be observed through the company's ownership mechanisms.

Previous studies have shown that companies with high foreign ownership tends to report persistent earnings, thereby increasing earnings informativeness (Jung et al., 2020). Institutional ownership can enhance earnings quality in politically connected firms (Tee & Rasiah, 2020). Additionally, the presence of independent commissioners contributes to improved earnings quality (Alves, 2023). These studies suggest that a strong corporate governance mechanism encourages management to reduce opportunistic behavior, as indicated by improved earnings quality. With higher earnings quality, auditors do not need to expand the scope of the audit (Alzoubi, 2016). Therefore, the greater institutional ownership, foreign ownership, and independent commissioners, the lower the audit report lag.

Thus, the hypothesis is formulated as follows:

H1a: Institutional Ownership has negative effect on Audit Report Lag

H1b: Foreign Ownership has negative effect on Audit Report Lag

H1c: Independent Commissioner has negative effect on Audit Report Lag

2.3.2 The Effect of Corporate Social Responsibility on Audit Report Lag

CSR practices are demonstrated by companies through social activities. By CSR practices, companies build good reputation and commitment to social responsibility. CSR practices enhance the earnings response coefficient (Jeong et al., 2018). When the auditee provides a well-prepared CSR report, auditors gain greater confidence in the company's reputation. It reduces auditors' hesitation in expressing their opinion on the audited financial statements, leading to lower audit risk, a faster audit process, and ultimately, a shorter audit duration. Therefore, increased CSR activities will reduce audit report lag (ARL).

H2: Corporate Social Responsibility has negative effect on Audit Report Lag.

2.3.3 The Effect of Audit Quality as a Moderating Variable on the Effect of Institutional Ownership, Foreign Ownership, Independent Commissioner, Corporate Social Responsibility to Audit Report Lag

The better the reputation of a public accounting firm, the faster the audit process, resulting in a lower audit report lag (ARL) (Anggraini et al., 2024). Therefore, high-quality public accounting firms will strengthen the influence of institutional ownership, foreign ownership, and independent commissioners on audit report lag.

Thus, the hypothesis is formulated as follows:

H3a: Audit Quality as Moderating Variable on the Effect of Institutional Ownership on Audit Report Lag

H3b: Audit Quality as Moderating Variable on the Effect of Foreign Ownership on Audit Report Lag

H3c: Audit Quality as Moderating Variable on the Effect of Independent Commissioner to Audit Report Lag

H3d: Audit Quality as Moderating Variable on the Effect of Corporate Social Responsibility on Audit Report Lag

3. RESULT AND DISCUSSION

This study is quantitative research in which data is collected from annual reports and sustainability reports of companies listed on the Indonesia Stock Exchange. A total of 118 companies of with complete data were included in the analysis.

Table 1 Characteristics of Samples

Industry	Number of Company	%
Apparel & Luxury Goods	15	13%
Chemical	15	13%
Metals & Minerals	13	11%
Containers & Packaging	12	10%
Others (19 industries)	55	46%

Source: www.idx.go.id

Table 1 shows there are four dominant industrial groups (i.e. apparel and luxury goods, chemical, metals and minerals, containers and packaging) and other groups are 19 industrial groups. It means high variability of industrial groups, so the representativeness of sample is adequate.

Data analysis was conducted using Warp PLS 7.0, as it allows simultaneous model testing. The results of the research model testing are as follows:

Table 2 Model Fit and Quality Indices

	Coefficient	p-Value
Average path coefficient (APC)	0.132	0.035
Average R-squared (ARS)	0.324	<0.001
Average Full Collinearity VIF (AFVIF)	1.527	ideal

The research model results are shown in Table 1 which indicate that the APC value is 0.132 (0.035) and the ARS value is 0.259 (<0.001). This confirms that the goodness-of-fit criteria for the model have been met. The AFVIF value of 1.527, which measures the level of multicollinearity in the model, is below 3.3, indicating that multicollinearity is not present (Sholihin & Ratmono, 2013).

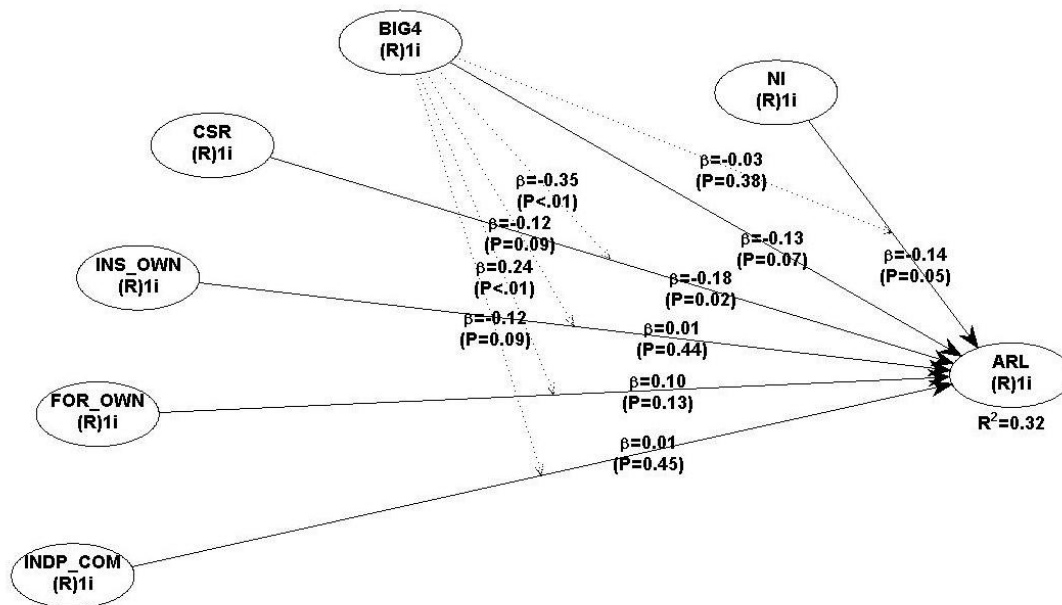


Figure 1. The Analysis Results of Research Model

Notes:

- INS_OWN=Institutional Ownership
- FOR_OWN=Foreign Ownership
- IND_COM=Independent Commisioner
- CSR=Corporate Sustainability Report Index
- BIG4=Big4 firm
- NI=Net Income

Figure 1 shows interactions of independent variables, moderating variables, and dependent variable. The analysis results show that two independent variables (CSR and For_Own) influence to ARL. The effects are also strengthened by Big 4.

Table 3 Path Analysis

Hypothesis	Relation	Coefficients	Significance (p-value)	Decision
H1a	INS_OWN→ARL	0.014	0.441	Not Supported
H1b	FOR_OWN→ARL	0.100	0.133	Not Supported
H1c	INDP_COM→ARL	0.011	0.452	Not Supported
H2	CSR→ARL	-0.182	0.020	Supported
-	BIG4→ARL	-0.130	0.073	Not Significant
-	NI→ARL	-0.143	0.055	Not Significant
H3a	BIG4*INS_OWN→ARL	-0.120	0.090	Not Supported
H3b	BIG4*FOR_OWN→ARL	0.244	0.003	Supported
H3c	BIG4*INDP_COM→ARL	-0.122	0.087	Not Supported
H3d	BIG4*CSR→ARL	-0.355	<0.001	Supported

Notes:

INS_OWN=Institutional Ownership

FOR_OWN=Foreign Ownership

IND_COM=Independent Commissioner

CSR=Corporate Sustainability Report Index

BIG4=Big4 firm

NI=Net Income

Table 3 shows that H2, H3b, H3d supported. It means that CSR influence ARL, while the other variables do not have a significant impact on ARL. Then, the results show BIG4 has moderating role in the influence FOR_OWN and CSR to ARL.

4. DISCUSSION

4.1 Good Corporate Governance, Audit Quality, and Audit Report Lag

The result shows that CSR practices enhance company reputation and commitment. It influences auditor trust to the company. If auditor convince the quality of companies's financial report. It turn lower audit process. The findings support previous research suggesting that business risk increases audit risk, which in turn prolongs the audit process (Abdillah et al., 2019; Bailey & Abbott, 2018; Brown-liburd & Zamora, 2015; Cassell et al., 2018; Durand, 2019). This study shows that greater CSR practices is associated with a lower risk of litigation, prompting companies to be more cautious in disclosing financial information to shareholders. Such caution influences the scope of the audit, resulting in a longer audit duration.

The study also reveals that audit quality strengthens the impact of foreign ownership on audit duration. Reputable auditors have a more structured audit mechanism and adhere to strict audit procedures, ensuring that errors in audit opinions are avoided. Foreign shareholders demand high-quality audit results, and reputable auditors strive to maintain their credibility to foreign investors. As a result, the audit process takes longer. These findings support the argument that high-quality auditors exercise greater caution when issuing audit opinions (Anggraini et al., 2024; Hamilton, 2016).

4.2 Corporate Social Responsibility, Audit Quality, and Audit Report Lag

The findings of this study indicate that CSR practices have a negative effect on ARL. A company which engages in CSR activities more seriously, leading to lower management expropriation risks so being auditors trust that the business is being conducted responsibly. As a result, auditors assign a lower audit risk, which in turn narrows the audit scope, allowing for a faster audit process (Akisik & Gal, 2017; Axjonow et al., 2018; Harjoto & Laksmana, 2016; Hickman, 2020; Hoozée et al., 2019).

Reputable auditors also believe that CSR practices implemented by companies will be positively received by shareholders. This benefits auditors by strengthening shareholder confidence in the company. Consequently, CSR practices reduce business risk, allowing auditors in BIG 4 firms lower audit risk. By reducing audit risk, the audit scope can be limited. A narrower audit scope speeds up the audit process, ultimately reducing ARL. These findings support previous research stating that CSR disclosures reduce ARL (Wang & Wang, 2023).

5. CONCLUSION

The findings of this study indicate that companies that engage in more extensive CSR practices lead auditors to believe that the company conducts its business more ethically. Companies that follow ethical business practices receive positive responses from shareholders. This positive response reduces business risk, and consequently, auditors assign a lower audit risk because they trust the company's ethical behavior. This assists auditors in conducting audits by reducing the audit scope.

The study also shows that big 4 firm strengthen the influence of foreign ownership on the duration of the audit process. This means that foreign ownership leads to stricter monitoring and control over business practices. Auditors, seeking to maintain their reputation, especially among foreign shareholders, conduct audits with greater caution. As a result, the audit process takes longer. BIG 4 firms which have higher audit quality take audit process more carefully when auditee has higher litigation risk.

The study's findings imply that legitimacy theory and institutional theory are supported. Companies implement extensive CSR practices to enhance their reputation, legitimizing themselves in the eyes of shareholders and auditors. This fosters trust that the company conducts business ethically, allowing auditors to reduce the audit scope. The study also supports institutional theory, demonstrating that foreign ownership increases corporate monitoring, compelling auditors to exercise greater caution when issuing opinions. Consequently, the audit process becomes longer.

A limitation of this study is the lack of complete CSR data for many public companies, despite government regulations—specifically those from the Financial Services Authority (OJK)—mandating CSR disclosure. This affects the adequacy of the research data collected. The limited data availability may reduce the generalizability of the study's findings.

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