



Influence of audit committee and internal audit on audit report lag: Size of public accounting firm as a moderating variable

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ABSTRACT

This study aims to examine the effect of the audit committee and internal audit on the audit report lag and examine the relationship between the audit committee and the internal audit moderated by the size of a public accounting firm. This study uses 220 samples of manufacturing companies listed on the Indonesia Stock Exchange based on purposive sampling. The analytical method used is Partial Least Square (PLS). The results show that the audit committee influences the audit report lag while the internal audit has no effect. The size of a public accounting firm successfully moderated the relationship between the audit committee and audit report lag, but failed to moderate the relationship between the internal audit and audit report lag.

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Introduction

Audit report lag is the time interval from the end of accounting records in one period until the audit report is released. Audit Delay which is increasingly high impacts the longer time needed to report financial statements (Rahmayanti, 2016). The duration of the audit measured by the number of days from the end of the year to the day the auditor signs the audit report, influences the timeliness of the submission of the financial statements (Hasim et al., 2013). The Indonesia Stock Exchange reports every year from 2015 to 2018 there are always companies that are late in submitting financial reports. This delay is not in line with Indonesian government regulations issued by BAPEPAM No. X.K.2 decision number 346 / BL / 2011. The regulation states that the audited annual financial statements are submitted no later than the end of the third month after the date of the annual financial statements.

This delay can cause companies to get sanctions and harm the company (Kusuma and Manurung, 2017). Besides that, the late submission of financial statements is also not by the qualitative characteristics of financial statements so that the information contained can be used as a basis for decision making. Information in financial statements must meet the qualitative characteristics of relay van, so that information can influence decisions and achieve relevance, financial statements must be submitted on time (Alkhatib and Marjim 2012). Timeliness in submitting financial statements will also minimize the existence of agency problems. Several factors can affect the audit report lag.

Putra et al. (2017) state that the audit committee factor influences audit report lag because the audit committee is responsible for ensuring company compliance with regulations related to the company. Companies that comply with regulations will support the creation of good financial statements that are free of errors and injustices so that it will shorten the audit report lag. Audit internal consisting of the number of members and the experience of the Chief of Internal Audit to give effect to the audit delay this is due to the internal audit has an important role to reduce their manipulation in the statement of financial problems due to the agency, the role of internal audit is done through a process of evaluation and control (Putra et al., 2017)

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Alfraih (2016) states that public accounting firms influence audit delay in companies with joint audit regulations in Kuwait. That is because the public accounting firm consisting of public accounting firm incorporated in the big four has more sophisticated expertise and work tools that encourage faster audit, also, they will try to maintain their good name by conducting an appropriate and fast audit process. Ariyani and Budiarta (2014) mentioned that the reputation of the public accounting firm as measured by the big four and no big four public accounting firm influences the audit report lag, this is because the public accounting firm that has a good reputation will provide jobs with good quality work. work effectively and efficiently.

Long audit report lag can cause delays in the submission of annual financial statements. The phenomenon of delays in submitting financial statements has occurred every year. Delay in submission of financial statements can lead to greater information gaps, and cause companies to get sanctions from BAPEPAM or OJK. Therefore, this research is important to do to create corporate discipline and to prevent sanctions that are received by the company. this research is quantitative. using secondary data in the form of an annual report of manufacturing companies listed on the Indonesia Stock Exchange in 2015 - 2018. The research sample was selected using purposive sampling.

Literature Review

Agency Theory

The agent and principal relationship is the relationship that contains the contract. Principals give authority to agents to run their companies with the capabilities and expertise they have. This relationship gives rise to information asymmetry and a conflict of interest between the two. A supervisory, inspection, control and evaluation fund besides helping independent auditors in auditing is also a way to reduce agency problems between agents and principals. The existence of this audit committee has an effect on reducing audit report lag because the presence of the audit committee has a role in ensuring the strengthening of communication between management and external auditors, besides the existence of the audit committee is able to assist the auditor's assessment of control risk, audit risk and substantive assessment, thereby affecting the audit hours already planned (Afify, 2009). Hassan (2016) mentions the existence of an audit committee is seen as a monitoring mechanism that will increase the flow of information between management and shareholders and reduce information asymmetry. Audit committees are formed to oversee the running of the company and to reduce agency problems. the audit committee influences the audit report lag because of the audit committee functions according to its task of reviewing the financial information to be issued and monitoring the company's compliance with regulations so that the audit process does not take long (Putra *et al.*, 2017); (Noor and Apdore, 2013). Based on the description above, the alternative hypothesis is as follows:

H1 1: The audit committee influences the audit report lag

Internal audit is an activity to provide assurance and consultation that is independent and objective. It aims to increase value and improve company operations through a systematic approach, by increasing and evaluating the effectiveness of risk management, control, and corporate governance. The existence of an evaluation process on the effectiveness of risk management control and corporate governance by internal audit will result in companies that are free of irregularities. The company's operational processes that are free of irregularities make the information on the financial statements produced more following generally accepted standards, this condition will shorten the time used to audit so that the audit report lag decreases (Putra *et al.*, 2017). The existence of an internal audit is needed to provide feedback to external audits, generally, companies form internal audits to minimize the burden of external audits as well as a form of compliance with corporate governance (Noor and Apdore, 2013). Internal audit has a coordinating function with external auditors, the greater the coordination will result in more timely financial reporting. Internal audit function inside increasing the degree of coordination also increases the effectiveness of internal audit contributions in financial statements to enable audit work at the end of the year to be completed more quickly (Taktak and Oussii, 2018). Based on the description above the alternative hypotheses that are formed are:

H 2: Internal audit influences audit report lag

Agency theory that explains the relationship between agents and principals requires an independent party as an intermediary between the two. The independent party functions as the party that checks and assesses. Inspections and assessments are carried out through an audit process. The audit aims to assure principals or other recipients of information that the information released by the company is true information. The public accounting firm is an independent party outside the company that has the authority to examine and assess the company's financial statements. The company will choose a public accounting firm that has good quality to increase the value of the company and increase reader confidence.

Big four public accounting firms are considered to be of good quality and are significantly faster than no big four public accounting firms because they have a greater incentive to complete their work faster and to maintain their reputation (Al-fraih, 2016). Big four public accounting firms tend to specialize audits in certain fields and industries, this ultimately results in more efficient audit work, in addition, big four public accounting firms are supported with large resources such as adequate and qualified staff so as to reduce work time audit (Che-Ahmad and Abidin, 2008); (Rusmin and Evans, 2017); (Santosa, 2014).

The reputation of the public accounting firm strengthens the relationship between the audit committee and audit delay because the audit committee that uses the reputation of a good public accounting firm is believed to be able to complete financial reports on time

with good accuracy (Prabasari and Merkusiwati, 2017). Good coordination between internal auditors and external auditors will shorten the audit report lag. Internal auditors will provide useful information for external auditors, especially to understand how the company works, how the company environment and assist in identifying the risk of material errors (Taktak and Oussii, 2018). Therefore, qualified auditors are needed and have good enough experience to create effectiveness and efficiency in the audit process. Based on the description above the alternative hypothesis that the researcher made is :

H 3: The size of the public accounting firm strengthens the relationship between the audit committee and the audit report lag.

H 4: The size of the public accounting firm strengthens the relationship between internal audit and audit report lag.

Research and Methodology

The study population was companies listed on the Indonesia Stock Exchange (IDX) in 2015 - 2018. Samples were taken by purposive sampling technique. The data analysis method used in this research is Structural Equation Modeling (SEM) with variance-based SEM or Partial Least Square (PLS). The tools used to me m process the data is warpPLS 6 .0.

Audit report lag is calculated from the difference in days from the closing date of the book which is December 31 until the date the independent auditor's report is published (Rusmin and Evans, 2017); (Hassan,2016); (Noor and Apdore, 2013); (Afify, 2009). The audit committee is measured by the number of members, expertise in finance, frequency of meetings, the percentage of women in the audit committee (Putra et al., 2017). Internal audit is measured by the number of internal audit members, the level of education of the head of the internal audit unit, and the level of work experience of the head of the internal audit unit (Putra et al., 2017). The size of a public accounting firm is measured by a dummy variable where 1 is a big four public accounting firm and 0 is a no big four public accounting firm (Al-Fraih, 2016); (Iyoha, 2012); (Al-Ghanem and Hegazy, 2011).

Result and Discussion

The Outer Model Test

Outer model testing is used to measure the validity and reliability of the research model. Validity test to determine the ability of research instruments to measure what should be measured. This test is done by looking at the convergent test and discriminant validity test. The results of the convergent test and discriminant validity test states that several measurement indicators must be eliminated because they are not following the requirements. The requirements is the loading value > 0.7. The omitted indicators were the number of audit committees (KA1), financial expertise (KA2), female members in the audit committee (KA4), level of experience of the head of the internal audit (AI3). Therefore, the remaining indicators used as measurements are the frequency of audit committee meetings (KA3), the number of internal audit members (AI1) and the education level of the head of the internal audit unit (AI2). The reliability test results using composite reliability states that the audit report lag (ARL) variable, the audit committee, and the internal audit have met the measurement requirements because they have values above 0.7.

Multicollinearity Test / Goodnes Of Fit

goodness of fit test is used to see whether the model used is supported or following the data. This test is also to see if there are symptoms of multicollinearity. The assessment indicators in this test consist of average R-squared (ARS), average path coefficient (APC), and variance inflation factor (AVIF). Based on the results of testing the ARS and APC values have been significant because 0.02 is less than 0.05 (<0.05) means that the data has supported this research model. AVIF value of 1,313 less than 5 has fulfilled the requirements which means that this study has been free from multicollinearity symptoms.

Inner Model Test

This test looks at the value of R-squared and Q-squared. Rated R-squared describes how much the independent variables can explain the dependent variable. Value Q-squared describes the predictive value of the model. Based on the results of testing independent variables consisting of an audit committee, internal audit and company size can explain the ARL dependent variable of 6.6% with a predicted value of 7% while the other 93.4% is explained with other factors.

Hypothesis Test

Hypothesis testing is divided into two stages, the first stage is testing the effect directly between the audit committee, internal audit and company size on audit report lag. In this study depicted H1 - H3. The second stage is multigroup testing of the influence between the audit committee, internal audit and company size which is moderated by the size of the public accounting firm. The results in the first stage are as follows:

Table 1: Hypothesis Test 1

Relationship	Coefficient	P - value	Hypothesis
KA -> ARL	-0,12	0,03	H1 Accepted
AI -> ARL	-0,04	0,28	H2 Rejected
UP -> ARL	-0,17	0,001	H3 Accepted

Source: Output WarpPls 6.0

Based on the table above the first hypothesis (H1) which states that the audit committee influences the audit report lag is accepted. This is because the p-value of 0.03 is smaller than 0.05 ($0.03 < 0.05$). The coefficient value on the relationship between the audit committee and ARL is -0.12 which means that the audit committee has a negative effect on audit report lag. This supports the agency theory that the oversight function of the audit committee shortens the audit report lag. A fund of the audit committee also assists the external auditor in conducting the assessment so that it does not take long enough because the audit committee is tasked with conducting reviews and monitoring the company's compliance with applicable regulations. Agency problems that will emerge can be minimized because financial statements are submitted on time so as not to cause longer information asymmetries and minimize the possibility of conflicts of interest due to oversight by the audit committee. These results are in line with Hassan's research (2016); Noor and Apdore (2013); Afify (2009); Taktak and Oussii (2018); Rahayu (2017); Putra et al. (2017).

The second hypothesis states that internal audit affects audit report lag. The p-value for this relationship is 0.28 greater than 0.05 ($0.28 > 0.05$) meaning that the second hypothesis (H2) is rejected. The coefficient of the relationship between internal audit and ARL is -0.04, meaning that internal audit has a negative effect on ARL. The hypothesis in this study was rejected because it was suspected that the internal audit was not able to carry out these tasks properly. The existence of an internal audit is supposedly only as a form of compliance with government regulations that require an internal audit but are not good in carrying out its functions. This does not help the external auditor in the audit process, causing longer audit report lag. This result is in line with research by Noor and Apdore (2013) which states that internal audit does not affect ARL, but contradicts the research of Putra et al. (2017); Taktak and Oussii (2018); Hassan (2016).

Table 2: Hypothesis Test 2

Relationship	Sub Sampel	N	Beta	Standar Error	Pooled Standar Error		Satterthwaite	
					Thitung	p-value	Thitung	p-value
KA – ARL	BF	107	0.031	0.096	2.774	0.006	2.756	0.006
	NBF	113	-0.326	0.087				
AI – ARL	BF	107	-0,143	0.093	0.832	0.406	0.829	0.408
	NBF	113	-0.046	0.093				

Source : Output WarpPls 6.0 and Microsoft Excel

Hypothesis third and fourth, samples in the study were divided into two. The first sub-sample is companies audited by the big four public accounting firm (BF), the second sub sample is companies audited by a no big four public accounting firm (NBF). The number of BF sub samples is 107 and the NBF sub sample is 113. Testing of H3-H4 using Microsoft Excel by entering the coefficient and standard error in Microsoft Excel. Based on the hypothesis test table 2, moderate-sized public accounting firms with the audit committee ARL have a p-value of 0.006. This value is smaller than 0.05 (< 0.05), meaning that the size of the public accounting firm moderates the relationship between the audit committee and ARL, H3. The coefficient value on the audit committee relationship with the ARL for the BF sub-sample is 0.031 and the NBF sub-sample is -0.326. This means that the BF sub-sample increases the moderation relationship between the audit committee and ARL while the NBF sub-sample reduces the moderation between the audit committee and ARL. These results support the theory that the relationship between agents and principals must be strengthened by the presence of an independent party to assure the principal or reader of financial statements. The impact of the size of the public accounting firm strengthens the relationship between the audit committee and the audit report lag because the size of the large public accounting firm has disciplined scheduling and has selected auditors. This study is in line with the research of Prabasari and Merkusiwati (2017).

The fourth hypothesis states that the size of the public accounting firm moderates the relationship between internal audit and ARL. Based on the p-value hypothesis test on the internal audit related to the ARL from the BF sub-sample or NBF of 0.41 (> 0.05) this value is greater than 0.05 so the fourth hypothesis is rejected, this is in line with the H2 test that tests the internal audit relationship to ARL directly without moderation. The size of the public accounting firm did not succeed in moderating the relationship between internal audit and audit report lag, allegedly because currently, the no big four public accounting firm is competing in improving the quality of work of its auditors thereby increasing the confidence of its clients and also the readers of financial statements in general. This result is not in line with Taktak and Oussii (2018) because the coordination between internal audit and the auditors of the big

four public accounting firm did not run smoothly. Furthermore, because the internal audit only to compliance with corporate regulations or other causes.

statistical R-squared value after the moderation of 0.124 whereas before there was a moderation of 6.6% means that the model both increasing independent variables in explaining the dependent variable was 12% with predictive value also increased from 7% to 13.1% means this moderation model increases better because there is an increase.

Conclusions

This study examines the effect of the audit committee, internal audit on audit report lag with the size of the public accounting firm as a moderating variable. The sample of this research is manufacturing companies listed on the Indonesia Stock Exchange in 2015-2018. the results of this study indicate that the existence of an audit committee can shorten the audit report lag. the better quality of the audit committee cause the audit report lag to be lower. while internal audit does not affect audit report lag. These results also state that the size of the public accounting firm has moderated the relationship between the audit committee and audit report lag. This study has a limitation of the independent variable evaluation indicators, it is hoped that the next researcher will be able to add variable assessment indicators so that they can measure the independent variables better.

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