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Analysis of Audit Delay Determinants and Effect on Investor Reaction

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Abstract
This research aims to prove empirically the analysis of the determinants of audit delay and its effect on investor reactions. This research uses a sample of entities that are members of the Kompas 100 Index, with a period from 2017 to 2019. The data used is secondary data. The sample was taken using purposive sampling, with a total sample of 93 samples in this research. The results of this research indicate that the complexity of financial statements is supported, in which the complexity of financial statements has a positive effect on audit delay. Meanwhile, financial distress, type of industry, restatement of financial statements and related party transactions on audit delay, and audit delay on investor reactions are not supported. However, the results for the type of industry on audit delay indicate that the type of industry has a negative effect on audit delay, while the results for audit delay on investor reactions indicate that audit delay has a positive effect on investor reactions.

Keywords: *financial distress, complexity of financial statements, type of industry, restatement of financial statements, related party transactions, audit delay, and investor reactions.*

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I. Introduction

The development of the capital market in Indonesia is currently increasing. This situation is marked by the increasing number of entities that go public. In 2020, data from the Indonesia Stock Exchange (IDX) shows that there are 51 companies that go public, this will have the effect of increasing the number of annual financial statement audits because all public entities listed on the IDX are required to submit annual financial reports every year. Investing in securities in the capital market is influenced by a lot of information. This information serves as the basis for taking into account market participants when making investments. According to Mulyadi (2002), this information reveals facts, data, observations and perceptions, or other things that contribute to knowledge. Information is needed to reduce uncertainty. In this case, the information is related to the annual financial statements used by market participants to make investment decisions.

Every public entity that is incorporated in the Indonesia Stock Exchange must present an annual report to the Financial Services Authority no later than the end of the fourth month (120 days) of the closing year and submit an annual financial report no later than the end of the third month (90 days) of the closing year. This is stated in the decision of the Financial Services Authority Number 29 /POJK.04/2016 regarding the reporting of the annual report of public entities. In accordance with Financial Services Authority regulations, each entity is required to publish audited financial statements based on a predetermined time limit. This condition makes every entity and Public Accounting Firm have to make a strategy related to audited financial statements that can be completed on time, considering that the auditing process takes a lot of time to complete.

The development of the economy and the business world from year to year has had a major impact in various aspects. Of course, in this development, each entity wants to submit its audited financial statements properly and on time. Data from the Indonesia Stock Exchange shows that there are still entities that have not presented audited financial statements in a timely manner including for the 2016 closing year there were 17 companies, for the 2017 closing year there were 10 companies, for the 2018 closing year there were 10 companies, for the closing year In the 2019 book, there were 42 companies, and for the closing year of 2020, there were 96 companies.

Halim (2000) states that the timely submission of financial reports and audit reports is the main requirement to increase the share price of an entity. According to Ashton et al. (1987) the timeliness of the publication of accounting information can be affected by audit delay. In Ashton et al. (1987) also defines that audit delay is the time span between the closing year of the financial statements until the opinion on the audited financial report is signed. The lag between the closing date and the auditor's financial report indicates the length of the audit period . The longer an auditor conducts an audit, the longer the audit report will be completed. On the other hand, the shorter the time required for the auditor to complete the audit task , the shorter the delay in the audit report .

Financial distress is the financial condition of an entity that is not healthy or is in a state of crisis, another meaning of financial distress is the condition of an entity struggling financially to fulfill its obligations (Fitria *et al.,* 2020) . One of the characteristics of an entity experiencing financial diatress is a significant change in the composition of assets and liabilities, such as negative cash flow balances and a high ratio of liabilities to assets . In the study of Sofiana *et al.* (2018) explained that entities experiencing financial distress tend to be less timely in submitting their financial statements compared to entities that do not experience financial distress.

Other factors that affect the delay in audit reports is the complexity of financial statements. In PSAK No. 4 (IAI, 2015), the financial statements are divided into two parts, the first is the unconsolidated financial statements . This type of report is a financial report prepared by independent companies, each of which prepares its own financial statements . The second type of financial report is a consolidated financial report, this type of report is usually prepared by companies that have subsidiaries or branches of the main company, so that in the process of annual financial statements the company needs to consolidate or combine the financial statements of the subsidiary with the parent company so that a consolidated report of the entire company. The complexity in the preparation of consolidated financial statements is estimated to be able to have an influence on the timeliness of reporting financial statements, this is because the process of preparing this report requires a relatively long time due to the complexity of recording entities in the report (Rosyidah, 2013) .

Another factor that is thought to have a role in the lateness of the company's financial reporting is the type of industry. Nurahmayani *et al.* (2018) states that each entity has different characteristics from one company to another, these differences in character can trigger different lengths of time required for an auditor in the process of completing the audit of the entity's financial statements and in the publication process. In the research of Hakim & Sagiyanti (2018), it is stated that the types of industrial entities are generally divided into two types, namely: first, the types of financial industry entities, including the banking sector, financing institutions, and securities or securities companies, as well as insurance. The second type of entity, namely non-financial industrial entities, includes manufacturing entities, namely various industries, consumer goods industries, as well as basic and chemical industries. One of the differences between these two types of industry lies in the audit process, the financial industry has less inventory, so the audit scope of the financial industry tends to be shorter. As for the non-financial industry, due to the complexity of the inventory, the audit time will be longer, causing audit delay.

Another potential factor that is estimated to be able to affect the time span for the completion of the financial statement auditing process by the auditor is the restatement of financial statements. The rules regarding the restatement of financial statements are regulated in the Guidelines for Financial Accounting Standards (PSAK) No. 25 (IAI, 2019) shows that the purpose of preparing financial statements takes into account the maintenance of the relevance of financial statements, their reliability and comparability. When a company is required to restate its financial statements due to misstatements or other reasons, the burden in the auditing process will also increase (Adisetya & Kurniawati, 2019) . After the process of restatement of financial statements has been carried out, the auditor first needs to conduct an evaluation to assess whether the comparative information before and after restatement is in accordance with the restatement provisions previously requested. After conducting the evaluation, the auditor must then add audit procedures, this is intended to obtain sufficient audit evidence in the process of determining whether there is a material misstatement. This procedure is contained in ISA 710 on comparative information.

In addition to financial difficulties, complexity of financial statements, type of industry and restatement of financial statements, other factors that are estimated to be able to affect the time span for completing the auditing process of financial statements by the auditor are related party transactions. A related party transaction is a sale and or purchase transaction between several parties who have a special relationship. The existence of this special relationship generally occurs because of the ownership relationship. In PSAK No. 7 (IAI, 2015) explains that related party transactions are transactions made between companies and their subsidiaries, affiliates, owners, family of companies, or owners of entities. In the financial statements related party transactions must be disclosed, the disclosure of financial statements is useful for market participants or users of financial statements in seeing the transaction risk in the entity (Apriyani, 2015). This related party transaction has the potential for risk, this is because there is a special relationship in the transaction, where the price in the transaction can be too cheap or too expensive. The existence of a special relationship in related transactions, the auditor must be aware of and the need for caution in carrying out the audit process, because the potential risks that occur in these transactions must be examined and presented in the financial statements by the auditor.

Investors are the main players or have an important role in the capital market. The motivation of investors in investing in the capital market is to obtain a return. Investors are always required to follow capital market developments and have as much information as possible related to stock price movements, in this case audited financial statements, this is done so that investors get optimal returns (Hidayatulloh & Mulya, 2013). Audited financial statements are very helpful for investors in making decisions and predicting their decisions, so that the timeliness in presenting financial statements makes investors respond, so that this will have an influence on the level of uncertainty in making decisions based on the information obtained.

II. Theory Review And Hypotheses Development

2.1 Signaling Theory

Signaling theory is a theory that explains that one party (agent) sends information about itself to another party (principal) (Connelly, 2012). Signaling theory emphasizes the importance of any information disclosed by a business entity that has an impact on investment decisions by external parties. In essence, any information presented by a business entity can be an indication and even be able to provide an overview of the conditions that have been passed, current conditions and a description of the condition of the entity in the future. Girsang et al. (2015) disclosed that all investors need information that serves as a basis for conducting analysis before deciding to invest, besides that the information must contain all information related to the entity , be reliable, and be able to describe the current condition of the entity .

2.2 Hypothesis Development

In the study of Sofiana *et al.* (2018) explained that entities experiencing financial distress tend to be less timely in submitting their financial statements compared to entities that do not experience financial distress. Another thing, financial distress describe a reflection of bad news experienced by an entity, so that an entity takes a longer time when it is audited, because the entity is trying to improve its financial statements to make it look better. From the explanation above, the researcher developed the hypothesis, namely:

H1: Financial distress have a positive effect on audit delay .

Complexity in the preparation of consolidated financial statements is estimated to be able to have an influence on the timeliness of reporting financial statements, due to the process of preparing these reports requiring a relatively long time due to the complexity of recording entities in the report (Rosyidah, 2013) . The preparation of consolidated financial statements also requires all accounting information from each company. Obtaining various information, then there are several stages to prepare consolidated financial statements, this can cause time needed in conducting the auditing process considering there is a lot of information that must be studied and seen in conducting an audit. From the explanation above, the researcher developed the hypothesis, namely:

H2: The complexity of financial statements has a positive effect on audit delay

In the research of Hakim & Sagiyanti (2018), it is stated that the types of industrial entities are generally divided into two types, namely: first, financial industry entities, including the banking sector, financing institutions, and securities or securities entities, as well as insurance. The second type of entity, namely non-financial industrial entities, includes manufacturing entities, namely various industries, consumer goods industries, as well as basic and chemical industries. One of the differences between these two types of industry lies in the audit process, the financial industry has less inventory, so the audit scope of the financial industry tends to be shorter. As for the non-financial industry, due to the complexity of the inventory, the audit time will be longer, causing audit delay. From the explanation above, the researcher developed the hypothesis, namely:

H3: Type of industry has a positive effect on audit delay

After the process of restatement of financial statements has been carried out, the auditor first needs to conduct an evaluation to assess whether the comparative information before and after restatement is in accordance with the restatement provisions previously requested. After conducting the evaluation, the auditor must then add audit procedures, this is intended to obtain sufficient audit evidence in the process of determining whether there is a material misstatement. This procedure is contained in ISA 710 on comparative information. Furthermore, the process of adding audit procedures will have an impact on the length of time span for the completion of the audit process or what is known as audit delay. From the explanation above, the researcher developed the hypothesis, namely:

H4: The restatement of financial statements has a positive effect on audit delay

The existence of a special relationship in related transactions, the auditor must be aware of and the need for caution in carrying out the audit process, because the potential risks that occur in these transactions must be examined and presented in the financial statements by the auditor. Of course, in carrying out the audit process, the auditor needs certain skills and a longer time to ensure that related party transactions do not have potential risks for users of financial statements, besides that the auditor must ensure that business entities must comply with and carry out every applicable legal regulation, not only that, the auditor must also be able to ensure that the entity runs its business ethically and morally (Pebri *et al.,* 2020) . The auditor 's actions take a long time , therefore these related party transactions can affect audit delay. From the explanation above, the researcher developed the hypothesis, namely:

H5: Related party transactions have a positive effect on audit delay

The reaction given by investors can be shown by the changes that occur in the price of the securities of the entity concerned. Return *as* the value of changes in prices or with abnormal returns can be used as a measuring tool to see the reactions given by investors. If abnormal returns is used , it can be concluded if an announcement containing information will give abnormal returns to the market (Hidayatulloh & Mulya, 2013) . The length of reporting on audit reports can affect the timeliness of published information, so that delays can lead to negative reactions from interest users, in this case investors (Suryapraja & Novianti, 2020) . From the explanation above, the researcher developed the hypothesis, namely:

H6: Audit delay has a negative effect on investor reaction

III. Research Methodology

3.1 Population and Sample

The population of data used for this test is data from each entity that is incorporated in the BEI. Specifically, companies that are included in the list of the Kompas100 Index. In addition, the entities that are incorporated in the Kompas100 index must be companies that are consistently registered during the 2017 to 2019 recorded year. The research sample taken as a research sample must be an entity that is consistently included in the Kompas 100 list in the 2017 to 2019 period, an entity that has the information needed during the 2017 to 2019 period, an entity that uses Rupiah as the reporting currency.

3.2 Variable Operation

The dependent variables used in this research are audit delay and investor reaction. According to Ashton et al. (1987) the timeliness of publication of accounting information can be affected by audit delay. In Ashton et al. (1987) also defines that audit delay is the time span between the closing year of the financial statements until the opinion on the audited financial report is signed. The formula used to calculate audit delay is:

Audit Delay = Auditor Report Date – Financial Statement Date

In this study, investors' reactions are proxied by abnormal returns in order to see the reactions of investors in the stock market. Abnormal return is the value obtained from the excess between the actual results and normal returns. Meanwhile, cumulative abnormal return is the daily cumulative abnormal return of each - each share in each entity.

Companies experiencing financial distress can be seen from the characteristics of the presence of significant changes in the composition of the company's assets and liabilities on a negative cash flow balance, the high comparative value between the company's assets and the entity's debt. Altman Z-Score can predict whether an entity is going bankrupt or not. Z-Score can be formulated with the formula:

$$\text{Z-score} = 1{,}2X1 + 1{,}4X2 + 3{,}3X3 + 0{,}64X4 + 1{,}0X5$$

Dummy variables are used to determine the complexity of the company's financial statements. Which for companies that present consolidated reports is assigned a value of “1” while for entities that do not present consolidated statements it is assigned a value of “0”.

Dummy variable is used as a measure in this research, which if a company is included in the category of industrial type engaged in finance, it will be given a dummy value of "1" while companies that are not included in the financial category are given a dummy value of "0".

The restatement variable is operationalized by using a dummy variable , which if the company being tested in this research does restatement of its financial statements, then the company will be categorized as a dummy "1", whereas if the company being tested does not restate its financial statements then will be assigned a dummy value of “0”.

In preparing the company's financial statements, it is better if there are related party transactions that must be disclosed to the public through their financial statements. Related party transactions are proxied by the natural logarithm of related transactions of sales, purchases, receivables, and payables (Rafizadeh, 2016).

IV. Data Analysis And Discussion

Equation One . t-test results

Model	B	t	Sig.	Hypothesis Test Results
(Constant)	11.86	0.30	0.76	
Financial distress	0.00	0.38	0.71	H1 is not accepted
Complexity of financial statements	26.53	3.60	0.00	H2 accepted
Industry Type	-25.04	-3.74	0.00	H3 not accepted
restatement of financial statements	-6.53	-1.04	0.30	H4 not accepted
Related Party Transactions	1.45	1.00	0.32	H5 not accepted

Source : data processing, 2022

Based on the results of the t test in the equation one table, it shows that the value of $\beta_1 = 0.00$ with a t-test significance of 0.71 and a t-value of 0.38 which means that it exceeds a significance value of 0.05, meaning that the financial distress variable has no effect on the audit . delay or H1 is not accepted because the t-test significance value of 0.71 is greater than 0.05. This indicates that the audit process required by auditors on entities listed in the Kompas 100 index does not take a long time to complete the audited financial statements, because on average, the entities listed in the Kompas 100 index have conditions that may experience financial distress.

The results of the t-test in the equation one table, for the financial statement complexity variable, show that the value of $\beta_2 = 26.53$ with a significance of 0.00 and a t-value of 3.60 which means it is smaller than a significance value of 0.05, meaning that the complexity variable has an effect. significantly to audit delay or H2 is accepted. The financial statement complexity variable has a positive relationship to audit delay . This is indicated by the t value of 3.60. So it can be concluded that the complexity variable has a positive and significant effect on audit delay . This shows that entities listed on the compass index 100, which report audited financial statements of the parent and its subsidiaries or consolidated financial statements can cause the length of time required by the auditor to be longer due to the complexity of the audited financial statements.

Based on the results of the t-test in the equation one table, for the industrial type variable, it shows that the value of $\beta_3 = -25.04$ with a significance level of 0.00 and a t value of -3.38. This indicates that the type of industry does not have a positive effect on audit delay or H3 is not accepted. However , the t test results show that the significance level of the industrial type variable is 0.00 less than 0.05 and the t value is -3.38 , which means that the industrial type variable has a significant negative effect on audit delay . This condition indicates that entities that are classified as non-financial industry types have a longer time in the audit reporting process which will later have a delay effect on the audit report.

The results of the t-test in equation one table, for the financial statement restatement variable, show that the value of $\beta_4 = -6.53$ with a t-test significance value of 0.30 and a t-value of -1.04. This means that the financial statement restatement variable has no effect on audit delay or H4 is not accepted, because the t-test significance value of 0.300 is greater than the 0.05 significance. This implies that the audit process in companies that do restatement of financial statements does not require a long audit time, because companies that have been listed in the Kompas 100 index mostly do not restate their financial statements so that auditors do not need to evaluate and add audit procedures to ensure existing financial reports.

For the results of the t-test in the first table of related party transaction variables, it shows that β_{5} = 1.45 with a t-test significance value of 0.32 and a t-value of 1.00. From these results it can be seen that the related party transaction variable has no effect on audit delay or H5 is not accepted, because the t-test significance value of 0.32 is greater than the 0.05 significance. This implies that the risk detection process for entities that conduct related party transactions does not require a long time in the auditing process, because the presentation of related party transactions has been fairly presented for each related party transaction, and the related party relationship will only have an effect on the selling price and price. purchase, not at the time of sale or purchase, so the presence or absence of these related party transactions will not have an impact on delays in audit reporting.

T-Test Results Equation Two

Model	B	t	Sig.	Hypothesis Test Results
(Constant)	-7.77	-4.43	0.00	
Audit Delay	0.96	2.30	0.03	H6 not accepted

Source : data processing, 2022

Referring to the results of the t test in equation two for the audit delay variable, it indicates that $\beta_1 = 0.96$ with a t-test significance value of 0.03 and a t-value of 2.30. This indicates that audit delay does not have a negative effect on investor reactions or H6 is not accepted. However, the results of the t-test of equation two show that the significance value of 0.03 is smaller than 0.05 and the t-value of 2.30, this indicates that audit delay has a significant positive effect on investor reactions. This indicates that the signal conveyed through the publication of audited financial statements is a positive signal for market participants, where the reaction is in the form of a positive reaction to information on the publication of audited financial statements.

V. Discussion of Research Results

Financial distress is a condition where the entity's finances are in an unhealthy condition or in other words financial distress is a condition where the entity experiences financial distress to fulfill its obligations. This happens before the bankruptcy of a company. Based on the results of hypothesis testing, it shows that financial distress have no effect on audit delay . This is in line with the research of Sofiana et al. (2018) which shows that financial distress has no effect on audit delay . However, this is different from the research conducted by Artana et al. (2021) which shows that financial distress have a significant positive effect on audit delay . In the research of Muliantari & Latrini (2017) and Romli & Annisa (2020) which show that financial distress have an effect on audit delay . No effect of financial distress on audit delay This is because the average sample of companies listed on the Kompas 100 index have moderate or moderate financial conditions, where this condition illustrates that companies - company the new indication may be experiencing difficulties. This condition can trigger the company not to be late in conducting audit reports or the company wants to complete the audit of its financial statements on time so that the market can find out the company's financial condition.

The complexity of financial statements is the number of things that need to be adjusted in financial reporting. This adjustment will occur in the entity which has a branch or has a subsidiary entity . The complexity of financial statements is divided into two, namely consolidated financial statements and non-consolidated financial statements. The complexity in preparing the consolidated financial statements is estimated to be able to affect the timeliness of the presentation of the financial statements, this is because the process of preparing this report takes a relatively long time due to the complexity of recording companies in the report. Based on the results of hypothesis testing conducted, it shows that the complexity of financial statements has a significant positive effect on audit delay . This is in line with research conducted by Hamidah & Fajarwati (2015) which shows that the complexity of financial statements has a positive influence on the timeliness of financial statements. However, this is different from the research conducted by Rosyidah (2013) and Listiana & Susilo (2012) which explains that the complexity of financial statements does not affect the timeliness of submitting financial statements. Complexity of financial statements give effect to audit delay . This is because there are many things that need to be adjusted and put together to be able to make financial reports. Adjustment of all data of the parent company, branch company or subsidiary takes time because of the complexity of the financial statements that need to be audited , so there will be delays in submitting the audit report.

Each entity has different characteristics from one entity to another, these differences in characteristics can trigger different time spans required by an auditor in the process of completing the audit of financial statements and in the publication process. The types of industry are generally divided into two, namely the financial company industry and the non-financial industry. Based on the results of the research conducted, it shows that the type of industry has a significant negative effect on audit delay . These results are in line with research conducted by Shulthoni (2013) and Nasution et al. (2021) which shows that the type of industry has a negative effect on audit delay . This is due to the various characteristics that exist in each industry, for example the scope of the audit process in the financial industry tends to be shorter because the financial industry has less inventory. Meanwhile, the scope of the audit process in non-financial industries requires a longer time due to the complexity of inventories in non-financial industries. Therefore, the auditor will need more time in conducting the audit depending on the type of industry to be audited, and this can trigger delays in submitting the audit report. Therefore , the type of industry has a significant negative effect on audit delay .

The restatement of financial statements is an action used to correct errors in the presentation that have been made previously. When a company is required to restate its financial statements due to misstatements or other reasons, the burden on the auditing process also increases, so this can cause an auditor to carry out the audit process taking a longer time. The results of hypothesis testing indicate that the restatement of financial statements has no effect on audit delays . This is because most entities In this study, there is no restatement of the financial statements, so the auditor does not need to evaluate and add audit procedures to ensure the existing financial statements.

Related party transactions are transactions that occur between companies and individuals due to a special relationship. This special relationship generally occurs because of the attachment of ownership. Related party transactions are potentially risky, this is because there is a special relationship in the transaction, in which the price in the transaction can be too low or too expensive. There is a special relationship in related party transactions, the auditor in conducting the auditing process needs to be careful and vigilant, because this has the potential to be risky in every related party transaction. Based on the results of hypothesis testing, it shows that related party transactions have no effect on delay audits . This indicates that the risk detection process in companies that carry out related party transactions or transactions that have a special relationship does not require a long time in the auditing process, because the presentation of related party transactions has been presented fairly for each related party transaction, and related party transactions will only have an influence on the selling price and purchase price, not at the time of sale or purchase, so that the presence or absence of this related party transaction will not have an impact on delays in audit reporting.

Investors have an important role in the capital market. Investors are always required to follow market developments and have as much information as possible that correlates with the dynamics of stock prices, in this case audited financial statements, in order for investors to obtain optimal returns . Audited financial statements are very helpful for investors in making decisions, so that the timeliness in publishing financial statements can provide a response to investors. Investor reactions can be indicated by changes in the price of the securities in question. The length or speed of publication of audited financial statements can provide a negative or positive response or reaction from investors. From the results of the hypothesis test, the second equation shows that audit delay has a significant positive effect on investor reactions. This is supported by his research by Shulthoni (2013) which shows that audit delay has a positive effect on investor reactions. This shows that most of the entities listed on the Kompas 100 index report audited financial statements in a timely manner, so this is a positive signal for investors and their companies.

VI. Conclusions And Suggestions

This research aims to obtain information and empirical evidence about the analysis of the determinants of audit delay and its effect on investor reactions. This study uses multiple regression analysis with 93 observations obtained from 31 business entities listed on the Kompas 100 index with a research period of 3 years from 2017 to 2019 . Based on data analysis and discussion of research results in the previous chapter, the researcher concludes that financial distress, restatement of financial statements, and related party transactions have no effect on audit delay . While the complexity of financial statements has a positive effect on audit delay and the type of industry has a negative effect on audit delay. For the second equation, audit delay has a positive effect on investor reactions.

In conducting this research, of course, researchers cannot be separated from limitations. The first limitation for the related party transaction variable is that there are several companies that do not display in detail their related party transactions, so that some research companies do not find the nominal presented related to their related party transactions. For further research, it is better to use companies whose related party transactions are presented in detail. The second limitation, for the investor reaction variable, the researcher only uses three days of previous observation and three days of observation after that from the date of the audit report, and the researcher uses daily data to measure abnormal returns. For further research, it is better to increase the number of days of observation before and after the date of the audit report and measure the abnormal return using minute data. So that it can capture the possibilities that are not described in this research.

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