

THE INFLUENCE OF PROFITABILITY, SOLVENCY, AND AUDITOR'S OPINION TO AUDIT REPORT LAG AT COAL MINING COMPANIES

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ABSTRACT

Submitting financial statements adapted in accordance with accounting standards audited by a registered public accountant with Financial Service Authority known as Otoritas Jasa Keuangan (OJK) is required for every public company. In delivering financial reports to the public, there would be a delay affected by a period of audit reporting (audit report lag). The goal of this research was to determine the impact of profitability, solvency, and auditor's opinion to audit report lag on sub-sector coal mining companies listed on the Indonesian Stock Exchange. Quantitative study with purposive sampling method was used as the research method. In addition, the data were obtained from the company's financial statements which have been published. Multiple linear regression and hypothesis testing using t and f statistics with a confidence level of 5% were applied as the analysis technique. The amount of the research objects was 18 out of 22 classified companies from the period of 2012 to 2014. From this study, it can be concluded that both profitability and auditor's opinion have significant influence on audit report lag. In contrast, solvency has no significant influence on audit report lag.

Keywords: audit report lag, profitability, solvency, auditor's opinion

INTRODUCTION

Financial reporting is generally an accounting process that can be used as a communication tool between financial data or company activities and other respective parties with data or company activities. The financial statements have an important role in the process of measurement and assessment of company performance and useful for decision-making. Many different people such as management, investors, government, creditors are interested in the financial statements. Financial reports must be prepared in such a way to meet the needs of all those in need. The financial statement is made with the purpose of providing an overview of progress (progress report) the company periodically. So, the historical financial reports as well as thorough and as a progress report. The financial report consists of data that are the result

of a combination of the facts that have been recorded, the principles and practices of accounting and personal opinion.

Based on the Financial Accounting Standards Board (FASB) or Statement of Financial Accounting Concept (SFAC 8), the objective financial reporting is to provide financial information about the reporting entity where the information is useful to the common stakeholders or potentially use the information to make a decision. It is not designed to demonstrate the value of the company but to provide information to help stakeholders in estimating the value of the reporting entity. The qualitative characteristics of useful financial information recognize the types of information that are likely to be most useful to the existing and potential investors, lenders, and other creditors for making decisions about the reporting entity on the basis of information in its financial report (financial information).

Information about the reporting entity's economic resources, claims against the reporting entity, the effects of transactions, conditions that change those resources and other events are provided by the financial reports. Additionally, some financial reports contain explanatory material concerned management's expectations and strategies for the reporting entity and other types of forward-looking information. Submitting financial statements is prepared likewise accounting standards audited by a registered public accountant with Financial Service Authority known as Otoritas Jasa Keuangan (OJK) is required for every public company. If the earnings announcement contains good news, the management tends to report on time. On the other hand, the management tends to report not timely, if the earnings announcement contains bad news. The reason is because if the company suffered losses, it will require a long auditing process and it will be costly. Thus, a postponement in delivering financial reports to the public will be occurred.

Examination of financial reports by an auditor aims to assess the fairness of presentation of financial reports requires quite a long time. This is due to the limited number of employees who will conduct the audit, the number of transactions to be audited. The cunctation in the publication or submission of the financial statements may be influenced by a period of audit reporting (audit report lag). Audit report lag is the duration between the date of the audit report and the date of the company's fiscal. Based on the chairman's decision of Indonesian Capital Market and Financial Institution Supervisory Agency (Badan Pengawas Pasar Modal dan Keuangan or BAPEPAM) No.KEP-346/BL/2011 concerning about the Submitting Obligation of the Financial Report, BAPEPAM requires that every public is listed the company on the market. Capital shall submit the annual financial reports that are accompanied by the independent auditor's report to BAPEPAM no later, than the end of the third month (90 days) after the date of the annual financial reports or annual closing book. The regulation is subsequently amended on August 1, 2012, with a decision by the Chairman of BAPEPAM No.KEP-431/BL/2012 that the issuer or public company which registration statement has become effective shall submit annual reports to the Capital Market and Financial Institutions at the latest four months after the fiscal year ends.

And the newest regulation in the regulation of OJK No. 6/POJK.05/2014 in article 31 that insurance agency is obliged to announce the balance and a brief statement of income at least four months after the end of the fiscal year, at least in one daily newspaper in Indonesia, which has a wide circulation in scope operational area. It shall report the implementation in writing announcement to the Service Authority Finance no later than 30 days after implementation of the announcement, accompanied by the proof announcement. The phenomenon that occurs is that the Financial Services Authority (OJK) still finds some financial reporting delay conducted by several public

companies. Recorded on January 2nd, 2013 to August 13th, 2013, OJK has handled 30 cases involving public companies or issuers in the stock market. The case of late submission of financial reports first quarter 2012 has amounted to 74 cases of delay in the issuer's financial reports with stocks. Meanwhile, in 2011 the total cases of delay, there are 54 cases. Based on one of the research agencies in Malaysia, International Business Research finds that the audit delay phenomena that occur in the companies listed on Bursa Malaysia have a delay time longer than the existing companies in the western countries. Some of the analysis states that the total assets, the number of subsidiaries, the audit opinion, ROE, the type of audit firm, are important factors that caused the audit delay.

The framework of this research can be described in following Figure.

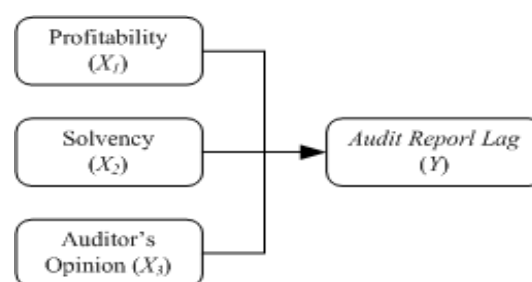


Figure The Research's Framework

Meanwhile, Sultana et al. (2015) try to exam whether audit committee compositional features are associated with the timeliness of financial reporting by Australian firms. They find that audit committee members with financial expertise, prior audit committee experience and those who are independent are associated with shorter audit report lag. Pham et al. (2014) try to examine the association between audit report lag (ARL) and the level of investment opportunity of U.S. firms. The findings show that firms with high investment opportunities are more likely to have longer audit report lags.

There are three hypotheses of this research, namely (1) Profitability has the significant influence on Audit Report Lag, (2) Solvency has the significant influence on Audit Report Lag, and finally (3) Auditor's opinion has the significant influence on Audit Report Lag.

METHODS

This research is using the quantitative method with the aim to test and prove the hypotheses that have been formulated by using quantitative data analyzed with statistical analysis. The population of this research is sub-sector of coal mining companies listed in Indonesia Stock Exchange. Based on the criteria of sampling technique, this research takes 18 companies.

This research is using some classical assumption tests before the data regressed with Normality Test,

Multicollinearity Test, Heteroscedasticity Test. A good regression model has a normal distribution of data variable. Normality test of this research uses Kolmogorov-Smirnov analysis (McClave & Sincich, 2014).

Multicollinearity test is performed to show whether there is a correlation between the variables in the regression model. A good regression model should not affect the correlation between the variables. Multicollinearity test is done by looking at the Variance Inflation Factors (VIF) of the result of the analysis. If the VIF value shows less than 10 and tolerance is more than 0,1, then the regression model is free from multicollinearity disturbance.

Heteroscedasticity pertains to the situation in which the variability of a variable is unequal across the range of values of a second variable that predicts it. In this research, Glejser test is applied to detect heteroscedasticity tendency. If the probability value is $> 0,05$, it means no heteroscedasticity happened.

This is the multiple regression models that used to test hypothesis in this research:

$$ARL = \alpha + \beta_1 \text{ PROF} + \beta_2 \text{ TA} + \beta_3 \text{ OPINION} + e \quad (1)$$

Explanation:

ARL	= AuditReport Lag
α	= Constanta
β	= Regressioncoefficient
PROF	= Profitability
TA	= Totalassets/Solvability
OPINION	= Auditor's Opinion
e	= Error

The hypothesis test using partial test or known with t-test is used to show whether independent variable partially that have an influence on the dependent variable. The t-test is used to compare the average of two populations with interval scale data (Sarwono, 2006). Testing is done by using a significance level of 0,05 ($\alpha = 5\%$). Acceptance or rejection of the hypothesis is done by the following criteria (1) If a significant value is $> 0,05$, then the hypothesis is rejected. This means that partially, the independent variable has no significant effect on the dependent variable. (2) If the significant value is $\leq 0,05$, the hypothesis is accepted. This means that partially, independent variables have the significant effect on the dependent variable.

Next is the hypothesis test by using F Test that aims to show whether all independent variables have the influence on dependent variable simultaneously. Hypotheses formulation in this test is (1) $H_0 : \beta_1 = \beta_2 = \beta_3 = 0$, independent variables (profitability, solvability, and auditor's opinion) simultaneously have no significant influence on the dependent variable (Audit Report Lag). (2) $H_A : \beta_1 \neq \beta_2 \neq \beta_3 \neq 0$, independent variables (profitability, solvability, and auditor's opinion) simultaneously have the significant influence on the dependent variable (Audit Report

Lag). Analysis of decision making of acceptance or rejection in this test is based on the comparison between F value with 5% significance value (0,05), which shows if $F \leq 0,05$ then H_0 is rejected. It means that all independent variables simultaneously have the influence on the dependent variable. Meanwhile, if $F > 0,05$ then H_0 is accepted, it means that the independent variables simultaneously do not have the influence on the dependent variable.

In essence, to calculate the capability of the model to explain variations in the dependent variable, the coefficient of determination (R²) is used. The coefficient of determination is between 0 and 1. If the value of R² is small, it means that the ability of the independent variables in defining the dependent variable is very limited. A value close to 1 means the independent variables administers most of the information that is needed to foresee the variation in the dependent variable. Also, many researchers recommend in using the value of Adjusted R² because there are fundamental flaws R² biased against the number of independent variables when entered into the model. The greater the value of Adjusted R², then the independent variables can explain the dependent variable (Ghozali, 2011).

RESULTS AND DISCUSSIONS

The object of this research is the sub-sector Coal Mining Companies listed in Indonesia Stock Exchange during 2012-2014. There are 22 sub-sectors of coal mining companies listed in Indonesia Stock Exchange. However, with purposive sampling approach, the companies satisfy the criteria of 18 companies.

The classical assumption test is using in this research are Normality Test, Heteroscedasticity Test, and Multicollinearity Test. The normality test uses Kolmogorov-Smirnov test. It is used to test data normally. Based on the normality test result, it is obtained the asymptotic significant value of 0,934 that is greater than the value of α (0,05). Thus, the data revealed is a normal distribution.

Heteroscedasticity test is conducted using Park Glejser method by regressing of independent variables (profitability, solvency, and auditor's opinion variables) on absolute residual unstandardized value. From the calculation of the partial test, it is obtained that the significant value of profitability variable of 0,157, the significant value of solvency variable of 0,129, and the significant value of auditor's opinion variable of 0,419 that each value is greater than α (0,05). Based on the evidence, it can be stated that there is no heteroscedasticity in multiple regression analysis.

Multicollinearity Test that is used based on the results of Variance Inflation Factor (VIF) test. It is known that VIF value of profitability variable of 1,217, VIF value of solvency of 1,194 and the VIF value of auditor's opinion variable of 1,059, each

value is less than 10. Hence, it can be stated that there is no multicollinearity in multiple regression analysis.

Besides that, Multiple Regression Test uses Regression Equation and Coefficient of Determination to analyze this research. Regression Analysis is used to determine the effect of independent variables on the dependent variable and to find out the significant influence of profitability, solvency and auditor's opinion on audit report lag in this research. The results of the regression analysis use a significance level of 5%. The regression formula is as follows:

$$Y = -0.03 - 0.229PROF + 0.163TA - 0.755OPINION + 0.358 \quad (2)$$

The coefficient of determination shows the ability of regression model in the series of the variable changed in the next variation. From the result of multiple regression tests, the coefficient of determination value is 0,642. It means that in this regression model, audit report lag can be explained by profitability, solvency, and auditor's opinion variables of 64, 20 %, while the remaining of 35,80 % is explained by the other variables that are not examined.

The first hypothesis is based on the confidence level of 95% ($\alpha = 0,05$) and degree of freedom (n-k) for two tailed t-test. It shows that the t_{table} value of $\pm 2,009$. From the result of multiple regression analysis, it has $t_{statistic}$ value of profitability variable is less than value of t_{table} . Thus, the H_0 is rejected and H_a is accepted. So, it can be stated that the profitability has a negative and significant influence on audit report lag. Thus, the first hypothesis is accepted.

The second hypothesis refers to the result of multiple regression analysis, it has $t_{statistic}$ value of solvency variable is less than value of t_{table} . Thus, the H_0 is accepted and H_a is rejected. So, it can be stated that solvency has insignificant influence on audit report lag. Thus, the second hypothesis is rejected.

The third hypothesis from the result of multiple regression analysis, it is known that $t_{statistic}$ value of auditor's opinion variable is less than value of $-t_{table}$. Thus, H_0 is rejected and H_a is accepted. So, it can be stated that auditor's opinion has a significant influence on audit report lag. Thus, the third hypothesis is accepted.

F-test based on the calculation with significance level ($\alpha = 0,05$), it is obtained that the $F_{statistic}$ value is 29,918, while the F_{table} value is 2,76. Because of the value $F_{statistic}$ is greater than value of F_{table} , it can be stated that profitability, solvency, and auditor's opinion variables simultaneously have influence on audit report lag and the multiple regression analysis of this research is formed in compliance or fit to the research data.

Significance partially effect testing by T-test that test the significance partial influence of profitability, solvency as well as auditor's opinion on audit report lag, it is done using t-test. Based on the calculation with significance level ($\alpha = 0,05$) and degree of freedom (df) = (n - k) for two tailed test, it is obtained

the t_{table} value of $\pm 2,009$. Refers to the data, it is known that tstatistic value of profitability variable is -2,457 or p-value is 0,018, $t_{statistic}$ value of solvency variable is 1,759 or p-value is 0,085 and the $t_{statistic}$ value of the auditor's opinion variable is -8,672 or p-value is 0,000.

This result proves that profitability has a negative and significant influence on audit report lag of mining companies listed on Indonesia Stock Exchange. This condition indicates that the higher the level of profitability, the lower the level of audit report lag. This result is consistent with the finding of the previous study conducted by Ahmed and Hossain (2010) and Ilhami (2013) which concluded that profitability Return on Assets (ROA) has a negative and significant influence on audit report lag.

The result of this study shows that solvency has insignificant influence on audit report lag of mining companies listed on Indonesia Stock Exchange. This condition indicates that the higher level of solvency is not always followed by the higher level of audit report lag. This result is consistent with the finding of the previous study conducted by Ilhami (2013) and Andika (2015) which concluded that solvability Debt to Assets (DTA) has insignificant influence on audit report lag. Finding of this result proves that auditor's opinion has a negative and significant influence on audit report lag of mining companies listed on Indonesia Stock Exchange. This condition indicates that the better level of auditor's opinion to the financial statements, the lower level of audit report lag. This result is consistent with the finding of the previous study conducted by Andika (2015) and Turel (2010) which concluded that auditor's opinion has a negative and significant influence on audit report lag.

CONCLUSIONS

From this research, it can be concluded that (1) Profitability has a significant influence on audit report lag of mining companies listed on Indonesia Stock Exchange. (2) Solvency has no significant influence on audit report lag of mining companies listed on Indonesia Stock Exchange. (3) Auditor's opinion has a significant influence on audit report lag of mining companies listed on Indonesia Stock Exchange.

As an effort to minimize the audit report lag, management of mining companies that listed on Indonesia Stock Exchange need to make the priority on profitability and auditor's opinion policies. The ways can be done by increasing the sales revenue as well as decreasing the operational costs, improving the company's ability to invest the company's total asset appropriately and adequately to create the high level of firm's solvency continuously. Refers to the limitations of this study, further research can expand the studies using the other independent variables or adding the other moderator variables. Additionally, the further research needs to consider the other technique of data analysis, such as path analysis, Partial Least Square (PLS), and Structural Equation

Modeling (SEM) analysis. Further research also needs to develop wider study object to produce a better result and more generally and objectively.

Limitations and Suggestions for this research are: (1) This research only identifies four factors (profitability, solvency and auditor's opinion). The further research is suggested to add other variables related to audit report lag, with the expectation increasing the adjusted R². (2) The further research should examine the audit report lag from the side as the auditor who audited by using variables related to the characteristics of auditors. (3) Companies are expected in cooperation with auditors by providing necessary information related financial statements audited company a faster completion of the audit. This is because the research conducted on the sector mining, it would be better for mining companies to have professional power in the field of mining in addition to the need for professionals of public accountants.

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