# ANALYSIS THE EFFECT OF FINANCIAL DISTRESS, COMPANY SIZE, INVENTORY ACTIVITIES AND PROFITABILITY ON AUDIT DELAY

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## ABSTRACT

Audit delay in financial reporting can indicate the timeliness of the reports stated in a company which can lead to increased uncertainty of decisions from investors based on the reports provided. The purpose of this study is to analyze the effect from financial distress, company size, inventory activity and also profitability to audit delay. This study uses a population of several companies listed on S&P Platform in 2017-2019. The reason using purposive sampling is to obtain samples that suit the researcher's criteria. Total sample are used in this research was 303. Results obtained show there's no effect between financial distress and audit delay; but firm size, profitability and inventory activity have a negative effect through audit delay.

Keywords : financial distress; audit delay; firm size, profitability; inventory activity

## *ABSTRAK*

*Keterlambatan pelaporan keuangan bisa menyatakan timeliness dari laporan yang dinyatakan pada sebuah perusahaan dimana dapat menyebabkan meningkatnya ketidakpastian keputusan dari investor berdasarkan dari laporan yang diberikan. Tujuan dari penelitian ini untuk menganalisa pengaruh dari financial distress, aktivitas persediaan, ukuran perusahaan dan profitabilitas kepada audit delay. Penelitian ini menggunakan populasi dari beberapa perusahaan yang tertera pada Platform S&P mulai tahun 2017 sampai 2019. Tujuan digunakannya purposive sampling adalah untuk memperoleh sampel yang memenuhi kriteria peneliti. Total sampel yang digunakan di penelitian ini sebanyak 303. Hasil yang didapatkan menunjukkan financial distress tidak ada pengaruh pada audit delay; dan aktivitas persediaan, ukuran perusahaan dan profitabilitas ada pengaruh negatif terhadap audit delay.*

*Kata kunci : financial distress; audit delay; firm size, profitability; inventory activity*

## INTRODUCTION

Over time, Indonesian companies conducting initial public offerings (IPOs) have continued to increase. Data obtained from the Indonesia Stock Exchange states that in 2016 there were 539 companies going public, and in 2017-2020 the number of companies increased to 677 companies (Kayo, 2020). The data shows an increase of 20% and indicates the more choice of companies an investor can choose to invest.

An audit of financial statements is one of the crucial factors when investors and creditors want to make investment decisions or provide loans. Thus, the audited

financial statement must be issued to the public on time and this is an important element for companies that have IPOs.

Audit delay or audit report lag is a period of time between the fiscal end date of a company to the date of issuance of an independent audit report where this period can have an effect on the timeliness of the information to be conveyed, so that it will have an impact on increasing the level of uncertainty of decisions based on information (Sakka & Jarboui, 2016).

Phenomena related to Audit Delay include: in 2015 there were 18 companies that were late in reporting their audited financial statements (CNN Indonesia, 2016), in 2016 there were 17 companies that had their shares suspended from the IDX because they were late in reporting their 2016 audited financial statements (BEI, 2016). ), in 2017 there were 10 companies suspended from shares from the IDX because they were late in reporting the 2017 audited financial statement (Indopremier.com, 2018), in 2018 there were 10 companies suspended from shares from the IDX because they were late in reporting the 2018 audited financial statement (coverage6 .com, 2019). Delay in reporting the audited financial statement can cause the trust of investors to decline, thereby affecting the selling price of shares.

The condition of the company if it experiences a financial decline and if it is ignored continuously, it will cause the company to go bankrupt, this stage is financial distress (Praptika & Rasmini, 2016) Research by Oktaviani & Ariyanto (2019) shows there's positive effect between financial distress and audit delay.

According to Brigham & Houston in Listyaningsih & Cahyono (2018) Company size is the average of all net income for the year to the next year. Based on research by Oktaviani & Ariyanto (2019), Apriyana & Rahmawati (2017), Fujianti & Satria (2020), and Cahyanti, Sudjana, & Azizah (2016), firm size has a negative effect on audit delay. Meanwhile, according to Putri & Samin (2016), results show that firm size has no effect on audit delay.

According to Wisner, Tan, & Leong (2016), inventory turnover (ITO) shows the number of times an inventory is replaced or sold in a year or period and shows a measure of the liquidity and competence of a company in converting inventory into cash effectively.

According to Sartono (2012) in Arif, Raden, & Zahron (2015) the ratio to measure a firm potential to earn profits during a certain time is the definition of profitability. Based on research by Putri & Samin (2016) and Fujianti & Satria (2020), the results show that the value of profitability has a positive and significant effect to audit delay. Meanwhile, research from Cahyanti, Sudjana, & Azizah (2016) and Apriyana & Rahmawati (2017) states that the value of profitability has no effect on audit delay.

Various factors that affect the timeframe for audit completion have been carried out before, but the results are still inconsistent from one study to another. In this study, we will re-examine the factors that affect audit delay in companies in the Consumer Goods industry that have been listed on the S&P Global Market Intelligence Platform with the period from 2017 to 2019.

## LITERATURE REVIEW

### Compliance Theory

According to Etzioni in Lunenburg (2012) theory is an innovative approach to organizational structure by integrating management participants and ideas in a classical model. Compliance, whether the party being audited by the auditor has prepared a report in accordance with established procedures, rules and standards. Compliance, whether the party being audited by the auditor has prepared a report in accordance with established procedures, rules and standards.

### Audit Delay

Audit Delay or Audit Report Lag is the time between the time of closing books in a company and the issuance date of the audited financial statements. According to Sakka & Jarboui, (2016) financial reporting is the period between the fiscal end date of a company to the date of the issuance of an independent audit report where this time period can have an effect on the timeliness of the information to be conveyed, thereby having an impact on rising the level of uncertainty of decisions. which is based on that information.

### Financial Distress

Financial condition is important for the company so that this can help investors and creditors to make decisions. According to Brigham and Houston in Listyaningsih & Cahyono (2018), stated that Financial Distress is a condition when a

company is experiencing difficult conditions on the financial side, be it in the form of working capital or cash. The company will go into bankruptcy, this financial situation is kept silent. This condition of difficulty can cause a company to spend large funds to overcome funding difficulties that can make the company go bankrupt.

**Company Size**

Company size is a scale for categorizing companies which can be measured based on total assets, log size, stock market value, and others. This measurement is usually used to identify the size and size of a company because the regulatory system at large command companies will also increase the capital to be invested. According to Brigham and Houston in Listyaningsih & Cahyono (2018), company size is the average of all net income for the year until the next year.

**Stock**

Inventory turnover is generally at the highest level in a company in its inventory. According to Weygandt, Kieso, & Kimmel (2009), inventory turnover calculates the number of times on average the inventory is sold during a period. Meanwhile, the statement that the turnover or turnover in inventory is in the form of a ratio between the total cost of goods sold (COGS) and the average inventory value of a company.

**Profitability**

Basically, a company has a goal to make a profit according to what it has planned. According to Sartono (2012) in Arif, Raden, & Zahron (2015) the ratio to measure a company's ability to earn profits during a certain period is the definition of profitability. Profitability usually provides an answer to the effectiveness of the company in managerial decisions, company operations and company financial performance.

## RESEARCH METHODOLOGY

Method is a method of work that can be used to obtain something. While the research method can be interpreted as a work procedure in the research process, both in searching for data or disclosing existing phenomena (Zulkarnaen, W., et al., 2020:229). This research was conducted quantitatively where the population data used is a type of secondary data obtained from the annual reports of companies listed on the S&P Platform with the period from 2017 until 2019.

The sample used also has several criteria set as follows: 1) companies with financial statements in Rupiah, 2) companies that present annual financial reports for the 2017-2019 period with complete information needed regarding the research variables used, 3) a company that has the status of an operating and operating subsidiary.

**Operational Definition of Variables**

**Dependent Variable**

The dependent variable or dependent variable is the researcher's main interest and also the variable influenced by the independent variable (Sekaran & Bougie, 2016). In this study, the use of Audit Delay as the dependent variable. Where the audit delay is the reduction in time in the middle of the closing time of a book in a company and the issuance date of the audited financial statements.

**Independent Variable**

**Financial Distress**

Financial Distress is a condition when a company is experiencing difficult conditions on the financial side, either in the form of working capital or cash.

**Company Size**

Basically, the size of the company is divided into 3 types, namely large companies, medium companies and also small companies. In this study, company size is measured by transforming the company's total assets into a natural logarithm.

**Inventory Activity**

The activity ratio that will be used in this research is Inventory Turnover or inventory turnover. Inventory turnover is generally used to assess the performance of a company, whether the company's operations run effectively in managing inventory in one period or year.

**Profitability**

The profitability ratio that will be used in this research is the Return on Assets (ROA). Return on Asset is currently widely used by companies to measure the company's ability to use its resources or assets to earn a profit.

**Control Variable**

**Company Age**

Company age is how long a company has been operating. The calculation for the age of the company in this study is from the year the company went public until the year the company closed its books.

**Company Cash Flow**

The cash flow ratio used in this research is the operating on cash flow to total assets ratio. This ratio differentiates the company's operating cash flow to total assets.

**Company Growth**

The company's growth in this study will be seen in sales growth. If the value of sales growth increases, then a company has a greater chance of obtaining an increase in profit.

## RESULTS AND DISCUSSION

**Descriptive Statistics Results**

Audit delay shows that on average an auditor completes an audit report and reports it for 86 days. The fastest audit report is reported for 29 days and a maximum of 154 days. The value of financial distress shows that on average 35% of the company's assets are financed by debt. The value of company size shows 14.73, so the average company in this study is a medium-sized company. The value of inventory activity shows an average of 7.63, which means that there are still many companies whose inventory records are less than optimal. The profitability value shows that the total assets of the consumer goods sector in 2017-2019 were able to get a profit of 4.4%. The age of the company shows that the average company is more established and go public for 18 years. The Company's cash flow shows that total assets in the consumer goods sector in 2017-2019 were able to obtain operating cash of 6%. The growth of the company shows that the average company used in this study can get an increase of 4.4%.

**Classical Assumption Test Results**

The normality test used is the Shapiro Wilk method in the stata software. The results show the value Prob> z of 0.000 and skewness of 0.9382. The data is not normally distributed so boxcox treatment is carried out and the results are Prob> z 0.000 and skewness of $5.79e^{-0.6}$ because the value of Prob> z is still below the significant value of 0.05, the data is still not normally distributed. In the Shapiro Wilk normality test, which indicates a normality problem, it can be due to the observation sample in this study that exceeds 200 samples, namely as many as 303, then a significance value of

0.000 is considered reasonable. According to Mc Clave & Sincich (2018), a sample that has a total of more than 30 fulfills the assumption that the data is normally distributed.

The multicollinearity test aims to see whether there is a high correlation between the independent and control variables in the model being tested. The results obtained that all the variables used have a value of 1 / VIF less than 1 and a VIF value of less than 10. So it can be concluded that there is no multicollinearity between variables in the linear regression model of this study.

The test of heteroscedasticity was carried out to test whether the regression model had an inequality of variants of the residuals from one observation to another. The results obtained in this study the value Prob> Chi2 of 0.3958 is greater than the significance value of 0.05. So, the conclusion is that the regression model in this research doesn't have any problem on heteroscedasticity.

The results of the Adjusted $R^2$ Test are 0.1874, which means that 18.74% of the delay in financial reporting (audit delay) is influenced by financial distress, company size, inventory activity, profitability, company age, cash flow, and company growth. While the remaining 81.26% delay in financial reporting (audit delay) is influenced by other factors outside the regression model.

The F test shows the value Prob> F in the linear regression model is 0.000 which is less than the significance level of 0.05. So, it can be concluded that the independent variables (Financial Distress, Company Size, Inventory Activity, and Profitability) and controlling variables (Company Age, Cash Flow, and Company Growth) have a simultaneous influence on the dependent variable (Audit Delay).

In testing the first hypothesis on the financial distress variable (FIN_DIST), the coefficient value is 0.0037 and the p-value for the one-tail test is 0.4815 (0.963 / 2). The coefficient value of the financial distress variable is positive. These results imply that financial distress does not have a significant effect on audit delay because the p-value is greater than the 5% significance level.

In testing the second hypothesis on the firm size variable (SIZE), a coefficient of -0.0662 and a p-value of 0.002 (0.004 / 2) was obtained. These results imply that company size has a significant effect on audit delay because the p-value is smaller than the 5% significance level. Meanwhile, the coefficient value of the firm size variable is negative, so it is in line with the researchers' predictions. Through the t statistical test, it

can be concluded that the firm size variable has a negative and significant effect on audit delay.

In testing the third hypothesis on the inventory activity variable (AP), a coefficient of -0.0142 and a p-value of 0.000 (0.000 / 2) is obtained. These results imply that inventory activity has a significant and significant effect on audit delay because the p-value is smaller than the significant level of 5%. Meanwhile, the coefficient value of the inventory activity variable is negative, so it is in line with the researchers' predictions. Through the t statistical test, it can be concluded that the inventory activity variable has a negative and significant effect on audit delay.

In testing the fourth hypothesis on the profitability variable (PROF), a coefficient of -0.5583 and a p-value of 0.015 (0.030 / 2) was obtained. These results imply that profitability has a significant and significant effect on audit delay because the p-value is smaller than the significant level of 5%. Meanwhile, the coefficient value of the profitability variable is negative, so it is in line with the researchers' predictions. Through the t statistical test, it can be concluded that the profitability variable has a negative effect on audit delay.

The examiner also uses three controlling variables in this study, namely company age, cash flow, and company growth. The age variable of the company (AGE) obtained a coefficient of -0.0035 and a p-value of 0.1865 (0.373 / 2). The coefficient value of the company age variable is negative. These results indicate that the p-value is greater than the 5% significance level, which indicates that the controlling variable company age does not have a significant effect on the audit delay variable.

The company's cash flow variable (CFOA) obtained a coefficient value of -1.1629 and a p-value of 0.001 (0.002 / 2). This result means that the cash flow variable which has a p-value below the significant level of 5% has a significant effect and there is a significant audit delay variable. Meanwhile, the coefficient value on the cash flow variable is negative, so it can be concluded that the company's cash flow has a negative and significant effect on audit delay.

The company growth variable (GROWTH) obtained a coefficient value of -0.0057 and a p-value of 0.001 (0.002 / 2). This result means that the company growth variable which has a p-value below the significant level of 5% has an effect and is significant, there is a variable audit delay. Meanwhile, the coefficient value on the

company's growth variable is negative, so it can be concluded that company growth has a negative and significant effect on audit delay.

## CONCLUSION

Financial distress (Fin_Dist) has no effect on audit delay. This can indicate that a company experiencing good or bad financial conditions does not affect the market so that it will not hinder the process of completing the financial report audit. Company size (SIZE) has a negative effect on audit delay. This shows that the bigger a company is, the faster it takes an auditor from the point of completion of the audit to the issuance of the company's audited financial statements. Inventory activity (AP) has a negative effect on audit delay. This shows that if the value of the inventory activity is getting bigger or the company is very effective in processing its inventory, the time needed by an auditor from the point of completion of the audit to the issuance of the company's audited financial statements will be faster. Profitability (PROF) has a negative effect on audit delay. This shows that if the value of profitability is higher or the performance of the company to obtain net income is getting better, the time needed by an auditor from the point of completion of the audit to the issuance of the company's audited financial statements will be faster. With the presence of this study, it can be concluded that the inconsistency of the results of previous research studies occurred because the data, formulas and criteria used by each researcher were different.

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## IMAGE, GRAPH AND TABLE

| | |
|---|---|
| $AD_{i,t} = \beta_0 + \beta_1 Fin\_Dist_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 AP_{i,t} + \beta_4 PROF_{i,t} + \beta_5 AGE_{i,t} + \beta_6 CFOA_{i,t} + \beta_7 GROWTH_{i,t} + \varepsilon_{i,t}$ | |
| AD | AD = audit report date– financial statement date |
| FD | $DAR = \frac{Total\ Debt}{Total\ Assets}$ |

| | |
|---|---|
| SIZE | $Size$ = Ln ($Total\ Assets$) |
| PROF | $ROA = \frac{Net\ Income}{Total\ Assets}$ |
| AGE | $AGE$ = Closing Year $-$ $IPO$ Yeat |
| CFOA | $ROA = \frac{Operating\ Cash\ Flow}{Total\ Assets}$ |
| GROWTH | $Growth = \frac{Sales_t - Sales_{t-1}}{Sales_{t-1}}$ |

Table 1 Empirical Model and Research Variables

Table 2 Descriptive Statistics Results

| **Nama** | ***Mean*** | ***Mid*** | ***Min*** | ***Max*** | ***Std.*** |
|---|---|---|---|---|---|
| AD | 86.135 | 85 | 29 | 154 | 21.960 |
| FIN_DIST | 0.348 | 0.263 | 0.005 | 4.711 | 0.491 |
| SIZE | 14.726 | 14.827 | 10.99 | 19.679 | 1.756 |
| AP | 7.633 | 5.017 | 0.02 | 131.456 | 12.797 |
| PROF | 0.044 | 0.029 | -0.531 | 1.49 | 0.160 |
| AGE | 18.277 | 20 | 1 | 39 | 10.382 |
| CFOA | 0.060 | 0.041 | -0.311 | 0.747 | 0.113 |
| GROWTH | 4.982 | 5.434 | -98.415 | 103.814 | 21.593 |

Source: Data processed in STATA 15

Table 3 Hypothesis Test Results

| **Variabel** | **Arah** | **Koefisien** | **p-value** |
|---|---|---|---|
| Variabel Dependen | | | |
| AD | | | |
| Variabel Independen | | | |
| FIN_DIST ($H_1$) | + | 0.0037 | 0.963 |
| SIZE ($H_2$) | - | -0.0662 | 0.004 |
| AP ($H_3$) | - | -0.0142 | 0.000 |
| PROF ($H_4$) | - | -0.5583 | 0.030 |
| Variabel Pengendali | | | |
| AGE | ? | -0.0035 | 0.373 |
| CFOA | ? | -1.1629 | 0.002 |
| GROWTH | ? | -0.0057 | 0.002 |
| N = 303 | | | |
| F (7, 295) = 10.95 | | | |
| Prob > F = 0.000 | | | |
| *Adjusted R Square* = 0.1874 | | | |

Source : Data processed in STATA 15