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Research Article

ANALYSIS OF THE ROLE OF THE INDEPENDENT AUDITOR ON REDUCING TIME LAGS IN FINANCIAL REPORTING AND EARNINGS MANAGEMENT

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ABSTRACT

This study aims to analyze differences in the timeliness of financial reporting and earnings management in terms of auditor quality in manufacturing companies on the Indonesia Stock Exchange. The research design of this research is an event study. The population in this study are companies on the Indonesia Stock Exchange. The sampling technique used purposive sampling and obtained a sample of 37 companies so that during the 3 years of observation, the data processed were 111. The hypothesis was tested using a different independent samples test. The results showed that there was no difference in the level of audit delay between companies audited by Big Four and non-Big Four auditors. This shows that the role of independent auditors in reducing audit delay has not been successful. While the second result shows that there are differences in the level of earnings management between companies audited by the Big Four or non-Big Four. This shows that the role of independent auditors in reducing earnings management is successful. This research has implications for corporate governance theory about the importance of good corporate governance to ensure that financial statements are presented fairly.

Keywords: Auditor quality, Audit delay and earnings management.

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INTRODUCTION

The importance of the timeliness of financial statements by companies is an interesting thing for policymakers. The Financial Services Authority has set a deadline for the submission of financial statements no later than 4 months from the end of the book closing (OJK, 2012). In detail, the regulation states that the issuer's company's financial statements must be presented to the public and submitted to the Financial Services Authority no later than 4 months after the closing of the book ends.

Financial statements that are presented in a timely manner are very relevant for decision-making. Delay in the publication of audited financial statements can reduce investor confidence in the profits achieved by the company (Marshall, 2015). The shorter the audit delay of financial statements, the financial statement information will be more reliable and relevant (Khasharmeh and Aljifri, 2010).

Audit delay affects the relevance of financial statements. So that the late submission of financial statements will have an impact on the quality of financial statements. For quality financial statements to be examined by an independent party, namely, an independent auditor. Based on research, results show that the most reliable source of accounting information and references for external users is the audited financial statements (Alkhatib and Marji, 2008).

Timely financial statements are influenced by many factors, including the quality of independent auditors who examine the financial statements. Quality auditors will have a high commitment in completing every audit task on the financial statements including the completion of auditing financial statements.

Audited financial statements are strongly influenced by the quality of public accounting firms. The better the quality of auditors used, the lower the level of delay in submission of financial statements. The results suggest that specialist (industrial) auditors are likely to be able to carry out audits more effectively and can complete audit engagements faster than non-specialist auditors (Rusmin and John, 2017). Therefore, the existence of a good audit quality is expected so that it can restore the confidence of the users of financial statements. Some research results indicate that audit quality has an impact on the declining level of submission of financial statements to the public (Karami *et al*., 2017); (Alkhatib and Marji, 2008); (Lawrence and Elijah, 2015). However, several other research results show that auditor quality cannot reduce audit delay (Lestari and Nuryatno, 2018); (Asni *et al*., 2017).

Professional auditors also influence the quality of financial statements. The existence of many cases of bankruptcy of companies caused by fraudulent financial statements raises questions about how the quality of its auditors. A qualified auditor will be able to do a good job because the independent auditor works professionally with a high level of competence.

Therefore, professional accountants will be able to detect early incidents of financial statement fraud in the company. Research results Alzoubi (2016) and Soliman (2018) show that audit quality is very influential on the quality of financial statements, which is to reduce the level of earnings management. This result is reinforced by Soliman (2018) which shows that audit quality can reduce the level of earnings management both as measured by real management and accrual management.

However, the results of the research mentioned above are also refuted by several researchers, among others: Soliman (2018) said that the existence of earnings management is not influenced by audit quality. Likewise research, Alghamdi and Salim (2017) found that earnings management cannot be derived by the presence of good audit quality. Several other studies also show very mixed results, as summarized in Table 1.

On the basis of some of the above research, this research aims to analyze the level of audit delay and earnings management in terms of the quality of the auditor so that it can add to the literature review on audit quality, audit delay, and earnings management.

Table 1: Research gap

	Earning management	Timeliness
(Mustika and Latrin, 2018); (Natalia *et al*., 2017); (Heryan and Adiwijaya, 2013); (Christiani and Nugrahanti, 2014); (Luhgiatno, 2010)	Audit quality does not effect on earnings management	
(Tarigan and Saragih, 2020); (Boedhi and Ratnaningsih, 2015)	Audit quality has a positive influence on earnings management	
(Hadi and Tifani, 2020); (Sugiarti, 2014)	Audit quality has a negative influence on earnings management	
(Rahmi and Syofyan, 2020); (Desyana, 2019); (Palupi *et al*., 2017)		Audit quality has no influence on timeliness
(Palulu *et al*., 2018); (Dirgantara and Sudarno, 2015)		Audit quality has a positive effect on timeliness
(Jayanti, 2018)		Audit quality has a negative effect on timeliness

Source: Data author

THEORETICAL FRAMEWORK AND HYPOTHESES

Audit delay and audit quality

According to Jensen and Meckling (1976), agency theory explains how the agent's relationship as the party given the mandate to manage the company's economic resources by principals to create harmony between the two. Is an independent party to audit the performance of agents so as not to harm the principal's interests. The greater the quality of public accounting firms who conducts audits, the faster the completion of the audit due to the ability of auditor examinations and better supervision, more auditor staff, wider and better auditor insight, and more efficient audit technology capabilities that motivate the presentation of the company's financial statements with on time and vice versa.

According to Rusmin and John (2017); Ishaq and Ayoib (2016) states that auditor quality has an influence on the timeliness of financial reporting. Companies audited by professional accounting firms (Big Four) will be able to complete their audit work faster than non-professional accounting firms (Big Four). Therefore, companies that use qualified auditors who are proxied by Big Four Public Accounting Firm are more timely in reporting their financial statements. Based on the description above, then the hypothesis can be developed as follows:
H1: There are differences in audit delay based on audit quality.

Earnings management and auditor quality

Agency problems arise because of a conflict of interest between the agent and the principal, giving rise to information asymmetry. The information asymmetry of the agent and principal conflict is a condition in which the agent has more information on the company's financial transactions compared to the principal. The information asymmetry encourages earnings management when the principal has only limited information in order to monitor the agent.

Independent auditors play an important role in maintaining prudence and assurance of high quality financial statements. Therefore, it raises questions about how the role of independent auditors in maintaining the quality of financial statements. According to research, Alzoubi (2016) said that auditor quality has a negative effect on earnings management. This reflects the higher the credibility of the external auditor, the better the earnings quality of the company. The results of the study were also supported by Khalil and Ozkan (2016) saying that auditor quality negatively affects the company's earnings management. Based on the study of the theory above, the second hypothesis of the study is as follows:
H2: There is a difference in earnings management in terms of audit quality.

RESEARCH METHODS

The study population was all manufacturing companies listed on the Indonesia Stock Exchange for the 2015–2017 time period and the sampling technique used purposive sampling. The sample criteria used to select samples are as follows: The sample criteria used to select samples are as follows: (1) Companies whose financial statements use the Indonesian currency and as of December 31; (2) companies that experienced profits during the 2015–2017 period; and (3) companies that have complete data.

Variable definition and measurement

Research variables consisting of earnings management and audit delay and case variables, and auditor quality. Operational definitions and variable measurements are presented below.

Audit delay

Audit delay of financial statement submission is defined as the number of days from the end of the financial year until the financial statement is signed by the auditor for publication (Rusmin and John, 2017). Therefore, the audit delay is measured by the number of days at the end of the financial year until the financial statements are issued.

Earnings management

Earning management is the company's management effort in managing information in financial statements with the aim to that the performance and condition of the company looks good to stakeholders (Alves, 2013). Likewise for earnings management calculated using the Modified Jones model as used by Alves, 2013 and Alzoubi, 2018. The steps to calculate earnings management with the modified Jones model are as follows:

1. Calculate the accrual value with the equation:
Total accrual (TAC) = NIit – CFOit

2. Calculating the value of accruals

$$\left(\frac{TAC_t}{A_{t-1}}\right) = \propto_1 \left(\frac{1}{A_{t-1}}\right) + \alpha_2\left(\frac{\Delta REV_t}{A_{t-1}}\right) + \alpha_3\left(\frac{PPE_t}{A_{t-1}}\right)$$

3. With the regression coefficient above, then calculate non-discretionary accruals

$$NDA_t = \propto_1 \left(\frac{1}{A_{t-1}}\right) + \alpha_2\left(\frac{\Delta REV_t - \Delta REC_t}{A_{t-1}}\right) + \alpha_3\left(\frac{PPE_t}{A_{t-1}}\right)$$

4. Calculating the value of discretionary accruals

$$DA_t = \left(\frac{TAC_t}{A_{t-1}}\right) - NDA_t$$

Auditor quality

As a case variable, audit quality is proxied by a dummy variable, which is a value of 1 if the client's financial statements are examined by Public Accounting Firm affiliated with the Big Four. While the value of 0, if the client's financial statements are examined by the Public Accounting Firm that is not affiliated with the Big Four (Gerayli, 2011).

Analysis techniques

Hypothesis testing method used ANOVA different test. Research data analysis techniques using descriptive analysis and normality test. Before it has gone through the normality test stage then testing the hypothesis using the independent sample t-test. Testing the hypothesis of this study using a 95% confidence level so that if the significance level of p<0.05, then the hypothesis of this study is accepted and vice versa.

DATA ANALYSIS AND DISCUSSION

The timeliness of the financial statements audited by Big 4 and non-Big 4 has a mean value of 96.83 days and 95.20 days and a fairly low standard deviation value. This shows that both data timeliness of financial statements is quite good. However, the descriptive data show that the financial statements examined by non-Big Four are more timely than the financial statements examined by Big Four. While the level of earnings management for companies audited by the Big Four and Big Four has an average value of −0.0017 for Big Four and 0.2076 for non- Big Four with a low standard deviation. This shows that the companies examined by the Big Four have a lower level of earnings management compared to the companies examined by the non-Big Four.

Normality test shows that the significance value of 0.854 for timeliness and 0.051 for earnings management. This indicates that the data are normally distributed both audited by the Big Four and non-Big Four so that it can be continued for the next test

Timeliness and audit quality

The results of the independent sample t-test are found known in the Levene's test for equality of variance timeliness which has a significance value of 0.987 (p>0.05). This shows that both variances are the same, so the use of variance to compare population averages in t-test testing must be based on equal variances assumed. Based on the equal variances assumed, the t value is −0.662 and the significant level is p=0.533. Significant value (two tailed) is >0.05 then Ho is accepted and Ha is rejected. This shows that there is no difference in audit delay in financial statements to the public in manufacturing companies audited by the Big Four (4) or the non-Big Four (4).

Table 2: Analysis descriptive

Timelines	n	Minimum	Maximum	Mean	SD
Big Four	60	55	123	96.83	13.129
Non-Big Four	51	58	140	95.20	14.408
Earning management					
BIG four	60	−0.20	0.80	−0.0017	0.12875
Non-Big Four	51	−0.30	1.81	0.2076	0.54839

Source: Data proceed financial statement

Table 3: Normally test

Most extreme differences	Timelines	Earnings management
Absolute	0.116	0.258
Positive	0.035	0.258
Negative	−0.116	−0.175
Kolmogorov–Smirnov Z	0.607	1.354
Asymp. sig. (two tailed)	0.854	0.051

Sources: Data proceed financial statement

Earnings management and audit quality

The results of the independent sample t-test are found in the Levene's test for equality of variance earnings management which has a significance value of 0,000 (p<0.05). This shows that the two variances are not the same, so the use of variance to compare population averages in t-test testing must be on the basis of equal variance not assumed. Based on the not assumed, equal variance obtained t value of 2.653 and a significant level of p=0.010. Significant value (two tailed) is smaller than 0.05 then Ho is rejected and Ha is accepted. Hence, there are differences in earnings management actions between manufacturing companies audited by the Big Four and the non-Big Four.

DISCUSSION

The difference in the timeliness of the financial statements of manufacturing companies audited by the Big Four and non-Big Four public accounting firms.

The rejection of this research hypothesis is supported by descriptive data of audit delay variables which show that the sample companies audited by auditors from the Big Four and non-Big Four public accounting firms have the same financial statement delay for 101 days. The sample companies that experienced a 101 day delay were 25% of the total sample with the breakdown of 25 companies for the audited Big Four and 13 companies for the audited non-Big Four public accounting firm. This means that the delay in the financial statements for companies audited by the Big Four and non-Big Four public accounting firms is the same (no difference).

This study is in line with research conducted by Abdillah and Mardijuwono (2019) that the reputation of the public accounting firm (Big Four and non-Big Four) does not significantly influence the audit delay of financial statement submission. While this research is not in line with research Rusmin and John (2017) which shows that audit quality affects audit delay.

The difference in the company's earnings management actions audited by the Big Four and non-Big Four public accounting firms.

Acceptance of this research hypothesis is supported by descriptive data showing that the average earnings management examined by the Big Four public accounting firm auditors is smaller than the non-Big Four public accounting firm. The average earnings management company examined by the Big Four is −0.00017 while the average earnings management that is examined by the Big Four is 0.2076.

Table 4: Independent samples test

???	Levene's test for equality of variances		t-test for equality of means						
	F	Sig.	t	df	Sig. (two tailed)	Mean difference	Std. error difference	95% confidence interval of the difference	
								Lower	Upper
Timelines									
Equal variances assumed	0.000	0.987	−0.626	109	0.533	−1.637	2.615	−6.820	3.546
Equal variances not assumed			−0.621	102.300	0.536	−1.637	2.635	−6.864	3.589
Earnings management									
Equal variances assumed	48.901	0.000	2.855	109	0.005	0.20819	0.07291	0.06368	0.35270
Equal variances not assumed			2.653	54.685	0.010	0.20819	0.07847	0.05092	0.36547

Sources: Data proceed financial statement

Empirical evidence of this study shows that good corporate governance (Muda *et al.*, 2018) supported by auditor quality will reduce corporate earnings management.

The results of this study are supported by research by Jordan *et al.*, 2010; Chen and Chen, 2010; Nawaiseh, 2016; and Chi *et al.*, 2011 which show that auditor quality is able to reduce the occurrence of earnings management. Therefore, research can complement references to the importance of auditor quality in reducing earnings management. However, this study contrasts with the research of Ching *et al.*, 2015.

CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Based on the previous data analysis, this research concludes as follows: First, there is no difference in audit delay based on auditor quality in the companies audited by the Big Four and the non-Big Four firm. Second, there is a difference in earnings management based on the quality of auditors in companies audited by the Big Four and the non-Big Four firm.

The sample of this study is quite small because this study only took samples from manufacturing companies with proportional determination listed on the IDX and there is a proxy for auditor quality that is unable to prove the hypothesis that is the timeliness of financial statement submission.

Therefore, future research can observe all companies listed on the Indonesia Stock Exchange and expand the research period and add other research variables in addition to timeliness and earnings management. It is better for managers to determine a more appropriate economic decisions and not do earnings management and company managers should determine the auditor according to the company's ability costs.

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