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THE FUNCTION OF PUBLIC ACCOUNTANT COMPANY IN PRESSURING AUDIT REPORT DELAYS FOR FIRMS THAT ARE GOING PUBLIC IN INDONESIA: PANEL ANALYSIS

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ABSTRACT

Purpose: *The purpose of this essay is to look into how Public Accounting Company (PAC) link important factors like Audit Tenure, Company Size, and Financial Distress with Audit Report Lag. We delve further to comprehend how PAC mediates this link and whether its impact is considerable in shortening the delay for filing audit reports.*

Method/approach: *The population of this study consists of operating in the mining industry companies registered on the Indonesia Stock Exchange from 2015 to 2022. The sampling method used is purposive sampling method. The samples were obtained by 19 manufacturing companies. There were 152 observations made over 8 years. The data analysis used was panel regression analysis which was moderated by using the random effect model approach.*

Findings: *The analysis's findings indicate that Public Accounting Company (PAC) is significantly involved in mediating the association between financial distress and audit report lag, but that PAC is not significantly involved in mediating the relationship between business size and audit tenure and audit report lag.*

Implications: *According to the findings, it is essential for a Public Accounting Company (PAC) to be involved in the audit process when a company is in financial trouble. In order to keep the audit report lag under control during financially difficult times, PACs appear to be quite important. This emphasizes how crucial skilled auditors*

are in identifying and resolving any financial problems that can develop in struggling businesses.

Originality/value: *This publication presents originality in uncovering the innovative role of Public Accounting Company (PAC) as mediators that link the Audit Tenure, Company Size and Financial Distress variables with Audit Report Lag. This research explores how the complex interactions between these variables impact delays in audit report submission. The findings highlight that PAC is not only the implementing audit entity, but also plays an important role in controlling the timing of preparation and submission of audit reports. These findings provide new insights into the dynamics of auditing and management decisions in the context of corporate financial uncertainty*

KEYWORDS: *Audit Report Lag; Financial Distress; Moderated Regression Analysis; Panel Regression; Public Accountant Company.*

ABSTRAK

Tujuan penelitian: Tujuan dari esai ini adalah untuk melihat bagaimana Perusahaan Akuntan Publik (PAC) menghubungkan faktor-faktor penting seperti Audit Tenure, Ukuran Perusahaan, dan Financial Distress dengan Audit Report Lag. Kami mempelajari lebih jauh untuk memahami bagaimana PAC memediasi hubungan ini dan apakah dampaknya cukup besar dalam mempersingkat penundaan pengajuan laporan audit.

Metode/Pendekatan: Populasi penelitian ini terdiri dari perusahaan-perusahaan industri pertambangan yang terdaftar di Bursa Efek Indonesia pada tahun 2015 sampai dengan tahun 2022. Metode pengambilan sampel yang digunakan adalah metode purposive sampling. Sampel yang diperoleh sebanyak 19 perusahaan manufaktur. Ada 152 observasi yang dilakukan selama 8 tahun. Analisis data yang digunakan adalah analisis regresi panel yang dimoderasi dengan menggunakan pendekatan random effect model.

Hasil: Temuan analisis menunjukkan bahwa Kantor Akuntan Publik (PAC) terlibat secara signifikan dalam memediasi hubungan antara financial distress dan audit report lag, namun PAC tidak terlibat secara signifikan dalam memediasi hubungan antara ukuran bisnis dengan audit tenure dan audit report lag.

Implikasi: Berdasarkan temuan tersebut, penting bagi Perusahaan Akuntan Publik (PAC) untuk terlibat dalam

proses audit ketika suatu perusahaan sedang mengalami kesulitan keuangan. Untuk mengendalikan keterlambatan laporan audit selama masa-masa sulit keuangan, PAC tampaknya cukup penting. Hal ini menekankan betapa pentingnya auditor yang terampil dalam mengidentifikasi dan menyelesaikan masalah keuangan apa pun yang dapat berkembang dalam bisnis yang sedang mengalami kesulitan.

Orisinalitas/kebaharuan: Publikasi ini menyajikan orisinalitas dalam mengungkap peran inovatif Kantor Akuntan Publik sebagai mediator yang menghubungkan variabel Audit Tenure, Ukuran Perusahaan dan Financial Distress dengan Audit Report Lag. Penelitian ini mengeksplorasi bagaimana interaksi kompleks antara variabel-variabel tersebut berdampak pada keterlambatan penyampaian laporan audit. Temuan tersebut menyoroti bahwa Kantor Akuntan Publik tidak hanya sebagai entitas pelaksana audit, tetapi juga berperan penting dalam mengontrol waktu penyusunan dan penyampaian laporan audit. Temuan ini memberikan wawasan baru terhadap dinamika keputusan audit dan manajemen dalam konteks ketidakpastian keuangan perusahaan

KATA KUNCI: Audit Report Lag; Data Panel; Financial Distress; Moderated Regression Analysis; Perusahaan Akuntan Publik.

INTRODUCTION

Financial reports are used by the company to convey to its users information about its performance, economic success, and resource quality ([Shofiyah & Wilujeng Suryani, 2020](#)). Users of financial statements should consider the timeliness and reliability of financial statements as two extremely essential and relevant factors. ([Diana & Hidayat, 2022](#)), so that readers can more easily focus on reading about the company's success and obtain information relevant to the necessary objectives. A trustworthy and easily accessible source of information, audited financial statements are given to its users together with the opinions of independent auditors or other professionals. This opinion can make financial statements more trustworthy, giving users more confidence in the choices they make based on these financial facts ([Karami et al., 2017](#)). For those who utilize financial statements, especially investors and creditors, the correctness of the submission of financial statements is a crucial consideration.

Public firms must submit annual reports to the Financial Services Authority no later than the end of the fourth month following the end of the fiscal year, as per Financial Services Authority Regulation Number 9/POJK.04/2016. The laws of the Capital Market and Financial Institution Supervisory Agency No. X.K.2, KEP-36/PMK/2003 further say that the correctness of the financial reports submitted is a crucial consideration for those who utilize financial statements, particularly creditors and investors. Additionally, the Financial Services Authority (OJK), the regulatory authority, will impose penalties for late financial reporting.

In fact, a large number of issuers submit their financial reports after the deadline. One hundred and eight (108) companies failed to submit their financial reports on time, according to the Indonesian Stock Exchange's announcement dated 31 August 2022 regarding the submission of audited financial statements ending on 30 June 2022 (Indonesia Stock Exchange, 2022). 59 Companies have not yet submitted financial reports for the period ending June 30, 2022, according to the IDX Announcement. These phenomena show that the issue of timely filing of financial reports continues to be a barrier for many Indonesian companies that go public. How long it took from the date of the audit report to the closing date of the financial statements has an impact on the timeliness of the data in those statements. The audit process often requires some time to complete, thus when there is a delay between the financial statements' closing date and the date of the audit report, it is known as an audit delay ([Kawisana, 2020](#)).

According to some analysts, a delay of more than four months will hurt both the company and its investors ([Shofiyah & Wilujeng Suryani, 2020](#)); ([Satyawan & ahmmi, 2020](#)); ([Khamisah et al., 2021](#)). The impact of submitting audited financial accounts after the deadline may have an impact on how unclear a decision is ([Dao & Pham, 2014](#)). According to ([Handoyo & Maulana, 2019](#)), investors believe that companies who don't report on time will be a bad news signal, and that companies that release their financial statements later than expected experience negative abnormal returns.

Financial statements may lose some of their value if they are not made available to users within a certain amount of time following the reporting date (for example, because the audit process took longer than expected), in accordance with generally accepted accounting principles. This means that the audited financial statements have a higher informative value when the time between the end of the fiscal year and the publication date of the audit report is shorter ([Chairunnisa & Patmawati, 2022](#)). Given that the end of the public release of faded financial statements tends to be decided by how soon the audit process is carried out, it is crucial to understand the elements that lead to Audit Report Lag (ARL) ([Abidin & Ahmad-Zaluki, 2012](#)).

There are a number of things that can delay an audit. Previous studies that examined the effects of profitability, solvency, and company size on audit delay with KAP reputation moderation found that profitability had a negative but not statistically significant impact on audit delay ([Khamisah et al., 2021](#)); ([Rainingtyas et al., 2021](#)). This is so because both businesses with low and high levels of profitability must go through the same audit process.

As a result, there is a positive and strong link between the length of the audit delay and solvency, i.e., the longer the audit wait, the more debt a firm obtains. However, the correlation is only slightly significant for company size. Furthermore, the correlation between profitability and audit delay may be strengthened by KAP's reputation, but the association between solvency and audit delay is unaffected. The audit report lag was then assessed for financial distress by ([Ibrahim Abd-El Rehim Ibrahim, 2022](#)); ([Diana & Hidayat, 2022](#)). According to their research, financial distress is a stage of the company's declining financial state, and if it persists, the company will go bankrupt.

For independent auditors, financial crisis conditions in organizations can raise audit risk, particularly control risk and detection risk. This increased risk necessitates that the auditor conduct a risk assessment (risk assessment) prior to beginning the audit process, specifically during the audit planning phase. This condition may lengthen the audit process, extend the time needed to submit audit reports, and lower the credibility and quality of financial reports.

Financial distress conditions that occur in companies can increase audit risk for independent auditors, especially control risk and detection risk. With this increased risk, the auditor must carry out a risk assessment (risk assessment) before carrying out the audit process, precisely in the audit planning phase, this condition can result in the length of the audit process and have an impact on increasing the time for submitting audit reports and reducing the credibility and quality of financial reports.

Another study examines how audit delay is affected by profitability, firm size, audit tenure, and audit committee, with the influence of KAP reputation acting as a buffer ([Mufidah & Laily, 2019](#)); ([Prasetyo et al., 2021](#)); ([Diana & Hidayat, 2022](#)). A shorter audit delay period will result from profitability, firm size, and the audit committee, among other factors. The reputation of KAP can also be used to enhance the impact of profitability, firm size, audit tenure, and audit committee on audit delay. Additionally, studies by ([Wiyantoro & Usman, 2018](#)); ([Sudradjat et al., 2022](#)) show that the length of the audit report decreases with time. According to ([Hoirul Fayyum et al., 2019](#)), a company will have a larger size the longer it has been in business. The auditor must take additional time to examine several corporate transactions as a result.

The majority of earlier studies use multiple linear regression analysis techniques, and some of them use simple regression analysis. These models still to have flaws and deficiencies in research findings, especially models that assume multiple individual companies are taken into account as cross sections and have the same characteristics. In contrast to earlier research, this one makes an effort to use multiple regression analysis in the panel model, a technique that is still hardly ever applied. According to ([M. Hashem Pesaran, 2004](#)); ([Oscar, 2010](#)), panel analysis can result in estimates that are more precise since it provides a high number of observations, boosts the degree of freedom, boosts the variability of the data, and lessens collinearity between the explanatory components.

Based on the summary above, this new study employs a panel model to examine the impact of public accountant company in the relationship between audit tenure, firm size, and financial difficulty. The purpose of this study is to identify and analyze the relationship between audit tenure, company size, financial difficulty, and audit delay. It also seeks to understand the function of public accountant company's reputation as a mediator of that relationship. It is hoped that this research would advance academic understanding, particularly for students finishing their final projects for the accounting and financial auditing courses. It will also be employed as a tool for rating businesses in order to boost their contribution to the growth of the domestic economy, particularly in terms of how soon they provide financial reports. This will improve the reliability, timeliness, accuracy, accessibility, and freshness of the data generated.

Audit tenure describes the length of the auditor-client relationship as measured by the number of years ([Mufidah & Laily, 2019](#)); ([Divo Ridho Agustianto et al., 2022](#)). It further explains that an auditor who has a long assignment with a client company will encourage the creation of business knowledge so as to enable the auditor to design an effective audit program and high quality audited financial reports. ([Diana & Hidayat, 2022](#)) stated that when the auditor and client establish a cooperative relationship for a relatively long period of time, it will provide benefits for both the client and the auditor. The length of the audit engagement period with the client can assist the auditor in obtaining due diligence, accuracy and audit expertise. This is because the auditor at the beginning of the audit engagement with a new client has low understanding and knowledge and takes time to adapt to the company he has just audited. The results of research conducted by ([Daratika, 2018](#)); ([Karami et al., 2017](#))

stated that Audit Tenure had a negative effect on Audit Report Lag, because when the auditor and client have cooperation for a relatively long period of time, this can make the auditor more aware of the report to be audited so it does not require a long period of time so as to shorten the audit report lag. So, the hypothesis statement that is formulated is

H1: Audit tenure has a significant effect on audit report lag

Due to the fact that the firm is solely responsible for creating financial reports, the period of the company affects the audit report lag component related to the scheduling lag. Companies that have been listed for a long time have more experience dealing with problems due to their prior experience, claims ([Kawisana, 2020](#)). The time frame, which we can refer to as the company's age, is determined from the year of the research up until the company's first listing on the Indonesia Stock Exchange. In earlier research by ([Kawisana, 2020](#)); ([Shofiyah & Wilujeng Suryani, 2020](#)), it was discovered that the age of the company had a considerable negative impact on the timeliness of the publication of annual financial statements.

The longer a business can survive, the quicker it will finish its yearly financial statements because older businesses have superior internal processes than in years past, making them better equipped to handle similar issues in the future previously. However, studies by ([Shofiyah & Wilujeng Suryani, 2020](#)); ([Arianti, 2021](#)) found that generally, long-standing enterprises have had a lot of branches or new operations, not only in some locations but also up to abroad. The huge scale of the business indicates the quantity of audits that the auditor must review as well as the variety of transactions with a high level of complexity so as to lengthen the audit process. So. The following describes the hypothesis:

H2: Company size has a significant effect on audit report lag

One of the bad news items in financial reports is financial difficulty. Financial distress is a stage of the company's declining financial state, and if it persists, it will lead to the company's bankruptcy. For independent auditors, financial crisis conditions in organizations can raise audit risk, particularly control risk and detection risk. Financial distress has a favorable impact on audit delay, according to research by ([Chairunnisa & Patmawati, 2022](#)) and ([Rainingtyas et al., 2021](#)).

The greater the value of the financial distress ratio, the more likely the company is to be in financial trouble. The management will make an effort to delay this terrible news by reducing it. For independent auditors, financial crisis conditions in organizations can raise audit risk, particularly control risk and detection risk. The auditor must conduct a risk assessment due to the elevated risk before beginning the audit process, specifically during the audit planning phase. Thus, this may lengthen the audit process and have an impact on an increase in audit delay. The similar findings were reached by ([Harymawan et al., 2021](#)); ([Sabella et al., 2021](#)), which claimed that the financial troubles a company is experiencing can have an impact on the auditor's performance since it has to do with the payment that the firm would make to the auditor. The auditor performs his or her duties in a professional manner, but if the payment due to him or her is delayed or not what it should be, the auditor may also perform according to instructions from the business. Therefore, the following hypothesis statement is possible:

H3: Financial distress has a significant effect on audit report lag

According to ([A. Astuti et al., 2021](#)), the audit delay gets shorter the longer a company has been a client of a public accounting firm. This is due to the fact that public accountants are familiar with the company's traits, internal control framework, and other factors. The auditor will get more knowledgeable about operations, business risks, and the company's accounting

system as audit tenure increases, making the audit process more effective. However, [\(Wiyantoro & Usman, 2018\)](#) demonstrate that audit tenure has a negative impact on the audit completion period, i.e., the audit completion period will be longer if the auditor completes an audit engagement with a new client.

Audit assignments by auditors with a good reputation, specifically the big four of public accountant firm, tend to complete audit reports in a smaller amount of time because the big four of public accountant firm have audited a lot in many industries and go public companies. This reduces the negative influence between the length of audit engagement and audit report lag. A public accounting firm's extended audit tenure will boost its audit experience, reducing the time between the audit and the audit report. As a result, businesses will favor a public accounting company that has collaborated with them as a partner over one with a better reputation [\(Daratika, 2018\)](#). This justification enables the following arrangement of the thesis statement:

H4: The public accountant company has a significant role in mediating the relationship between audit tenure and audit report lag

Larger companies will prepare financial reports more quickly and will have the resources to pick a renowned public accounting firm to expedite the timely submission of financial reports, reducing audit delays. In relation to the function of a public accounting firm, it was stated by [\(Sulistiyono et al., 2022\)](#) that organizations that have been in operation for a long time are required to use the services of a PAC in order to provide accurate and trustworthy information to the public about their performance. In order to increase the credibility of the report, the organization also employs the services of a PAC with a good reputation. The similar opinion was also voiced by [\(A. Astuti et al., 2021\)](#) who claimed that because the Big Four PACs have a sizable auditor staff and are more qualified, companies that have been listed for a long time and are audited by a reputable PAC will tend to have a shorter audit report lag. Companies with greater sizes will prepare financial reports more quickly, according to study by [\(Prabasari & Merkusiwati, 2017\)](#), giving the auditor more time for auditing. Because PACs with a strong reputation have flexible scheduling and experience few audit delays, the consequences of the size of the company on audit delay will be enhanced further [\(A. Astuti et al., 2021\)](#). The fifth hypothesis (H5) can be stated as follows in light of that justification:

H5: The public accountant company has a significant role in mediating the relationship between company size and audit report lag.

When a business is facing bankruptcy because it is unable to pay its bills on time, it is considered to be in financial trouble [\(Khamisah et al., 2021\)](#). These financial issues begin when companies miss their payment due dates or when cash flow projections indicate that they will soon miss their obligations. In order to avoid providing mediocre financial reports, businesses regularly try to improve them. The time it takes to complete this upgrade project will increase the company's audit delay.

According to a number of sources, including [\(A. Astuti et al., 2021\)](#); [\(Suryandari & Dwiyantri, 2021\)](#); [\(Sulistiyono et al., 2022\)](#), PACs with a good reputation would often finish the audit process more quickly even when the client firm is experiencing financial difficulties since they are considered to be very efficient and adaptable in order to finish audits on time. A sizable PAC will also make it easier to manage audit risk and discover the necessary evidence, guaranteeing that the audit process won't take too long even if the organization is having financial problems or is in danger of going bankrupt.

It will take a while to audit businesses that are predicted to fail. According to [DeAngelo's \(1981\)](#) hypothesis, it may be postulated that a public accounting firm's reputation can attenuate the impact of bankruptcy prediction on audit delay. This justification enables the following arrangement of the thesis statement. Audits of businesses that are predicted to collapse will take some time. According to the theory of [\(DeAngelo, 1981\)](#), it can be theorized that a public accounting firm's reputation has the ability to attenuate the impact of bankruptcy prediction on audit delay. This justification allows us to arrange the thesis statement as follows:

H6: The public accountant company has a significant role in mediating the relationship between financial distress and audit report lag

METHODS

The population of this study consists of operating in the mining industry companies registered on the Indonesia Stock Exchange from 2015 to 2022. Choosing a research population consisting of companies operating in the mining industry can have several strong justifications, namely; the mining industry is often subject to high financial risk due to fluctuations in commodity prices, significant production costs and associated environmental risks. Therefore, audit reports in this industry can be more complex and risky. This provides an opportunity to examine how companies in the mining industry manage these risks and how audit reports help in ensuring the appropriateness of financial information.

In this study, the sampling method used was purposive sampling method. Sampling was carried out by considering a number of predetermined criteria. Some of the criteria considered in the use of this purposive sampling method include:

No.	Criteria	Total
1.	The company is a member of the group of mining companies listed on the Indonesia Stock Exchange based on the classification used by the Indonesian Stock Exchange (IDX) for the study period, which runs from 2015 to 2022;	122
2.	The mining companies listed on the Indonesian Stock Exchange in order based on the Indonesian Stock Exchange (IDX) categorization throughout the study period, which is from 2015 to 2022;	19
3.	Companies that submit financial reports for the years 2015 through 2022	19
4.	Companies that are not comply with the requirements for the study sample	103
Total firms that adhere to the criteria for the research sample		19

Table 1.
Criteria of Sampling

The objective of this study is to employ panel data and moderated regression analysis (MRA), a sort of analytical approach that uses inferential statistics to establish the viability of a

hypothesis. This paper employs regression analysis with panel data. Panel data is produced by combining cross section and time series data. Panel data regression algorithms can be employed with three alternative processing techniques (Faisol, Pudjihardjo M, 2020), (Sujiyanto, 2020). The stages of analysis in this research framework begin with the sequential implementation of the three essential tests, namely the Chow Test, Hausman Test, and LM Test (lagrangian multiplier test). The implementation of these three tests uses STATA 16 software. Each test has a specific purpose in order to reveal and examine the dynamics in the adopted model. The Chow Test, the first test, is intended to determine whether the fixed effect model or the common effect model should be applied. Choosing the model that best fits the analyzed data structure is the major objective. The Chow test helps to better understand how data from different groups vary from one another and allows for more informed model selection. The second test, the Hausman test, is an important step in choosing between the fixed effect model and the random effect model. This analysis explores deeper aspects of variance between and within units of observation, enabling the selection of a model that has optimal capabilities for analyzing variability in data. The final test, the LM test, is used to decide between the random effect model and the common effect model. The test explores the distinctions between fixed effects and random effects and offers an empirical foundation for choosing the model that best matches the properties of the observed data. The dependent variable for this study is audit report latency. A Public Accounting Company serves as a mediator between the separate components of the audit tenure and financial difficulty. The study's moderated regression model is described as follows:

Model 1: $ARL_{it} = \beta_0 + \beta_1 AT_{it} + \beta_2 CS_{it} + \beta_3 FD_{it} + e_{it}$ (1)

Model 2: $ARL_{it} = \beta_0 + \beta_1 AT_{it} + \beta_2 CS_{it} + \beta_3 FD_{it} + \beta_4 AT * PAC_{it} + \beta_2 CS * PAC_{it} + \beta_3 FD * PAC_{it} + e_{it}$ (2)

Note:

- ARL = Audit Report Lag
- AT = Audit Tenure
- CS = Company Size
- FD = Financial Distress
- AT * PAC = Interaction 1
- CS * PAC = Interaction 2
- FD * PAC = Interaction 3
- $\beta_1, \beta_2, \beta_3$ = Regression coefficient
- β_0 = Constanta
- e = error
- i = entity of company
- t = period of time

Variables	Measurement
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Dependent Variable

ARL Audit Report Lag

Audit report lag is measured by the number of months between the end of a company's financial year and the month of the audit report ([Lai et al., 2020](#)). If a company releases its financial statements within the time limit set by regulations, it cannot be said that the company has been late in releasing its financial statements. Therefore, we describe the number of months that elapse between the end of a company's financial year and the audit report date as its audit break. We calculate the audit delay for each company by calculating the number of months that elapse between the end of the financial year and the date of the audit report ([Setiyowati & Januarti, 2022](#)).

Moderated variable

PAC Public Accountant Company (PAC)

A public accounting company (PAC) is a company that offers external clients audits, engagement, consulting, and other accounting services. These businesses are typically made up of licensed financial and accounting professionals that are dedicated to offering their clients high-quality, impartial services. The measurement of the PAC variable in this study through the number of clients. The reason is that the number of clients can reflect the extent to which the firm has grown and is successful in attracting new clients. Business scale can indicate a company's ability to offer auditing, taxation, consulting and other financial services to a wide range of clients.

*Independent Variables*AT *Audit Tenure*

Audit tenure is the length of the auditor's relationship with the client which is determined by the number of years ([Wiyantoro & Usman, 2018](#)). The tenure audit is computed by accumulating the engagement years, which begin in 2015 and continue through the next year until 2021. The engagement's first year begins with the number 1, and each additional year is added to that number. For the first year of the agreement, if the Public Accounting Company changes, the calculation reverts to number 1 ([Hoirul Fayyumi et al., 2019](#)).

CS *Company Size*

The size of a firm is determined by the total value of its assets. Since a larger firm will be more likely to be able to attract investors, it is believed that the size of the company can have an impact on its value. The firm size variable in this study is calculated using the natural logarithm (Ln) of total assets ([Lai et al., 2020](#)).

The logic behind using logarithms is related to the way data is distributed and grown. In many cases, variables such as firm size, revenue, and assets have distributions that tend to follow exponential or geometric rather than linear growth patterns. This growth pattern is often called "exponential

FD *Financial Distress*

growth" because the absolute value of a variable will double in a given time interval. However, it is difficult to interpret absolute differences in exponential growth scales, especially if those differences are significant. Therefore, by using logarithms, data with exponential growth can be converted into a linear scale that is easier to interpret (Fujiанти & Satria, 2020).

One of the negative financial news items that is reflected in the company's worsening financial status is financial difficulty. Debt to Total Assets is a measure of financial difficulty using the following formula:

$$FD = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

The use of the ratio of Total Liabilities to Total Assets in measuring financial distress has several reasons and benefits that can be explained; *The ratio of Total Liabilities to Total Assets* describes the proportion of liabilities or debts owned by a company in relation to its total assets. The higher this ratio, the greater the proportion of liabilities to assets, which can indicate a higher level of liabilities and potential liquidity or solvency issues (Jati et al., 2021); *Early Signals of Financial Distress*: When the ratio of Total Liabilities to Total Assets suddenly increases significantly over time, this can be an early signal that a company is experiencing financial problems. A sharp increase in this ratio may indicate an increased risk of financial distress (Crespi-Cladera et al., 2021).

Table 2. lists the variables' descriptions and measurements.

Source: (Setiyowati & Januarti, 2022); (Hoirul Fayyum et al., 2019); (Fujiанти & Satria, 2020).

Analysis Approach.

The main topic of this research paper is "What is the role of the PAC on its clients in influencing audit report lag?". The authors use a multiple regression analysis model with panel data to determine which three independent factors—audit tenure, financial difficulty, and company size—have a greater influence on the dependent variable. Similar to multiple linear regression, panel data regression aims to predict the intercept and slope values. Regression using panel data will result in unique intercepts and slopes for each company, entity, and time period. The intercept, slope, and disturbance variables must be assumed for the panel data multiplied regression analysis to be evaluated. Panel data regression seeks to forecast the intercept and slope values, just like multiple linear regression does. Each organization, entity, and time period will have a different intercept and slope as a result of regression utilizing panel data. In the derived panel data regression model, the intercept, slope, and disturbance variables must be presupposed.

According to (Oscar, 2010), the assumptions regarding the intercept, slope, and disturbance factors will lead to a number of options. The intercept and slope are *first* assumed to be constant during the course of the study and between entities/companies. The residual variable explains the discrepancy between intercept and slope. *Second*, it is assumed that while the intercept varies amongst entities or firms, the slope is constant. *Thirdly*, it is assumed that while the intercept varies over both time and individuals, the slope is constant. *Fourthly*, it is a given that individual differences in the intercept and slope exist.

Fifthly, it is presumable that the intercept and slope vary over time and between people. Panel data regression can be used to perform a variety of models and strategies based on the many possibilities listed above. Only the first three assumptions are frequently employed as a guide when creating panel data regression models, according to a large body of literature. According to (Gujarati, Damodar N, 2012), there are three tests to choose panel data estimate methods. The F statistical test is first used to determine whether to utilize the Fixed Effect approach or the Common Effect method. Second, the Fixed Effect approach or the Random Effect method is determined using the Hausman test. Third, to determine whether to utilize the Random Effect approach or the Common Effect method, the Lagrange Multiplier (LM) test is performed.

RESULT AND DISCUSSION

Table 2 displays the results of a statistical descriptive test that displays the mean, median, standard deviation, minimum, and maximum values of the research variables used.

Audit tenure is the average length of the audit relationship between the audited company and the Public Accounting Company. The average value of the tenure audit variable is around 6.309868 years, which means that overall, the average audit relationship between a company and PAC lasts about 6 years. The standard deviation is a measure of how far the data is spread out from the mean. The standard deviation value of the audit tenure variable is around 2.076413 years, indicating a moderate variation in the length of the audit relationship between the observed firms. This means that there are variations in the length of the audit relationship between the companies. The minimum value of the audit tenure variable is around 1.021519 years, indicating that some audit relationships are very short, at least around 1 year. The maximum tenure audit value is around 9,425 years, which indicates that there is a very long audit relationship, at least around 9 years.

Variable		Mean	Std. Dev	Min	Max	Observation
AT	overall	6.309868	2.076413	1.9	11	N = 152
	between		1.851175	3.2625	9.425	n = 19
	within		1.021519	4.484868	8.122368	T = 8
CS	overall	11.37303	4.745705	3.4	23.8	N = 152
	between		4.697251	4.25	21.225	n = 19
	within		1.216712	8.848026	13.94803	T = 8
FD	overall	.3980921	.0751046	.24	.55	N = 152
	between		.0295257	.33625	.4575	n = 19
	within		.0693495	.2830921	.5143421	T = 8
ARL	overall	11.59938	6.216105	1.53	23.76	N = 152
	between		6.317137	1.639013	21.21075	n = 19
	within		.7640055	10.18863	14.14863	T = 8
PAC	overall	34.86184	8.0783	18	57	N = 152
	between		6.870566	24.125	48.125	n = 19
	within		4.499172	28.73684	43.73684	T = 8

Table 3.
The results of a statistical descriptive test

Note: AT (*Audit Tenure*), CS (*Company Size*), FD (*Financial Distress*), ARL (*Audit Report Lag*), PAC (*Public Accountant Company*)

Source: STATA test result, 2023

The average value of the logarithm of the total assets of the audited companies in billions. In this context, the average "Company Size" is about 11.37303 billion. This shows that the average company size, measured in the logarithm of total assets in billions, is about 11.37303 billion. The standard deviation value of company size is about 4.745705 billion, which indicates a considerable variation in company size observed in billions. This means that there is a significant variation in the logarithm of the total assets of the audited companies in billions. The minimum value of the company size is about 3.4 billion in the logarithm of total assets. This indicates that there is a company with the smallest size in billions in the dataset. The maximum value of the company size variable is about 23.8 trillion in the logarithm of total assets, indicating that there is a company with the largest size in trillion in the dataset.

The average value of the ratio of Total Liabilities to Total Assets in billions. In this context, the average "Financial Distress" is about 0.3980921 billion. This value indicates the average level of financial difficulty as measured by this ratio in billions. The standard deviation value of financial distress is around 0.0751046 billion, which shows a fairly small variation in the level of corporate financial distress observed in billions. This means that the majority of companies tend to have a similar level of financial distress. The minimum value of Financial distress is around 0.0295257 billion, indicating that there are companies with the lowest level of financial distress in billions in the dataset. The maximum value of Financial distress is around 0.55 billion, indicating that there are companies with the highest level of financial distress in billions in the dataset.

The average value of "Audit Report Lag" in months. In this context, the average "Audit Report Lag" is about 11.59938 months. It indicates the average time required to complete audits and issue audit reports after a company's fiscal year ends. The standard deviation value of the ARL is around 6.216105 months, which indicates a sizeable variation in audit time among the observed companies. This means that there is significant variation in audit time between the companies. The minimum value of ARL is around 1.53 months, indicating that there are companies with audit reports that are completed very quickly after the fiscal year ends. The maximum value of ARL is around 23.76 months, which indicates that there are companies with audit reports that are completed very slowly after the fiscal year ends.

The public accountant company variable has an average value of 34.86184. This indicates that the average number of clients owned by a public accounting firm is around 34.86. The standard deviation measures how spread the data is from the mean. In this context, the standard deviation of PAC is around 8.08 indicating that most public accounting firms have a number of clients that are in the range of around 8.08 from the average. the minimum value of the PAC is 18. This is the lowest value in the data, meaning there are public accounting firms with at least 18 clients. the maximum value of the PAC variable is 57. This is the highest value in the data, which means there is a public accounting firm with the highest number of clients of 57

Analysis of panel data

The three models that make up the analysis of panel data are the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) ([Sujianto, 2020](#)). The Hausman Test and Lagrangian Multiplier (LM) Test are used to confirm that the model chosen is the best model. The study's tests for assessing the quality of the data are as follows: The Chow test, which was used to compare the two models FEM and CEM, was the first test, although it has not been completed. The second was the Hausman test, which was used

to choose between FEM and REM as the best model, and the third was the LM test, which was used to choose between REM and CEM as the best model.

The result of he Hausman Test

The Hausman test compares the *Fixed Effect and Random Effect* models to see which one is more effective. The model selected is *Fixed Effect* if the Hausman test findings indicate a significant value or **the probability>chi2 is less than 0.05**, and vice versa. The findings of the Hausman test computations are as follows.

According to Table 4, the Hausman test findings in this study show a probability value of 0.9980. Given that the chosen model is **Random Effect** and the probability value is $0.9980 > 0.05$. So, it is important to continue the Lagrangian Multiplier Test (LM test) to see whether the estimation is consistent with the Random Effect Model. The LM test compares the Random Effect and the Common Effect models to determine which one is the best. If the results of the LM test show that the probability value is less than 0.05, the model of choice is Random Effect. Following are the results of the LM test computation.

The result of Lagrangian Multiplier test

The findings of the LM test in this investigation, as shown in Table 5, point to a probability value of 0.0000. The chosen model is Random Effect, as indicated by the probability value of $\text{chibar2} = 0.0000 < 0.05$. Consequently, this study kept employing the **Random Effect Model**.

Table 4.
The result of hausman test

	FEM (b)	REM (B)	Difference (b-B)	S.E
AT	1.325994	1.269927	.0560678	.2887539
CS	.0236575	-.0225665	.0462239	.156736
FD	-13.20498	-11.68682	-1.518159	3.483403
AT * PAC	.0116697	.0109317	.0007379	.0023202
CS * PAC	-.0012747	-.0009482	-.0003265	.0010174
FD * PAC	-.03129	-.0307095	-.0005805	.0024889
Prob>chi2 = 0.9980				

Source: STATA test result, 2023

Table 5.
the result of Lagrangian Multiplier test for random effect s

Estimated result	Var	Sd = sqrt (Var)
ARL	38.63996	6.216105
e	.6017969	.7757557
u	53.96336	7.345976
Prob > chibar2 = 0.0000		

Source : STATA test result, 2023

ARL	Coef.	Std. Err.	Z	P > z
AT	1.269927	.5284605	2.40	0.016
CS	-.0225665	.2710175	-0.08	0.934
FD	-11.68682	6.303328	-1.85	0.064
AT * PAC	.0109317	.0089347	1.22	0.221
CS * PAC	-.0009482	.0034521	-0.27	0.784
FD * PAC	-.0307095	.0116738	-2.63	0.009
cons	9.260599	2.185317	4.24	0.000
Number of observation	152	R-square		
Number of groups	19	within	0.1325	
Wald chi2(6)	20.97	between	0.0720	
Prob > chi2	0.0019	overall	0.0727	

Table 6.
The result of Moderated Regression Analysis

Note: AT (Audit Tenure), CS (Company Size), FD (Financial Distress), ARL (Audit Report Lag), PAC (Public Accountant Company)

Source: STATA test result, 2023

The result of the Random Effect Model in Moderated Regression Analysis

Table 6 shows the descriptions of the results of the moderated regression analysis.

Firstly, it shows that tenure audit has a regression coefficient = 1.269927, then the value of t count = 2.40 is greater than t table (1.976) with a significance value = 0.016, it can be stated that there is a significant relationship between the tenure of the audit and the delay in the Audit Report Lag. In this context, the variable Audit Tenure has a positive effect on Audit Report Lag. The longer an audit firm has worked with a client, the better they understand the client's business and the more efficient they may be in conducting audits. However, there is also a risk that they will be less thorough or pay less attention to significant changes in the client's business, which could lead to less rigorous audits and ultimately extended audit report lag.

Second, the company size variable has a regression coefficient value = -0.0225665, t count = -0.08 is smaller than t table (1.976), a significance value of 1.976 > 0.05, it can be stated that there is no significant relationship between company size and audit report lag. In other words, Company Size has no significant effect on Audit Report Lag.

Third, Financial distress has a regression coefficient value = -11.68682, then t count = -1.85 is smaller than t table (at a significance level of 0.05) = 1.976, and Significance value (Sig.) = 0.064, so it can be said, Hypothesis H3 is rejected . This shows that there is no significant relationship between Financial Distress and audit report lag. In this context, Financial Distress has no significant effect on Audit Report Lag.

Fourth, the role of PAC in the relationship between audit tenure and audit report lag, it shows the coefficient value is .0109317, the f count is 1.22 is smaller than t table (1.976), and p-value of 0.22. Based on these results, it can be stated that H5 cannot be accepted. That is, there is not enough evidence to state that there is a significant relationship between the "audit tenure" variable and the phenomenon studied regarding audit report lag at a significance level of 0.05.

Fifth, the role of PAC in the relationship between company size and audit report lag. With a p-value of 0.784 which is greater than alpha (0.05), this indicates that these results do not

have sufficient statistical evidence to support the hypothesis that PAC mediates the relationship between company size and audit report lag at a significance level of 0.05. In other words, the results of the analysis do not support the idea that PAC plays a significant mediating role in this relationship.

Sixth, the role of PAC in the relationship between financial distress and audit report lag. This result has enough statistical support to support the hypothesis that PAC mediates the association between financial distress and audit report lag at a significance level of 0.05, as shown by the p-value of 0.006, which is lower than alpha (0.05). In other words, the analysis's findings are consistent with the notion that PAC is a key mediator in the process of elucidating how financial distress influences audit report latency.

Findings from Hypothesis Testing

A partial regression test (t-test) aims to evaluate each hypothesis by determining the relative contribution of each independent variable to the variation of the dependent variable. The results of the hypothesis test are shown in the table 7 as follows:

The first hypothesis stated that audit tenure has a significant effects on audit report lag. According to the study's test result, there is a significant relationship between audit tenure and audit report lag. Statistically, the regression coefficient value is 1.269927, t count is 2.40 > t table (1.976), and the significance value is 0.016 which is smaller than the alpha value of 0.05. It mean that, audit tenure has a significant effects on audit report lag, hence H1 is accepted. Companies that are more complex or larger may require more time to conduct a thorough audit. Therefore, if an auditor has worked with the company for a long time, the audit report lag can be shorter because they are familiar with the complexities. Several studies have shown that audits with longer audit tenures can produce higher quality audit reports. This is because an auditor who has worked with a client for a long time may have deeper insight and a better understanding of the critical issues that must be disclosed in the audit report. This result is consistent with earlier research, such as those by ([Wiratmaja, 2017](#)); ([Giyanto & Rohman, 2018](#)); ([Wiyantoro & Usman, 2018](#)), ([Anggraeni et al., 2020](#)) which show that, the longer the audit duration, the easier it will be for auditors to understand and investigate the client's business. This will allow them to finish the audit process more quickly and lessen the possibility of an audit report lag. However, the study's results are in contrast to those of ([Mufidah & Laily, 2019](#)); ([Prasetyo et al., 2021](#)), who discovered that audit tenure had no appreciable impact on audit report lag.

Hypothesis	B	t count	t table	Sig.	Result
H ₁ : AT => ARL	1.269927	2.40	1.976	0.016	Accepted
H ₂ : CS =>ARL	-.0225665	-0.08	1.976	0.934	Rejected
H ₃ : FD =>ARL	-11.68682	-1.85	1.976	0.064	Rejected
H ₄ : AT * PAC => ARL	.0109317	1.22	1.976	0.221	Rejected
H ₅ : CS * PAC => ARL	-.0009482	-0.27	1.976	0.784	Rejected
H ₆ : FD * PAC => ARL	-.0307095	-2.63	1.976	0.009	Accepted

Source: STATA test result, 2023

Table 7.
Result of hypothesis test.

The second hypothesis in this study stated that the company size has a significant effects on the lag in the audit report. The result of the analysis show, the t count is $0.08 < t$ table (1.976), the regression coefficient value is -0.0225665 , and the significance value is 0.934 , which is bigger than the 0.05 alpha value. H2 is therefore rejected. The results of the analysis show that there is no significant relationship between firm size and audit report lag. In this case, the effect of firm size can be obscured by other factors that affect variability. This may imply that factors other than company size play a more important role in determining audit report lag. then, other factors such as the complexity of financial transactions, management policies, quality of financial statement preparation, and industry-specific factors may have a greater impact on audit report lag than company size. The size of a company may not always reflect the complexity of their business. Businesses with many types of transactions or very complex operations may require more audit time, even if they are not classified as very large companies. In contrast, larger companies with relatively simple operations may be able to face quicker audits. The results of this study are consistent with those of ([Shofiyah & Wilujeng Suryani, 2020](#)), ([Sudradjat et al., 2022](#)), ([Diana & Hidayat, 2022](#)), all of which claim that the size of the company does not always have a major impact on the delay in the issuance of audit reports. However, the results of this study do not agree with those of ([Satyawan & ahmmi, 2020](#)), ([Machmuddah et al., 2020](#)), who discovered that the size of the company is able to predicts how short an organization's audit report lag will be.

The third hypothesis stated that financial distress has a significant effect on audit report lag. Statistically, the test results showed the t count is $-1,85 < t$ table (1.976), the regression coefficient value is -11.68682 , and the significance value is 0.064 , which is bigger than the 0.05 alpha value. Therefore, H3 is not accepted. Financial distress is a condition where a company faces serious financial difficulties and is at risk of bankruptcy. While there are a number of reasons why financial distress may not always have a significant relationship to audit report lag, it should be remembered that the factors that influence audit report lag can be very complex and vary from situation to situation. There are several explanations and reasons why financial distress may not always be associated with a longer audit report lag. When a company experiences financial distress, internal monitoring often increases. Management and shareholders who are concerned about a company's stability tend to be more stringent about maintaining financial records and strive to ensure that their financial reports are accurate. This can make the audit process smoother and faster. When companies are in financial distress, they tend to be more cooperative with auditors. They recognize that accurate and transparent financial information is critical to obtaining additional financial support or maintaining shareholder confidence. Therefore, they may be quicker in providing documents and answering auditors' questions. This result is in line with those of ([Mufidah & Laily, 2019](#)); ([Diana & Hidayat, 2022](#)). But, it is not consistent with a number of other research by by ([Wiratmaja, 2017](#)); ([Khamisah et al., 2021](#)) which discovered that financial difficulty had a large favorable impact on audit report latency.

The fourth hypothesis, stated that public accounting companies have a significant role in the relationship between audit tenure and audit report lag. The results showed that the t count is $1,22 < t$ table (1.976), the regression coefficient value is $.0109317$, and the significance value is 0.221 , which is bigger than the 0.05 alpha value. Therefore, H4 is not accepted. These results demonstrate that many companies now choose to engage PAC services with a good reputation because they think these PAC have better human resources and greater knowledge, as well as the right technological resources, allowing them to complete the audit process swiftly. efficient and generate auditing of higher caliber. Independence is a basic principle in auditing practice. Public accounting companies must

ensure that they remain independent and are not influenced by relationships that may form during the audit tenure. Therefore, they must carry out the audit objectively regardless of the length of time they have worked with the client. The results of this study do not concur with those of ([Mufidah & Laily, 2019](#)); or with those of ([Ariestia & Sihombing, 2021](#)), which revealed that PAC's reputation could not significantly alter the association between audit tenure and audit delays.

The fifth hypothesis, stated that the public accounting companies have a significant role in the relationship between company size and audit report lag. The findings revealed a t count of $-0,27 < t \text{ table } (1.976)$, a regression coefficient value of $-.0009482$, and a significance value of 0.784 , which is greater than the 0.05 alpha value. H5 is therefore not acceptable. The public accountant company has a more limited role in mediating the relationship between company size and audit report lag (the length of time it takes to complete an audit). The reasons why their role may not be significant in this context: One of the basic principles in audit practice is auditor independence. Public accounting companies must carry out audits objectively and independently without taking sides with their clients. Therefore, the length of time a public accounting firm has worked as an auditor for a client should not affect the length of audit time. They should always conduct audits to the same standards, regardless of the size of the client company. Public accounting companies must also comply with applicable legal requirements in conducting audits. These legal requirements often do not depend on the size of the client company, but on the type of business and industry in which the company operates. Therefore, public accounting companies must comply with the deadlines set by law. The research findings are consistent with those of ([Suryandari & Dwiyantri, 2021](#)); ([Sulistiyo et al., 2022](#)); ([A. Astuti et al., 2021](#)) who discovered that the public accounting companies did not have a role in mediating the relationship between company size and audit report lag, in his research stated the main task of an accounting firm is to provide independent audit services to their clients, ensuring that the client's financial statements have been audited properly and in accordance with applicable accounting standards. Therefore, they are not the ones who should mediate the relationship between these variables. In contrast to the research of ([P. Astuti & Puspita, 2020](#)); ([Rahardi et al., 2021](#)) discovered that the presence of resources and systems that support the audit process in large-scale firms can shorten the occurrence of audit report lag.

The sixth hypothesis, stated that the public accounting companies have a significant role in mediating the relationship between financial distress and audit report lag. The findings revealed a t count of -2.63 is greater than t table (1.976) , a regression coefficient value of $-.0307095$, and a significance value of 0.009 , which is smaller than the 0.05 alpha value. So, H5 is acceptable. These results illustrate that when a company is facing financial distress, the auditor will be more careful in evaluating assets, liabilities and estimates. They can ensure that all problems related to financial distress have been identified correctly. This may affect the time required to complete the audit. This result makes it possible that during periods of financial distress, auditors communicate more intensively with company management in order to understand the situation being faced. This can affect their audit report and result in time periods in the preparation of the audit report.

The results of this research are in line with research conducted by ([P. Astuti & Puspita, 2020](#)); ([Rahardi et al., 2021](#)) that public accountant company has a significant influence on the relationship between financial distress and audit report lag, indicating that KAP can influence how long it takes to complete an audit when a company faces financial difficulties. One of the factors that might explain this relationship include "availability of public accountant company resources". In his research, it was stated that PACs that have sufficient resources

and well-trained audit teams can be more efficient in handling audits of companies experiencing financial distress. On the other hand, PACs that lack resources may take longer. In contrast to the research of (Suryandari & Dwiyanti, 2021); (Sulistiyo et al., 2022); (A. Astuti et al., 2021) who found that public accounting firms do not have a major role in mediating the relationship between financial distress and audit report lag, in their research stated that the main task of accounting firms is to provide independent audit services. to its clients, ensuring that the client's financial statements have been properly audited and in accordance with applicable accounting standards. Therefore, according to him, they are not the only ones in mediating the relationship between these variables.

CONCLUSION

From the testing and analytical data, as well as the presentation of the foregoing discussion, the following conclusions can be drawn:

The Role of public accountant company in Financial Distress Situations: This study highlights the importance of the role of PACs in helping companies overcome challenges associated with financial distress. With increasing audit risk and the need for more in-depth analysis when companies are facing financial difficulties, PACs need to adapt and provide more prudent and effective audit services.

This research provides insight for company management in planning and managing risks related to financial distress conditions. PAC can act as a partner in ensuring that financial reports remain accurate and reliable, even in a financial crisis situation. PACs that have sufficient resources, a quality audit team, and the capability to handle financial distress situations have greater value in ensuring a smooth audit process. Therefore, PAC needs to maintain operational continuity and the ability to provide good services in various situations.

This conclusion underlines that the function of PAC is not only limited to the technical aspects of the audit, but also relates to the dynamics of the company's business and financial condition. KAP plays a role in ensuring audit quality, risk management, and the availability of accurate information for stakeholders, especially in situations of financial distress that require a more careful and in-depth approach.

Based on the findings that public accounting company (PAC) have a significant role in mediating the relationship between financial distress variables and audit report lag, while financial distress variables do not have a significant direct influence on audit report lag, here are several recommendations that can be considered;

Increased Collaboration with PAC: Companies must increase their collaboration with PAC and communicate openly about their financial condition. PAC can provide valuable insights on how to manage audits more efficiently when facing financial distress.

Continuous Monitoring: Companies must continuously monitor their financial health and understand indicators that may point to financial distress. This allows companies to better plan audits and inform PACs about their conditions.

Quality of Financial Reports: It is important for companies to ensure that their financial reports are always accurate and timely. This can help reduce the time needed by the PAC to

conduct an audit. Improving the internal financial reporting process can help achieve this goal.

The findings from this study may have limitations in terms of generalizability. The results found may only apply to the sample of companies used in the study, and may not be directly applicable to other companies or industries that have different characteristics.

This research may not consider all variables that can influence the relationship between audit tenure, company size, financial distress and audit report lag. There are other factors such as company quality, industry, or macroeconomic factors that may also have an impact.

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