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The Effect Of Audit Tenure, Auditor Switching, Leverage And Hood Reputation On Audit Lag

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Abstrak

Beberapa perusahaan makanan dan minuman non siklus yang terdaftar di OJK dan BEI dengan audit lag tidak lebih dari bulan keempat setelah tahun fiskal berakhir. Penelitian ini bertujuan untuk mengetahui hubungan antara audit tenure, pergantian auditor, leverage, dan reputasi KAP. Populasi penelitian ini terdiri dari perusahaan yang terdaftar di Bursa Efek Indonesia (BEI) dalam subsektor makanan dan minuman dari tahun 2018 hingga 2022 yang tidak terlibat dalam siklus belanja konsumen. Data kuantitatif digunakan dalam penelitian ini. Strategi sampel purposif digunakan untuk memilih 35 perusahaan secara acak untuk metode pengambilan sampel. Metodologi penelitian yang digunakan dalam penelitian ini adalah regresi linier berganda. Hasil penelitian menunjukkan bahwa audit tenure dan pergantian auditor tidak berpengaruh terhadap audit latency, sedangkan leverage dan reputasi KAP memiliki hubungan positif dan negatif. Temuan ini menunjukkan bahwa untuk mengurangi keterlambatan audit, perusahaan harus memberikan penekanan pada leverage dan reputasi KAP.

Kata Kunci: *Audit Tenure; Auditor Switching; Leverage; Reputasi KAP; Audit Lag.*

Abstract

Some non-cyclical food and beverage companies listed on the OJK and IDX with an audit lag of no more than the fourth month after the fiscal year ends. This study aims to determine the relationship between audit tenure, auditor turnover, leverage, and KAP reputation. The population of this study consists of companies listed on the Indonesia Stock Exchange (IDX) in the food and beverage subsector from 2018 to 2022 that are not involved in the consumer shopping cycle. Quantitative data was used in this study. A purposive sample strategy was used to randomly select 35 companies for the sampling method. The research methodology used in this study is multiple linear regression. The results showed that audit tenure and auditor turnover had no effect on audit latency, while leverage and KAP reputation had a positive and negative relationship. The findings suggest that to reduce audit latency, companies should place emphasis on leverage and KAP reputation.

Keywords: *Audit Tenure; Auditor Switching; Leverage; Reputation of KAP; Audit Lag*

INTRODUCTION

An organization's financial data culminates in financial reports. Many stakeholders, both inside and outside the organization, make use of these reports. Owners and managers of the company are considered internal parties. Creditors and investors are examples of external parties. Presenting accurate, relevant and trustworthy financial statements is essential. It is also important for companies to submit their financial statements on time.

Companies risk suffering losses if they are even slightly late in submitting financial reports. Companies that do not submit financial reports on time may be subject to fines or official warnings from the Indonesia Stock Exchange. There are several stages carried out by the IDX when applying penalties. If a company has not submitted its financial statements, the IDX will first send a warning letter. If unsuccessful, companies that do not update their financial statements will get a warning letter II and a fine of fifty million from the IDX. Finally, the company will be fined 150 million and given a warning letter III by the IDX.

Financial reports for fiscal year 2022 were submitted late by 32 companies in Indonesia. As a result, the IDX imposed a fine of more than 150 million rupiah and issued a third warning to the late reporting companies. Legal issues, operational issues, and financial issues were some of the factors that forced the 32 companies to wait in reporting (<https://money.kompas.com>).

The amount of time that passes after the fiscal year ends before an audit opinion is issued on the financial statements is known as audit lag. Information from a company's financial statements becomes less valuable the longer it takes to complete the audit (Clara & Purwasih, 2023). Companies in Indonesia are given until the end of the fourth month after

the end of the fiscal year to complete their annual report writing, in accordance with the audit lag rule. Auditors have 120 days to complete the audit (Putra & Purnamawati, 2020).

Audit tenure is the length of the engagement between the audit firm and the same company. According to government regulations, a company may not receive financial statement audit services from an audit firm for more than five years in continuity and from an external auditor for a maximum of three years. It is feared that a long period of engagement between an audit firm and a company may reduce the independence of the audit firm. This restriction is reinforced by administrative sanctions in the form of a written warning or license suspension (Putra & Purnamawati, 2020).

When a company decides to bring in a new auditor instead of the previous one, it is usually due to some problems encountered by the previous auditor or because the company wants to increase its value. To ensure that the audit is completed on time, companies are expected to replace incompetent auditors with auditors who are experts in their field, taking into account the specific demands of each organization (Saputri et al., 2021).

The leverage ratio shows how much debt the company has. The leverage ratio measures the company's ability to pay short-term and long-term debt. The leverage ratio also shows how much debt funds the company's assets and how much debt is covered by the company's assets (Utami & Yanti, 2023). The sample selection criteria distinguish this study from other studies. This study includes non-cyclical food and beverage companies listed on the OJK and IDX with an audit lag of no more than the fourth month after the fiscal year ends. Based on this description, the authors will conduct research "The Effect of Audit Tenure, Auditor Change, Leverage, and KAP Reputation on Audit Lag".

This study aims to determine the relationship between audit tenure, auditor turnover, leverage, and KAP reputation.

RESEARCH METHOD

This research uses a quantitative approach. Some of the tests carried out are descriptive analysis, frequency table testing of each variable, classical assumption tests which include (Normality data test, multicollinearity test, heteroscedasticity test), autocorrelation test, multiple linear regression analysis, hypothesis testing (partial and simultaneous), and determination coefficient test.

Data Type and Source

This research uses a quantitative descriptive method. This research uses secondary sources in the form of annual reports and financial reports from the company's website or the Indonesia Stock Exchange (www.idx.co.id).

Population and Sample

Listed on the Indonesia Stock Exchange website with a time span from 2018 to 2022, this study uses non-cyclical consumer companies in the food and beverage subsector as the population. The following criteria were used to determine the sample using purposive sampling:

No	Criteria	Total
1.	Non-cyclical consumer companies in the food and beverage subsector listed on the Indonesia Stock Exchange for the period 2018-2022.	84
2.	Non-cyclical consumer companies in the food and beverage subsector that do not issue annual reports and financial reports for the period 2018-2022 consecutively.	(27)
3.	Non-cyclical consumer companies in the food and beverage subsector that have an audit lag of more than the end of the fourth month	(22)
	Total Company	35
	Total Year	5
	Total Research Sample	175

Operational Definition of Variables

Research Variable	Indicator	Scale
Audit Tenure	Dummy variable 1 = If the relationship between the client company and the auditor ≥ 3 years 0 = If the relationship between the Company and the client < 3 years	Nominal
Auditor Switching	Dummy variable 1 = If the Company uses a different auditor from the previous year 0 = If the Company uses the same auditor as the previous year	Nominal
Leverage	$Debt\ to\ Asset\ Ratio = \frac{Total\ Debt}{Total\ Assets}$	Ratio
Reputation of KAP	Dummy variable 1 = If the KAP that audits the company includes KAP Big Four 0 = If the KAP that audits the company does not include KAP Big Four	Nominal
Audit Lag	Date of company audit report	Ratio

RESULT AND DISCUSSION

Descriptive Test

For each research variable that is not a dummy variable, descriptive testing can give you the lowest, highest, mean, and standard deviation.

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Leverage	175	.0979	1.8259	.451206	.2164012
Audit Lag	175	46	121	82.03	17.322
Valid N (listwise)	175				

The independent variable (X3), Leverage, has a range of values from 0.0979 to 1.8259 according to the descriptive statistical test findings shown above. With an average of 0.4512 and a standard deviation of 0.2164. At the same time, the dependent variable (Y), namely Audit Lag, can take values ranging from 46 (meaning the company conducts audit reporting no later than 121 days before the fiscal year ends) to 121 (meaning the company conducts audit reporting no earlier than 46 days before the fiscal year ends). While the standard deviation is 17.322 and the average is 82.03.

Frequency Table Test

Audit Tenure

Audit Tenure					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Jika perikatan antara KAP dan auditee kurang dari tiga tahun	61	34.9	34.9	34.9
	Jika perikatan antara KAP dan auditee tiga tahun atau lebih	114	65.1	65.1	100.0
	Total	175	100.0	100.0	

Companies that have been working with the same KAP for three years or more account for 65.1% of the total, while 34.9% have participated for less than three years, according to the frequency table test results.

Auditor Switching

Auditor Switching					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Jika auditor tahun berjalan dan auditor tahun sebelumnya sama	100	57.1	57.1	57.1
	Jika auditor tahun berjalan dan auditor tahun sebelumnya berbeda	75	42.9	42.9	100.0
	Total	175	100.0	100.0	

Based on the results of the frequency table test above, it can be seen that companies that use the same independent auditor for the current year as the previous year's independent auditor are 57.1% and the remaining 42.9% of companies that use different independent auditors for the current year are different from the previous year's independent auditors.

Reputation of KAP

Reputasi KAP		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Jika KAP tidak berafiliasi dengan big four	82	46.9	46.9	46.9
	Jika KAP berafiliasi dengan big four	93	53.1	53.1	100.0
	Total	175	100.0	100.0	

Companies audited by KAP associated with the big four KAP account for 46.9% of the total companies, while the remaining 53.1% are not. This information is obtained from the findings of the frequency table test shown earlier.

Classical Assumption Test

Data Normality Test

Verifying whether the data being studied follows a normal distribution is the purpose of the normality test. The Kolmogorov-Smirnov test, along with the Exact Sig method, was used for the purpose of normality testing in this study. This method provides more accurate values for data that is poorly distributed, small in size, and poorly balanced. To test the normality of the data, the criteria used were:

1. If the P-Level (Exact Sig. (2-tailed) < 0.05 then the data is not normally distributed
2. If the P-Level (Exact Sig. (2-tailed) > 0.05 then the data is normally distributed

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		175
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	16.47306945
Most Extreme Differences	Absolute	.089
	Positive	.089
	Negative	-.074
Test Statistic		.089
Asymp. Sig. (2-tailed)		.002 ^c
Exact Sig. (2-tailed)		.120
Point Probability		.000

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

The normality test mentioned above resulted in an Exact Sig. (2-tailed) of 0.120, which is greater than 0.05. Thus, the results of this investigation do follow a normal distribution, as expected.

Multicollinearity Test

If you have a regression model with independent variables, you can check the relationship between them using the multicollinearity test. The (VIF) value and tolerance

value indicate the presence or absence of multicollinearity. The multicollinearity test uses the following criteria:

1. If the Tolerance value > 0.10 and $VIF < 10.00$, it means that there is no multicollinearity
2. If the Tolerance value < 0.10 and $VIF > 10.0$ means multicollinearity occurs

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	81.587	3.948		20.664	.000		
Audit Tenure	1.313	2.659	.036	.494	.622	.989	1.011
Auditor Switching	-2.974	2.568	-.085	-1.158	.248	.983	1.017
Leverage	12.300	5.901	.154	2.084	.039	.979	1.022
Reputasi KAP	-8.824	2.539	-.255	-3.476	.001	.989	1.011

a. Dependent Variable: Audit Lag

Based on the results of the multicollinearity test above, it can be concluded that there are no variables that are multicollinear, because the Audit Tenure, Auditor Switching, Leverage and KAP Reputation variables have a tolerance value > 0.10 and a VIF value < 10.0 .

Heteroscedasticity Test

The heteroscedasticity test is used to determine whether or not there is a deviation from the model due to differences in variance between one observation to another. The criteria used for the heteroscedasticity test are:

1. If the significance > 0.05 means that there is no heteroscedasticity
2. If the significance < 0.05 means heteroscedasticity occurs

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	12.833	2.421		5.300	.000		
Audit Tenure	-2.613	1.630	-.120	-1.603	.111	.989	1.011
Auditor Switching	1.116	1.575	.053	.709	.479	.983	1.017
Leverage	-2.368	3.619	-.049	-.655	.514	.979	1.022
Reputasi KAP	4.104	1.557	.197	2.637	.009	.989	1.011

a. Dependent Variable: ABS_RES

Because the significant value of the Audit Tenure, Auditor Switching, Leverage, and KAP Reputation variables is more than 0.05, it can be concluded that these variables do not experience heteroscedasticity, according to the results of the heteroscedasticity test.

Autocorrelation Test

The ideal regression equation is predicted using the autocorrelation test. The Durbin-Watson (DW) test verifies autocorrelation. Durbin Watson is used to test for autocorrelation, and the criteria are $Du < 4-du$.

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.309 ^a	.096	.074	16.666	1.850

a. Predictors: (Constant), Reputasi KAP, Audit Tenure, Auditor Switching, Leverage
b. Dependent Variable: Audit Lag

With $n = 175$ and $k = 4$, the autocorrelation test yields the following values: $DW = 1.850$, $DL = 1.7062$, and $DU = 1.7996$. Given that the DW value (1.850) is greater than DU (1.7996) and smaller than $4-DU$ (2.2004), it can be concluded that there is no autocorrelation in the data of this study.

Multiple Linear Regression Analysis

Multiple linear regression model analysis in this study was used to see the significance results of each coefficient.

Coefficients ^a								
		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	81.587	3.948		20.664	.000		
	Audit Tenure	1.313	2.659	.036	.494	.622	.989	1.011
	Auditor Switching	-2.974	2.568	-.085	-1.158	.248	.983	1.017
	Leverage	12.300	5.901	.154	2.084	.039	.979	1.022
	Reputasi KAP	-8.824	2.539	-.255	-3.476	.001	.989	1.011

a. Dependent Variable: Audit Lag

The Coefficients a table displays the multiple linear regression model developed based on the results of the multiple linear regression analysis test previously conducted. The regression model was built using the data in the coefficient a table, namely: $Y = 81.587 + 1.313 AT + -2.974 AS + 12.300 L - 8.824 RK + e$

Hypothesis Test

Partial Test (T Test)

The t-test can determine whether the variable coefficient is statistically significant. The partial coefficient determines whether each independent variable has an impact on the dependent variable. Partial hypothesis testing requirements:

1. The independent variable can affect the dependent variable if the significance threshold is 0.05 or less.
2. The independent and dependent variables have no relationship if the significance threshold is > 0.05 .

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	81.587	3.948	20.664	.000		
	Audit Tenure	1.313	2.659	.036	.494	.622	1.011
	Auditor Switching	-2.974	2.568	-.085	-1.158	.248	1.017
	Leverage	12.300	5.901	.154	2.084	.039	1.022
	Reputasi KAP	-8.824	2.539	-.255	-3.476	.001	1.011

a. Dependent Variable: Audit Lag

The partial test table shows a significant value <0.05 for the Leverage variable (0.039) and KAP Reputation (0.001). Leverage and KAP Reputation have an effect on Audit Lag. Simultaneous Test (F Test)

Find out how significant the coefficient is at once with the f test. To observe how one variable affects another, we use the simultaneous coefficient.

1. The regression model can be used if the significance level is less than or equal to 0.05.
2. The regression model is useless if the p-value is more than 0.05.

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4989.866	4	1247.467	4.491	.002 ^b
	Residual	47216.991	170	277.747		
	Total	52206.857	174			

a. Dependent Variable: Audit Lag

b. Predictors: (Constant), Reputasi KAP, Audit Tenure, Auditor Switching, Leverage

Based on the concurrent test table, the calculated F value of 4.491 is greater than 2.42 and the significance value of 0.002 is smaller than 0.05. The regression model predicts that Audit Tenure, Auditor Switching, Leverage, and Auditor Reputation have a strong effect on Audit Lag.

Test Coefficient of Determination (R^2)

The R^2 (Adjusted R^2) test determines the extent to which the independent variables explain the variability of the dependent variable; any variability that is not accounted for is a reflection of the impact of extraneous variables.

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.309 ^a	.096	.074	16.666	1.099

a. Predictors: (Constant), Reputasi KAP, Audit Tenure, Auditor Switching, Leverage

b. Dependent Variable: Audit Lag

The summary model contains an R^2 or R-Square value of 0.096. Based on these results, audit tenure (X1), auditor turnover (X2), leverage (X3), and KAP reputation (X4) have an

influence of 9.6% on audit lag (Y), but other factors that account for 90.4% of the variation are not taken into account.

Discussion of Research Results

The Effect of Audit Tenure on Audit Lag

Audit Lag may be negatively affected by Audit Tenure. Audit Tenure has a beta coefficient of 1.313 and a significance of 0.622, above $\alpha = 5\%$, in accordance with the research findings. This study rejects the premise that Audit Tenure affects Audit Lag. The time for submitting the audit report is not proportional to the duration of the company's engagement audited by KAP. Even though KAP has been working with the audited company for a long time, the auditors already know the condition of the company. However, if the KAP auditor assigned to audit the company is not the same auditor as last year. Auditors must re-learn the client company to avoid a small audit lag (Hasanah & Aprilia, 2023).

Effect of Auditor Switching on Audit Lag

Based on the second hypothesis, Audit Lag reduces Auditor Switching. Auditor Switching has a beta coefficient of -2.974 and a significance level of 0.248, exceeding $\alpha = 5\%$, in accordance with the research findings. The results of this study refute the hypothesis stating that Auditor Switching causes Audit Lag. When the company changes auditors, the audit report may not be completed immediately. Companies often change auditors three years after the same auditor audits the report, thus delaying the audit lag (Puspitasari & Sudjiman, 2022).

The Effect of Leverage on Audit Lag

Leverage reduces audit lag, per premise 3. Leverage has a beta coefficient of 12.300 and a significance level of 0.039, below 0.05. This study found that leverage increases audit lag. The leverage ratio shows how much long-term debt funds the company. Another indication of the company's solvency is the leverage ratio. An organization's leverage determines its financial risk. Management delays financial disclosures when the company is losing money to stabilize the market. Thus, external auditors are encouraged to conduct a more thorough audit, which delays the release of financial statements.

Effect of Auditor Reputation on Audit Lag

The fourth hypothesis addresses the unfavorable relationship between auditor reputation and tenure. This study found that the beta coefficient of KAP Reputation is -8.824 and the significance level is 0.001, below 0.05. Auditor reputation has a negative effect on audit lag, according to this study. Big Four KAP audits are better than non-member KAP audits. Because professionals affiliated with competent Big Four KAPs streamline audit procedures. Effective audit methods reduce audit latency.

CONCLUSION

Leverage has a positive effect on Audit Lag, while KAP reputation has a negative effect. Audit Fees, Independence, and Committees can be used in future research as a substitute for Audit Tenure, Auditor Switching, Leverage, and Auditor Reputation. Using dependent variables such as Audit Quality instead of Audit Lag. Mining, real estate, and finance can be used for future research as a substitute for non-cyclical consumers. Companies should use reputable KAP audit services to minimize large audit lags. Because reputable KAP audit services can reduce the company's audit lag. Companies must manage finances well to reduce leverage and audit lag.

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