American Journal of Sciences and Engineering Research
E-ISSN -2348 – 703X, Volume 5, Issue 6, 2022

Does Locality Auditor Affect Audit Report Timeliness? A Study on Public Companies in Indonesia

Syamsus Mitha Devi Rahmadhani [1], Rita Wijayanti [2]

[1]*Universitas Muhammadiyah Surakarta*
[2]*Universitas Muhammadiyah Surakarta*

ABSTRACT: Timeliness in issuing audited financial reports is very important, especially for go public companies that use the capital market as a source of funding. Talking about the timeliness of reporting audited reports, cannot be separated from the role of the closeness of the audit office to the issuer company. Therefore, the purpose of this study is to analyze and seek empirical evidence regarding the effect of auditor locality on audit report timeliness. The population of this study is non-financial companies listed on the IDX during the 2020-2021 period, using a sample of 900 audited financial statements during 2020-2021, and the method of data analysis using multiple linear regression analysis with the help of SPSS 25 software, the results of this study found evidence that locality auditors have an effect on audit timeliness. In addition, there is also evidence that audit quality can moderate the relationship between auditor locality and audit timeliness.

Keywords: *locality auditors, timeliness audits, non-financial companies*

I. Introduction

The development of the business world in Indonesia is now growing rapidly. This development is characterized by companies going public, so this will have an impact on increasing demand for effective and efficient financial statement audits (Sutra and Mais, 2019). Every company that goes public is required to submit financial reports prepared in accordance with Financial Accounting Standards that have been audited by a public accountant registered with the Capital Market Supervisory Agency (Bapepam). In this study focusing on audit delay, audit delay is the time span in which the auditor completes his audit report starting from the closing date of the year until the date of issuance of the audit report(Kartika, 2009).

Timeliness in issuing audited financial reports is very important, especially for go public companies that use the capital market as a source of funding. The capital market in Indonesia has experienced quite rapid development, this is indicated by the growing development of go public companies that issue their shares to the wider community. This development has resulted in an increase in demand for financial statement audits.

Slow submission of financial reports can have a negative impact on the company and for management in terms of decision making. If the company's financial statements are delayed, the information contained will lose its relevance. One of the causes of companies experiencing delays in submitting financial reports is the slowness of the auditors in completing their audit work. The auditor performs his audit duties based on the Public Accountant Professional Standards (SPAP), particularly regarding field work standards, which regulate procedures for completing field work such as the need for planning activities to be carried out, adequate understanding of the internal control structure and collection of evidence competence acquired through inspection, observation (Sutra and Mais, 2019).

Meanwhile, the affordability location between the KAP and the central company being audited has a positive correlation(Bazrafshan and Dehghani Madise, 2022). This is because theoretically, a KAP office that has an affordable distance from the company being audited has access to information about the company's activities, goals, and reputation of the company when compared to a KAP that is far from the company being audited. The benefits that

 Received-14-12-2022, Accepted- 23-12-2022

occur for local auditors can be reflected in the timely reporting of audited reports, which ultimately leads to better capital market performance. The affordability of the location between the KAP and the client company is considered an advantage, especially in large companies that require more interaction between the local audit team and the client.

In addition, local auditors have more possibilities to communicate with the relevant company's senior management regarding audit information. Also, with the affordability of this location, it is hoped that local auditors will have better and more information than their clients and auditors will also have more ability to monitor client companies. It was concluded that local auditors have an information advantage in order to reduce information asymmetry between the auditor and the client company, which in itself will speed up the audit process.

Apart from the role of the auditor, companies need the role of the audit committee for several reasons. the most important is the ownership responsibility it has to shareholders. Management should also look to the audit committee to assist them in ensuring financial reporting and preventing fraud. The public does not expect surprises in the company's financial health, and expects to be able to trust its financial reports. The audit committee functions as a "check and balance" for the internal audit function and intermediaries with external auditors. The existence of an audit committee in a company provides more oversight of the performance of company management and provides accurate and precise information and assists the board of commissioners in analyzing the company's financial statements.

In conducting audits, sometimes a change of auditor is carried out and it is a policy taken by the company to terminate cooperation with the auditor. This is usually due to the end of the employment contract between the auditor and the client company. Substitution of audits can cause audit delay, because there is a possibility that new auditors tend to take a long time to identify the characteristics of the company. In this study, auditor changes are focused on individual auditor changes, not changes in the Public Accounting Firm that conducts the audit process.

In the end, after the audit process is complete, the company will be charged an audit fee and the auditor will receive a fee for their professional services in full. Audit Fee can be defined as the total fee (wages) charged by the auditor for the audit process to the company (auditee). Where auditors who work professionally and have reliable performance will offer a fee that is in accordance with the level of risk of the job. The size of the audit fee is estimated to also affect audit delay. In terms of setting audit fees, there is a possibility that the auditor is worried about losing customers. Situations like this, it is possible that the determination of fees is not based on the broad scope of the audit, and or the quality of the company's internal controls, but rather based on the interests and desire to retain customers (Manurung and Kumala, 2014).

Finally, the audited report will be submitted to stakeholders, which then the size of a company has an important role for the sustainability of the company. Company size is the size of a company that can be measured by the amount of total assets or assets owned by a company. Company size is defined as a scale that is classified as the size of the company in various ways, including expressed in total assets, stock market value, and others. One of the benchmarks that shows the size of the company is the total assets of the company. Decision of the chairman of Bapepam No. Kep. 11/PM/1997 states that small and medium-sized companies based on assets (wealth) are legal entities that have total assets of no more than one hundred billion.

II. Literature Review and Hypotheses Development

2.1. Agency Theory

Agency theory is a theory that arises due to an agreement between the principal and the agent. Agency relationships occur because there is a contract to carry out tasks to fulfill the interests of the principal (Jensen & Meckling, 1976). The principal entrusts the agent to carry out his functions and responsibilities in order to optimize the interests of the principal. The auditor acts as an independent party to evaluate the institution's performance by verifying that the agent (manager) has presented the financial statements fairly.

2.2. *Stakeholder Theory*

(Manghayu and Nurdin, 2018)defines stakeholders as any group or individual who can affect and/or be affected by the achievement of organizational goals. The company's stakeholders are divided into primary and secondary stakeholders. Key stakeholders are parties, such as investors, creditors, employees, the public, government, or other parties who have economic interests and risks to the company and do not have direct but unrestricted economic relations.

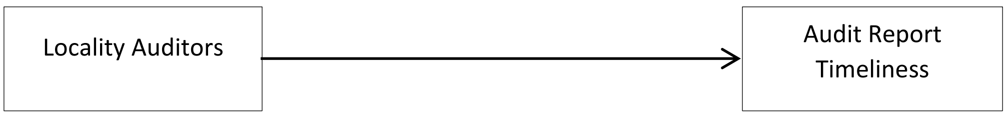
2.3. Locality Auditors

The affordability location between KAP and the central company being audited has a positive correlation (Bazrafshan and Madise, 2022). This is because theoretically, a KAP office that has an affordable distance from the company being audited has access to information about the company's activities, goals, and reputation of the company when compared to a KAP that is far from the company being audited. The benefits that occur for local auditors can be reflected in the timely reporting of audited reports, which ultimately leads to better capital market performance. The affordability of the location between the KAP and the client company is considered an advantage, especially in large companies that require more interaction between the local audit team and the client. Besides that, Local auditors have more possibilities to communicate with the senior management of the company concerned with regard to audit information. Also, with the affordability of this location, it is hoped that local auditors will have better and more information than their clients and auditors will also have more ability to monitor client companies. It was concluded that local auditors have an information advantage in order to reduce information asymmetry between the auditor and the client company, which in itself will speed up the audit process. With the affordability of this location, it is hoped that local auditors will have better and more information than their clients and auditors will also have more ability to monitor client companies. It was concluded that local auditors have an information advantage in order to reduce information asymmetry between the auditor and the client company, which in itself will speed up the audit process. With the affordability of this location, it is hoped that local auditors will have better and more information than their clients and auditors will also have more ability to monitor client companies. It was concluded that local auditors have an information advantage in order to reduce information asymmetry between the auditor and the client company, which in itself will speed up the audit process.

H1: locality audit has an effect on audit report timeliness

III. Conceptual Framework

The following is a framework that shows the relationship between auditor locality and auditor report timeliness.



IV. Methods

This research is a quantitative research. The population in this study are non-financial companies listed on the IDX in 2020-2021. The sample in this study is 450 non-financial companies during 2020-2021, where the sample is taken using*purposive sampling*with the following criteria:

1. Non-financial companies listed on the IDX in 2020-2021.
2. Non-financial companies listed on the IDX in 2020-2021 which published audited reports
3. Non-financial companies registered on the IDX in 2020-2021 using the Rupiah currency
4. Non-financial companies registered on the IDX in 2020-2021 which have complete data for this research.

For data analysis using multiple linear regression analysis with the help of SPSS 25 software.

Variable Measurement

Audit Report Timeliness

*audit report timeliness*or what is often called audit delay. What is meant by audit delay in this study is the length of time the auditor completes the audit of a company as measured from the closing date of the financial statements until the issuance of the audited report. Measurement of audit delay variable using:

$$AUDITDELAY = (closing\ statement\ in\ the\ end\ year - audit\ statement\ release)$$

Locality Audits

The locality audit referred to in this study is the distance between the public accounting firm that audits the company's financial statements. This variable is proxied using a dummy variable, that is, the number 1 is given if the auditor's office is in a city or less than 100km away as measured using Google Maps. Conversely, a score of 0 is given if the auditor's office is not in one city or is more than 100 km as measured using Google Maps.

Company size

What is meant by company size in this study is the size of the company size as measured using:

$$SZE = Ln\ (assets\ total's)$$

Change auditors

What is meant by auditor change is the change of auditors who audit the financial statements of the company concerned. Proxied by the dummy variable, the number 1 is given if there is a change of auditor in the year of observation. And a value of 0 is given if in the year of observation there is no change of auditors.

V. Results

Table of Multiple Linear Regression Analysis Results

Variable	Regression Coefficient	tcount	*Sig*
Constanta	193,571	10,265	0,000
DLOCAL	-7,265	-1,976	0,048
SZE	-3,015	-4,420	0,000
CHN	6,158	2,484	0,013
R2 = 0.037		Fcount =	11,149
Adjusted R2 = 0.033		Sig =	0.000

Source: Data processing, 2022

The model of this research is:

AUDITDELAY = 193,571 – 7,265 DLOCAL – 3,015 SZE + 6158 CHN + ε

F-test

Based on the test results, the f-count value is 11,149 and the f-table value is 2,72 with a significance value of 0,000. The significance value is smaller than the specified error tolerance (0,000 < 0,05). This shows that audit locality has an effect in audit timeliness.

R2-test

Based on the test results obtained adjusted R^2 of 0,033. This shows that the ability of the audit locality which is performed by audit timeliness is 3,30% while the remaining 96,7% is influenced by other variables outside the model.

VI. DISCUSSION

Based on the t test performed, it obtained a t count > t table of audit office location of -1,976 > 1.97190 and a significant value of 0.048 <5%, so that H1 was accepted which means that the location of the audit office has an effect on audit timeliness. Which means that theoretically, close or affordable audit locations will make it easier for an auditor to obtain valuable information from a company he is auditing. For example, an auditor who has close proximity to the company he is auditing, they will often carry out unannounced inspections where the auditor will easily get information about how the company's managers are performing, what are the characteristics of suppliers, what is the competitor's environment, what is the scope of the employee, and how the interaction between customers and the company. When a public accounting firm works under the same jurisdiction as a client company, it will also be easier for them to understand how the regulations apply in their area, how business practices are built by competitors and their clients, and what their market conditions are, also whether clients and other companies compete competitively or not. Auditors who have a close relationship with the client's company will indirectly find it easy to dig up some information about the environmental, social and economic conditions of the client. The location of the audit which is close to the client company makes the auditor have natural opportunities to build personal relationships and interact socially with other executives (Honge, et. al., 2004). The existence of this opportunity will encourage the audit to exchange information and create a synergistic relationship between the client and the auditor, so that the auditor will benefit from being able to easily evaluate the characteristics, vision, mission, and motivation of the client's company. This information will later assist the auditor in carrying out their audit process. In addition, this affordable area makes audit fees more affordable, for example when a public accounting firm is in the same city as the client company, the transportation costs incurred are much more economical when compared to a public accounting firm that is far from the client company. audited which require transportation accommodation at a higher cost. when that happens, then a client company that has the same regional area as a public accounting firm is located, it is possible that audited financial reports can be submitted more timely to the stock exchange (Choi, et. al., 2012; Dong, et. al., 2018). It can be concluded that public accounting firms that have geographical proximity to client companies will find it easier to facilitate monitoring as well as reduce information asymmetry, which will lead to information gains, more efficient planning processes and audit mechanisms, as well as faster, more accurate audit performance. and effective. The results of this study are in line with research conducted by 2012; Dong, et. al., 2018). It can be concluded that public accounting firms that have geographical proximity to client companies will find it easier to facilitate monitoring as well as reduce information asymmetry, which will lead to information gains, more efficient planning processes and audit mechanisms, as well as faster, more accurate audit performance. and effective. The results of this study are in line with research conducted by 2012; Dong, et. al., 2018). It can be concluded that public accounting firms that have geographical proximity to client companies will find it easier to facilitate monitoring as well as reduce information asymmetry, which will lead to information gains, more efficient planning processes and audit mechanisms, as well as faster, more accurate audit performance. and effective. The results of this study are in line with research conducted by(Bazrafshan and Dehghani Madise, 2022)that the location of the audit office affects the audit timeliness.

VII. CONCLUSION

This study aims to analyze the effect of auditor office location on audit and company size and auditor turnover as a control variable in non-financial companies for the 2020-2021 period, which can be concluded that the auditor's office location has an effect on audit timeliness.

VIII. REFERENCES

1. Adiraya, Irwan, dan Nur Sayidah. Pengaruh Ukuran Perusahaan, Profitabilitas, Solvabilitas, dan Opini Auditor terhadap Audit Delay. *Jurnal Analisa Akuntansi dan Perpajakan.* 2(2). pp. 99-109.
2. Bazrafshan, A. and Dehghani Madise, S. (2022) 'How auditor locality affects audit report timeliness', *Journal of Facilities Management*, 20(2), pp. 306–321. Available at: https://doi.org/10.1108/JFM-12-2020-0093.
3. Cao, Qiang, and Hanwei Hu. Auditor Subgroup Status and Audit Quality. *China Journal of Accounting Studies.* 6(3), 1-33.
4. Dong, Bei, Dahlia Robinson, dan Le(Emily) Xu. Auditor-Client Geographic Proximity and Audit Report Timeliness. *Advances in Accounting,* pp.1-9.
5. Hsieh, Yu-Ting, Chan-Jane Lin, and Hsihui Chang. Does Office Size Matter in Client Acceptance Decisons? Evidance from big 4 accounting firms. *Review of Quantitative Finance and Accounting,* pp.1-25.
6. Kartika, A. (2009) 'Faktor-Faktor Yang Mempengaruhi Audit Delay Di Indonesia', *Jurnal Bisnis dan Ekonomi*, 16(1), pp. 1–17.
7. Kristian, M. (2018) 'Pengaruh Independensi Auditor, Ukuran Kantor Akuntan Publik, dan Professional Judgement Auditor terhadap Kinerja Auditor', *Jurnal STEI Ekonomi*, 27(2), pp. 208–232. Available at: https://doi.org/10.36406/jemi.v27i2.135.
8. Manghayu, A. and Nurdin, A.H.M. (2018) 'Manajemen Pemangku Kepentingan dalam Ranah Pengambilan Keputusan Pemerintah Daerah', *Jurnal Manajemen Pemerintahan*, 5(2), pp. 109–123.
9. Manurung, E.T. and Kumala, C.T. (2014) 'Efisiensi Biaya Audit melalui Peningkatan Pengendalian Umum dan Aplikasi pada Bisnis Factory Outlet (Kasus pada Siklus Penjualan FO 001 di Bandung)', *Jurnal Administrasi Bisnis*, 10(1), pp. 1–16
10. Nuraeni, Gitawati Apriswari and Puspita Rani. Pengaruh Keahlian Komite Audit, Ukuran Komite Audit, Jenis Industri, dan Audit Tenure terhadap Audit (Studi Empiris Pada Perusahaan Pertambangan dan Keuangan Yang Terdaftar di Bursa Efek Indonesia Periode 2012-2016), pp. 1-10.
11. Permatasari, Indah Yunita and Christina Dwi Astuti. Pengaruh Fee Audit, Rotasi Auditor, dan Reputasi KAP terhadap Kualitas Audit. *Jurnal Akuntansi Trisakti.* 5(1). pp. 81-94.
12. Putri, Nadia Maharani Kiswanto and Kun Ismawati. Timeliness Pelaporan Keuangan Perusahaan Food and Beverages Periode Tahun 2016- 2020. *Jurnal Akuntansi Bisnis,* 15(2), pp. 1-12.
13. Sutra, F.M. and Mais, R.G. (2019) 'Faktor-Faktor yang Mempengaruhi Financial Distress dengan Pendekatan Altman Z-Score pada Perusahaan Pertambangan yang Terdaftar di Bursa Efek Indonesia Tahun 2015-2017', *Jurnal Akuntansi dan Manajemen*, 16(01), pp. 34–72. Available at: https://doi.org/10.36406/jam.v16i01.267.
14. Wang, Ya-Fang. New Insights on Audit Quality. *International Journal of Business and Economic Sciences Applied Research.* pp.21-28.
15. Wong, Pauline.W.Y. Are State Ownership and Auditors Locality Determinants of Asset Write-Downs? Evidance from China. *China Journal of Accounting Research,* pp. 1-21.