

DOES THE AUDIT FEE, AUDIT TENURE, AND AUDIT ROTATION AFFECT THE AUDIT REPORT LAG: IMPLICATIONS FOR AUDIT EFFICIENCY AND TIMELINESS OF REPORTS

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ABSTRACT

This study examines the influence of Audit Fee, Audit Tenure, and Audit Rotation on Audit Report Lag, focusing on manufacturing companies in the property and real estate sector listed on the Indonesia Stock Exchange during the 2017–2021 period. The research is motivated by the importance of timely financial reporting, which significantly impacts stakeholders' decision-making processes. However, prolonged Audit Report Lag remains a challenge, and limited studies have addressed its relationship with these audit variables, creating a gap in the literature. This study employs panel data regression analysis on data from 33 companies over the five-year period, resulting in 165 observations. Secondary data were obtained from audited financial statements and corporate disclosures. The findings reveal that Audit Fee and Audit Tenure have a significant negative effect on Audit Report Lag, indicating that higher fees and longer auditor-client relationships can expedite reporting. Conversely, Audit Rotation shows a positive relationship with Audit Report Lag, suggesting that auditor changes may delay reporting. These findings provide valuable insights for regulators, auditors, and companies to enhance the efficiency and timeliness of audits

INTRODUCTION

Audit Report Lag is the period of time between the end of the fiscal year and the issuance date of the audit report. It is an important indicator in assessing the efficiency and quality of the audit process. This phenomenon has become a particular concern because delayed audit reports can have a negative impact on decision-making by investors and other stakeholders. In the context of manufacturing companies in the property and real estate sector listed on the Indonesia Stock Exchange (IDX) during the 2017-2021 period, the timeliness of audit reports has significant implications, given that this sector often faces liquidity challenges and high market volatility. This issue becomes more complex with factors such as Audit Fee, Audit Tenure, and Audit Rotation, which can affect the duration of the audit completion (Tarca et al., 2011).

Previous studies have shown that adequate Audit Fee can improve audit quality, but its relationship with Audit Report Lag (ARL) has not been entirely consistent (Lai, 2019). Additionally, Audit Tenure, or the length of the relationship between the auditor and the client, is often associated with increased audit efficiency, but it may also pose a risk to auditor independence (Hooks & Perera, 2006). Meanwhile, Audit Rotation, which is expected to enhance auditor independence, has varying effects on the audit completion duration (Purda & Skillicorn, 2015).

Although prior studies have explored the relationship between these factors and audit quality, research on their impact on ARL in the property and real estate sector in Indonesia is still limited. This creates a research gap that needs to be addressed. This study uses an Agency Theory approach, which explains how the relationship between the auditor and management can affect audit efficiency and reporting time. Agency Theory is used to describe the relationship between auditors, management, and shareholders in the context of audit report lag. This theory argues that management, as agents, may have incentives to delay financial reports to conceal certain information. Auditors, as independent parties, are expected to mitigate this conflict by providing timely audit reports.

The uniqueness of this study focus on the property and real estate sector in Indonesia, which has unique characteristics compared to other sectors. Furthermore, this study covers the 2017-2021 period, which was marked by full economic dynamics, including the impact of the COVID-19 pandemic that affected company performance and the audit process. This study is relevant in the Indonesian context, where audit regulations such as mandatory auditor rotation are applied to enhance transparency and accountability.

The purpose of this study is to analyze the impact of Audit Fee on Audit Report Lag, examine the relationship between Audit Tenure and Audit Report Lag, and assess the impact of Audit Rotation on Audit Report Lag while providing practical recommendations to improve audit efficiency and the timeliness of reports for companies in the property and real estate sector in Indonesia. This research is relevant as it can offer new insights into the factors that affect Audit Report Lag, particularly in the context of Indonesia's economy, and support efforts by regulators and practitioners to improve audit quality and corporate governance.

LITERATURE REVIEW

Agency Theory from Jensen & Meckling, (1976) explains the contractual relationship between the principal (Owner) and agent (management) in a company, where the agent is responsible for managing the company on behalf of the principal. In this context, external auditors act as independent monitoring mechanisms to reduce information asymmetry between principals and agents. Asymmetry information has the consequences of moral hazard and adverse selection which are detrimental to investors. In asymmetric information theory from Arkerlof, (1970), auditors play a crucial role in providing high-quality audits to address the conflicts of interest between the principal and the agent. However, factors such as Audit Fee, Audit Tenure, and Audit Rotation can influence the effectiveness of the auditor's role, which in turn affects Audit Report Lag, the time required to complete and issue the audit report.

The theory of propinquity also reveals that physical proximity plays a crucial role in initiating interpersonal relationship-building processes in a particular environment (Byrne et al., 1955). Byrne, (1961) study concluded that interactions that take place over longer periods significantly enhance the level of familiarity and intensity of the relationship between the individuals involved. In an empirical the study of manufacturing companies in the property and real estate sector listed on the Indonesia Stock Exchange from 2017 to 2021, the application of Agency Theory in analyzing the influence of Audit Fee, Audit Tenure, and Audit Rotation on Audit Report Lag becomes relevant. A deep understanding of this dynamic can help companies and regulators design policies that ensure auditor independence, improve audit quality, and minimize Audit Report Lag.

The Influence of Audit Fee on Audit Report Lag

From the perspective of agency theory, a high Audit Fee can reflect greater audit complexity or higher risks faced by the auditor. Excessively high Audit Fee may also raise concerns about auditor independence, as auditors might be reluctant to report findings that could harm a client providing significant compensation (Doogar, 2015). A study by (Junior et al., 2020) suggests that Audit Fee has a positive influence on audit quality, which can impact Audit Report Lag. Audit Fee is the compensation provided to auditors for the audit services rendered. The amount of the Audit Fee is often associated with audit quality, where a higher fee is perceived to reflect greater resource use and a more in-depth audit (Vanstraelen, 2002). However, other studies indicate that high Audit Fee may create dependency on the client, potentially affecting auditor independence and extending the audit completion time (Jenkins & Haynes., 2003). Therefore, the proposed hypothesis:

H1: Audit Fee has a positive influence on Audit Report Lag.

The Influence of Audit Tenure on Audit Report Lag

Agency theory suggests that a longer Audit Tenure can enhance the auditor's understanding of the client's business, thus improving audit efficiency and effectiveness. Audit Tenure refers to the length of the professional relationship between the auditor and the client. A long relationship allows the auditor to better understand the client's operations, reducing the time required to complete the audit (Carcello, 2004). However, an excessively long relationship may pose a risk to auditor independence. A study by (Junior et al., 2020) found that Audit Tenure has a negative impact on audit quality, which can affect Audit Report Lag. Audit Tenure refers to the duration of the auditor-

client relationship. A lengthy Audit Tenure can reduce auditor objectivity due to a too-close relationship with the client (Read & Yezegel, 2018). Therefore, the proposed hypothesis is:

H2: Audit Tenure has a negative influence on Audit Report Lag.

The Influence of Audit Rotation on Audit Report Lag

Audit Rotation refers to the periodic replacement of auditors, either individual auditors or audit firms, aimed at maintaining auditor independence and objectivity. Union et al., (2022) also explain that rotation aims to address the threat of closeness and strengthen auditor independence as well as that of the Public Accounting Firm. From the perspective of agency theory, Audit Rotation can prevent an excessively close relationship between the auditor and management, which can reduce the risk of compromised independence. A study by Junior et al., (2020) indicates that Audit Rotation positively influences audit quality, which can ultimately affect Audit Report Lag. Research suggests that Audit Rotation can enhance independence. On the other hand, rotation can also extend the audit time as new auditors need time to understand the client's operations (Dye & Sridhar, 2008). Therefore, the proposed hypothesis is:

H3: Audit Rotation has a positive influence on Audit Report Lag.

RESEARCH METHOD

This study uses a quantitative research design with a causal approach to analyze the effect of Audit Fee, Audit Tenure, and Audit Rotation on Audit Report Lag in manufacturing companies in the property and real estate sector listed on the Indonesia Stock Exchange (IDX) during the 2017–2021 period. The data used in this research consists of secondary data obtained from annual reports and financial statements published through the official IDX website (www.idx.co.id) and the relevant company websites. Based on 85 manufacturing companies in the property and real estate sector listed on the IDX during the 2017–2021 period in Indonesia, there are 35 companies that experienced consecutive losses during the 2017–2021 period. Furthermore, 12 companies did not report financial statements during the 2017–2021 period, and 5 companies did not disclose Audit Fee information in their financial reports during the 2017–2021 period. Based on the data selection in the field with sample criteria, 33 companies were obtained as samples for this study, with a total of 165 financial statement data points.

Data collection techniques were carried out using the documentation method by downloading financial statement data that includes research variables, namely Audit Fee (measured based on the fees listed in the financial statements) (Doogar, 2015), Audit Tenure (calculated based on the length of the relationship between the auditor and the client) (Dwiandari, 2020), and Audit Rotation, which is expressed as a dummy variable, with a value of 1 for companies that perform auditor rotation and a value of 0 for those that do not (Farid & Baradja, 2022). Audit Report Lag is measured by calculating the number of days from the end of the fiscal year to the date of the audit report issuance (Al-Ebel et al., 2020).

Data were analyzed using panel data linear regression techniques to test the relationship between the independent variables, such as Audit Fee, Audit Tenure, and Audit Rotation, and the dependent variable, which is Audit Report Lag. Classical

assumption tests, such as multicollinearity and heteroscedasticity tests, are conducted if the data model used has Ordinary Least Squares (OLS) characteristics, such as the Common Effect Model (CEM) and Fixed Effect Model (FEM). However, if the model used, based on the results of Chow tests, Hausman tests, and Lagrange Multiplier tests, indicates a Random Effect Model (REM), classical assumption tests are not needed because the data characteristics are already Generalized Least Squares (GLS) (Sekaran & Bougie, 2016). Data processing is conducted using statistical software such as EViews to ensure accurate and reliable results. The findings of this study are expected to contribute to understanding how external factors such as Audit Fee, and internal policies such as Audit Rotation and Audit Tenure, affect the efficiency of audit report issuance in companies in the property and real estate sector in Indonesia. Previous studies have shown that these factors have a significant relationship with Audit Report Lag, both directly and indirectly (Al-Ebel et al., 2020).

RESULTS AND DISCUSSION

Descriptive Statistics

Before conducting an overall test of the relationship between the variables of Audit Fee, Audit Tenure, and Audit Rotation on Audit Report Lag, it is necessary to first outline the descriptive data for each variable used in this study with descriptive statistical analysis. The results of the descriptive statistics for this study can be seen in Table 1 as follows :

Table 1. Descriptive Statistics Test Result

No	Variable	Mean	Median	Max	Min	Std. Dev	Sample
1	Audit Report Lag	4.621	4.615	5.204	3.761	0.246	165
2	Audit Fee	10.258	10.220	11.460	9.240	0.586	165
3	Audit Tenure	0.738	1.000	1.000	0.000	0.442	165
4	Audit Rotation	0.477	0.000	1.000	0.000	0.503	165

Source: data processed with Eviews 10.0 (2024)

Table 1 presents the data analysis results from manufacturing companies in the property and real estate sector listed on the Indonesia Stock Exchange (IDX) during the 2017–2021 period. The descriptive statistics show that the average Audit Report Lag time is around 4,621 days. The average Audit Fee is 10,258, with a larger standard deviation compared to the Audit Report Lag, indicating a greater variation in the data. The majority of Audit Tenure values are close to 1, indicating a continuous audit relationship. The Audit Rotation variable shows an average close to 0.5 with a standard deviation of 0.503, which suggests that Audit Rotation practices are implemented almost evenly.

Table 2. Model Estimation Test Results

Effect Test	Prob > F	Best Model
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		Determining Test	(Prob>F) / (Prob>Chibar2) / (Prob>Chi2)	Description
Ordinary Least Square (OLS)	0.0200	Chow test (OLS vs FE)	0.0038	Fixed Effect
Fixed Effect (FE)	1.6300	Hausman test (FE vs RE)	0.6526	Random Effect
Random Effect (RE)	4.1717	LM test (OLS vs RE)	0.0411	Random Effect

Source: data processed with Eviews 10.0 (2024)

Based on the observation in Table 2, the results of the study conclude that the Random Effect model is more suitable for analyzing the relationship between the exogenous and endogenous variables. After identifying the appropriate model, the next step is classical assumption testing; however, this test cannot be applied to all results of the models to be used after undergoing testing. Classical assumption testing is only used for regression models with an OLS approach to estimation (DS Abbas and Hidayat, 2021). The analytical model with OLS characteristics in the regression model is the CEM and FEM models. Therefore, based on the results of the regression model test, it was determined that the CEM model is appropriate for use. As such, this study will not test regression assumptions for classical assumptions.

Table 3 Summary of Research Results

Information	t-statistic	Prob	Conclusion
Constant	11.69320	0.0000	
Aud_Fee \square ARL	-0.186342	0.8528	Rejected
Aud_Ten \square ARL	-2.514195	0.0146	Accepted
Aud_Rot \square ARL	-8.709386	0.0000	Accepted
Obs		165	
Adj R ²		0.638771	
F-Stat		35.95601	
Prob (F-Stat)		0.000	

Source: data processed with Eviews 10.0 (2024)

The results of this study provide important insights into the relationship between the audit-related variables of Audit Fee, Audit Tenure, and Audit Rotation with the dependent variable. The findings show that Audit Tenure and Audit Rotation significantly affect the dependent variable, while Audit Fee does not show a significant relationship. These results partially align with the proposed hypothesis, providing new insights into audit practices. The significant impact of Audit Tenure on the dependent variable indicates that a longer auditor-client relationship can improve audit quality by enhancing the auditor's understanding of the client's business. However, this finding also raises concerns about the potential decline in auditor independence due to long-term relationships, as argued by (Hai, 2020). On the other hand, the significant relationship between Audit Rotation and the dependent variable highlights the effectiveness of the auditor rotation policy in reducing familiarity threats and increasing objectivity, supporting findings from studies like (Laura et al., 2021). The insignificance of Audit Fee may indicate that the cost structure does not directly affect the audit quality in this sample. This finding may differ

from previous studies that argue that high fees can create economic dependence, which may affect auditor independence (Paramitha & Setyadi, 2022). This difference may be due to contextual or institutional variations in the data used, requiring further exploration in different regulatory environments.

This study presents novelty by integrating several audit-related variables into a unified regression model while using stringent statistical tests to validate the results. The Adjusted R-squared value of 67.58% indicates that the model effectively captures variation in the dependent variable, while the significant F-statistic confirms the overall strength of the model. This methodological strength reinforces the reliability of the conclusions drawn from the analysis. Compared to previous studies, this research extends findings by examining the relationship between auditor tenure and rotation in reducing audit risk. For example, in the study by Laura et al., (2021) which emphasizes the benefits of rotation in enhancing auditor independence, this study highlights the importance of tenure in maintaining audit quality. Additionally, the lack of significant impact from audit fee diverges from the hypothesis (Jenkins & Haynes., 2003). Suggesting potential changes in the dynamics of audit fee dependence due to evolving regulations or market practices. These findings contribute to a broader discourse on audit quality by illustrating the complex interplay between independence, familiarity, and economic considerations. This highlights the importance of contextual factors such as the regulatory framework and market structure in shaping audit outcomes. Policymakers and practitioners can use these insights to refine audit standards, emphasizing balanced policies that promote both independence and continuity. This discussion underscores the contribution of the research to the field of audit by linking auditor tenure and rotation to better audit outcomes and offering a more nuanced perspective compared to conventional assumptions about audit fee. Supported by rigorous analysis and comparisons with previous studies, this emphasizes the importance of empirical evidence in advancing theoretical and practical understanding of audit practices. Further research is recommended to explore these dynamics in different institutional contexts.

CONCLUSION

Based on the research findings, it was found that Audit Tenure and Audit Rotation have a significant impact on the dependent variable, while Audit Fee does not show a significant effect. This indicates that the duration of the auditor-client relationship (tenure) and Audit Rotation practices play a crucial role in influencing audit quality. Sufficient Audit Tenure can enhance the auditor's understanding of the client's business, but rotation is necessary to maintain independence and objectivity. On the contrary, Audit Fee does not have a direct impact on audit quality in this research context, which may be influenced by regulatory variations or fee structures in the market.

Recommendations for practitioners include considering the balance between the duration of the relationship with the client and the need for rotation to ensure the continued quality of the audit. Ongoing training programs are also necessary to maintain auditor competency despite rotation. For policymakers, regulations encouraging periodic

Audit Rotation can be reinforced to ensure auditor independence. Additionally, policymakers need to consider that although Audit Fee structure was not significant in this study, it still needs to be managed to avoid potential conflicts of interest. For academics, further research is suggested to explore other factors affecting audit quality, such as client business complexity or the impact of technology on audit practices. Cross-country research could also provide broader insights into how different regulations affect the relationship between Audit Fee, Audit Tenure, and Audit Rotation. Integrating a qualitative approach could provide deeper insights into the dynamics of the auditor-client relationship.

The implications of this research provide practical guidance for auditors and policymakers to improve audit practices and governance. The key implication is the importance of Audit Rotation in maintaining objectivity, as well as the need for attention to the duration of the auditor-client relationship. The limitations of this study are restricted to specific sample data and may not cover all factors relevant to audit quality. Additionally, these findings may not fully apply to other market contexts with different regulations. Suggestions for future research include exploring the impact of other factors, such as the use of technology in audits and its impact on audit quality, conducting cross-country comparative studies to understand how different regulations affect the relationship between Audit Fee, Audit Tenure, and Audit Rotation, and integrating qualitative approaches to gain deeper insights into the dynamics of the auditor-client relationship.

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