

THE EFFECT OF PROFIT AND LOSS, *FINANCIAL DISTRESS*, AND BREACH OF AGREEMENT ON AUDIT DELAY ON NON-PRIMARY CONSUMPTION SECTOR COMPANIES LISTED ON THE IDX 2020-2022.

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Abstract

Timeliness in the submission of financial statements is very important for shareholders and parties who use financial statements. Financial statements describe the future prospects for the company and are used as an option for investing investors. One of the things that affect audit delay is profit and loss, financial distress, and breach of agreement. This study aims to determine the effect of the three independent variables on audit delay. The population used in this study is non-primary consumption sector companies registered in 2020-2022 using the purposive sampling method. The results showed that financial distress affected audit delay, while profit and loss and breach of agreement did not affect audit delay.

Keywords: Profit and Loss, Financial Distress, Breach of Agreement, Audit Delay.

A. Introduction

Financial statements are an important instrument for companies going public in supporting the sustainability of a company. In conditions of uncertainty in the company's activities, financial statements are the main clue regarding the company's future prospects. The purpose of financial statements is to provide information about the financial position of a company that is useful to users of financial information. Financial statement information is used for the benefit of company management and is also used by owners to assess the management carried out by company management. In addition, it is used by investors, creditors, governments, *shareholders*, and other parties who need financial statements as a basis for decision making. The information needed can be useful if the financial statement information is presented accurately and precisely when needed by information users (Muhammad E et al., 2023). So it can be concluded that the value of the timeliness of financial reporting is an important factor for the expediency of financial statements.

Delays in submitting audit reports have a direct impact on market efficiency, to business entities later. Punctuality is also referred to as audit delay. Audit delay is the difference between the date of the financial statements and the date of the audit opinion obtained in the financial statements which shows how long the time used in conducting the audit (Sirait, 2022). The longer an auditor completes his audited financial statements, the longer the audit delay in the company.

Phenomena or problems related to audit delays that occur in Indonesia with issuers listed on IDX that do not submit financial statements in accordance with their time. Based on

information contained in the Indonesia Stock Exchange (IDX), there are manufacturing companies in the non-primary consumption sector since 2023, as many as 14 listed issuers have not reported audited financial statements as of the end of 2022. In 2022, as many as 19 issuers have not submitted audited financial statements as of the end of 2021. In 2021, 18 companies have not submitted audited financial statements as of the end of 2020.

Some of the factors that cause audit delays are *financial distress* and agreement violations including the level of Profit and Loss, *Financial Distress* and agreement violations (Christian et al., 2023). In addition, factors that affect audit delay are also influenced by company profit and loss (Tricia & Apriwenni, 2018).

With this profit and loss investors can easily evaluate the company's financial condition, investors are often more interested in companies that experience profits compared to companies that experience losses. Companies that make a profit will usually be faster in reporting their financial statements compared to companies that experience losses. Companies that suffer losses will ask their auditors to reschedule audits later than usual thus delaying reporting their audit reports. The results of research on the effect of profit and loss on audit delay conducted by (Arindita et al., 2023); (Yunita & Amin, 2023) states that profit and loss has no effect on audit delay. This is not in line with the results of research conducted (Setiono & Rubiyanto, 2019); (Tricia & Apriwenni, 2018); (Sonia et al., 2020) stated that profit and loss affects audit delay.

Financial distress is the stage before bankruptcy in a company that can be characterized by a decline in financial condition (Christian et al., 2023). The company can be said to be bankrupt if the company is unable to fulfill the responsibility for its dependents, both short-term and long-term obligations. If a company continues to experience a decline in finances, it will cause bankruptcy in the company. Financial difficulties can increase audit risk, especially detection risk and control risk for independent auditors, this can result in the length of the audit process which can cause *audit delays*.

The results of research on the effect of *financial distress* on audit delay conducted by (Christian et al., 2023); (Prabawanto et al., 2023) shows that *financial distress* affects audit delay. This is not in line with research conducted by (Alba et al., 2023); (Kristiana & Annisa, 2022); (Paramitha & Yuniarta, 2023) stated that profit and loss has no effect on *audit delay*.

The borrower or lender is motivated to resolve the breach of agreement before the financial statements are published so as to cause renegotiation. Renegotiation is usually proposed by the borrower, renegotiation usually takes at least 2 months. Through renegotiation, borrowers will usually use the right of control to influence financial decisions. If there is a breach of the agreement in the company it will cause litigation risk, the auditor will wait to see the resolution of the breach of agreement. If the lender ignores the breach or renegotiates the loan agreement, the auditor will examine and analyze the relevant documents and evaluate the possibility of breach of the agreement and default in the future.

Referring to previous studies, there are still few who examine the variables of agreement violations. Research results on the effect of agreement violations on audit delay conducted by (Christian et al., 2023); (Swanson & Zhang, 2018) states that breach of agreement positively affects *audit delay*.

By looking at the inconsistencies in the results of previous studies, it is necessary to further analyze the factors that affect audit delays, seen from Profit and Loss, Financial Distress, and Agreement Violations by taking samples of manufacturing companies in the non-primary consumer goods sector in 2020-2022. The selection of research years for three years, namely in the period 2020-2022 with the aim of being able to produce actual data. Meanwhile, the reason for choosing a manufacturing company in the non-primary consumer goods sector is because it is a type of business that is growing rapidly and has a very broad scope, besides that manufacturing companies in the non-primary consumer goods sector dominate companies that conduct audit delays in 2020-2022 so that the results of their research are expected to represent all industries in Indonesia.

B. Method

This research is a type of quantitative research, research that is measured using research variables with statistical data processing and then the results can be explained using numbers. Data is obtained from the financial statements of companies listed on the IDX, which can be accessed using www.idx.co.id website.

The population in this study is companies listed on the Indonesia Stock Exchange (IDX) in 2020-2022, with the purposive sampling method in sampling. With the following criteria:

1. Non-primary consumer goods sector companies listed on the Indonesia Stock Exchange (IDX) during 2020-2022.
2. Companies that publish financial and annual statements sequentially during 2020-2022.

Based on these criteria, 101 companies were obtained to be used as samples.

Definition of Operational.

Audit delay (Y)

Audit delay can also be called the auditor's time in completing his audit report, calculated from the issuance of financial statements to the issuance of audit reports. The deadline for submitting audited financial statements is 03 months (90 days) from the end of the financial year (Christian et al., 2023).

Audit delay = Audit Report Date - Financial Statement Date

Profit and loss

The income statement is a report that shows the comparison between the income and expenses of a business unit over a certain period of time (Prabawanto et al., 2023). Profit is considered good news that makes the company will publish financial statements faster. Conversely, if the company experiences a loss, often the company will be late in reporting financial statements. The company's profit and loss is measured using *dummy variables* with binomial measures (Arindita et al., 2023). Judging from the current year's profit and loss in the audited financial statements per year as follows:

1. If the company experiences a profit, it is given a number of 1.
2. If the company experiences a loss, it is given a number of 0.

Financial Distress

Financial distress is the stage of decline in financial condition experienced by a company, which occurs before bankruptcy or liquidation (Alba et al., 2023). Companies that experience *financial distress* can be characterized by the company's ability to fulfill its obligations, both in the short and long term. If the company continues to experience a decline in finances, it can cause the company to go bankrupt. Measurements in this variable use the Altman model (Z-Score) (Prabawanto et al., 2023).

$$Z = 1,2X^1 + 1,4X^2 + 3,3X^3 + 0,6 X^4 + 0,999X^5$$

Keterangan :

- Z : Bankruptcy Index.
- X^1 : Net Working Capital/Total Assets
- X^2 : Retained earning / Total Assets
- X^3 : Earning before interest and tax/total assets
- X^4 : Market value of equity/Total liabilitas
- X^5 : Sales/Total Assets

To assess the bankruptcy of the company can be assessed from the results of the Z-score <1.8, the company is classified as a company that will experience bankruptcy; $1.8 < Z\text{-score} < 2.99$ is classified as a *gray area* in the sense that this value cannot determine a healthy company or bankruptcy; Z-score >2.99 is then classified as a healthy company (Christian et al., 2023).

Breach of Agreement

A breach of agreement, also a technical default, is a breach of a debt agreement but not a default on interest or principal payments. In this study, the data used comes from reports and information contained in the company in the event of violations such as PKPU and defaults. In

this study, the measurement used uses dummy variables to measure whether the company has a violation of debt agreements (Christian et al., 2023).

1. If there is a breach of agreement =1
2. If there is no breach of agreement = 0

The effect of profit and loss, financial distress and breach of agreement on audit delay will be tested in this study using multiple linear regression analysis techniques. Multiple linear regression analysis model:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Keterangan :

- Y : Audit Delay.
- α : Constanta.
- β_{1-3} : Koefisien regresi.
- X1 : The profit and loss of the company.
- X2 : Financial distress.
- X3 : Breach of agreement.
- e : Error

Furthermore, testing is carried out by conducting descriptive statistical tests, consisting of minimum, maximum, average (mean), and standard deviation values and outlier tests. Then the classical assumption test consists of a normality test, a multicollinearity test, a hetecoedasticity test, and an autocorrelation test. Finally, hypothesis testing consists of a coefficient of determination test (R-Square), a simultaneous test or model feasibility (F test), and a Partial Test (t test).

D. Results and Discussion

1. Result

The final sample in this study is 101 companies listed on the Indonesia Stock Exchange that have met the sample selection criteria. Table 1 presents outlier results and descriptive statistics of research variables. The profit and loss variable detected no outliers and had an average of 0.4950 (index). *Financial distress* was detected with 35 data outliers with a percentage of 12% and an average of 1.9729 (index). Breach of agreement detected no outliers with an average of 0.0891 (index). Meanwhile, in the audit delay variable, 6 data were detected that indicated outliers.

Table 1 Descriptive Statistics

Variabel	Σ Outlier	%	N Statistic	Minimum Statistic	Maximum Statistic	Mean Statistic	Std. Deviation Statistic
Profit and Loss	0	0	303	0.00	1.00	0.4950	0.50080
Financial Distress	35	12%	303	-5.97	10.86	1.9729	2.52569
Breach of Agreement	0	0	303	0.00	1.00	0.0891	0.28537
Audit Delay	6	2%	303	33.00	176.00	96.8680	26.46044

Source: Analysis Data SPSS, 2024

Sebelum regresi dilakukan maka variabel harus terbebas dari masalah asumsi klasik . uji normalitas adalah uji asumsi klasik pertama yang harus dilakukan . dalam penelitian ni, nilai skweness per standar error digunakan untuk mengetahui apakah setiap variabel mengalami masalah normalitas. Jika observasi memiliki nilai berada pada rentang -2,59 sampai dengan +2,59 makadapat dikatakan model yang digunakan memenuhi asumsi normalitas . Pada penelitian ini nilai S/SE berada pada rentang -2,59 sampai dengan +2,59, yang menunjukkan bahwa seluruh variabel berada pada posisi normal seperti yang ditunjukkan pada tabel 2.

Table 2 Normality Test

Variabel	N Statistic	Skewness			Decisions
		S	Std. Error	S/SE	
Profit and Loss (Dummy)	303	0.020	0.140	-	
Financial Distress (Index)	303	0.257	0.140	1.83568765	Normal
Breach of Agreement (Dummy)	303	2.899	0.140	-	

Audit Delay (Days)	303	0.339	0.140	2.421719203	Normal
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Source: Analysis Data SPSS,2024

Table 3 shows the results of the multicollinearity test, which shows that all the independent variables used are not related (not correlated) with each other. This is because the tolerance value >0.10 and the VIF value is less than 10. So, there is no multicollinearity. The next class assumption test is the heteroskedasticity test.

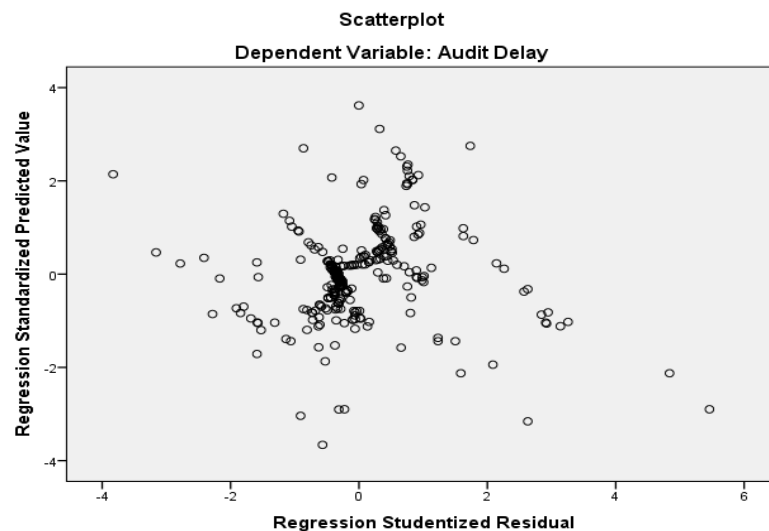
Table 3 Multicollinearity Test

Variable	Tolerance	Cut Off	VIF
Profit and Loss	0.992	Tolerance > 0.10 , VIF < 10	1.008
Financial Distress	0.997	Tolerance > 0.10 , VIF < 10	1.003
Breach of Agreement	0.992	Tolerance > 0.10 , VIF < 10	1.008

Source: Analysis Data SPSS,2024

Identification of heteroskedasticity can be done through statistical tests or observations of the distribution of points in scatterplot graphs. Observations with *scatterplots* are carried out by inputting the value of the bound variable (ZPRED) and its residual value (SRESID) when regressing. Based on the results of the *scatterplot* graph in figure 1, it can be seen that the distribution of points is to the right and left of the zero point, as well as above and below the zero point. This states that the regression model of research is free from heteroskedasticity.

Figure 1 Heteroskedasticity Test Scatterplot



In table 4 based on the autocorrelation test, the Durbin Watson value of 1.924 is between +2, so it can be said that the regression model of this study is declared free from autocorrelation. Provided that if the durbin Watson value is between -2 and +2, it can be said that no autocorrelation occurs. The test results showed that the Autocorrelation (DW) value was 1.924.

Table 4 Simultaneous Test Results and Partial Test

Variable	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
(Constant)	87.516	2.098		41.713	0.000
Profit and Loss	-1.924	2.584	-0.037	-0.745	0.457
Financial Distress	5.573	0.511	0.534	10.905	0.000
Breach of Agreement	-7.130	4.533	-0.077	-1.573	0.117
R Square	0,287				
F test	40,079				
sig. F	0,000				

Source: Analysis Data SPSS,2024

It can be seen in table 4 that the R-square value in this model has a value of 0.287 which means that 28.7% is able to explain the amount of contribution of variables Profit and Loss, *Financial Distress*, Violation of Agreement to *Audit delay* is 28.7% and the remaining 71.3% is influenced by other variables outside of research variables. In addition, table 4 shows the F test value is 40.079 and the significance is 0.000 (smaller than alpha) Thus it can be concluded that this multiple regression model is feasible to use, and the variables profit and loss, *financial distress*, violation of agreements simultaneously have an influence on *audit delay*.

2. Discussion

Based on the statistical analysis that has been determined, the following is an explanation of the results of the hypothesis.

The effect of profit and loss on audit delay

Based on the results of research that has been done, it is known that the results of the t test that have been presented are known that profit and loss has a t-count value of -0.745 with a significance level of $0.457 > 0.05$. Thus, H1 is rejected, so it can be concluded that profit and loss has no effect on audit delay. This means that the size of a profit or loss generated by the company does not change the variation in the value of the audit delay, in other words companies that experience profits and losses have the same level of possibility in the occurrence of audit delays.

The effect of Financial Distress on audit delay

Based on the results of research that has been done, it is known that *financial distress* affects *audit delay*. Based on the results of the t test that has been done, it is known that *financial distress* has a t-count of 10,905 with a significance level of $0.000 < 0.05$. Thus, H2 is accepted so that it can be concluded that *financial distress* has no effect on *audit delay*. The results state that the higher the financial ratio, the greater the financial difficulties faced by the company.

Effect of breach of agreement on audit delay

Based on the results of research that has been done, it is known that the results of the t test that have been presented are known that violations of the agreement have a t-count value of -1.573 with a significance level of $-0.117 > 0.05$. Thus, H3 is rejected, so it can be concluded that violation of the agreement has no effect on the audit delay. Which means, whether or not there is a violation of the debt agreement with the company will not change the period of time in conducting the audit. Usually the auditor will issue a going concern opinion if a default has occurred or renegotiation is underway.

E. Conclusion

This study used three independent variables, namely profit rui, financial distress and breach of agreement. With one dependent variable i.e. audit delay. This study used skunder data with a total sample of 101 companies.

The results of this study show some relevant findings related to the influence of the independent variable on the dependent variable with the following conclusions:

1. Profit and loss has no effect on audit delay.
2. Financial distress affects audit delay.
3. Violation of the agreement has no effect on audit delay.

Limitations

1. Limitations in obtaining references or articles regarding variable violations of agreement. This is because these variables in Indonesia itself are still carried out once which refers to international journals.
2. For the research period, it was only used for 3 years of observation, namely in 2020-2022. In that year there were still some companies that did not report financial statements sequentially, so the results achieved did not reflect current conditions.

Suggestion

1. For further research, it is expected to expand the number of research samples. Not only researching one sector, but can also examine all sectors against companies listed on the Indonesia Stock Exchange (IDX) so that the results obtained are more accurate and reflect the actual situation.
2. Subsequent research on the theme of *audit delay* can use other variables that are not studied by researchers that allow more adjustments to the indicators.

3. In handling *audit delays* that cause delays in submitting financial statements of non-primary consumption sector companies on the IDX, the company in this case is strived to be able to minimize the preparation of financial statements as early as possible and in accordance with accounting standards and the inclusion of valid data so that the audit process does not take long.

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