Timeliness in Financial Reporting with Moderation

Dianing Ratna Wijayani[1], Dwi Ratmono[2]
{dianingratnawijayani@students.undip.ac.id[1], dwi.ratmono2@gmail.com[2]}

Universitas Diponegoro, Indonesia[1, 2]

Abstract. This research tests and provides empirical evidence regarding timeliness in financial reports with moderation. This research uses a quantitative approach using explanatory and comparative methods. The population is trade, service and investment sector companies registered on the IDX for the 2017-2021 period, using purposive sampling to produce a sample of 279 data. The analysis technique used in this research is panel logistic regression moderation analysis using the E-Views application. The results of the study stated that profitability has a positive influence on the timeliness of financial reporting, there is no effect of company size on timeliness in reporting financial reports, audit opinion and KAP reputation do not moderate the effect of profitability and company size on the timeliness of financial reporting. This research theoretically strengthens agency theory because companies with High profitability has good timeliness of financial reporting as evidence of management's performance as an agent for the company owner as principal. As a comparison, it is hoped that this research can be used as consideration in determining future investments. Apart from that, this research is also used as a source of information for investors to assess assets by linking the timeliness of emissions reporting.

Keywords: Profitability, Company Size, Audit Opinion, KAP Reputation, Timeliness

1 Introduction

Based on a quote from the official website of the IDX (Indonesian Stock Exchange), on August 2 2019, there were ten issuers suspended by the IDX. This decision was taken due to delays in submitting annual financial reports from 31 December 2018 to 29 June 2019, and the penalty for late reporting had not been paid. The company is subject to sanctions based on provision II.6.4 which states that a listed company will be suspended if it does not submit annual financial reports starting on the 91st day from the deadline for submission of financial statements and does not pay a fine.

The objects of this research are trading, service, and investment companies because, based on the suspension cases published by the IDX in the year of the study, the majority were dominated by trading, service, and investment companies that delayed financial reporting so that they received a warning from the IDX. The novelty of this research is the addition of a moderating variable of KAP reputation and its measurement proxy. KAP's reputation is the public's view of the quality of KAP's performance. KAPs that are affiliated with the Big 4 KAPs are considered to have a good reputation and tend to have good performance.

ICE-BEES 2022, August 09-10, Semarang, Indonesia

DOI 10.4108/eai.9-8-2022.2338630

2 Literature and Hypothesis

2.1 Agency Theory

Agency theory explains the working relationship that has been regulated in the contract between shareholders as the principal who delegates authority to the manager as the agent in making decisions on the company. According to Ika and Ghazali (2012) [1], in an agency relationship, there is a work contract that regulates the distribution of rights and authorities of the shareholders (principal) and the manager (agent) [2].

2.2 Signal Theory

Signal theory was first coined by Spence (1973), which states that the owner of the information (the company) will try to convey relevant information as a signal that can be useful for the recipient (the interested party). Signal theory explains how companies should provide information as an illustration or signs to users of financial statements, according to Andiamo et al. (2017). The information provided by the company becomes a consideration for investors and creditors in making decisions.

2.3 Hypothesis

In the financial statements profitability has an important part, this is due to the company's profit information being a significant reference for investors. Profitability can be considered as management performance, where better management performance can increase the company's profit or profit. So, the bonuses received by managers also increase. This reason makes managers have a tendency to submit company financial reports sooner or later.
H1: Profitability has a positive effect on the timeliness of financial reporting

From financial information it can be seen how big the company is, one of which is the value of the total assets owned by the company (Soltani, 2002). Large companies are in the spotlight for investors to invest compared to small companies. So, the company will provide a good signal (good news); To maintain investor relevance, when a company reports its financial statements correctly, it tends to be shown to investors.
H2: Firm size positively affects the timeliness of financial reporting

Companies with a high level of profitability tend to publish their finances promptly because they are considered to have good information [1]. Meanwhile, financial statements that receive an unqualified opinion from the auditor are good news. If the idea is given, the company will tend not to be convenient in reporting financial statements [3].
H3: Audit opinion strengthens the effect of profitability on the timeliness of financial reporting

The number of resources owned by large companies can also support a robust internal control system and continuous audits [4]. Meanwhile, financial statements that obtain an unqualified audit opinion are a good signal (good news) for users of financial statements. So that investors are interested in investing in the company because the company is considered to have good performance, the company must timely convey this information to investors. In

addition, companies with significant resources can also promptly support the process of submitting financial reports.
H4: Audit opinion strengthens the effect of firm size on the timeliness of financial reporting

High profitability owned by a company is good news that must be published promptly [5]. To complete the audit quickly, companies that get a high level of profitability also provide higher incentives. With high incentives, a company tends to use the services of a KAP with a good reputation and financial reports can also be reported promptly.
H5: KAP's reputation strengthens the influence of profitability on the timeliness of financial reporting

The company's size can be assessed by the complexity of its operations and the intensity of its transactions [6]. Large companies are in the public spotlight because of the large number of information resources they have. So, to overcome the timely submission of financial reports to the public, companies tend to use the services of a KAP with a good reputation. Human resources owned by public accounting firms with good reputations tend to be competent in conducting audits so that the audit process can be completed quickly and financial reports can be submitted on time.
H6: KAP's reputation strengthens the influence of company size on the timeliness of financial reporting

3 Research Methods

The data used is secondary data in the form of reports audited annual financial statements of trading, service, and investment in the 2016-2020 period. This data can be accessed via www—IDX.go.id or the company website. The method used in determining the research sample is a purposive sampling method. So that the example of this study uses 279 companies. The analysis technique used in this study is the Logistics Moderate Regression Panel Analysis (MRA) with data analysis EViews.

3.1 Variable Operational Definition and Measurement

Profitability is the ability to profit in a company's business [1]. Profitability can be used as an indicator in measuring the success of a company's business. This study measures profitability through ROA (Return on Assets) by comparing profits with available assets [7].

Company size is a scale for classifying the company's size based on total assets and assets owned [1]. This study measures company size from the existing company assets seen in the audited end-of-period financial statements [7].

The information contained in financial reports must be available when needed. This can also be interpreted as timeliness in financial reporting. Measuring timeliness in company financial reporting uses a dummy variable, where the company to be studied timely financial reporting is given a dummy score of 1, and those that are not on time are given a dummy score of 0 [7].

The audit is the auditor's opinion regarding the report's fairness in audited period-end financials [8]. Companies that obtain a fair audit opinion without exceptions are given a dummy score of 1, and companies that get an audit opinion otherwise unqualified are given a dummy score of 0 [7].

KAP's reputation is the public's view of the excellent and impaired quality of services provided by KAP [8]. Measuring KAP reputation uses a nominal scale with dummy variables based on whether KAP is affiliated with KAP, The Big 4, and KAP non Big 4 [9].

3.2 Technique of Analysis

3.2.1 Logistics Moderated Regression Analysis Panel

$$Ln\left(\frac{p}{1-p}\right) = B_0 + B_1X_1 + B_2X_2 + B_1X_1.Z_1 + B_2X_2.Z_1 + B_1X_1.Z_2 + B_2X_2.Z_2$$

4 Result

4.1 Panel Data Regression

4.1.1 Test Chow

Table 1. Test Chow

Effects Test	Statistic	d.f.	Prob.
Cross-section Chi-square	171.655	81	0.000

Based on table 1, the chi-square probability value is 0.000; this shows the chi-square value < the critical limit (0.05). This means that H¬1 is accepted or chooses the FEM model in this test. Then the Hausman test was carried out.

4.1.2 Hausman Test

Table 2. Test Hausman

Test Summary	Statistic	d.f.	Prob.
Cross-section random	28.569	6	0

Based on table 2, the probability value of chi-square is 0.000. This shows that the value of chi-square probability < significance level (0.05). This means that H1 is accepted, or the selected model is the FEM model. Because the Chow and Hausman test has set the FEM model, there is no need to continue with the Lagrange multiplier test.

4.1.3 Fixed Effect Model (FEM)

Table 3. Fixed Effect Model

Variable	Coefficient	T-statistics	Prob.
Constant	13.346	3.937	0.000
Profitability	3.172	2.632	0.021
Company Size	-0.356	-3.367	0.000
*Profitability*Audit Opinion*	-0.856	-0.789	0.620

*Company Size*Audit Opinion*	0.003	1.243	0.345
*Profitability*KAP's reputation*	-1.236	-1.308	0.567
*Company Size*KAP's Reputation*	-0.089	-3.334	0.004

From the, the regression is:

$$Y = 13.346 + 3.172X_1 - 0.356X_2 - 0.856X_1.Z_1 + 0.003X_2.Z_1 - 1.236X_1.Z_2 - 0.089X_2.Z_2$$

4.2 Panel Logistic Moderated Regression Analysis

Table 4. Results of the Logistics Moderated Regression Analysis Panel

Variable	Coefficient	Z-statistics	Prob.
Constant	-2.134	-0.407	0.563
Profitability	51.702	2.209	0.003
Company Size	0.092	0.471	0.512
*Profitability*Audit Opinion*	142.435	0.953	0.467
*Company Size*Audit Opinion*	0.073	0.897	0.465
*Profitability*KAP's reputation*	-32.457	-1.294	0.278
*Company Size*KAP's Reputation*	-0.003	-0.903	0.893

Based on table 4, a model equation can be formed from the logistic moderate regression analysis panel. The equation is as follows:

$$Ln\left(\frac{p}{1-p}\right) = -2.134 + 51.702X_1 + 0.092 + 142.435X_1.Z_1 + 0{,}073X_2.Z_1 - 32.457X_1.Z_2 - 0.003X_2.Z_2$$

4.3 Hypothesis Testing

4.3.1 Partial Test (Z Test)

The z test was conducted to partially determine the effect of each independent variable's significance on the dependent variable. In this study, the value of z table with a value of = 5% and based on the one-way hypothesis so that z = 1-0.05 = 0.95. From the z value, the z table is 1,650. Based on table 4, H1 is accepted, H2 is rejected, H3 is rejected, H4 is rejected, H5 is rejected, and H6 is rejected

4.3.2 Simultaneous Test (Likelihood Ratio)

Table 5. Likelihood Ratio

	LR-statistic	Prob.
Likelihood Ratio	58.500	0.000

Based on table 5, the results of the LR test with an LR-statistic value of 58.500 compared with the chi-square table value obtained from df (total independent variables) and a significant level of 0.05 of 5.992, then the value of f count > f table. And prob value. (LR-statistic) was obtained at 0.000 < 0.05. It can be concluded that H1 is accepted, or the independent variables.

Table 6. Regression Model

	Prob.
Hosmer and Lemeshow	0.976

Based on table 6, the Hosmer and Lemeshow test results in this study obtained the prob value. Hosmer and Lemeshow with a value of 0.976. This means that if H0 is accepted or the model can be said to be feasible.

Table 7. Coefficient of Determination Test

	McFadden R-squared
Coefficient of Determination	0,348

Based on table 7, the McFadden R-square value is 0.348. This means that the independent variable in this study is only able to explain the dependent variable by 34.8%, while other independent variables outside the survey demonstrate the rest.

5 Discussion

Based on table 4, if the probability value is less than 0.05 then it is significant, and has a positive or negative effect looking at the coefficient numbers, H1 is accepted. The results of this study are in line with agency theory, where high profitability can encourage the management (agent) to report finances promptly to shareholders (principals). The control (agent) who must perform services on behalf of the shareholders (principal) has the right to receive appropriate incentives for their performance. High profitability indicates good management performance. For its implementation, the management will get an increase in incentive rights from the principal, which can encourage the administration to report financials promptly. This study's results align with previous research (Ghafran & Yasmin, 2018), which stated that profitability positively affected the timeliness of financial reporting. However, this is not in line with previous research [1], which stated that profitability did not affect the timeliness of financial reporting.

Based on table 4, if the probability value is less than 0.05 then it is significant, and has a positive or negative effect looking at the coefficient numbers, H2 is rejected. The results of this study are not in line with the signal theory, which states that large companies are more in the public spotlight than small companies, so asset ownership can be a good signal (good news) for companies to attract many investors and to maintain the relevance of financial statement information, especially on asset information. Companies will tend to report financials on a timely basis. However, this study states that the company's size is not the primary assessment of investors. Investors will assess a company based on the company's liquidity capability. Companies with significant asset ownership but low liquidity capabilities can be a wrong signal for investors; the company will be judged unable to control its asset ownership optimally. This makes the company unmotivated to report financials promptly. So that large and small companies do not affect the timing of financial reporting. This study's results align with previous research conducted by Syofyan et al. (2021) [10], which states that company size does not affect the timeliness of financial reporting. However, this is not in line with previous research [1] which stated that company size positively affected the timeliness of financial reporting.

Based on table 4, if the probability value is less than 0.05 then it is significant, and has a positive or negative effect looking at the coefficient numbers, H3 is rejected. The results of this study are not in line with the signal theory. Companies that obtain high profitability and unqualified audit opinions in their financial statements can be a good signal (good news) to attract investors because they are considered to have good performance. Companies that obtain a high level of profitability and an unqualified audit opinion become the benchmark for performance. However, in this study, the audit opinion is not influenced by the level of profitability obtained by the company, the assessment of the audit opinion is based on the fairness of the contents of the financial statements; therefore, companies with an unqualified audit opinion do not necessarily report financially promptly because the audit opinion cannot be used as a rejection. Measure company performance. So, companies that obtain an unqualified audit opinion and an audit opinion other than unfit cannot moderate the effect of profitability on the timeliness of financial reporting. The results of this study are not in line with previous research conducted by Ghafran and Yasmin (2018) [7], which state that audit opinion strengthens the effect of profitability on the timeliness of financial reporting. At the same time, other research has not been in line with the results of this study. Because the researcher added this moderating variable to update his research, the results of previous studies are still minimal.

Based on table 4, if the probability value is less than 0.05 then it is significant, and has a positive or negative effect looking at the coefficient numbers, H4 is rejected. The results of this study are not in line with the signal theory. Companies that have significant resources and are supported by unqualified opinions are often in the public spotlight and are a form of good news to investors because it can be judged that the company has good performance so that financial statements will be published promptly. However, in this study, the audit opinion is not based on the size of the company but the fairness of the content of the financial statements. There are companies with significant asset ownership and obtain an unqualified opinion that cannot report their financials promptly. This is because investors considering investing do not assess the financial statements' fairness but the company's performance. So that an unqualified and an audit opinion other than unable are not able to moderate the effect of company size on the timeliness of financial reporting. The results of this study are in line with previous research [1] which stated that audit opinion could not moderate the effect of firm size on the timeliness of financial reporting. However, this is not in line with previous research [7], which stated that audit opinion weakens the effect of firm size on the timeliness of financial reporting.

Based on table 4, if the probability value is less than 0.05 then it is significant, and has a positive or negative effect looking at the coefficient numbers, H5 is rejected. The results of this study are not in line with agency theory. Companies that have high profitability are considered to have good performance. A manager will get incentive rights for his performance, so he is encouraged to report finances immediately and to resolve the company promptly using the services of the big four KAPs. However, in this study, a high level of profitability does not affect a company using the benefits of the big four KAPs. The big four KAPs are not necessarily able to complete the audit process quickly. Because every KAP, be it big four or non-big four, has determined the length of time for the audit before conducting an audit. This does not guarantee that financial statements can be reported on time. So the use of

KAP big four and KAP nonbig four cannot moderate the effect of profitability on the timeliness of financial reporting. This study's results align with previous research conducted by Ghafran and Yasmin (2018) [7], which states that the reputation of KAP cannot moderate the effect of profitability on the timeliness of financial reporting. However, this is not in line with previous research by Dobija and Puławska (2022) [5], which stated that the reputation of KAP strengthens the influence of profitability on the timeliness of financial reporting.

Based on table 4, if the probability value is less than 0.05 then it is significant, and has a positive or negative effect looking at the coefficient numbers, H6 is rejected. The results of this study are not in line with the signal theory, which states that large companies tend to be in the public spotlight because ownership of ample resources can be a good signal (good news) to attract investors' attention, supported by big four KAPs that have good performance so that they can report financially comprehensively. On-time. In this study, large companies do not necessarily use the services of the big four KAPs to complete audit reports promptly. Each KAP, both big four and non-big four KAPs, has determined an initial audit schedule. This will not affect the financial statements that can be reported on time. Because basically, KAP will carry out the audit process according to a predetermined schedule. So that the big four and nonbig four KAPs do not moderate the effect of company size on the timeliness of financial reporting. This study's results align with previous research (Ika & Mohd Ghazali, 2012), which states that KAP's reputation cannot moderate the effect of firm size on the timeliness of financial reporting. However, this is not in line with previous research [11], which stated that the reputation of KAP strengthens the influence of company size on the timeliness of financial reporting.

6 Conclusion

Profitability has a positive effect on the timeliness of financial reporting. Company size does not affect the timeliness of financial reporting. The audit opinion cannot moderate the effect of profitability and firm size. KAP's reputation cannot moderate the influence of profitability and company size on the timeliness of financial reporting.

6.1 Limitation

The R-square of the results of this study is 36.6%, meaning that the independent variables used in this research model can only explain the dependent variable, while other independent variables outside the study explain the remaining 63.4%. The moderating variable of KAP reputation cannot support the independent variable's influence on the dependent variable.

6.2 Suggestions

It is adding other independent variables outside the study, such as the complexity of the company, because the company, which has a level of complexity of the company's transactions, can affect the time audit so which can affect the time of publication of financial report. Overriding other moderating variables such as ownership managerial. The manager who owns part of the company's shares can affect the quality of management performance, especially in increasing the company's profitability; this can also affect the timeliness of financial reporting.

References

[1] S. R. Ika and N. A. Mohd Ghazali, "Audit committee effectiveness and timeliness of reporting: Indonesian evidence," *Manag. Audit. J.*, vol. 27, no. 4, pp. 403–424, 2012, doi: 10.1108/02686901211217996.

[2] M. C. Jensen and W. H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Cost and Ownership Structure," *J. Financ. Econ.*, vol. 3, pp. 305–360, 1976.

[3] H. Singh, N. Sultana, A. Islam, and A. Singh, "Busy auditors, financial reporting timeliness and quality," *Br. Account. Rev.*, vol. 54, no. 3, p. 101080, 2022, doi: 10.1016/j.bar.2022.101080.

[4] B. Dong, D. Robinson, and L. (Emily) Xu, "Auditor-client geographic proximity and audit report timeliness," *Adv. Account.*, vol. 40, no. October 2017, pp. 11–19, 2018, doi: 10.1016/j.adiac.2017.12.001.

[5] D. Dobija and K. Puławska, "The influence of board members with foreign experience on the timely delivery of financial reports," *J. Manag. Gov.*, vol. 26, no. 1, pp. 287–313, 2022, doi: 10.1007/s10997-020-09559-1.

[6] M. Aksoy, M. K. Yilmaz, N. Topcu, and Ö. Uysal, "The impact of ownership structure, board attributes and XBRL mandate on timeliness of financial reporting: evidence from Turkey," *J. Appl. Account. Res.*, vol. 22, no. 4, pp. 706–731, 2021, doi: 10.1108/JAAR-07-2020-0127.

[7] C. Ghafran and S. Yasmin, "Audit committee chair and financial reporting timeliness: A focus on financial, experiential and monitoring expertise," *Int. J. Audit.*, vol. 22, no. 1, pp. 13–24, 2018, doi: 10.1111/ijau.12101.

[8] Z. Zulfikar, A. D. B. Bawono, M. Mujiyati, and S. Wahyuni, "Sharia corporate governance and financial reporting timeliness: Evidence of the implementation of banking regulations in Indonesia," *Banks Bank Syst.*, vol. 15, no. 4, pp. 179–192, 2020, doi: 10.21511/bbs.15(4).2020.15.

[9] Zaitul and D. Ilona, "Gender in audit committee and financial reporting timeliness: The case of unique continental European model," *Int. J. Recent Technol. Eng.*, vol. 8, no. 2 Special Issue 9, pp. 864–871, 2019, doi: 10.35940/ijrte.B1178.0982S919.

[10] E. Syofyan, D. Septiari, S. Dwita, and M. Rahmi, "The characteristics of the audit committee affecting timeliness of the audit report in Indonesia," *Cogent Bus. Manag.*, vol. 8, no. 1, 2021, doi: 10.1080/23311975.2021.1935183.

[11] F. Song and J. Zhou, "Principles-based accounting standards and the timeliness of annual reports: evidence from China," *Asian Rev. Account.*, vol. 29, no. 3, pp. 399–442, 2021, doi: 10.1108/ARA-07-2021-0120.