

CHAPTER I

INTRODUCTION

1.1 Background

Audit is a systematic process carried out by auditors to obtain and evaluate evidence of a company's economic events. In conducting an audit, the auditor includes fairness based on predetermined standards and conveys the findings obtained to interested parties (Mulyadi, 2016).

Audit quality is the tendency of auditors to detect and disclose fraud contained in financial statements, with an audit process to determine the correctness of the financial statements presented (Rahmatika & Yunita, 2020). The quality of the audit is high if the auditor's opinion reflects the actual state of the company. Audit failures experienced in several countries, especially Indonesia, reflect a decline in quality. The freezing of public accountant licenses by the Ministry of Finance occurred in previous years because they did not carry out audits in accordance with audit standards (Widijaya & Sriyana, 2021).

Audit quality in Indonesia is still a serious problem and will continue to be monitored. This was influenced by several cases of fraud and violations that occurred in the previous year. One of them is the fraud case of PT. The Three Pillars of Wealth using the AISA code are known that the 2017 financial statements have been manipulated with the aim of increasing the company's share price (Cahyaningrum & Irvan, 2023). Another case also occurred at PT Asuransi Jiwasraya which was known in its financial statements to have a profit of Rp360.3 billion in 2017, but this was declared unreasonable due to a shortage of reserves of Rp7.7 trillion. PT Garuda Indonesia also raised cases that did not meet audit quality standards, making accountants get sanctions in the form of freezing licenses for 12 months for not considering facts as a basis for considering the appropriateness of treatment (Widijaya & Sriyana, 2021).

What the *International Forum of Independent Audit Regulators* (IFIAR) has done to the regulator of Public Accountants who are members of IFIAR, shows that there are deficiencies in the quality of audits in public companies that are samples of regulatory audits (Setiadi, 2019). The Ministry of Finance shows that there are 58% of companies that do not comply with administrative provisions, 54% do not have a quality control system in accordance with the Quality Control Standards (SPM) and 73% of audit engagements do not meet *auditing standards* (Hadi et al., 2019).

Quality audit results can show that the company is well supervised and managed (Koerniawan, 2021). If it has poor quality in terms of audit, it will be able to provide opportunities for corporate institutions to make all forms of errors and irregularities in using the budget and can cause the risk of lawsuits to members of the company involved or who carry out these actions (Prasetyo et al., 2020). To reduce these actions, it is necessary to supervise all activities in the company (Nasrullah et al., 2018).

Listiya Purnomo (2019) explained that the quality of a company's audit is influenced by the influence of audit fees, audit tenure, auditor rotation, and auditor reputation. Meanwhile, according to Rusmin & Evans (2017), the factor that can affect the quality of the audit is *the audit report lag*.

The factors that play the most role in influencing audit quality are audit report lag and audit costs (Hamid, 2020).

Audit report lag is the number of days calculated from the end of a company's fiscal year until the auditor signs the auditor's report. Audit report lag shows the time it takes to complete an audit of a company's financial statements (Tunggal, 2016). *Audit delay* is another name for the auditor's delay in completing the company's audit report. The auditor's delay in completing the company's audit report is measured from the date of closing the book to the date of issuance of the opinion or audit report.

Audit report lag is one of the benchmarks of a company's success and is the main requirement for improving the quality of a company (Indarto et al., 2015). *Audit report lag* can result in a delay in publishing a company's financial statements (Ardianingsih, 2016). The delay of a company in publishing financial statements can be a problem in the report (Fauziyah, 2014). According to the results of the research by Siahaan & Simanjuntak (2020), *audit report lag* has a significant effect on the quality of corporate audits. Measurement of audit report lag by subtracting the date of issuance of the audit report from the date of the final report of a financial statement. The longer the distance between the audit report and the end of the financial statements, the greater the potential for fraud to occur so that the relevance of the financial statements becomes lower. This happens because there are many opportunities for fraud which leads to a decrease in the independence of auditors in analyzing financial statements. So in this case, the relationship between audit report lag and audit quality is negative, where the longer it takes, the lower the quality of the financial statements, so that it will reduce the quality of the audit (Anrizal et al., 2024).

Another factor that affects audit quality in addition to audit report lag is audit costs (Weydant et al., 2015). Audit fees are the remuneration given by the company to the public accountant for the work done, in terms of expressing an opinion regarding the company's financial condition or position correctly and fairly (Hilmi & Rinanda, 2020). *Fee* or audit fee is the amount of wages given by the company to the Public Accounting Firm for the audit performance that has been carried out (Hilmi & Rinanda, 2020). The amount of audit fees is not fixed, auditors who are paid at irregular fees will certainly affect their performance in conducting audits. The audit fees or fees obtained by auditors are not necessarily the same because they depend on the complexity of the task, the risk

and the level of completion of the tasks they face when conducting audit engagements (Riyani & Bayu, 2020).

Kurniasih and Rohman (2014) proved that audit costs have a significant effect on audit quality. Higher costs will improve audit quality, audit costs obtained in one year and estimated operational costs needed to carry out the audit process can improve audit quality (Elliot et al., 2009). This is because when the auditor gets a decent wage and according to the wishes, it will encourage the auditor to work as much as possible, of course this will also have a positive impact on the quality of the audit carried out by the auditor. Erieska (2021) in her research found that there is a significant influence of audit costs on audit quality in companies listed on the IDX (Indonesia Stock Exchange).

1.2 Problem Formulation

The formulation of the problem in this study is:

1.2.1 How does *audit report lag* affect audit quality in companies listed on the Indonesia Stock Exchange for the 2022 period?

1.2.2 How do audit fees affect audit quality in companies listed on the Indonesia Stock Exchange for the 2022 period?

1.3 Research Objectives

The purpose of the research is to answer the formulation of the above problem, namely:

1.3.1 Analyze the effect of *audit report lag* on audit quality in companies listed on the Indonesia Stock Exchange for the 2022 period.

1.3.2 Analyze the effect of audit costs on audit quality in companies listed on the Indonesia Stock Exchange for the 2022 period.

1.4 Research Benefits

The benefits of this research can be described as follows:

1.4.1 For the Faculty of Economics, Department of International Accounting, Andalas University

The results of this study are expected to increase the knowledge of students of the Faculty of Economics, Department of International Accounting, Andalas University about the effect of *audit report lag* and audit costs on audit quality in companies listed on the Indonesia Stock Exchange for the 2022 period.

1.4.2 For Others

It is hoped that it can be a source of new knowledge and a source of thought for the development of science. In addition, this research is expected to be a means of information for future researchers who will conduct research in the same field of study, especially about audit quality.

1.5 Systematics of Writing

To make it easier for readers to analyze and understand the results of this research, a writing systematics is made which is divided into several chapters as follows:

CHAPTER I : INTRODUCTION

This chapter discusses the introduction, which contains the background, problem definition, research goals and benefits, and writing systematics.

CHAPTER II : LITERATURE REVIEW

This chapter will discuss the theories used in the research, previous research, and research frameworks.

CHAPTER III : RESEARCH METHODS

This chapter will discuss the types of research, data sources, research variables, research populations and samples, data collection techniques, and data analysis techniques.

CHAPTER IV : RESEARCH RESULTS AND DISCUSSION

This chapter will explain the results of the research and the results of the discussion.

CHAPTER V : CONCLUSION

This chapter contains conclusions and suggestions from the author.

