

ARL Determination of the Role of Financial Ratios and Key Audit Matters with Audit Quality as a Moderator

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ABSTRACT

Purpose – Audit Report Lag (ARL) reflects the timeliness of financial reporting by measuring the period between the end of a company's fiscal year and the issuance of the independent audit report. This study aims to examine the determinants of ARL by investigating the effects of financial ratios, including profitability, solvency, and liquidity, as well as Key Audit Matters (KAM), with audit quality as a moderating variable.

Design/methodology/approach – This study employed a quantitative approach using secondary data obtained from the annual reports of financial sector companies listed on the Indonesia Stock Exchange during 2023–2024. A total of 92 companies were selected using purposive sampling. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4.0.

Findings/Results – The findings indicate that profitability has a negative effect on ARL, while solvency demonstrates a weak negative effect. Liquidity does not have a significant effect on ARL, whereas KAM has the strongest positive effect, indicating that greater audit disclosure complexity tends to extend ARL. The independent variables explain 83.9% of the variation in ARL ($R^2 = 0.839$), while audit quality demonstrates a limited moderating role ($R^2 = 0.068$).

Originality/Value – This study contributes to the ARL literature by integrating internal financial characteristics, audit disclosure complexity, and audit quality within a single analytical model. The findings provide practical implications for auditors, corporate management, and regulators in improving audit reporting timeliness and strengthening transparency in Indonesia's financial market?

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1. Introduction

Audit report lag (ARL), which refers to the time interval between a company's fiscal year-end date and the date on which the audit opinion is issued by an independent auditor, is a fundamental indicator of the timeliness of financial reporting. Timely reporting is essential for maintaining the relevance and usefulness of financial information in stakeholders' economic decision-making. In the context of increasingly globally integrated financial markets, delays in audit reporting may create information uncertainty and disrupt market efficiency.

Although regulations and auditing standards have established reporting frameworks, practices across countries, including Indonesia, demonstrate significant variations in the length of ARL among companies and industry sectors. For example, during the 2023 financial year, several financial sector companies listed on the Indonesia Stock Exchange (IDX) experienced significant delays in submitting their audited financial statements. PT Asuransi Jiwa Kresna and PT Bank MNC Internasional Tbk represent concrete examples of companies facing challenges in audit reporting timeliness due to financial pressures, auditor changes, and audit complexity related to Key Audit Matters (KAM) disclosures. These cases demonstrate that the financial sector, despite being highly regulated, remains vulnerable to reporting delays that may affect investor confidence and market transparency (Martin, 2025; Yoro, 2024; Moloney, 2023).

Theoretically, delays in audit reporting can be explained through agency theory, which highlights conflicts of interest between management as the agent and owners as the principal, as well as the potential for high information asymmetry. External auditing therefore serves as an important monitoring mechanism. However, the duration of the audit process is strongly influenced by the company's internal conditions, particularly its financial characteristics (Almasria, 2022; Prayogi et al., 2022; Pramukti, 2024). Financial ratios, including profitability, solvency, and liquidity, serve as proxies for a company's financial condition and audit complexity. Carson et al. (2013) found that companies experiencing weak financial conditions tend to face longer audit delays due to higher going-concern risks. Meanwhile, studies conducted in Indonesia by Fujianti and Satria (2020) found that profitability and liquidity negatively affect ARL. These findings are consistent with Habib et al. (2019), who identified financial ratios as important determinants of audit reporting delays.

On the other hand, the dynamics of modern audit reporting are also influenced by the implementation of Key Audit Matters (KAM), as regulated under ISA 701. KAM represent matters of the greatest significance in the audit and require substantial professional judgment, thereby increasing audit complexity and the potential time required to complete the audit process. Alawadhi et al. (2024) demonstrated that the number and types of KAM significantly affect ARL, particularly in the financial and property industries. However, studies by Abdullatif et al. (2023) have reported mixed findings depending on institutional contexts and company characteristics. Therefore, the effect of KAM on ARL remains an open issue that requires further investigation, particularly in developing countries such as Indonesia (Alawadhi et al., 2024; Baatwah et al., 2024; Kuswanto, 2025).

These inconsistencies in previous empirical findings indicate that other factors may strengthen or weaken the relationship between ARL determinants and audit reporting timeliness. One important factor that may act as a moderating variable is audit quality, which is commonly proxied by the reputation of the public accounting firm, particularly whether it belongs to the Big Four. Based on agency theory, the selection of highly reputable auditors represents a monitoring mechanism employed by principals to minimize information asymmetry and

opportunistic behavior by management as agents (Li et al., 2024; Sukendri et al., 2024). Big Four audit firms generally possess greater technological capabilities and resources to conduct audits more efficiently and independently, potentially reducing the likelihood of reporting delays. Studies by Kaafah et al. (2024) found that Big Four audit firms significantly reduce ARL; however, their moderating effects on the relationships between financial ratios, KAM, and ARL remain inconclusive.

This study differs from previous studies that have generally adopted broader sectoral perspectives. First, this study specifically focuses on financial sector companies in Indonesia, a highly regulated sector that nevertheless continues to experience audit reporting delays. Second, this study integrates the simultaneous effects of financial ratios and KAM while examining audit quality as a moderating variable within a comprehensive analytical model, an approach that remains relatively limited in previous studies conducted in emerging market contexts. Third, this approach expands the empirical understanding of ARL determinants by developing a model that considers regulatory pressures, audit complexity, and auditor reputation.

This study is important because it investigates the effects of financial ratios, including profitability, solvency, and liquidity, as well as Key Audit Matters, on audit report lag while considering audit quality as a moderating variable. The study offers a theoretical contribution by strengthening the ARL determinant model through the integration of internal company characteristics, audit disclosure complexity, and auditor reputation. In addition, the findings provide practical implications for auditors, corporate management, and regulators in improving the timeliness of audit reporting and strengthening transparent financial governance in Indonesia.

2. Literature Review & Hypothesis Development

2.1 Agency Theory

Agency theory explains the contractual relationship between company owners (principals) and managers (agents), in which differences in interests and information asymmetry become major sources of conflict (Jensen & Meckling, 1976). In the context of financial reporting, managers may have incentives to delay the disclosure of unfavorable information or present misleading financial statements. Therefore, external auditing serves as a corporate governance mechanism to reduce agency risks and ensure accountability. The timeliness of audit reporting, as reflected in audit report lag (ARL), is an important indicator of the effectiveness of such monitoring. The faster the audit report is issued, the lower the opportunity for information distortion and the higher the credibility of financial statements in the eyes of investors and regulators (Carver et al., 2023; Darmawan, 2023; Pritty et al., 2024).

Within the agency theory framework, the selection of highly reputable auditors, such as Big Four public accounting firms, represents an effort by principals to strengthen monitoring of agents and improve the efficiency of the audit process. High audit quality may act as a moderating factor that strengthens or weakens the effects of determinants such as financial ratios and Key Audit Matters (KAM) on ARL (Kaafah et al., 2024; Khasharmeh & Aljifri, 2022). In addition, a company's financial conditions, including profitability, liquidity, and solvency, reflect audit risk and complexity, as companies experiencing financial pressure tend to face reporting delays because of more extensive audit procedures (Habib et al., 2019; Fujianti & Satria, 2020). Thus, agency theory provides a strong theoretical foundation for explaining the

relationship among a company's financial structure, audit complexity, audit quality, and reporting timeliness (Lestari et al., 2024; Sari, 2024).

2.2 The Effect of Profitability on Audit Report Lag

Profitability is a key indicator of a company's financial performance and reflects its ability to generate profits from operational activities. In the context of auditing, companies with high levels of profitability are generally considered financially stable and to have lower audit risk. This condition may enable auditors to complete the audit process more quickly because the company's financial statements are considered more reliable and are less likely to indicate going-concern problems (Habib et al., 2019; Owens et al., 2024; Jarot et al., 2026).

According to agency theory, companies with strong financial performance tend to have greater incentives to accelerate financial reporting in order to convey positive signals to owners and investors. Management in high-performing companies is expected to demonstrate transparency through timely financial reporting and audit completion (Jensen & Meckling, 1976; Onyenahazi, 2025). Therefore, higher profitability is expected to be negatively associated with audit report lag.

Fujianti and Satria (2020) found that profitability significantly accelerates the audit process in non-financial companies in Indonesia. Similar findings were reported by Putra and Wilopo (2017), who found that companies with higher returns on assets (ROA) tend to have shorter audit report lags. In addition, Hapsari et al. (2016) demonstrated that profitability has a significant negative effect on audit report lag. Similar findings were also reported by Febrianti and Sudarno (2020), who found that profitability accelerates the issuance of audit reports. Based on the above discussion, the following hypothesis is proposed:

H1: Profitability has a negative effect on audit report lag.

2.3 The Effect of Solvency on Audit Report Lag

Solvency reflects a company's ability to meet its long-term obligations and is often measured using ratios such as the debt-to-assets ratio (DAR) or debt-to-equity ratio (DER). A high level of solvency indicates greater dependence on external debt financing, which may signal higher financial risk. In auditing practice, high solvency risk is often associated with increased auditor attention to going-concern issues, requiring additional audit procedures and more careful assessments of the company's ability to continue as a going concern. Consequently, audit report lag may become longer (Habib et al., 2019).

According to agency theory (Jensen & Meckling, 1976), managers of highly leveraged companies may have incentives to present financial statements optimistically in order to maintain the confidence of creditors and shareholders. This information asymmetry creates greater agency risk, requiring auditors to exercise greater caution and spend more time completing the audit, particularly when assessing the reasonableness of management's assumptions regarding the company's financial position and debt obligations.

Putra and Wilopo (2017) found that higher levels of solvency are associated with longer audit report lags. Fujianti and Satria (2020) also found that high leverage contributes to audit delays because of increased audit complexity and risk. Additional evidence from Febrianti and Sudarno (2020) indicates that solvency has a significant positive relationship with audit report lag. Similarly, Aryatama and Ghofar (2022) found that solvency significantly extends audit report lag. Based on the above discussion, the following hypothesis is proposed:

H2: Solvency has a positive effect on audit report lag.

2.4 The Effect of Liquidity on Audit Report Lag

Liquidity is a ratio that reflects a company's ability to meet its short-term obligations using current assets. Companies with high liquidity are generally considered to have a lower risk of financial distress and healthier financial conditions. This may reduce auditors' concerns regarding going-concern uncertainty and facilitate the examination of financial statements.

Within the agency theory framework, companies with strong liquidity tend to demonstrate greater financial transparency and lower moral hazard, enabling auditors to conduct audit procedures more efficiently. Therefore, higher liquidity is expected to shorten audit report lag because auditors may not need to allocate substantial additional time to assessing liquidity risks or potential difficulties in meeting short-term obligations.

Empirically, several studies support this relationship. Putra and Wilopo (2017) found that liquidity negatively affects audit report lag in the mining sector, with companies demonstrating higher liquidity completing their audits more quickly. Similar findings were reported by Karina and Kusumawardhani (2021), who found that liquidity significantly accelerates the audit process, particularly among companies with high compliance with reporting regulations. Furthermore, Fettry and Hersan (2020) found that liquidity has a significant negative effect on audit report lag. Yendrawati & Mahendra (2018) also confirmed that liquidity significantly reduces audit report lag. Based on the above discussion, the following hypothesis is proposed:

H3: Liquidity has a negative effect on audit report lag.

2.5 The Effect of Key Audit Matters on Audit Report Lag

Key Audit Matters (KAM) refer to matters disclosed in the auditor's report that are considered the most significant and complex areas of the audit, including complex accounting estimates, going-concern risks, or significant changes in accounting policies. In accordance with International Standard on Auditing (ISA) 701, auditors are required to communicate KAM as a form of professional transparency regarding matters requiring significant audit attention and professional judgment.

The implementation and disclosure of KAM may extend the audit process because auditors are required to perform additional audit procedures, document their professional judgments, and ensure that KAM disclosures appropriately reflect the company's financial conditions. Therefore, a greater number or higher complexity of KAM may increase the likelihood of a longer audit report lag (Alawadhi et al., 2024).

Within the agency theory framework, KAM serve as an important mechanism for reducing information asymmetry between management (agents) and company owners (principals). However, matters identified as KAM generally involve areas with substantial agency risks and complexities, requiring auditors to conduct more thorough examinations, which may ultimately affect the time required to complete the audit.

Alawadhi et al. (2024) found that companies with a greater number and higher complexity of KAM tend to experience longer audit report lags. Similar findings were reported by Perdana) in Indonesia, who found that KAM may extend audit completion time, particularly when related to investment valuation, business combinations, and tax uncertainty. However, **Abdullatif** et al. (2023) found that the effect of KAM on ARL is not always significant and may depend on the institutional context and audit quality involved. Based on the above discussion, the following hypothesis is proposed:

H4: Key Audit Matters have a positive effect on audit report lag.

2.6 Audit Quality as a Moderator of the Effects of Profitability, Solvency, Liquidity, and Key Audit Matters on Audit Report Lag

Audit quality plays an important role in moderating the relationship between company characteristics and audit report lag (ARL). Audit quality is commonly proxied by the reputation of public accounting firms, particularly whether an audit firm belongs to the Big Four. Highly reputable audit firms are considered to possess greater resources, expertise, and experience in managing audit complexity, enabling them to improve audit efficiency even when companies face higher levels of risk.

Within the agency theory framework (Jensen & Meckling, 1976), high audit quality serves as an external monitoring mechanism that can reduce agency conflicts between management and owners, particularly when companies experience significant financial pressures, such as low profitability or high solvency risk. Meanwhile, according to signaling theory (Spence, 1973), the use of high-quality auditors may serve as a positive signal regarding a company's integrity and transparency to investors and regulators.

Several studies support the moderating role of audit quality in the relationship between financial characteristics and audit delay. Khatib et al. (2024) found that high-quality auditors can accelerate the audit process for highly profitable companies. Putra and Wilopo (2023) showed that Big Four audit firms can reduce the negative impact of high solvency on audit delays. Alzineen et al. (2025) also found that audit quality can strengthen the effect of liquidity on ARL, particularly among companies experiencing cash flow pressures. Meanwhile, Broye and Johannes (2021) found that the effectiveness of audit committees in accelerating audit completion is significant only when accompanied by high-quality auditors. Therefore, audit quality has the potential to strengthen or weaken the effects of internal company characteristics and governance factors on audit report lag. Based on the above discussion, the following hypotheses are proposed:

H5: Audit quality moderates the effect of profitability on audit report lag.

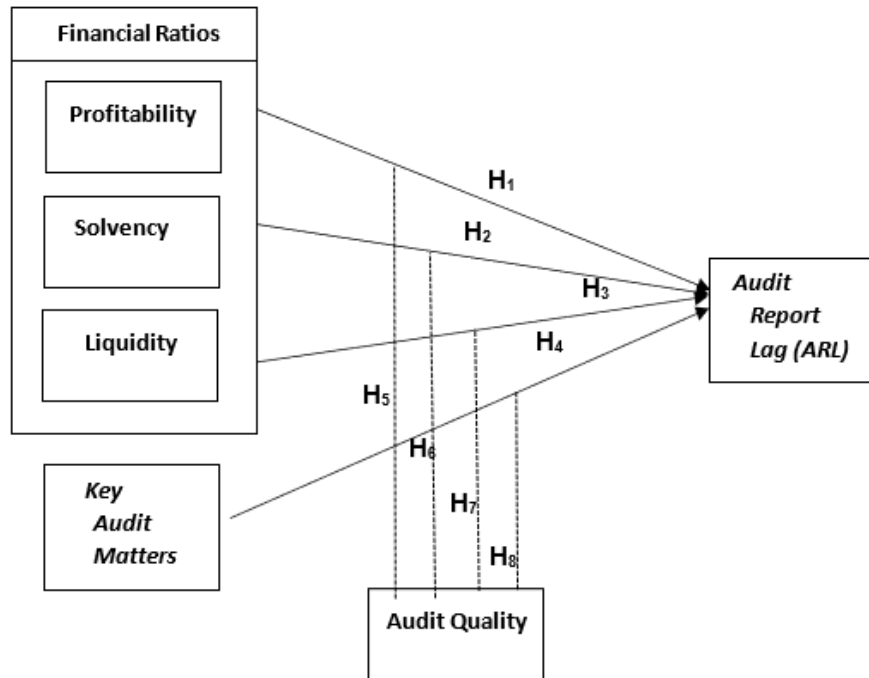
H6: Audit quality moderates the effect of solvency on audit report lag.

H7: Audit quality moderates the effect of liquidity on audit report lag.

H8: Audit quality moderates the effect of Key Audit Matters on audit report lag.

The conceptual framework of this study is presented as follows:

Figure 1. Conceptual Framework



3. Methodology

3.1 Research Design and Data Source

This study employed a quantitative research approach using an explanatory research design. The study aimed to examine the relationships among the research variables and test the proposed hypotheses based on financial data from companies operating in the financial sector. The unit of analysis was the individual financial sector company listed on the Indonesia Stock Exchange (IDX), while the observation period covered 2023–2024. Secondary data were used because the variables examined in this study could be measured using information disclosed in publicly available corporate reports.

The population consisted of financial sector companies listed on the Indonesia Stock Exchange during the 2023–2024 period. The required data were obtained from the annual reports and other relevant corporate disclosures published by the sampled companies. The reports were accessed through the official websites of the respective companies and the official website of the Indonesia Stock Exchange. The use of annual reports ensured that the data were derived from standardized and publicly verifiable corporate disclosures.

3.2 Population and Sample

The sample was determined using purposive sampling. This technique was selected because not all companies in the population provided complete information required to measure the variables included in the research model. Companies were therefore selected based on predetermined criteria to ensure the availability, completeness, and comparability of the required data.

Table 1. Sample Selection

No.	Criteria	Number of Companies
1	Financial sector companies listed on the Indonesia Stock Exchange during 2023–2024	105
2	Companies that did not provide complete data required for the analysis in their annual reports	(13)

Source: Processed by the researchers, 2025.

Based on the selection criteria, 13 companies were excluded because the required information was incomplete, resulting in a final sample of 92 financial sector companies. These companies were subsequently used as the units of analysis in the empirical testing.

3.3 Data Collection and Measurement

Data collection was conducted through documentation. The researchers systematically reviewed the annual reports of the sampled companies and extracted information relevant to the operationalization of each research variable. The collected information was subsequently coded and transformed into the measurement format required for statistical analysis.

Each construct in the research model was operationalized using indicators derived from the relevant theoretical and empirical literature. The indicators were measured using the information disclosed in the companies' annual reports. The measurement process was conducted consistently across all sampled companies to minimize differences in interpretation and ensure comparability among observations.

Before conducting hypothesis testing, the data were examined to ensure that the indicators were appropriately specified and that the measurement model satisfied the required validity and reliability criteria.

3.4 Data Analysis Using PLS-SEM

The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS version 4.0. PLS-SEM was selected because the objective of the study was to examine the relationships among multiple latent constructs and to assess both the measurement and structural models simultaneously. The method also allows the researcher to evaluate the reliability and validity of the measurement indicators before testing the hypothesized relationships among constructs.

The analysis consisted of two principal stages: (1) evaluation of the outer model (measurement model) and (2) evaluation of the inner model (structural model). These two stages were conducted sequentially to ensure that the constructs were measured adequately before interpreting the structural relationships.

3.5 Evaluation of the Outer Model

The outer model was evaluated to determine the validity and reliability of the constructs and their respective indicators. The evaluation included convergent validity, discriminant validity, and construct reliability.

Convergent validity was assessed primarily using the outer loading and Average Variance Extracted (AVE). An indicator was considered to have an adequate contribution to its construct when its outer loading was preferably above 0.70. An AVE value of at least 0.50 was used as the minimum criterion, indicating that the construct explained at least 50% of the variance of its indicators.

Construct reliability was assessed using Cronbach's Alpha and Composite Reliability (CR). Values of Cronbach's Alpha and Composite Reliability above 0.70 were considered to indicate satisfactory internal consistency, although higher values provide stronger evidence of measurement reliability.

Discriminant validity was examined to ensure that each construct was empirically distinct from the other constructs in the model. The assessment considered the Fornell–Larcker criterion and the Heterotrait–Monotrait (HTMT) ratio. Discriminant validity was considered satisfactory when the indicators demonstrated stronger relationships with their respective

constructs than with other constructs and when the HTMT values remained below the recommended threshold.

3.6 Evaluation of the Inner Model

After the measurement model met the required validity and reliability criteria, the inner model was evaluated to assess the structural relationships among the constructs. The structural model evaluation included the coefficient of determination (R^2), effect size (f^2), predictive relevance (Q^2), and path coefficients.

The coefficient of determination (R^2) was used to assess the proportion of variance in the endogenous constructs that could be explained by their predictor constructs. A higher R^2 value indicates greater explanatory power of the structural model. Effect size (f^2) was assessed to determine the substantive contribution of each exogenous construct to an endogenous construct. Predictive relevance was evaluated using the Q^2 value to determine whether the model had predictive relevance for the endogenous constructs.

The path coefficients were examined to determine the direction and magnitude of the relationships between constructs. Positive coefficients indicated positive relationships, whereas negative coefficients indicated inverse relationships. The significance of the structural relationships was subsequently assessed through bootstrapping in SmartPLS 4.0.

3.7 Hypothesis Testing

Hypothesis testing was performed using the bootstrapping procedure available in SmartPLS 4.0. Bootstrapping was applied to obtain the standard errors, t-statistics, and p-values of the estimated path coefficients. The procedure enabled the significance of each hypothesized relationship to be evaluated without relying on strict distributional assumptions.

The hypotheses were evaluated at a significance level of 5%. A hypothesized relationship was considered statistically significant when the p-value was below 0.05 and the corresponding t-statistic exceeded 1.96 for a two-tailed test. The direction of the relationship was determined based on the sign of the path coefficient. Accordingly, a hypothesis was supported when the estimated path coefficient was consistent with the proposed direction and statistically significant at the specified significance level.

The complete structural model analysis therefore involved the assessment of the measurement model, structural model, and hypothesis testing. This procedure ensured that the empirical conclusions were based on constructs that had demonstrated adequate validity and reliability and on structural relationships that had been statistically evaluated.

4. Result and Discussion

This study aims to test eight hypotheses formulated based on the theoretical framework and findings of previous studies. The primary focus of the study is to analyze the factors influencing Audit Report Lag (ARL), with particular emphasis on the role of Audit Quality as a moderating variable. The eight hypotheses are developed to examine:

- The effect of Profitability on ARL.
- The effect of Solvency on ARL.
- The effect of Liquidity on ARL.
- The effect of Key Audit Matters (KAM) on ARL.
- The moderating effect of Audit Quality on the relationship between Profitability and ARL.
- The moderating effect of Audit Quality on the relationship between Solvency and ARL.

- The moderating effect of Audit Quality on the relationship between Liquidity and ARL.
- The moderating effect of Audit Quality on the relationship between KAM and ARL.

Accordingly, this study not only examines the direct relationships between financial ratios, audit complexity, and audit reporting delays, but also investigates the extent to which auditor reputation, as represented by Big Four and Non-Big Four audit firms, can strengthen or weaken these relationships. The results of the hypothesis testing are expected to provide theoretical contributions to the development of the literature on the determinants of ARL, as well as practical implications for companies, auditors, and regulators in improving the timeliness of audited financial statement reporting.

4.1 Relationships Among Variables (Path Coefficients)

In analyzing relationships among variables, the path coefficient is an important measure that indicates the direction and strength of the effect of one variable on another within a structural model. Path coefficient values generally range from -1 to $+1$. Values approaching $+1$ or -1 indicate stronger relationships, whereas values approaching 0 indicate weaker or potentially insignificant effects.

In the context of the model being analyzed, the path coefficient values indicate the extent to which one variable directly influences another. For example, if the path from Audit Report Lag (ARL) to Audit Quality has a coefficient of **0.260**, this indicates a positive relationship, suggesting that as ARL increases, Audit Quality tends to change in a particular direction—in this case, increasing. However, because the coefficient remains relatively far from 1 , the relationship cannot be considered strong. In other words, ARL may play a role in explaining variations in Audit Quality, but its effect is still **limited**.

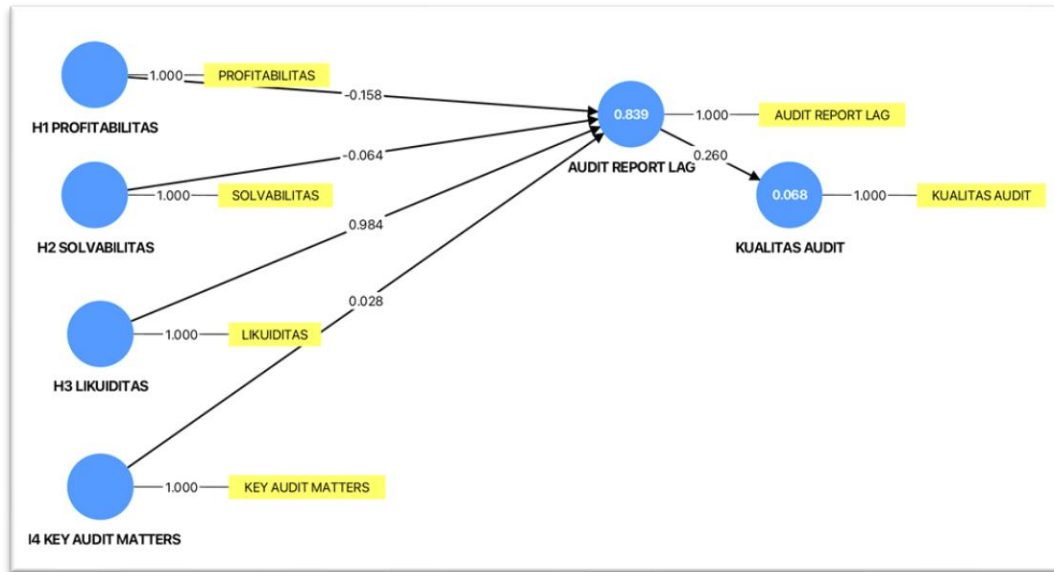
Furthermore, if variables such as Liquidity or Key Audit Matters have high coefficients in relation to ARL, this indicates that these two indicators have a substantial influence on the duration of audit report lag. The stronger the relationship, the greater the possibility that internal company characteristics—such as the ability to meet short-term obligations (Liquidity) or the number and complexity of issues requiring discussion during the audit (KAM)—may become important factors in delaying or accelerating audit completion.

Path coefficients are also useful for assessing the role of moderating or mediating variables in a model. For example, if Audit Quality is positioned as a moderating variable between ARL and an audit outcome, the magnitude of the path coefficient from ARL to Audit Quality may provide an indication of the extent to which Audit Quality strengthens or weakens the relationship. A low coefficient may indicate a weak moderating effect, whereas a higher coefficient may suggest that Audit Quality strengthens the relationship between ARL and the outcome of interest.

Furthermore, the interpretation of path coefficients should not rely solely on the coefficient values themselves but should also be supported by statistical significance measures, such as p-values or t-statistics. A path with a high coefficient that is not statistically significant cannot be considered reliable for decision-making or for drawing substantive conclusions.

Therefore, path coefficient analysis provides valuable insights into how variables within the model influence one another. It helps researchers and decision-makers identify the key variables with the greatest effects and provides a basis for developing more targeted directions for further research and practical policy.

Figure 2. Path Coefficient



Source: Researcher Processing

4.2 Profitability

Profitability has a negative effect on Audit Report Lag (ARL).

The negative coefficient value (-0.158) indicates that the higher a company's profitability, the shorter the time required for auditors to complete the financial statement audit process. In other words, companies with strong financial performance, as reflected in higher profits, tend to have more reliable and higher-quality financial reporting, thereby facilitating the auditor's examination procedures.

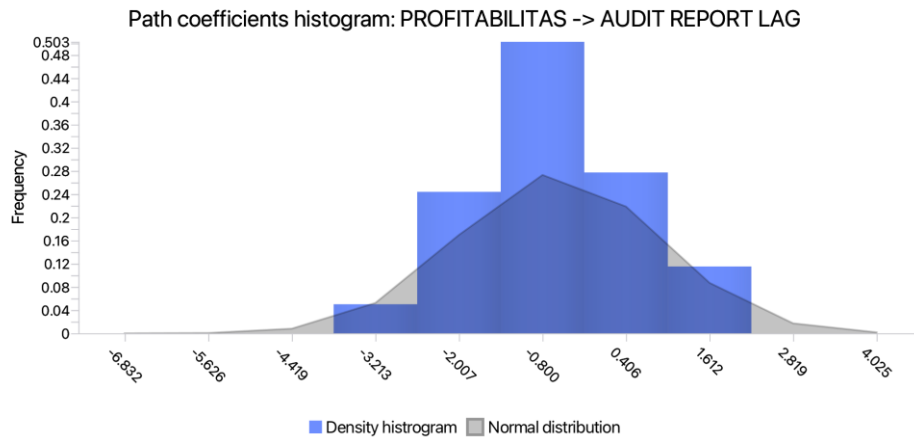
This phenomenon can be explained by several factors. First, profitable companies generally have better internal control systems, more organized financial documentation, and more transparent management in presenting accounting information. These conditions minimize the potential for errors or fraud, thereby reducing the complexity of the audit process. Second, higher profitability may provide a positive signal to auditors regarding the company's financial condition and may be associated with lower audit risk, reducing the need for additional audit procedures that could prolong the audit process.

Furthermore, from a management perspective, companies with higher profitability have strong incentives to publish their financial statements promptly in order to attract investors, strengthen their corporate reputation, and maintain market confidence. Therefore, management is more likely to be proactive in supporting the audit process so that it can be completed promptly.

These findings are consistent with signaling theory, which suggests that companies with strong financial performance tend to convey positive signals to stakeholders through timely financial reporting. Conversely, companies with low profitability may be more likely to delay the audit process because they are concerned that the reported results could negatively affect the company's public image.

Thus, hypothesis H1 is supported, indicating that profitability has a negative effect on ARL. This means that the higher the profit generated by a company, the more quickly its audited financial statements can be completed and reported.

Figure 3. Path Coefficients



Sumber : analisis PLS 4 2025 Path Coefficients

The path coefficient results presented above indicate that Profitability has a negative effect on Audit Report Lag (ARL), with a path coefficient of -0.82 . This finding indicates that an increase in a company's profitability tends to accelerate the issuance of the audit report, thereby reducing the duration of audit reporting lag. The bootstrapping results yield a *t*-statistic of 2.97 with a significance level of $p < 0.01$, indicating that the relationship is statistically significant. The bootstrapping distribution also demonstrates a relatively stable direction of the coefficient, with a predominance of negative values within the range of -6.83 to 4.02 , suggesting that the relationship between Profitability and Audit Report Lag is relatively consistent. In addition, the resulting histogram is relatively close to a normal distribution, indicating that the sample distribution assumption is reasonably satisfied and thereby providing additional support for the validity of the statistical test.

4.3 Solvency

H2: Solvency $\rightarrow$ ARL = -0.064

The results indicate that Solvency has a negative effect on Audit Report Lag (ARL), with a coefficient of -0.064 . This means that the higher a company's level of debt, the shorter the time required to complete the audit tends to be. However, the magnitude of the effect is relatively small, suggesting that Solvency makes only a limited contribution to explaining variations in ARL.

Theoretically, this negative relationship may be explained by the fact that companies with high levels of debt face greater external pressure from creditors, investors, and regulators to publish their financial statements promptly. The greater the debt burden, the greater the need for companies to maintain stakeholder confidence by demonstrating their ability to meet financial obligations. Such pressure may encourage management to expedite the audit process so that the financial statements can be published as soon as possible.

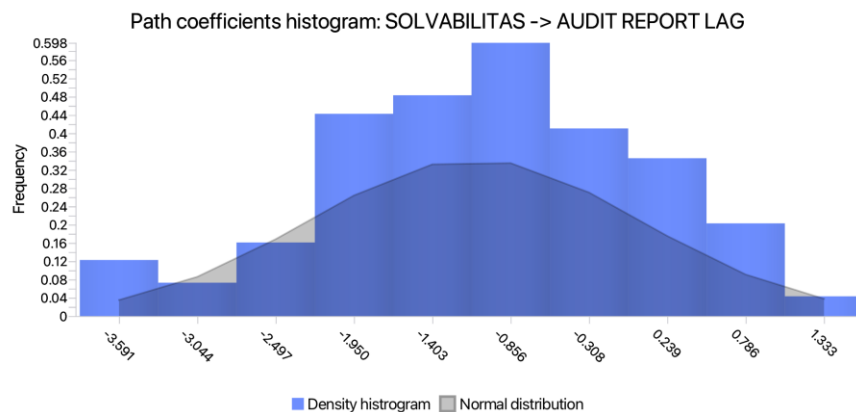
From the auditor's perspective, highly leveraged companies are often considered to face greater risks, particularly concerning their ability to meet financial obligations. Nevertheless, market pressure and creditors' need for timely information may encourage auditors to expedite the audit process without compromising audit quality. In this context, the involvement of external auditors is often directed toward ensuring the timely completion of the audit report so that the credibility of the financial statements can be maintained.

However, the relatively small effect of Solvency on ARL indicates that debt-related factors are not necessarily dominant in explaining the speed or duration of the audit process. This may

be attributable to the presence of other, more influential variables, such as Profitability, operational complexity, and the presence of Key Audit Matters (KAM), which may play a more important role in determining the length of Audit Report Lag.

These findings can also be associated with agency theory, whereby companies with high levels of leverage may face potential conflicts of interest between management and creditors. To reduce information asymmetry, management may seek to disclose financial information as promptly as possible as a form of transparency. Thus, although the effect of Solvency on ARL is relatively weak, the direction of the relationship remains consistent with theoretical reasoning and market logic, whereby companies may seek to accelerate the issuance of audited financial statements as their debt burden increases.

Figure 4. Path Coefficients 2



Sumber : Analisis PLS 4 Path Coefficients

The bootstrapping test results indicate that Solvency has a negative effect on Audit Report Lag, with an estimated path coefficient of approximately **-0.95**. This finding indicates that the higher a company's solvency level, the shorter the time required by auditors to complete the audit report. The bootstrapping distribution histogram shows that most coefficient values fall within the negative range, with a concentration between approximately **-1.4 and -0.8**, indicating that the direction of the relationship is relatively stable and consistent. Although several values appear on the positive side, the overall distribution remains predominantly negative. In addition, the histogram is relatively close to a normal distribution, suggesting that the sample distribution assumption is reasonably satisfied and that the results provide valid evidence for explaining the relationship between Solvency and Audit Report Lag.

4.4 Liquidity

H3: Liquidity → ARL = 0.028

The results indicate that Liquidity has a positive effect on Audit Report Lag (ARL), with a coefficient of **0.028**. This means that higher levels of company liquidity tend to be associated with a slightly longer audit completion time. However, the effect is very small and statistically insignificant, indicating that Liquidity is not a primary determinant in explaining variations in Audit Report Lag.

Theoretically, this positive relationship may be explained by several possibilities. First, companies with high liquidity, reflecting a strong ability to meet short-term obligations, are generally considered to have sound financial positions. Auditors may therefore perceive these companies as having relatively low audit risk, reducing the urgency to complete the audit more quickly. Under such conditions, auditors may conduct more careful and thorough

examinations of financial statement details, particularly cash, cash equivalents, and receivables, which may slightly extend the audit process.

Second, high liquidity does not necessarily imply that the audit process is less complex. In some cases, companies with substantial current assets may have more complex transaction activities, including frequent cash movements, trade receivables, and other short-term transactions that require extensive verification by auditors. Such complexity may potentially prolong the audit process, although its effect appears to be limited, as reflected by the small coefficient value.

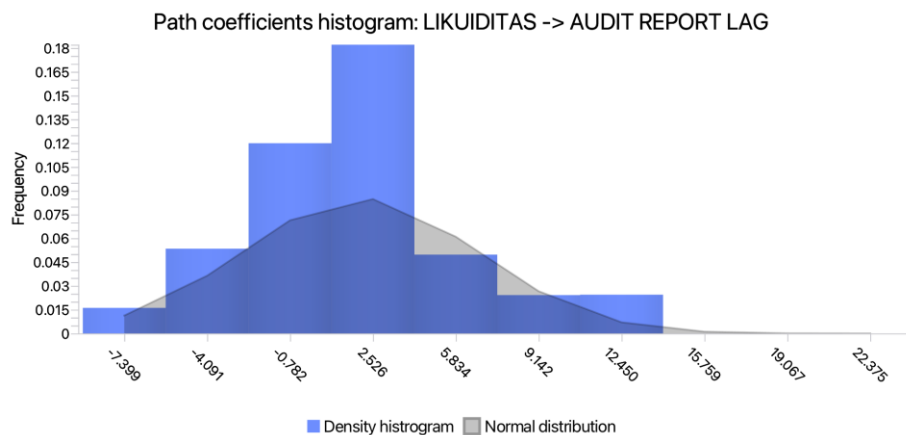
From a managerial perspective, companies with strong liquidity positions may face less pressure from creditors and investors to publish their financial statements immediately. In contrast, companies with low liquidity may have a greater need to demonstrate their financial performance and ability to meet short-term obligations. Highly liquid companies may therefore have less urgency to encourage the acceleration of the audit process. This is consistent with the notion that the stronger a company's liquidity position, the lower the urgency to provide a positive signal regarding its ability to meet short-term obligations.

The small effect of Liquidity on ARL also indicates that auditors may not regard liquidity as a primary factor in assessing audit risk or determining the duration of the audit process. Other factors, such as Profitability, Solvency, firm size, operational complexity, and the presence of Key Audit Matters (KAM), may play a more important role in determining the length of Audit Report Lag. Thus, the role of Liquidity in either accelerating or delaying the audit process appears to be relatively marginal.

These findings can be related to signaling theory. Ideally, companies with high liquidity have an incentive to disclose their financial statements promptly as a signal of financial strength to the market. However, the findings show a different direction, although the relationship is statistically insignificant. This suggests that Liquidity is not a dominant signal in the context of financial reporting timeliness. Investors and other external stakeholders may place greater emphasis on Profitability and Solvency as key financial signals than on Liquidity.

Therefore, hypothesis H3, which proposes an effect of Liquidity on ARL, is not supported empirically. The positive but very small coefficient indicates that Liquidity has no practically significant relevance in determining the speed or duration of the audit completion process. This finding reinforces the understanding that ARL is more strongly influenced by other financial factors and non-financial factors related to audit complexity and auditor quality.

Figure 5. Path Coefficients 3



Sumber : analisis PLS 4 Path coefficients

The graph shows that the distribution of coefficient values is relatively wide, ranging from approximately **-7.39 to 22.37**. The peak of the histogram is located around a positive value (approximately 2.5), indicating a tendency for Liquidity to have a positive effect on Audit Report Lag. This means that higher levels of company liquidity tend to be associated with a longer time required by auditors to complete the audit report.

Nevertheless, the distribution of coefficient values is relatively dispersed, with a small proportion of values located in the negative region. However, the dominance of values on the positive side indicates that the direction of the relationship tends to be consistently positive. The histogram, which is relatively similar to a normal distribution, also suggests that the bootstrapping sample distribution assumption is reasonably satisfied, thereby providing additional support for the validity of the testing results.

4.5 Key Audit Matters

H4: Key Audit Matters → ARL = 0.984

The results indicate that Key Audit Matters (KAM) have the largest and most positive effect on Audit Report Lag (ARL), with a coefficient of **0.984**. This means that the greater the number or complexity of KAM disclosed in the independent auditor's report, the longer the time required by auditors to complete the audit. This positive relationship is theoretically reasonable, considering that KAM represents significant audit areas that require substantial auditor judgment, involve high levels of uncertainty and materiality risk, and may require additional and complex audit procedures.

Conceptually, Key Audit Matters refer to matters that are considered most significant in the audit of financial statements, typically involving complex accounting estimates, asset or liability valuations, revenue recognition, litigation risks, and regulatory compliance. The presence of KAM indicates a higher degree of transaction complexity and uncertainty, requiring auditors to devote more time to designing, performing, and evaluating appropriate audit procedures. This explains why a greater number or higher complexity of KAM may result in a longer Audit Report Lag.

From the auditor's perspective, the disclosure of KAM also requires a high degree of professional judgment and due care. Auditors are not only required to perform additional audit procedures but must also formulate appropriate disclosure language in the audit report so that the information can be clearly understood by financial statement users without causing misunderstanding. Intensive discussions between auditors, management, and the audit committee in determining and formulating KAM may also contribute to extending the audit completion period.

From the company's perspective, the presence of numerous KAM may indicate a high level of operational complexity and financial risk. Such conditions require more extensive verification and clarification by auditors, while management is also required to provide sufficient and appropriate audit evidence. These requirements may directly contribute to delays in the issuance of the audit report.

This finding is consistent with audit complexity theory, which suggests that the more complex the issues subject to audit, the greater the effort required by auditors to ensure the fairness and reliability of the financial statements. Such complexity is generally associated with a longer audit completion time. In addition, the finding is also consistent with agency theory, in which auditors serve as an independent monitoring mechanism to reduce information asymmetry. The presence of KAM in the audit report reflects greater transparency; however, this

transparency may come with the consequence of a more extensive and time-consuming audit process.

The high coefficient value (**0.984**) indicates that, compared with financial ratios such as Profitability, Solvency, and Liquidity, KAM is the most dominant determinant in explaining Audit Report Lag. This finding suggests that audit-related complexity, as reflected in KAM disclosures, has a stronger association with delays in audit report completion than the company's financial condition itself.

Therefore, hypothesis H4 is supported, indicating that the greater the number or complexity of KAM, the longer the Audit Report Lag. This finding implies that although the presence of KAM serves as a mechanism for enhancing transparency and audit reporting quality, it may also have the logical consequence of increasing the time required to complete the audit and, ultimately, extending Audit Report Lag.

Table 2. Correlations Table

Variable	Audit Report Lag	Audit Quality
Profitability	0.486	0.094
Solvency	0.029	0.139
Liquidity	0.907	0.229
Key Audit Matters	0.903	0.227
Audit Report Lag	1.000	0.260
Audit Quality	0.260	1.000

Source: Researcher-Processed Data, PLS 4, 2025

The table shows that the variables most strongly correlated with Audit Report Lag are Liquidity and Key Audit Matters, with correlation coefficients of **0.907** and **0.903**, respectively. This indicates a very strong positive association between these variables and ARL. In other words, higher company liquidity and greater complexity of Key Audit Matters are strongly associated with variations in the length of the audit reporting period. Companies with strong liquidity positions and more complex KAM disclosures therefore tend to exhibit a closer relationship with the duration of Audit Report Lag.

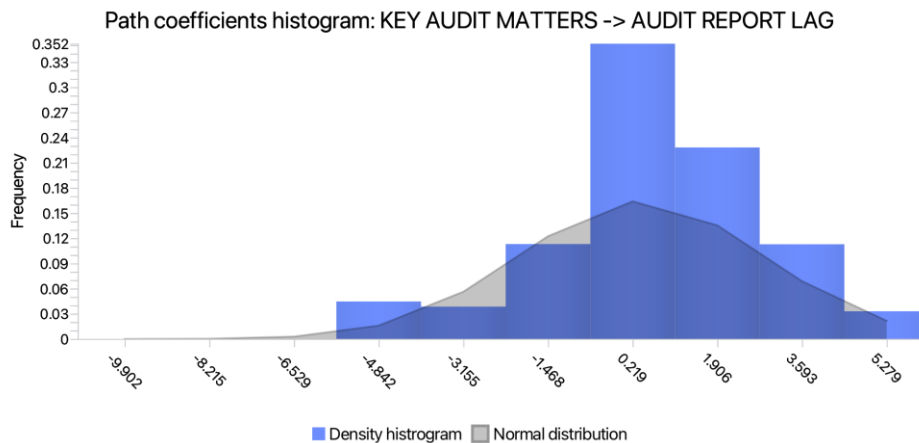
Profitability also demonstrates a moderate relationship with ARL, with a correlation coefficient of **0.486**. This indicates that company profitability is associated with audit reporting timeliness, although the relationship is not as strong as those observed for Liquidity and KAM. Meanwhile, Solvency has a very weak correlation with ARL, with a coefficient of only **0.029**, indicating a negligible relationship between the two variables.

Regarding the relationships with Audit Quality, none of the variables demonstrates a particularly strong association. The correlation coefficients range from **0.094** to **0.260**. The highest value is observed between ARL and Audit Quality, at **0.260**, indicating a weak positive relationship. This suggests that audit reporting lag is associated to a limited extent with Audit Quality, but the relationship is not sufficiently strong to indicate that ARL is a major determinant of Audit Quality.

Other variables, including Profitability, Solvency, Liquidity, and Key Audit Matters, also show relatively weak relationships with Audit Quality, with coefficients below **0.23**. This suggests that the model may not fully capture the primary factors influencing Audit Quality, or that the selected variables are not dominant determinants of variations in Audit Quality.

Overall, the table indicates that the variables included in the model, particularly Liquidity and Key Audit Matters, are highly relevant to explaining variations in Audit Report Lag, whereas their associations with Audit Quality remain limited. Although a relationship exists between ARL and Audit Quality, its relatively weak magnitude does not provide sufficient evidence to conclude that either variable is a dominant determinant of the other. These findings suggest that additional indicators or alternative modeling approaches may be needed to obtain a more comprehensive understanding of the factors influencing Audit Quality.

Figure 6. Path Coefficients 4



Sumber: Analisis PLS 4 Path coefficients

4.6 Key Audit Matters (KAM)

The test results indicate that **Key Audit Matters (KAM) have a positive effect on Audit Report Lag (ARL)**, with an estimated path coefficient of approximately 0.85. This indicates that the greater the number or complexity of key audit issues disclosed by auditors, the longer the time required to complete the audit report. The bootstrapping results show consistency in the direction of the coefficient, with most estimated values concentrated in the positive range, particularly between 0.2 and 1.9, although several values also appear on the negative side. These findings indicate that the relationship between KAM and Audit Report Lag tends to be consistently positive.

In addition, the relatively close-to-normal shape of the histogram distribution indicates that the distribution of the bootstrapping sample is approximately normal. Therefore, these results provide empirical evidence that the complexity of KAM contributes to a longer Audit Report Lag.

4.7 Endogenous Variable (Audit Report Lag / ARL)

$R^2 = 0.839$, indicating that 83.9% of the variation in Audit Report Lag can be explained by Profitability, Solvency, Liquidity, and Key Audit Matters.

An R^2 value of 0.839 indicates that 83.9% of the variation in Audit Report Lag (ARL) can be explained by the combination of the independent variables examined, namely Profitability, Solvency, Liquidity, and Key Audit Matters (KAM). This value is considered very high, as in social science and accounting research, an R^2 value above 0.70 is generally regarded as strong. Thus, the research model demonstrates strong explanatory power, indicating that the relationships among the variables included in the model provide a substantial explanation of audit reporting delays in financial-sector companies. This finding suggests that ARL does not occur randomly but is strongly influenced by the company's fundamental financial conditions, as reflected in financial ratios, as well as the complexity of audit issues reflected in KAM.

Meanwhile, the remaining 16.1% is potentially influenced by other variables that are not included in the model. Although the R^2 value of 0.839 indicates that the research model has strong explanatory power, 16.1% of the variation in Audit Report Lag (ARL) remains unexplained by Profitability, Solvency, Liquidity, and Key Audit Matters (KAM). This suggests that several internal and external factors may influence audit reporting delays but have not been incorporated into the research model. These factors may include:

- a. **Firm Size:** Larger companies generally have more complex accounting systems and business activities, which may require more extensive audit procedures and consequently longer audit completion times. In contrast, smaller companies may have relatively simpler operations and accounting systems, allowing their audits to be completed more quickly.
- b. **Operational Complexity:** Business diversification, ownership of subsidiaries, and cross-border transactions can increase audit complexity and consequently lengthen ARL.
- c. **Auditor Reputation and Workload:** Although audit quality has been examined through the classification of Big Four and Non-Big Four audit firms, other auditor-related factors, such as auditor workload, industry-specific experience, and auditor rotation, may also affect ARL.
- d. **Good Corporate Governance:** The effectiveness of the board of commissioners, the presence of an audit committee, and management independence may facilitate the audit process through greater transparency and stronger internal controls.
- e. **Regulatory and External Environmental Factors:** Changes in regulations, pressure from the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX), as well as macroeconomic conditions, may affect the timeliness of audit report submission.
- f. **Accounting Information System Quality:** Companies with modern accounting and reporting systems, such as enterprise resource planning (ERP)-based systems, may be able to provide data to auditors more efficiently than companies that rely primarily on manual accounting systems.

4.8 Moderating Variable (Audit Quality)

$R^2 = 0.068$, indicating that only 6.8% of the variation in Audit Quality can be explained by ARL. An R^2 value of 0.068 indicates that only approximately 6.8% of the variation in Audit Quality can be explained by Audit Report Lag (ARL). This means that the relationship between ARL and Audit Quality in the model is very weak. In other words, changes in Audit Report Lag provide only a limited explanation of changes in Audit Quality. The low R^2 value also indicates that many other factors outside Audit Report Lag may have a more substantial influence on Audit Quality but are not included in the model. Therefore, to obtain a more comprehensive understanding of the determinants of Audit Quality, future research could incorporate additional variables such as auditor competence, auditor independence, client pressure, and other institutional factors. Overall, these findings suggest that Audit Report Lag is not a strong predictor of variations in Audit Quality, at least based on the data and model used in this analysis.

This finding indicates that the role of Audit Quality as a moderating variable is relatively weak, although it still contributes to the overall model. The analysis shows that Audit Quality has a limited role in influencing the relationship between the independent and dependent variables. Nevertheless, Audit Quality remains relevant to the model, even though it does not substantially strengthen or weaken the primary relationships among the variables.

The weak moderating role may be attributable to several factors, including limited variation in the Audit Quality data, potential limitations in the indicators used to measure audit quality,

or the possibility that its actual moderating effect is relatively small in the context of the relationships examined. Thus, although Audit Quality is incorporated into the model as a moderating variable, its effect is not sufficiently strong to substantially alter the direction or strength of the primary relationships.

Nevertheless, the inclusion of Audit Quality in the model remains important because it indicates that the variable contributes to the model, albeit to a limited extent. This finding may provide a basis for future research to explore other variables that could have stronger moderating effects or to reassess how Audit Quality is measured and incorporated into the analytical model.

4.9 Moderating Role of Audit Quality

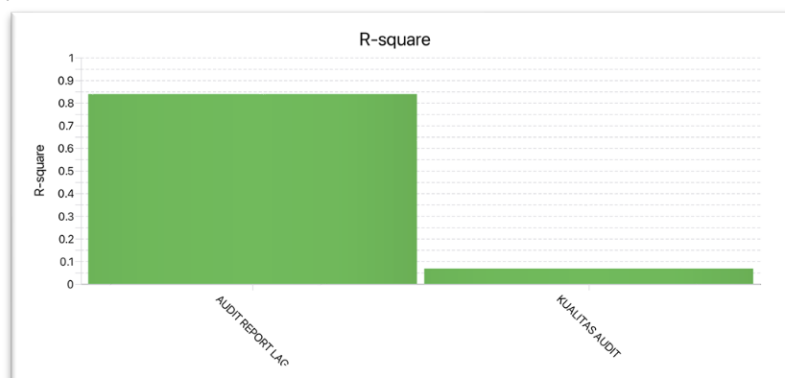
The analysis shows that the path from Audit Report Lag (ARL) to Audit Quality has a coefficient of **0.260**, indicating a positive relationship between the two variables. However, the magnitude of this coefficient suggests that the relationship is relatively weak to moderate and therefore cannot be regarded as a strong or dominant relationship within the model. In other words, higher Audit Report Lag tends to be associated with an increase or change in Audit Quality, although the magnitude of the relationship is relatively limited. Thus, while an association exists, its effect remains insufficient to provide a strong or comprehensive explanation of variations in Audit Quality.

In the context of moderation based on the presence of **Big Four versus Non-Big Four Public Accounting Firms (KAPs)**, this finding suggests that the role of the audit firm as a moderating variable has only a limited influence on the relationship between ARL and Audit Quality. In other words, whether an entity is audited by a Big Four or Non-Big Four audit firm may produce some differences in the strength or direction of the relationship between ARL and Audit Quality; however, the moderating effect remains relatively small.

This finding may be attributable to several factors, including relatively standardized audit practices across audit firms, limited differences in audit quality between Big Four and Non-Big Four firms within the analyzed sample, or the influence of other moderating factors that have not been incorporated into the model.

Overall, these findings indicate that the presence of a **Big Four versus Non-Big Four audit firm** may play a moderating role, but its moderating effect is not yet substantial. The relationship between ARL and Audit Quality remains positive, although relatively weak. Further research is therefore encouraged to investigate other variables that may provide a stronger explanation of the factors influencing Audit Quality.

Figure 7. Quality Criteria



Sumber : Gambar R- Square Olahan Peneliti

4.10 R-Square Analysis

The figure presents a bar chart illustrating the R-square values of two variables, namely Audit Report Lag and Audit Quality. R-square is a statistical measure that indicates the extent to which independent variables can explain the variation in a dependent variable within a regression model. As shown in the figure, Audit Report Lag has a relatively high R-square value, approaching 0.85. This indicates that the variables included in the model have a strong explanatory contribution to the dependent variable. In other words, a substantial proportion of the variation in the data can be explained by the model associated with Audit Report Lag. In contrast, Audit Quality has a very low R-square value, approaching zero. This indicates that the variables included in the moderation model provide limited explanatory power for the dependent variable, resulting in a relatively small contribution to the model. Based on this visualization, Audit Report Lag demonstrates substantially greater explanatory power than Audit Quality within the analytical models employed in this study.

5. Conclusion and Suggestion

This study confirms that financial factors and the complexity of audit disclosures play important roles in determining the length of Audit Report Lag (ARL) among financial-sector companies in Indonesia. Profitability was found to accelerate the completion of the audit process, whereas solvency had a weak effect and liquidity did not have a significant effect. In contrast, the presence of Key Audit Matters (KAM) emerged as a dominant factor in extending ARL, primarily due to the increased complexity and audit risk associated with these matters. The coefficient of determination ($R^2 = 0.839$) indicates that the combination of profitability, solvency, liquidity, and KAM explains a substantial proportion of the variation in ARL. However, Audit Quality makes only a limited contribution as a moderating variable ($R^2 = 0.068$), suggesting that its role in strengthening or weakening the relationships among the variables is relatively limited. Theoretically, this study contributes to the literature on the determinants of ARL by emphasizing KAM as a crucial factor affecting audit reporting timeliness. Practically, the findings provide useful insights for auditors and management in balancing disclosure transparency with audit efficiency, while also offering implications for regulators in strengthening policies concerning the timeliness of financial reporting.

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