



## Moderating Effect On The Relationship Between Internal Auditor And Audit Report Lag

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### ABSTRACT

The research sought to investigate and assess if firm size influences the relationship between internal auditors and audit report lag. The mining sector on the Indonesia Stock Exchange was subjected to quantitative research utilizing the variance-based Structural Equation Model analysis approach. According to the findings, the audit report lag in mining businesses ranged from 39 to 197 days. Internal auditor increased audit report lag, while firm size did not attenuate the relationship between internal auditor and audit report lag.

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### 1. INTRODUCTION

Audit Report Lag (ARL) refers to the number of days that passed between the end of the fiscal year and the release date of the independent auditor's report (Bonson-Ponte *et al.*, 2008). ARL is one of the factors impacting the timeliness of financial reporting. According to Putra, Sutrisno, and Mardiaty (2017) ARL is a phenomenon that is affecting all publicly traded companies in Indonesia. Mining enterprises have the highest delays in filing financial reports to the Indonesia Stock Exchange when compared to other industries. Delays in the release of corporate financial reports arise as a result of the ARL in mining companies (Putra *et al.*, 2017). Previous study has found that the timeliness of audits has a considerable impact on the timeliness of financial statements (Owusu-Ansah, 2000; Leventis *et al.*, 2005). ARL has an impact on the accuracy of accounting information, which is crucial to investor confidence in the capital market (Ettredge *et al.*, 2006). Policymakers must comprehend the factors that influence ARL in order to properly implement the regulations (Leventis *et al.*, 2005). Unnecessary delays in the publication of financial reports might add to the uncertainty around investment choices (Ashton *et al.*, 1987). Most professional bodies and capital market regulators in the United States have taken steps to reduce financial statement delays (SEC (USA), 2002). Similarly, the Indonesian Financial Service Authority (FSA) Regulation requires issuers or public firms to file an Annual Report to the Financial Services Authority no later than the end of the fourth month following the fiscal year's end (Financial Services Authority, 2016).

Having an internal auditor at a firm will assist to lighten the job of the external auditor, allowing the ARL to be shorter. Putra *et al.* (2017) discovered a negative relationship between the internal auditor and ARL. The majority of the relationship between two variables is influenced by other variables, according to contingency theory. This theory is predicated on the assumption that the company's control system cannot be used in all circumstances (Fisher, 1998). Ariyani (2014) It was discovered that corporate reputation, as evaluated by the Big Four or Non-Big Four, had an impact on ARL. As well as, Putra *et al.* (2017) discovered that the industry and business size had an effect on the interaction between an internal auditor and an ARL. A large audit firm can easily attract and deploy skilled personnel, reducing the amount of time needed for audit work (Owusu-Ansah, S.; Leventis, 2006). Large audit firms, on the other hand, are more independent and hence more likely to withstand client pressure in the case of audit-related conflict than small audit firms (Habib; Bhuiyan; Huang; Miah, 2018). Large audit companies are also more prone to bargain harder, and client talks take longer, resulting in a longer ARL. A large audit firm is also more cautious and is more likely to perform a more thorough audit for the client. Audit delays are becoming more common as they become more likely to fail in court (Shin; Lee; Lee; Son, 2017).

This study differs from Putra *et al.* (2018) in several ways. First, the inclusion of the firm size as a moderating variable. Second, it employs the Structural Equation Model (SEM) method, which still employ the Ordinary Least Square method. Third, it uses contingency approach in the analysis. Fourth, this study take mining companies as the object. Furthermore, based on several previous studies that have investigated the factors affecting ARL, they still show mixed results. Initially, the main focus in previous research was in developed countries such as America (Ashton *et al.*, 1987), Canada (Ashton; Graul; Newton, 1989), England (Abdelsalam; Street, 2007), Europe such as France (Soltani, 2002), and Oceania (Davies; Whittred, 1980). Then, in developing countries such as in Hong Kong (Jaggi; Tsui, 1999), China (Haw; Park; Qi; Wu, 2003), in Greece (Leventis *et al.*, 2005), in Zimbabwe (Owusu-Ansah, 2000), in Kuwait (Al-Gshanem; Hegazy, 2011), in Egypt (Afify, 2009), in Jordan (Alkhatib; Marji, 2012), in Bahrain (Abdulla, 1996), in Malaysia (Ahmad; Kamarudin, 2003), and in Indonesia (Putra *et al.*, 2018). Putra *et al.* (2018) discovered that the internal auditor influences audit delay.

Previous research had limitations in that it did not explore the influence of business actual state of affairs on the connection between internal auditor and ARL. A contingency approach is used for analysis. The essential premise of contingency theory is that organizations operate best when the relevant firm structures for dealing with contingencies are overly imposed by their size, technology, and environment. Contingency theory holds that the external environment is a major determinant of firm performance. This theory, in particular, emphasizes the question of whether contingency variables contribute to ARL. Moderating variables must be used to explain the application of the contingency theory concept. In this study, firm size is defined as a moderating variable that provides timeliness of reporting.

This study aims to examining and analyzing whether firm size strengthens or weakens the relationship to ARL. In theory, the findings of this study can be used to advance accounting science and strengthen previous findings on the impact of internal auditor on ARL. Besides, this study can be used to lay the groundwork for future research. In practice, it is used to improve and evaluate management performance and company policies because timely financial reports are critical for decision making. Therefore, based on the background above, this is a compelling reason and motivation to conduct the research.

## 2. RESEARCH METHOD

This research relied on secondary data. It was gathered from the annual reports of mining firms that were listed on the IDX between 2016 and 2018. The information for this study was obtained from the websites [www.idx.co.id](http://www.idx.co.id) and the company's official website. For the years 2016 to 2018, the population consists of mining companies listed on the IDX. The mining companies were chosen as the research sample because companies in this industry are notorious for submitting financial reports late and receiving a warning letter from the IDX. At the time, the IDX listed 49 mining companies. In this study, purposive sampling was used, and samples were collected based on predetermined criteria. The criteria are shown in Table 1 below.

Table 1. Research Sample Criteria

No.	Criteria	Amount
1.	The number of mining firms that were listed on the IDX between 2016 and 2018	49
2.	Number of companies for which data is inaccessible	(7)
3.	The number of companies with insufficient data	(17)
4.	The number of companies that match the sample criteria	25

Source: Author (2021)

Data analysis is carried out using the Structural Equation Model (SEM) method with the Variance Based SEM (SEM-PLS) approach. To analyze the data for this study, the WarpPLS 7.0 software was used. PLS is a method for maximizing the variance of the latent criterion variable explained by the predictor variable. When compared to other SEM techniques, this method is more appropriate for this study. This SEM-PLS study was conducted for a variety of reasons. To begin, there is a latent variable that must be measured using indicators. Second, SEM-PLS can handle small sample sizes and complex models at the same time. Furthermore, the SEM-PLS distribution is more flexible and formative in the data assumption. SEM-PLS can also evaluate reflective and formative measurement models as well as latent variables using a single indicator without causing identification issues.

The exogenous variable in this study is the internal auditor. Based on previous research by Putra *et al.* (2017) internal auditor variables will be measured using three indicators: the number of members of the internal auditor (IA1), the educational level of the internal auditor unit's Head (IA2), as well as the level of experience of the internal auditing division (IA3). The number of internal auditors employed by a firm is used to measure IA1. IA2 is graded on an ordinal scale, with 1 denoting a diploma, 2 denoting a bachelor's degree, 3 denoting a master's degree, and 4 denoting a doctorate. IA3 is measured using the number of years of experience of the head of the internal audit unit from the year of nomination of the internal auditor's chairman to the time period under consideration.

The endogenous variable in this study is ARL. ARL is calculated by deducting the number of days between December 31 and the release date of the independent auditor's report from the total number of days between December 31 and the release date of the independent auditor's report (Afify, 2009; Putra *et al.*, 2017; Juwita *et al.*, 2020). For example, the fiscal year's end of a public company is December 31, 2016 and this public company will immediately arrange the finances to be submitted to an independent auditor. The IDX will only publish the company's annual report when it has been audited by a third-party auditor the following year. The annual report will always contain the independent auditor's report, which will be signed by the auditor and will indicate the date of signing (which is the day the independent auditor's report was issued). If the issuance date is May 30, 2017, the ARL is computed using the number of days between December 31, 2016 and May 30, 2017.

In this study, the moderating variable is firm size. Several prior Indonesian research split firm size into two categories: Big Four and Non-Big Four. As a result, firm size is quantified in this study using a dummy variable with the number 1 representing the Big-Four and the number 0 indicating the Non-Big Four (Juwita *et al.*, 2020).

The research model is showed on the Figure 1 above. The data testing process is divided into three stages: testing the outer model, inner model, and main effect and interaction testing. Outer model or measurement of the outside, also known as a measurement model. This outer model runs a compatibility test on the inner model, taking into account convergent validity, discriminant validity, and reliability. The outer model is a test for defining the link between the latent construct and its indicators.

The loading factor value on the latent variable with related indicators is used to calculate the convergent validity value. When the loading factor value is equal to or greater than 0.7, it is considered ideal. In other words, the indicator is said to be valid as a construct indicator if it meets certain criteria. It is said to be sufficient if the loading factor value is between 0.5 and 0.7 (still acceptable). If the value of the loading factor is less than 0.5, however, the loading factor is eliminated from the model.

The convergent validity value is the loading factor value on the latent variable with associated indications. It is regarded to be optimal if the loading factor value is equal to or greater than 0.7. In other words, the indicator is said to be valid as a construct indicator if it meets certain criteria. It is said to be sufficient if the loading factor value is between 0.5 and 0.7 (still acceptable). If the value of the loading factor is less than 0.5, however, the loading factor is eliminated from the model.

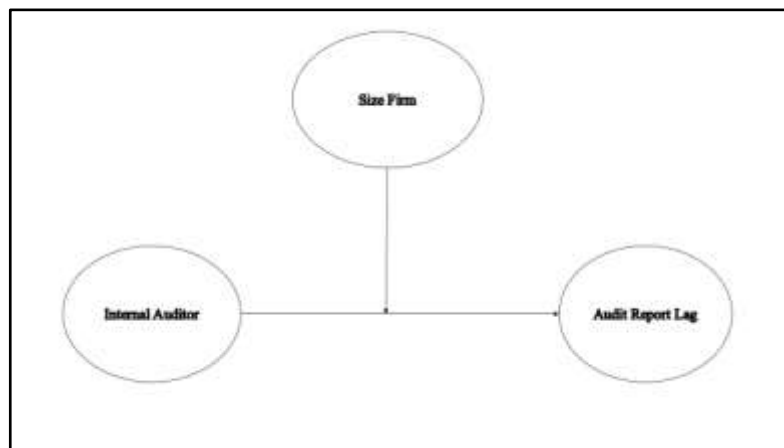


Figure 1. The Variables Conceptual Framework

$$Y = a + b_1X_1 + b_2X_2 + b_3X_1X_2 + e \quad (1)$$

$$ARL = a + b_1IA + b_2FZ + b_3IA*FZ + e \quad (2)$$

In which:

Y = Audit Report Lag (ARL)

a = Contant

b = Coefficient

X1 = Internal auditor (IA)

X2 = Firm Size (FZ)

E = Error

The value of the cross loading factor is referred to as discriminant validity, and it can be used to determine whether or not the construct has appropriate discriminant by comparing the value of the cross loading factor to the Average Variance Extracted (AVE) with the correlation between latent variables. The cross loading factor is used to assess if

there is a discriminant for the latent variable, which indicates that the indicator's correlation with the latent variable must be larger than the indicator's correlation with the other latent variables. The AVE value of 0.5 is suggested.

When performing measurements, a reliability test is used to demonstrate the precision, consistency, and accuracy of a measuring instrument. A PLS reliability test can be conducted in two ways: 1). The composite reliability output value, which must be greater than 0.7 for the criteria to be considered reliable, is used to determine construct reliability. 2). Cronbach Alpha is the loading factor data result value used to determine the dependability of the construct indicators. Cronbach's Alpha is a metric for assessing a construct's reliability. If the loading factor value is between 0.60 and 0.80, it is considered reliable.

A structural model (also known as an inner model) predicts variable causality. Looking at the R-Square and Q-Square values in this study reveals the inner model test. To see the percentage of variance explained by looking at the R-Square for each variable as the structural model's predictive power. With R-Square values of 0.70, 0.45, and 0.25, it is possible to conclude that the model is strong, moderate, or weak. The greater this value, the better the model's predictor. In addition to looking at the size of the R-Square, the PLS model can be evaluated by looking at the value of the Q-Square predictive relevance to determine whether or not the model has predictive relevance. If the result of Q-Square is greater than zero, the prediction is considered relevant; if the result of Q-Square is less than zero, the research model is irrelevant.

The path coefficient and level of significance are used to calculate the correlation between the constructs. In this study, the level of significance is set at 5%.

### 3. RESULTS AND DISCUSSIONS

According to Leventis *et al.* (2005) ARL relationships can be observed using a variety of variables, and variations in ARL can be explained using a variety of variables. Owusu-Ansah (2000) divides these variables further into company-specific characteristics and audit-related characteristics. Rachmawati (2008) classifies internal auditor as internal factors of the company. Internal auditor is an independent body that examines and evaluates the control, performance, risk, and governance of public and private companies. The major job of an internal auditor is to prevent fraud and ensure that the financial reports with strong internal controls require auditors to spend less time performing compliance and substantive tests, thereby speeding up financial statement auditing and shortening ARL. Previous study has explained three indications that may be used to measure the quality of an internal auditor: the internal auditor members, as well as the head of the internal auditor's education, the size of the internal auditor, and the experience of the internal auditor's head. The descriptive statistics in Table 2 proof that every mining company in this study has at least one internal auditor member. This complies with OJK regulations Number 56/POJK.04/2015, which states that public companies must have an internal audit unit, with 1 (one) or more internal auditors. As for the level of education, the majority of mining company heads of the internal auditor unit possess a bachelor's degree. The internal auditor unit's experience level demonstrates that at least the chairman of the internal auditor has 1 year of experience working in the company's internal audit division, with a maximum of 30 to 32 years. Meanwhile, most of the internal auditor unit heads have been working in related fields for 1 to 2 years. The two indicators of the academic level and work background of the head of the internal audit unit are in accordance with the requirements of the internal auditor as specified in FSA regulation, which states that internal auditors in the internal audit unit must be informed and skilled in technical audits as well as other disciplines related to their field of work.

Table 2. Output of Internal Auditor Descriptive Statistics

No.	Criteria	Minimum	Maximum	Mode
1.	Number of members of the Internal Auditor:			
	2016 year	1	15	1
	2017 year	1	14	1
	2018 year	1	14	1
2.	The head of the Internal Auditor unit's educational level:			
	2016 year	2	4	2
	2017 year	2	4	2
	2018 year	2	4	2
3.	Experience level of Internal Auditor unit:			
	2016 year	1	30	1
	2017 year	1	31	1
	2018 year	1	32	2

Source: Author (2021)

Attempts to explain the application of the contingency theory must include moderating variables. In structural design organizations, organizational size is also a contextual variable. Capacity, personnel, output (e.g., customers, sales), and resources are all examples of size. Size increases the structure of the activity organization while decreasing power concentration. Managerial practices, such as task flexibility, expanded delegation of authority, and a focus on the outcome rather than the process, are proportional to the size of the units managed. Minzberg (1979) concludes from his research that the larger the organization, the more elaborate the structure, the more specialized the task, the units becoming increasingly different, and the administrative component growing. In this study, firm size serves as a moderating variable. The result of descriptive statistics in Table 3 shows most of the mining companies sampled in this study used the services of a Non Big-Four firm.

Table 3. Output of Firm Size Descriptive Statistics

No.	Firm Size	Mode
1.	2016 year	0
2.	2017 year	0
3.	2018 year	0

Source: Author (2021)

ARL is critical in delivering audit information to the market on time (Afify, 2009). According to the study's findings, the majority of firms (more than 70%) wait at least until the date of the audit report before disclosing earnings to the public (Ashton; Willingham; Elliot, 1987). ARL is calculated by subtracting the number of days between December 31 and the date the independent auditor's report is issued from the total number of days in the fiscal year. According to the results of Table 4, ARL can range from 39 to 197 days during a three-year period.

Table 4. Output of Audit Report Lag Descriptive Statistics

No.	Year	Minimum	Maximum	Mode	Average
1.	2016	39	212	58	92.16
2.	2017	45	354	59	103.44
3.	2018	31	197	86	87.68

Source: Author (2021)

Based on BAPEPAM-LK (OJK) Regulation Number: Kep-431/BL/2012 number XK6 regarding the obligation to submit annual reports, every go public company which is listed on the IDX should submit an annual financial report to OJK, along with an independent

auditor's report, no later than the Annual General Meeting of Shareholders (AGMS) or at the end of the sixth month (180 days) after the fiscal year ends.

As stated in the research methods section, this section will describe the results of the tests that were performed, specifically the results of testing the relationship between variables using the WaepPLS 6.0 analysis tool. The analysis is divided into two steps: first, evaluating a measurement model (outer model), and then, evaluating the inner model. The first step is the outer model testing. The result of outer model testing display in Table 5 below.

Table 5. Output of Outer Model Testing

No.	Research Variable	Factor Loading	Information
1.	Internal Auditor	1,000	Valid
2.	Firm size	1,000	Valid
3.	ARL	1,000	Valid

Source: Author (2021)

All of the points used to analyze the variables have a factor loading value of 1.00, indicating that the variable has convergent validity, according to the convergent validity test results. The correlation of the AVE root values of the latent variables on the diagonal matrix is greater than the correlation of the other latent variables, as shown in Table 6. This suggests that one of the latent variables is measured differently than the others. The internal auditor's construct is worth 0.761, which implies it is more valuable than the value assigned by the internal auditor in the other constructs. Similarly, the constructions firm size to firm size and ARL to ARL ratios are both 1.000 and 0.947. As a result, it is reasonable to conclude that all criteria used to evaluate each latent variable in this study met the discriminant validity assumption.

Table 6. Output of Correlation among Latent Variables with Square Root of AVEs

No.	Variables	Internal Auditor	Firm Size	ARL
1.	Internal Auditor	0.761	0.279	0.207
2.	Firm Size	0.279	1.000	-0.074
3.	ARL	0.207	-0.074	0.947

Source: Author (2021)

The reliability test can be performed in one of two ways: using Composite Reliability (CR) or using Cronbach's Alpha (CA). A construct is regarded trustworthy if its CR value is larger than 0.7 and its CA value is greater than 0.6, as determined by the CR and CA processes, respectively.

Table 7. Output of Latent Variable Coefficients

No.	Variables	Internal Auditor	Firm Size	ARL
1.	R-Squared			0.420
2.	Adj. R-squared			0.378
3.	Composite reliab.	0.925	1.000	0.963
4.	Cronbach's alpha	0.908	0.943	0.976
5.	Avg. var. Extract	0.579	1.000	0.898
6.	Full collin. VIF	1.446	1.107	1.185
7.	Q-squared			0.402
8.	Min	-0.895	-0.896	-1.260
9.	Max	3.742	1.195	3.065
10.	Median	-0.364	-0.896	-0.221
11.	Mode	-0.000	-0.896	-0.000
12.	Skewness	1.861	0.304	1.635
13.	Exc. Kurtosis	4.299	-1.801	2.288
14.	Unimodal-RS	Yes	No	Yes
15.	Normal-JB	No	Yes	No

16. Normal-RJB No Yes No  
 Source: Author (2021)

From the Table 7, the internal auditor has a composite reliability value of 0.925, it can be said to be reliable because it has a value greater than 0.70. Besides, the internal auditor's Cronbach's alpha value is 0.908, indicating that it is reliable for testing because the Cronbach's alpha value is greater than 0.80 – 1.00. Similarly, the firm size and ARL both value are 1.000 and 0.963 for the composite reliability, and 0.943 and 0.976 for its Cronbach's alpha.

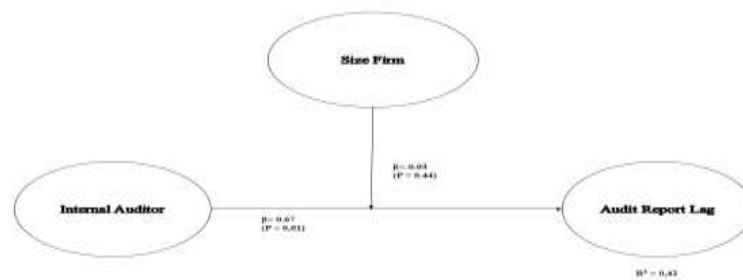


Figure 2. The coefficient of determination

Table 8. Model Fit and Quality Indices

No.	Item	Coefficient	<i>p value</i>
1.	APC	0.349	0.007
2.	ARS	0.420	0.002
3.	AARS	0.378	0.004

Source: Author (2021)

The R-Square value is 0.42, or 42 percent, as shown in Figure 2, showing that the internal auditor explains 0.42 percent of its effect on ARL, while the remaining 58 percent is explained by elements not included in the study model. Q-Square prediction relevance assesses how well the model predicts the observed value as well as its estimation. If the Q-Square value is greater than zero, the prediction is considered to be relevant. If the Q-Square result is 0, the research model is meaningless. In this study, the Q-Square value is 0.402. Figure 2 also demonstrates the applicability of the model in this study. According to the fit model test output in Figure 2, the *p* values met the specified criteria. As a result, it is possible to conduct main effects and interactions test.

The last step is, main effect and interaction testing. It tests the regression examines the regression  $Y = a + b_1X_1 + b_2X_2 + b_3X_1X_2 + e$ . To begin, examine the internal auditor's direct relationship with ARL. Second, investigate how the contingency variable affects the connection in a midst of the internal auditor and the ARL. Table 9 displays the main effect and interaction testing results.

Table 9. Output of Main Effect and Interactions Testing

No.	Relationship	Coefficient	<i>p value</i>
1.	IA → ARL	0.67	<0.01
2.	IA * FIRMSIZE → ARL	-0.03	0.44

Source: Author (2021)

The correlation coefficient of the internal auditor was 0.67, with a sig. 0.01 standard deviation This demonstrates that ARL benefits significantly from the internal auditor. On the other hand, the involvement of public accounting firms in controlling the link between internal auditors and ARL has a correlation coefficient value of -0.03, with a significance

level of 0.44. That is, while the scale of a firm has a negative impact on internal audit, it has no impact on ARL.

The results of this study oppose the results of research from Putra *et al.* (2017) and Putra *et al.* (2018) and support to research from Juwita *et al.* (2020). Putra *et al.* (2017) founded that the internal auditor was discovered to have a detrimental influence on ARL. As a result, the shorter the audit delay time period, the higher the quality of the company's internal auditors. The findings of this study are inconsistent with the purpose of establishing an internal auditor as outlined in BAPEPAM Regulation No. IX.I.7 of 2008. In contrast to this study, the internal auditor has positive relationship on ARL. This means, the existence of internal auditor makes ARL longer. It was suspected that the internal auditor was not performing his duties properly (Juwita *et al.*, 2020).

An internal auditor appears to be solely for the purpose of complying with government regulations that require a company to conduct an internal audit. This is because the internal auditor, through the evaluation process and internal control, plays a critical role in reducing the possibility of irresponsible parties manipulating financial reports. As articulated in agency theory, agency issues in the agency relationship (management and principals), cause the desire to manipulate financial statements. Similarly, Mahendra and Widhiyani (2017) found that internal auditor does not tend to have good company performance, hence, it is unable to properly present the company's financial statements, causing public accountants who audit the company to have issues with the timeliness of submitting financial statements. This study is also consistent with Rachmawati (2008) which found that internal auditor has positive relationship to ARL.

According to Meckling (1976) agency issues arise from agency relationships, which can manifest as information asymmetry and potential conflicts of interest. As a result, the internal auditor is responsible for delivering an impartial and unbiased statement in order to eliminate information asymmetry and conflicts of interest. A company's operational activities can be systematically evaluated, increasing the effectiveness of internal control and Good Corporate Governance (GCG). Thus, the internal auditor's evaluation and internal control process will keep the company's operational activities running. The risk of deviation will then be reduced or eliminated. The company's risk-free and deviation-free operating procedures will also ensure that the information in its financial statements adheres to appropriate accounting standards. Internal auditors are supposed to facilitate and accelerate the independent auditors' audit process, resulting in a shorter ARL. Internal auditors, in fact, contribute little to the audit process and provide no assistance to external auditors, resulting in a longer ARL.

According to Astuti and Kusharyanti (2013), the job of the external auditor contributes just a tiny amount to the internal audit function (not significant). One possible explanation is the internal auditor's relationship with the external auditor, in which the internal auditor serves as an external auditor team member who is supposed to be monitored by the external auditor. The collaboration of internal and external auditors has an impact on ARL.

As a grand theory, this research employs a contingency approach. The contingency approach is derived from basic assumptions, which state that a control can be applied in any company and in any environmental conditions. Researchers are interested in using a contingency approach because they want to know if the level of reliability of the exogenous variable has the same effect on the endogenous variable in all conditions or not. Based on contingency theory, it is assumed that other situational factors may interact with one another in influencing certain situations. According to Govindarajan (1988), Using a contingency approach, efforts must be made to resolve contradictions by identifying intermediate conditional factors for both of these variables. The previous research result indicated that there was inconsistency in results between one researcher and other researchers, so it can be concluded that other variables influence it. The purpose of employing a contingency approach is to identify the various contingent variables that influence ARL. Variables can act as moderators in the contingency approach. Meanwhile,

agency theory is a theory that uses an independent third party as an intermediary to explain the relationship between agents and principals. The independent party is in charge of reviewing and evaluating financial reports. Inspections and evaluations are carried out using an audit method. The audit's objective is to guarantee that the financial information provided to the company's owners and other users is correct. A public accounting firm is a third party having the authority to review and assess the financial accounts of a corporation. To boost the company's worth and user trust, the company will engage a high-quality public accounting firm.. Firms are classified as either Big Four or Non-Big Four based on their size. The Big Four are considered as high-quality firms because they have a higher motivation to accomplish their task promptly and preserve their reputation (Alfrah, 2016). The Big Four tend to specialize in specific fields and industries when it comes to auditing. As a result, audit work becomes more efficient. Furthermore, the big four are supported by significant resources; hence, audits can be done in less time with such competent and qualified employees (Che-Ahmad & Abidin, 2008; Rusmin & Evans, 2017). The ARL will be reduced if the internal and external auditors work together well (Juwita *et al.*, 2020). Internal auditors will provide valuable information to external auditors, notably regarding how the company runs, the company environment, and assisting in the identification of material errors (Taktak & Oussii, 2018).

Juwita *et al.* (2020) stated that the size of the firm had no influence on the connection between the internal auditor and the ARL, according to the findings. The size of the firm has no influence on the relationship between the internal auditor and the ARL. As a result, the relationship between the internal auditor and the ARL is unaffected by the firm size. The ARL of the Big Four audit firms is shorter, according to the Stouffer combined test results. Because of rivalry between Non-Big-Four and Big-Four businesses, firm size does not mitigate the link between internal auditor and ARL (Juwita *et al.*, 2020). Non-Big-Four firm improves the quality of its auditors' work, increasing client and user trust in financial statements. Furthermore, the firm's moderating effect is positive. This demonstrates that the stronger the connection between the internal auditor and the ARL, the larger the firm. This is due to the fact that the job of the Big-Four firm is more complex due to the fact that it has more clients than the Non-Big-Four firm. As a result, while preparing the financial statements to be audited, the company's internal auditor must be extra careful. The company's financial statements must have the smallest possible risk of misstatement to lighten the work of Big-Four firm so that ARL is shorter. The failure of the internal auditor in preparing financial statements with minimal risk of misstatement will in turn prolong the ARL. Therefore, Non Big-Four firm is an alternative to shorten ARL.

The moderating effect of firm size variable on the relationship in a midst of internal auditor and ARL contradicts contingency theory, which states that contingency theory determines the relationship between internal auditor and ARL. This conclusion gives support to the critique of contingency theory in management accounting research. Abba, Yahaya, and Suleiman (2018) found that the contingency theory claim on the static behavior of organizations has a flaw in that it fails to address issues of organizational size. Furthermore, they stated that the majority of contingency-based management control system (MCS) research has focused on larger organizations while failing to account for size variation within larger entities. Initially, organizational contingency studies show that the link between size and administrative structures such as specialization, formalization, and vertical dispersion develops with size but at a decreasing rate (Merchant, 1981). The findings of this study support the findings of Juwita *et al.* (2020) which said that the size of the public accounting firm was insufficient to moderate the internal auditor's connection with the ARL. In contrast, it contradicts the findings Putra *et al.* (2018) discovered that the size of the firm successfully moderates the relationship of the internal auditor towards the ARL.

#### 4. CONCLUSION

The outcomes of this research suggest that the internal auditor has a favorable connection with ARL. It means that the presence of an internal auditor lengthens the ARL. The internal auditor fails to perform its function well. Internal auditor division is merely exist to satisfy the government rule which require every company to establish internal audit function. Internal auditors do not contribute much to the audit process and do not assist external auditors, resulting in a longer ARL.

Furthermore, owing to rivalry between Big-Four and Non-Big-Four businesses, the findings of this study demonstrate that firm size has no moderating influence on the link between internal auditor and ARL. Furthermore, company size does not support the contingency theory, which argues that a third variable influences the connection between two variables. This variable is anticipated to improve or deteriorate the connection. The link of size and administrative structures such as specialization, formalization, and vertical span, on the other hand, rises with size but at a diminishing pace. As a result, both Big-Four and Non-Big-Four have the same chance of lengthening or shortening the ARL in this case. This study adds to the accounting literature's novelty because its findings differ from previous studies.

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