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Sustainability and Resiliency Dimensions of Go Public Companies: The Role of Audit Report Lag and Earning Volatility in Impacting The Earning Quality

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ABSTRACT

The information needs of stakeholders in today's business world do not only depend on financial statements alone. There is a global push for sustainability disclosures and the durability of companies can be shown through sustainability reports. One of the important elements that can positively encourage corporate sustainability can be measured through the quality dimension of earnings. The length of time that separates the management cutoff from the audit report issuance response might have an impact on the financial statements' quality, particularly in regards to the reported earning quality. For companies that have gone public, higher disclosure quality will provide a positive signal to investors that the operations carried out are able to show resilience that leads to sustainability in the future. Earning quality in this study will be measured through the level of earning smoothness, earning surprice, closeness to cash and accrual quality. Additionally, the impact on earning quality will be greater if the organization has a larger earning volatility ratio. The purpose of this study is to investigate how the company's earning quality is impacted by earning volatility and audit report latency. With a total of 170 data, this study employs a linear regression test via the SPSS 26 test tool. The hypothesis test results show that the earning volatility ratio and earning quality have a significant relationship. Earning quality is significantly impacted by both earning volatility and audit report lag at the same time.

Keywords: *Audit Report Lag, Earning Quality, Recilience, Sustainability*

1. Introduction

The issue of sustainability is a hot phenomenon in the business world today. Disclosure of company performance information through financial reports is one measure of company sustainability. Disclosure of sustainability information through quality financial reports can positively increase the company's accounting conservatism value (Malo-Alain et al., 2019). The quality of financial statements can also be seen from the interaction of earning quality which is proven to positively affect the quality of disclosure in the sustainability report (Dang & Pham, 2022).

The profitability of the business serves as a yardstick for evaluating its performance. High-quality financial reports are essential for businesses that have gone public. Apart from adhering to International Financial Reporting Standards (IFRS) for reporting, all accounting records of companies in Indonesia must also comply with the relevant Pernyataan Standar Akuntansi Keuangan (PSAK). Financial statements help investors make decisions about whether or not to invest in a company by evaluating its future prospects. Financial statements give creditors a way to evaluate a company's capacity for loan repayment before extending credit to it.

An independent auditor must audit publicly traded corporations to make sure these obligations are met. Users of the financial statements will be able to trust the financial statements because of the auditor's trustworthy view on them. The auditor is under a lot of pressure to perform in a more professional manner in this situation. The promptness with which audit reports are submitted is one of the standards for auditor professionalism (Setyani & Fauzan, 2015).

Essential information required by investors to make a decision on whether to purchase or sell the stock is included in audited financial statements. The timely submission of financial statements has the potential to impact the significance of the financial data showcased. As a result, timely submission of financial reports is crucial. How timely financial statements were presented can be ascertained by comparing the date of the company's financial statements' closure to the date of the independent auditor's report. How long it took the independent auditor to complete the financial statement audit process is indicated by the gap between the date of the report and the closure date of the company's financial statements. Audit report lag is the term used to describe the period of time between the books' closing date and the independent auditor's reporting date.

According to Dong et al. (2017) the evidence shows the longer audit reporting delays directly proportional to the lower quality of financial statements. Stakeholders may rely on information obtained through unofficial resources and even more than that, stakeholders can make investment decisions without the appropriate verification as an impact of audit delay (Khoufi & Khoufi, 2018). If there is a delay in the submission of financial statements, the financial statements will become less relevant to use, because the financial statements are not available to interest parties when the financial statement information is still relevant.

Investors may infer negative signals from a company's delay in reporting audited financial accounts. This means that in order to finish the audited financial statements on schedule, the company and the auditor must devise plans of action. On the other side, the company's earning quality may benefit from delays in submitting audit results. Research results from Duah (2022) reveal that a longer audit report lag can improve earnings quality, especially in reducing the difference between actual earnings and anticipated earnings. Furthermore, Duah (2022) added that the long duration of the audit report lag provides an opportunity for management to engage in irregular earnings variations or volatility by shifting revenues and costs from one fiscal period to another. High volatility in corporate income will make it difficult to predict future profits(Putri & Mayangsari, 2024), so that it will affect the quality of the company's earnings.

The quality of a company's earnings is a measurement tool that can help make decisions. Any factor that can affect the quality of the company's earnings contributes to each investor's consideration to make investment decisions. In line with the statement from Nissim et al. (2023) that earnings quality can be an indicator to measure stock return predictability. The need for information on stock return predictability will increase for investors who will invest in companies with high liquidation rates. To make it easier for investors to select highly liquidated issuers, IDX has published the LQ45 index. Therefore, this research aims to examine the relationship of audit report lag and earning volatility towards earning quality for the listed companies in LQ45 index.

2. Literature Review

2.1 Audit Report Lag

According to Rusmin and Evans (2017), Audit Report Lag is the amount of time needed to finish the audit from the day the company's books closed to the date shown in the audit report. The professionalism of the auditor may be judged by how well they adhere to the relevant auditing standards.

The longer the audit report lag, the more likely it is that readers of financial statements may have concerns about the accuracy of the information released, which could harm the auditor's image (Durand, 2019). The distribution of data is impacted by the audit report latency. The audit report lag is the amount of time that separates the book end date and the audit report date.

Some of the previously mentioned theories describe audit report lag as the number of days required by the auditor to complete the audit job, as determined by the difference between the date of the financial year's end and the date of the audited financial statements' release. Consequently, the audit report lag increases with the length of time the auditor takes to finish the audit task. For a number of reasons, including the necessity to adhere to standards in order to enhance audit quality, an auditor may elect to prolong the audit period by delaying the audit. Furthermore, the quality of decision making is unaffected by the importance of the information given if it is not supplied on time. Audit report lag, according to Liwe et al. (2017), is the time interval between the audit's completion and the date specified in the audit report, which is the closure date of the company's books.

2.2 Earning Volatility

Earning volatility is a statistical measurement of the rise and fall of prices over a certain period (Andiani & Gayatri, 2018). The measure shows the decline and increase in prices in a certain period. High volatility reflects unusual supply and demand characteristics (Artikanaya & Gayatri, 2020). Another definition of earning volatility is a condition where the company's income increases and decreases significantly and in high intensity. This condition is represented by the level of stability of the company's profit from one year to the next (Putri & Mayangsari, 2024). Earnings volatility serves as a predictor of future earnings. Financial distress, cost stickiness, managerial remuneration, and the likelihood of declining or increasing earnings can all be used to evaluate the positive or negative stance of earnings volatility (Nissim et al., 2023).

2.3 *Earning Quality*

The benefit that the business receives after managing its assets and conducting operations in a given time frame is known as revenue. Revenue is defined by PSAK No. 23 as gross inflows of economic advantages resulting from the entity's regular operations during the period, provided that the inflows enhance equity without the need for contributions from investors (Indonesia, 2020). Furthermore, revenue consists of sales of goods, sales of services interest, royalties and dividends.

A high-quality revenue recognition report is essential to guarantee that profits from operations can sustain enhanced financial performance. Regarding its objective needs, earning quality is defined differently. According to Penman & Zhang (2023), profits quality is the earnings before unusual expenses that are displayed on the income statement from the analyst's point of view. This metric is a trustworthy predictor of earnings in the future. On the other hand, earnings quality was defined by Teets (2002) as accounting earnings that fairly reflect the firm's value.

Conversely, Schipper and Vincent (2003) described the quality of profits as the degree to which the reported earnings of a business accurately represent the Hicksian income, or the highest amount that can be invested to protect the business's current capital. This description suggests that the measurement of earnings quality relative to Hicksian income implies the closeness of high-quality earnings to Hicksian income. There are four ways to view the quality of earnings: accrual quality, earnings price, proximity to cash, and smoothness of earnings (Duah, 2022). The following are the corresponding formulas for the earning quality perspective:

2.3.1 *Earning smoothness*

Earnings smoothing is a type of earnings management that involves intertemporal smoothing of reported earnings compared to economic earnings in order to make profits appear less volatile over time. Through the use of earnings smoothing, one or more financial periods' earnings are adjusted for variations in revenues and expenses. It might be argued that smoothing was done on purpose by management (Habib et al., 2018). Generally speaking, management employs earnings smoothing to boost earnings during times when outcomes would otherwise be extremely poor (Hejazi et al., 2012)

2.3.2 Earning surprise

Earnings surprises occur when a company's reported profits exceed or fall short of analysts' expectations or projections, or when there is an unexpected discrepancy between the company's actual earnings per share and analysts' forecast earnings per share (Pfarrer et al., 2010). Depending on how much the results deviate from the analyst's estimates, earnings surprises can take many different forms. The stock price of a corporation can be greatly affected by unexpected earnings. Many studies have demonstrated a positive and negative relationship between earnings surprise and firms' valuation because these are anomalies that interfere with the successful and efficient operation of markets.

2.3.3 Closeness to cash

Closeness to cash refers to how frequently profits are shown as a substantial earnings asset to assess operating cashflows. Analysts, scholars, and policy-making bodies consider ease of access to cash to be a desirable profit attribute. Analysts, academics, and policy-making bodies have questioned the quality of earnings when they show a substantial deviation from cashflows or from income. They concluded that traditionally, businesses with lower-quality earnings had reported accruals that were significantly higher.

2.3.4 Accrual quality

The mapping of current accruals from the operation into historical, current, and next-period cashflows is the main emphasis of the accrual quality measure. This is founded on the finding that accruals change or modify recognized cashflows over time; as a result, modified earnings provide the most accurate indicator of the firm's performance. Stated differently, companies with higher accrual quality can transform their earnings into cash more quickly than those with lower accrual quality

Hypothesis Development

Impact of Audit Report Lag towards Earning Quality

The time difference between the reporting date and the audit completion date can have various impacts on earning quality. Research conducted by Duah (2022) proves a positive relationship between audit report lag and earning quality. With a long audit report lag period, management can reduce unexpected differences between actual earnings and anticipated long-term earnings. Furthermore, the shorter the audit delay time will make management try to speed up the release of financial reports, thereby encouraging management to carry out earnings management which will have an impact on the quality of earnings (Fakhfakh & Jarboui, 2022). The following hypotheses were built in this research:
H1= Audit Report Lag has an effect on Earning Quality

Impact of Earning Volatility toward Earning Quality

The fluctuation of earnings faced by management will affect the quality of reported earnings. Changes in book value per share and earnings per share that are too fast and significant can affect investor decisions, especially regarding the quality of earnings seen from the perspective of earning surprise (Ogbaisi et al., 2022). Companies that have high accrual quality are companies that experience a decrease in stock return volatility, while companies that experience an increase in stock return volatility will experience a decrease in earning smoothness (Fonou-Dombeu et al., 2022). The following hypotheses were built in this research:
H2= Earning Volatility has an effect on Earning Quality

3. Research Method

Jenis penelitian ini menggunakan pendekatan penelitian kuantitaf yang menggukana secondary data. Quantitative data are the kind that are used. A secondary data source is the one that was used. Secondary data gathered from the Indonesian Capital Market Directory, which is accessible via www.idx.co.id and certain official company websites, about financial organizations that satisfy the study sample's criteria and are listed on the Indonesia Stock Exchange in 2020–2023. Dalam melakukan pengukuran setiap variabel akan digunakan measurement dan skala seperti tabel berikut.

Table 1. Variables and Measurements

Variable	Measurement	Scale
Audit Report Lag (X_1)	Days difference from reporting date and audit	Nominal

	completion date	
Earning Volatility (X_2)	Ratio of operating profit divided by total assets	Ratio
Earning Quality (Y)	Measure from ratio earning smoothness, ratio earning surprise, ratio closeness to cash, dan ratio accrual quality	Ratio

Analytical methods applied to solve issues or test theories Both multiple regression analysis (MRA) and descriptive analysis are used in this investigation. Regarding the purposive sample method used in this study to acquire data. Every business on the sample list has to meet the requirements of being listed on the LQ45 index between 2020 and 2023. Hypothesis testing is carried out by regression analysis. Regression is an analysis tool used to measure how far independent variables affect to dependent variables.

4. Results and Discussion

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-2.571	5.769		-.446	.656
	X1	-43.260	32.978	-.094	-1.312	.191
	X2	165.976	29.930	.399	5.545	.000

a. Dependent Variable: EQL

From the test results in the table above, we can see the partial results of audit report lag (X1) on earning quality (Y) and earning volatility (X2) on earning quality (Y). This table also answers the hypothesis formed. In the table above, only X2 has a value below 0.005 so that only H2 is supported. This shows that earning volatility partially affects earning quality in a strong relation.

The impact of audit report lag on earning quality

The hypothesis testing results indicate that the company's earning quality is not significantly impacted by the length of the audit reporting period. The businesses examined in this study fit the description of major corporations with predominately public ownership. Because of this, the company will make every effort to preserve the caliber of its financial statements, despite the fact that the interval between financial reporting and audit reporting is sometimes rather long Even while the extended period of time enables the management of the company to minimize the discrepancy between actual and projected earnings (Duah, 2022), the inability to calculate anticipated earnings is still a result of management's decision to stop earnings on the internal reporting date. Additionally, the size of the organizations that provided the data for this study demonstrates that consistency in earnings reporting numbers is required, regardless of the interval in audit reporting time, since the cutoff time. Companies with a majority public ownership will maintain consistency and matching concepts in the quality of financial reporting without being impacted by the length or shortness of the audit report lag, in contrast to those that remain in the low-profile industry sector and are owned by family members, which generally require faster reporting delays (Rusmin & Evans, 2017).

The impact of earning volatility on earning quality

Earning volatility has a considerable beneficial impact on earning quality, as indicated by the test results in the anova table, where the significance value is less than 0.05. The earning quality of the company will be strongly impacted right away by even a little change in the earning volatility ratio. The

COVID-19 pandemic of 2020 had a major impact on the economies of businesses worldwide, leading management to adopt both tactical and strategic measures to stabilize the company's financial performance—particularly with regard to stakeholder disclosure requirements.. This has had a major impact on the closeness to cash, earnings surprise, and earnings smoothness (Duah, 2022; Habib et al., 2018). Additionally, as the pandemic period starts to end, management will gradually implement preventive measures to stop income fluctuations by mapping current accruals from the operation into previous, current, and next-period cashflows through the accrual quality ratio (Nissim et al., 2023).

Earning quality as a dimension of compaies' reciliency and sustainability

Earning quality that is strongly influenced by income instability shows that companies, especially those that have gone public, need to have the ability to survive from an economic and social perspective. Various factors that make economic fluctuations that lead to earning volatility cannot be ignored by the company. Previously the company would only be oriented to the level of profit in stating its ability to continue operations, but in the current era the company is also required to be able to measure reciliency to predict its sustainability. Organizational resilience which leads to the overall sustainable development can be realized if the relevant organization is able to predict and anticipate crises and disruptions and build organizational robustness and recoverability.(Rai et al., 2021). Referring to this fact, organizations are required to be able to anticipate the potential occurrence of earning volatility. For companies that go public, the possibility of earning volatility can be triggered by unexpected discrepancy between the company's actual earnings per share and analysts' forecast earnings per share. With good anticipation ability, the company is expected to have the right strategy to build economic resilience that will lead to the ability to recover easily.

The ability to manage risk indicates an awareness of the organization regarding potential disturbances that can affect its condition both in the present and in the future. Thus, inherently, the risk analysis carried out will be a panacea for the problems faced by the organization.. In his book, Becker (2023) explains that organizational survivability is a pragmatic practice that can ensure sustainable growth. Looking at the earning quality dimension, if the company has an increase in earning quality, it shows its ability to survive and lead to operational sustainability.

5. Conclusion and Implications

Overall, the hypothesis testing results show that the audit report latency variable has little effect on the earning quality of the organization. The length or shortness of the period between the deadline for management financial reporting and the audit reporting period does not significantly affect the quality of the earnings for a number of reasons. This is due to the fact that the corporation is owned by the public, meaning that the stated numbers must still be consistent. However, there is a positive correlation between earning volatility and earning quality. The four indicators—earning smoothness, earning surprise, closeness to cash, and accrual quality—will all show changes in the earning volatility ratio at the same time. However, earning volatility and audit report lag can both have an impact on earning quality at the same time.

Company management must nonetheless take into account the overlap between the deadline for management reporting and the audit reporting time, even though the study indicates that audit report lag has no appreciable impact on earning quality. This is being done in an effort to reduce the likelihood of variations in the company's earnings realization. It is highly advised that future research be focused on a more specific industrial sector in order to generate results that can more precisely describe the influence on each of the company's nature.

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