Financial Distress: Earnings Management and Tax Aggressiveness Practices on Audit Report Lag

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ABSTRACT

Despite the existence of regulatory frameworks intended to ensure timely financial reporting, delays in the submission of audited financial statements remain prevalent. Audit Report Lag (ARL) continues to be a critical factor influencing the timeliness of financial disclosures. This study addresses a gap in the literature by providing empirical evidence on the influences of earnings management and tax aggressiveness on ARL, while also examining the moderating role of financial distress. The analysis focuses on companies within the cyclical and non-cyclical consumer sectors listed on the Indonesia Stock Exchange (IDX) over the period 2019 to 2023. Employing a moderated regression analysis using panel data, the study utilizes purposive sampling to identify 294 companies, yielding a total of 141 companies with 705 firm-year observations. The findings reveal that accrual-based earnings management is positively influence ARL. In contrast, tax aggressiveness is found to reduce ARL. Furthermore, financial distress attenuates the positive influence of earnings management on ARL, but it does not significantly alter the influence of tax aggressiveness on ARL.

Keywords: Audit Report Lag; Earnings Management; Tax Aggressiveness; Financial Distress; ARL

Kesulitan Keuangan: Praktik Manajemen Laba dan Agresivitas Pajak terhadap Audit Report Lag

ABSTRAK

Meskipun adanya kerangka regulasi untuk memastikan ketepatan waktu pelaporan keuangan, keterlambatan dalam penyampaian laporan keuangan auditan masih lazim terjadi. Audit Report Lag (ARL) masih menjadi faktor penting yang memengaruhi ketepatan waktu pelaporan keuangan. Penelitian ini mengisi gap literatur dengan memberikan bukti empiris atas pengaruh manajemen laba dan agresivitas pajak terhadap ARL, sekaligus juga menguji peran moderasi tingkat kesulitan keuangan. Analisis berfokus pada perusahaan dalam sektor konsumsi cyclilcal dan non-cyclical yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2019 hingga 2023. Dengan menggunakan moderated regression analysis dengan data panel, penelitian ini memanfaatkan metode purposive sampling untuk mengidentifikasi 294 perusahaan, yang menghasilkan total 141 perusahaan dengan 705 observasi. Temuan mengungkapkan bahwa manajemen laba berbasis akrual berpengaruh positif terhadap ARL. Sebaliknya, agresivitas pajak ditemukan dapat mengurangi ARL. Lebih jauh lagi, kesulitan keuangan melemahkan pengaruh positif manajemen laba terhadap ARL, tetapi tidak mengubah secara signifikan pengaruh agresivitas pajak terhadap ARL.

Kata Kunci: Audit Report Lag; *Manajemen Laba; Agresivitas Pajak; Kesulitan Keuangan; ARL*

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INTRODUCTION

From an accounting perspective, timeliness refers to the period required to disclose and publish a company's financial information. It is a fundamental qualitative attribute that significantly enhances the effectiveness of financial reporting (Hartwig et al., 2023). According to Firnanti & Karmudiandri (2020), the timely completion and dissemination of financial statements are crucial, as they ensure the relevance of the information and its usefulness in decision-making processes. Timely financial reporting reduces ambiguity for capital market participants and supports more informed investment decisions. As noted by (Al-Mulla & Bradbury, 2020), the promptness of financial information is one of several qualitative characteristics that contribute to its overall utility for investors and shareholders.

Nevertheless, delays in the submission of audited financial statements remain a persistent global issue affecting companies in both developed and emerging markets (Suwardi & Saragih, 2023). Timeliness is widely recognized as a key feature that enhances the usability of financial information. When reporting delays occur, the reliability and decision-usefulness of financial statements diminish, thereby increasing uncertainty for stakeholders and potentially impairing their decision-making.

Despite regulatory frameworks mandating deadlines for the release of audited financial statements, delays continue to occur with regularity. In Indonesia, for instance, the number of listed companies failing to submit their audited reports on time has risen markedly. Data from the Indonesia Stock Exchange (IDX) show that 63 companies delayed their 2019 financial reports, a figure that more than doubled to 129 companies by the end of 2023. Under existing regulations, companies that fail to meet reporting deadlines are subject to a range of sanctions, including written warnings from the IDX, monetary penalties, and temporary trading suspensions (Firnanti & Karmudiandri, 2020; Lievia & Herusetya, 2022).

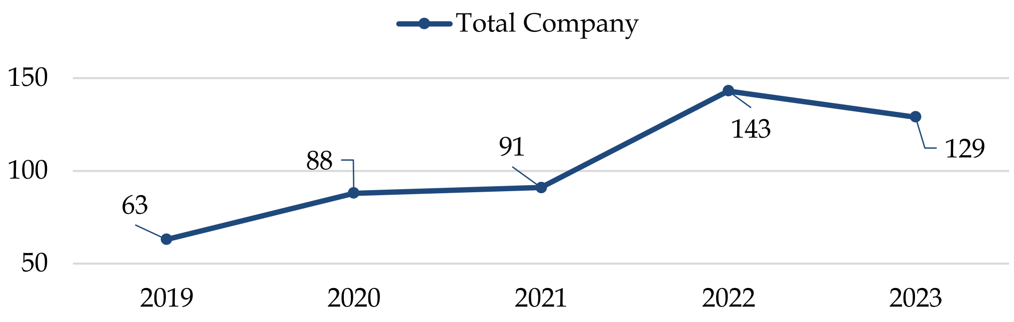

Figure 1. Historical Number of Companies' Delays in Submitting Audited Financial Reports

Source: Data Derived and Processed from the IDX Publication, 2025

Despite the imposition of regulatory sanctions, existing evidence indicates that penalties enforced by the Indonesia Stock Exchange (IDX) have not been effective in curbing delays in the submission of audited financial statements by public companies. The IDX's official website provides a sanctions information feature, highlighting the five most significant sanctions for 2023 and 2024 as of

October 31, 2024, which was accessed on November 30, 2024 (Bursa Efek Indonesia, 2024). In 2024, a total of 1,061 sanctions were issued for late financial statement submissions involving 231 listed companies, while in 2023, 1,076 sanctions were recorded for 241 companies. Furthermore, IDX announcements reveal that 35 companies have consistently failed to submit their annual financial statements on time for four consecutive years, beginning with the financial year ending December 31, 2020, with 15 of these companies operating in the consumer sector.

Persistent delays in submitting audited financial statements contribute to information asymmetry between company management (agents) and shareholders (principals). This imbalance results in principals receiving critical financial information after management, potentially impairing timely and accurate investment decision-making (Ala et al., 2022). A key factor underlying these delays is the extended duration required to complete financial reports and conduct audits (Shofiyah & Ani, 2020). Under Indonesian regulation, annual financial statements submitted to the IDX and the Financial Services Authority (OJK) must be audited by an independent auditor. Audit report lag (ARL), defined as the number of days between the financial statement date and the auditor's report issuance date, is a crucial determinant of reporting timeliness (Noviarty et al., 2021). The audit process, which involves rigorous examination aligned with professional and accountability standards, often contributes to these delays (Gustiana & Rini, 2022). Timely issuance of audit reports is essential for disseminating accurate financial information to the capital market (Choi & Park, 2021).

A substantial body of research has explored the determinants of ARL, identifying a variety of internal and external company factors. Internal factors include profitability (Antari & Sari, 2023; Endri et al., 2024; Firnanti & Karmudiandri, 2020; Gustiana & Rini, 2022; Prasetiyo, 2023; Prasetiyo et al., 2020; Wirayudha & Budiartha, 2022; Yanti et al., 2022), solvency (Gustiana & Rini, 2022), company size (Antari & Sari, 2023; Endri et al., 2024; Firnanti & Karmudiandri, 2020; Gustiana & Rini, 2022; Prasetiyo, 2023; Prasetiyo et al., 2020; Wirayudha & Budiartha, 2022; Yanti et al., 2021), and corporate governance mechanisms, including the independence, size, gender diversity, meeting frequency, and financial expertise of the audit committee (Andrianingsih & Prasetyo, 2023; Firnanti & Karmudiandri, 2020; Wandrianto et al., 2021; Widjaja & Feliana, 2022). External determinants include audit opinion (Endri et al., 2024; Indrayani & Wiratmaja, 2021; Widjaja & Feliana, 2022; Yanti et al., 2021), auditor-related factors such as public accounting company size, audit fee, tenure, switching, reputation, specialization, and audit partner workload (Ala et al., 2022; Endri et al., 2024; Indrayani & Wiratmaja, 2021; Khamisah et al., 2023; Prasetiyo et al., 2020; Wiedjaja & Eriandani, 2021; Wijasari & Wirajaya, 2021; Wirayudha & Budiartha, 2022; Yanti et al., 2022), as well as financial distress, leverage, company age, and board composition (Ala et al., 2022; Antari & Sari, 2023; Firnanti & Karmudiandri, 2020; Gustiana & Rini, 2022; Indrayani & Wiratmaja, 2021; Khamisah et al., 2021; Pingass & Dewi, 2022; Widjaja & Feliana, 2022; Wijasari & Wirajaya, 2021; Yanti et al., 2021, 2022).

Recent bibliometric analyses by Jazadi et al. (2024) and Putri et al. (2024) show that most ARL research has concentrated on internal factors such as corporate governance, audit committee attributes, company size, and profitability, along with external influences like audit quality and fees. However, studies examining how earnings management and tax aggressiveness—both driven by managerial discretion—influence ARL remain limited. Although some prior studies have separately assessed the impact of earnings management and tax aggressiveness on ARL, their findings have been inconclusive. The current study aims to address this research gap by simultaneously examining the influence of these internal practices on ARL. Importantly, no prior study has explored the interaction between earnings management and tax aggressiveness within a single analytical framework in relation to ARL.

Several studies have identified a significant influence of earnings management on ARL. Fakhfakh & Jarboui (2022), and Romli & Annisa (2020) found that earnings management increases ARL. Andrianingsih & Prasetyo (2023) and Isnaeni & Nurcahya (2021) similarly observed that earnings management adversely influences ARL. Regarding tax aggressiveness, studies such as those by Gontara & Khlif (2021), Khamisah et al. (2023), Lestari et al. (2024), Lievia & Herusetya (2022), and Tanujaya & Vaustine (2023) found a positive influence of tax aggressiveness on ARL. In contrast, Hermanto & Nurriyah (2023) and Simanjuntak et al. (2023) reported no significant impact. These conflicting findings suggest the presence of a moderating variable that influences these relationships. This study posits that financial distress may act as a moderator, either amplifying or diminishing the effects of earnings management and tax aggressiveness on ARL.

According to agency theory, as articulated by Jensen & Meckling (1976), a company is fundamentally a nexus of contracts between principals (shareholders) and agents (managers), with the expectation that agents will act in the best interest of principals. However, agents may prioritize personal objectives, resulting in actions such as earnings management that misalign with shareholder interests. Managers often manipulate earnings to enhance the appearance of company performance or to meet specific benchmarks. As Morais & Macedo (2021) note, earnings management does not always seek to increase reported earnings; it may also involve downward adjustments, depending on managerial incentives. This behavior reflects an attempt to present financial information in a manner that aligns with managerial preferences (Isnaeni & Nurcahya, 2021).

Earnings management often entails manipulating financial statements to attract investor attention, a process that can require additional time and effort, potentially extending the audit timeline (Yanto & Kusumawardani, 2023). The presence of such opportunistic behavior underscores the role of external auditors in ensuring that financial statements comply with generally accepted accounting principles and reflect the company's actual economic condition (Sitanggang et al., 2020). Romli & Annisa, (2020) argue that when auditors suspect earnings management, they must perform more detailed procedures, which may prolong the audit process. Similarly, Isnaeni & Nurcahya (2021) demonstrate that whether managers engage in upward or downward earnings manipulation, such practices are associated with longer ARL.

H_1: Earnings management has a positive influence on ARL.

According to agency theory (Jensen & Meckling, 1976), tax aggressiveness undertaken by management can give rise to agency problems, stemming from conflicting objectives between shareholders and managers regarding tax risk (Galatio & Trisnawati, 2024). An increase in tax-related risk translates into elevated audit risk for independent auditors, who are appointed by shareholders to assess the reliability of the financial statements prepared by management. Gontara & Khlif (2021) argue that tax avoidance, especially when implemented aggressively, constitutes a high-risk activity that heightens both inherent and audit risks. Aggressive tax planning increases the likelihood of future tax-related consequences, amplifying reputational risk and audit complexity, which in turn necessitate more extensive audit procedures.

Empirical evidence supports the notion that tax aggressiveness prolongs audit completion. Bae (2017) found that auditors responded to increased audit risk arising from corporate tax aggressiveness by devoting more audit hours, thereby extending the overall audit timeline and delaying financial statement publication. Tax aggressiveness, when combined with earnings management practices, requires auditors to intensify their scrutiny, further increasing audit effort and duration (Lievia & Herusetya, 2022). Tanujaya & Vaustine (2023), using effective tax rate (ETR) as a proxy, observed that tax aggressiveness positively influences audit delay. Similarly, Lestari et al. (2024) concluded that companies engaging in tax minimization strategies tend to experience longer audit report lags.

H_2: Tax aggressiveness has a positive influence on ARL.

Another key determinant of ARL is the level of financial distress experienced by a company. Nuladani & Saputra (2024) describe financial distress as a signal of adverse conditions that heighten business risk. Park & Choi (2023) argue that financial distress increases the likelihood of managerial misstatements, thereby raising audit risk. When auditors perceive elevated client business risk, they adopt more rigorous audit procedures and enhanced testing protocols. As a result, financial distress is associated with delays in the audit process and the issuance of financial statements. Supporting this, Park & Choi (2023), Wijasari & Wirajaya (2021), and Indrayani & Wiratmaja (2021) all found a positive influence of financial distress on ARL, highlighting that increased audit risk under distress necessitates more comprehensive evidence collection by auditors.

Financial distress can also place pressure on management to present a favorable financial image despite deteriorating fundamentals. Under such circumstances, managers may be more inclined to engage in earnings management to improve the perceived performance of the company (Susak, 2020). These manipulative efforts complicate both financial statement preparation and audit procedures, thereby extending the audit timeline.

H_3: Financial distress strengthens the positive influence of earnings management on ARL.

In addition to influencing earnings management, financial distress may also motivate more aggressive tax planning strategies aimed at preserving liquidity and reducing tax burdens. Shareholders, in turn, expect management to minimize tax expenses to maximize returns (Galatio & Trisnawati, 2024). However, as agency theory suggests, the separation between ownership and control may lead managers to prioritize personal or short-term interests in tax decisions. Under pressure to demonstrate financial viability, distressed companies may adopt complex tax strategies that require intensive documentation, intricate structuring, and heightened oversight. These demands can significantly increase the time required for both financial statement preparation and audit execution.

H_4: Financial distress strengthens the positive influence of tax aggressiveness on ARL.

To control for additional factors that may influence ARL, this study incorporates company size, profitability, and company age as control variables. Company size is associated with audit efficiency and the capacity to prepare timely financial statements. Fujianti & Satria (2020) found that larger companies tend to report more promptly, indicating a negative influence of company size on ARL. Profitability, reflecting the company's ability to generate earnings, also influences audit timeliness. Companies with higher profitability are generally more capable of efficiently managing the financial reporting process. Studies by Dzulfikar & Firmansyah (2022), as well as Mulyadi et al. (2022), support the view that profitability negatively influences ARL. Finally, company age, often linked to operational maturity and experience, is considered a proxy for financial reporting discipline. Older companies are typically more adept at meeting reporting deadlines, as noted by Irman et al. (2020).

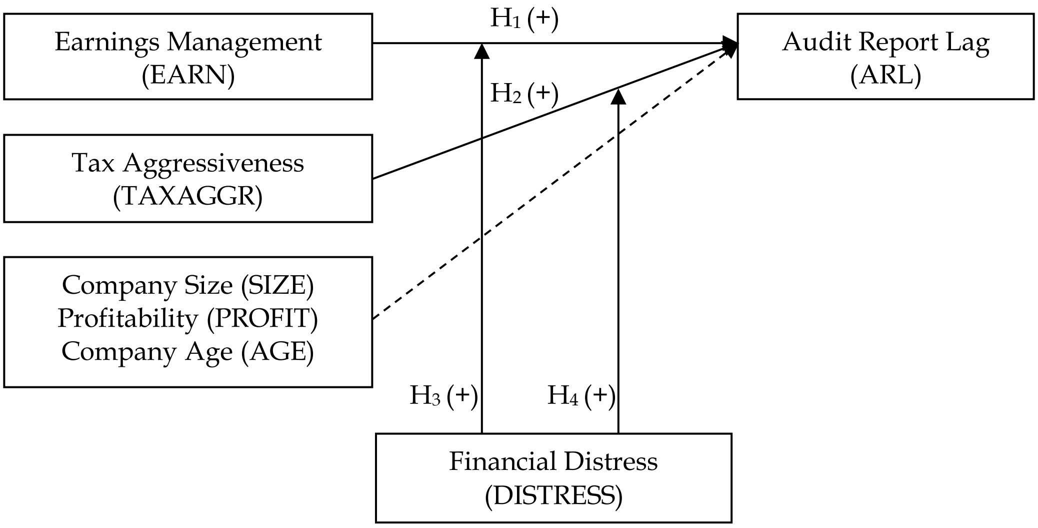

Figure 2. Research Model

Source: Research Data, 2025

RESEARCH METHODS

This study employs a panel data approach to analyze cyclical and non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. The consumer sector was selected due to its significant representation on the IDX, accounting for 30.45% of all listed companies as of December 31, 2024. Sector classification follows the IDX Industrial Classification as provided by the exchange. Data analysis was conducted using EViews 13 software.

The study utilizes secondary data obtained from the annual reports and audited financial statements of the sampled companies. These documents were sourced from the IDX's official website (https://www.idx.co.id) and the respective corporate websites of the listed companies.

The sample was selected using a purposive sampling method, with the resulting criteria and sample composition detailed as follows:

Table 1. Sample Selection Criteria

Criteria	Total Sample
Total number of consumer cyclical and non-cyclical companies listed on the IDX as of December 31, 2024	294
Companies with incomplete financial statements	(15)
Company with financial reporting dates other than December 31	(1)
Companies registered in 2019 and subsequent years	(124)
Companies with reporting currencies other than Rupiah	(13)
Number of selected companies	141
Number of research periods (years)	5
Number of research samples	705

Source: Research Data, 2025

This research employed a moderated regression analysis method utilizing the following research model:

$$ARL_{it} = \beta_0 + \beta_1 EARN_{it} + \beta_2 TAXAGGR_{it} + \beta_3 DISTRESS_{it} + \beta_4 COMPSIZE_{it} + \beta_5 PROFIT_{it} + \beta_6 COMPAGE_{it} + \beta 7 DISTRESS*EARN_{it} + \beta_8 DISTRESS*TAXAGGR_{it} + \varepsilon_{it} \quad (1)$$

Where:

ARL = Audit report lag
EARN = Earnings management practice
TAXAGGR = Tax aggressiveness practice
DISTRESS = Financial distress
COMPSIZE = Company size
PROFIT = Profitability
COMPAGE = Company age
β_0- β_8 = Regression coefficient
ε = Error term

Audit Report Lag (ARL) refers to the time interval between a company's financial statement closing date and the date the independent auditor completes the audit and signs the audit report (Park & Choi, 2023). ARL is typically measured as the number of days from January 1, the day following the financial statement date of December 31, to the date on which the auditor issues the audit opinion (Gontara & Khlif, 2021).

$$ARL = \text{Audit Opinion Date} - \text{Financial Statements Date} \quad (2)$$

Earnings management (EARN) is measured using the performance-adjusted modified Jones model developed by Kothari et al. (2005), which builds upon the original modified Jones model proposed by Dechow et al. (1995) by incorporating return on assets (ROA) as an additional variable. The inclusion of ROA improves the reliability of the model by better controlling for company performance, thereby enhancing the accuracy of discretionary accrual estimates

(Atayah et al., 2024). This study calculates earnings management using the model specified by Hashfi & Martani (2023), as presented below:

$$\frac{TAC_{it}}{TA_{it-1}} = \beta_0 + \beta_1\left(\frac{1}{TA_{it-1}}\right) + \beta_2\left(\frac{\Delta REV_{it}}{TA_{it-1}}\right) + \beta_3\left(\frac{PPE_{it}}{TA_{it-1}}\right) + \beta_4\left(\frac{ROA_{it}}{TA_{it-1}}\right) + \varepsilon_{it} \quad (3)$$

TAC_{it} represents the amount of accruals of company i in year t, calculated by subtracting the current year's profit from the cash flow from the operating activities. TA_{it-1} represents the total assets of company i in year t-1, ΔREV_{it} is the change in revenue of company i between year t-1 and year t, PPE_{it} refers to the total gross fixed assets of company i in year t, and ROA is the return on assets of company i in year t. ε_{it} represents the residual value derived from the aforementioned regression, signifying the extent of earnings management. The residual value will be rendered absolute, so enabling the absolute value of the residuals from the equation to reflect the manager's efforts to manipulate profits in both directions. The primary hypothesis emphasizes the magnitudes of accruals rather than the direction or sign of the modified accruals (Nguyen et al., 2024).

TAXAGGR is determined with Discretionary Permanent Differences (DTAX) following Trisnawati et al. (2020, 2021).

$$PERMDIFF_{it} = \alpha_0 + \alpha_1 INTANG_{it} + \alpha_2 NCI_{it} + \alpha_3 CTE_{it} + \alpha_4 \Delta NOL_{it} + \varepsilon_{it} \quad (4)$$

PERMDIFF represents the total amount of permanent differences, INTANG denotes the value of intangible assets including goodwill, NCI reflects the profit or loss attributable to non-controlling interests, CTE indicates the current tax expense, NOL captures the change in compensable tax losses, and ε refers to the regression residual, which is identified as DTAX. To control for company size, all variables in the DTAX calculation are scaled by total assets from the prior year (t–1), consistent with the approach used by Frank et al. (2009).

Financial distress (DISTRESS) is measured using the Zmijewski (ZM) model, following the specification adopted by Luu Thu (2023), as outlined below:

$$ZM = -4{,}336 - 4{,}513\left(\frac{PAT}{TOT.ASSET}\right) + 5{,}679\left(\frac{TOT.LIAB}{TOT.ASSET}\right) + 0{,}004\left(\frac{CA}{CL}\right) \quad (5)$$

ZM represents the company’s level of financial distress. The variable PAT denotes the current year’s profit, TOT.ASSET refers to total assets, TOT.LIAB indicates total liabilities, CA represents current assets, and CL refers to current liabilities. A higher ZM score reflects an increased risk of financial distress (Luu Thu, 2023).

Company size (COMPSIZE) is measured as the natural logarithm of total assets, consistent with the approach adopted by Park & Choi (2023). Total assets are positively associated with company size, providing a standardized proxy for comparing companies of varying scales.

COMPSIZE = Ln (Total Asset)..(6)

PROFIT is measured by ROA, which is an indicator used to assess the company's ability or competence in generating profits or earnings based on a certain level of assets (Fujianti & Satria, 2020).

$$PROFIT = \frac{PAT}{TOT.ASSET} \quad (7)$$

COMPAGE serves as an indicator that elucidates the inception of a company's operations. This proxy is quantified by the natural logarithm of the gap between the date of the initial public offering on the IDX and the company's financial statements date (Salehi et al., 2020).

COMPAGE = Ln (Financial Statements Date – Initial Public Offering Date).......(8)

RESULTS AND DISCSUSSIONS

The results of data processing from all research variabels are presented in the following descriptive statistics:

Table 2. Descriptive Statistic

Variable	Mean	Maximum	Minimum	Std. Dev.	Obs.
ARL	99.936	785.000	29.000	47.411	705
EARN	0.087	3.077	0.000	0.166	705
TAXAGGR	0.000	8.791	-1.283	0.457	705
DISTRESS	4.640	705.613	-5.366	50.791	705
COMPSIZE	28.474	32.859	22.836	1.740	705
PROFIT	-0.052	4.693	-9.498	0.682	705
COMPAGE	8.545	9.639	5.950	0.810	705

Source: Research Data, 2025

As presented in Table 2, the Audit Report Lag (ARL) variable has a mean of 99.9362 days and a standard deviation of 47.411. This indicates that, on average, companies required approximately 100 days to finalize and publish their audited financial statements. The maximum ARL observed was 785 days, recorded by PT Bukit Uluwatu Villa Tbk. in 2020, while the minimum ARL was 29 days, reported by PT Unilever Indonesia Tbk. in 2019.

The earnings management variable, represented by EARN, shows a mean value of 0.087 and a standard deviation of 0.166. The highest value was 3.077, found in PT Trikomsel Oke Tbk. in 2022, whereas the lowest value, 0.000, was observed in PT Intermedia Capital Tbk. in 2021.

Tax aggressiveness, measured by TAXAGGR, has a mean of 0.000 and a standard deviation of 0.457. The maximum value of 8.791 occurred in PT Globe Kita Terang Tbk. in 2023, while the minimum value of -1.283 was also recorded by PT Trikomsel Oke Tbk. in the same year. The zero mean suggests that, on average, consumer sector companies exhibited minimal tax aggressiveness during the study period.

The financial distress variable, DISTRESS, has a mean of 4.6407 and a notably high standard deviation of 50.7914, indicating considerable variability in distress levels across the sample. The highest DISTRESS value, 705.613, was observed in PT Globe Kita Terang Tbk. in 2023, signifying the most extreme financial distress. Conversely, the lowest value, -5.366, was recorded by PT Prasidha Aneka Niaga Tbk. in the same year.

Company size, denoted as COMPSIZE, has a mean of 28.4749 and a standard deviation of 1.7407. The largest company, based on this measure, was PT Indofood Sukses Makmur Tbk. in 2023, with a COMPSIZE value of 32.859, while the smallest was PT Globe Kita Terang Tbk. in 2019, with a value of 22.836.

PROFIT, representing profitability, has a mean of -0.052 and a standard deviation of 0.682. The highest profitability was recorded by PT Trikomsel Oke Tbk. in 2022, with a value of 4.693, whereas the lowest, -9.498, was again attributed to PT Globe Kita Terang Tbk. in 2023, indicating significant variation in financial performance across companies.

Company age, represented by COMPAGE, shows a mean value of 8.545 (equivalent to approximately 18 years) and a standard deviation of 0.810. The oldest company in the sample was PT Multi Bintang Indonesia Tbk., with a COMPAGE value of 9.639, listed on the IDX since December 15, 1981. The youngest was PT Mega Perintis Tbk., with a COMPAGE value of 5.950, listed since December 12, 2018.

Following model selection procedures, the Fixed Effects Model (FEM) was determined to be the most appropriate for this study prior to conducting classical assumption testing. Multicollinearity diagnostics revealed that all correlation coefficients among the independent variables were below 0.85, indicating no multicollinearity issues (Basuki & Prawoto, 2023). Heteroscedasticity was tested using the White test, which showed that the probability values of the Obs*R-squared statistic and all independent variables exceeded the 0.05 threshold, confirming the absence of heteroscedasticity (Ghozali & Ratmono, 2017).

In the context of panel data analysis, the classical assumption tests performed were limited to multicollinearity and heteroscedasticity tests. As noted by Basuki & Prawoto (2023), autocorrelation is primarily a concern in time series data and thus was not tested here. Additionally, normality testing was deemed unnecessary, given that the sample size exceeded 30 observations, as supported by Ajija et al. (2019).

Table 3. Moderated Regression Analysis Result

Variable	Coeff.	t-Stat.	Prob.
Constanta	-412.548	-2.043	0.041
EARN	50.819	2.556	0.005
TAXAGGR	-16.653	-1.819	0.034
DISTRESS	-0.362	-1.829	0.034
EARN*DISTRESS	-0.274	-2.263	0.012
TAXAGGR*DISTRESS	0.013	0.710	0.238
COMPSIZE	27.234	3.810	0.000
PROFIT	-15.859	-3.230	0.000
COMPAGE	-31.132	-4.091	0.000
R^2	0.467		
Adjusted R^2	0.326		
F-stat.	3.300		
Prob (F-stat.)	0.000		

Source: Research Data, 2025

The regression results presented in Table 3 show an adjusted R^2 of 0.326, indicating that 32.60% of the variation in Audit Report Lag (ARL) is explained by earnings management (EARN), tax aggressiveness (TAXAGGR), financial distress (DISTRESS), the interaction terms (DISTRESS × EARN and DISTRESS × TAXAGGR), and the control variables: company size (COMPSIZE), profitability (PROFIT), and company age (COMPAGE). The remaining 67.40% is attributed to other factors not examined in this study. The F-statistic probability value is 0.0000, well below the 0.05 threshold, indicating that the regression model is statistically significant and appropriately specified.

As shown in Table 3, the coefficient for EARN is 50.8199, with a t-statistic of 2.5563 and a p-value of 0.005, suggesting that earnings management has a positive and statistically significant influence on ARL at the 5% significance level. This finding supports the first hypothesis (H_1). Consistent with agency theory Jensen & Meckling (1976), managers may manipulate financial information to serve personal interests, thereby increasing audit complexity and delaying the issuance of the audit report. Agency conflicts emerge when managers exploit information asymmetry for opportunistic purposes, such as through accrual-based earnings management.

In the consumer sector, where companies face intense competition and high-performance expectations, managers may employ accruals to adjust financial figures to align with internal goals or market benchmarks. Such practices typically extend ARL due to the additional time required by management to manipulate financial data and by auditors to detect and address such adjustments. Independent auditors must implement more extensive audit procedures to ensure the reliability of financial reports and to mitigate the risk of misstatement.

These findings are consistent with those of Kim et al. (2021), who argued that delays in financial reporting often indicate the presence of earnings management. Similarly, Isnaeni & Nurcahya (2021) found that both income-increasing and income-decreasing earnings management practices lead to longer ARL, as auditors require more time to address increased audit risk. In contrast, the present findings diverge from Kristianti & Setianingsih (2022), who reported no significant influence of earnings management on ARL, and from Andrianingsih & Prasetyo (2023), who found a negative influence. Moreover, Kateb (2024) argued that the adoption of IFRS mitigates reporting delays, particularly among companies with high discretionary accruals.

In contrast, the coefficient for TAXAGGR is -16.6539, with a t-statistic of -1.8192 and a p-value of 0.0347, indicating a statistically significant negative influence on ARL at the 5% significant level. Therefore, the second hypothesis (H_2), which proposed a positive influence of tax aggressiveness on ARL, is rejected. These results contradict prior studies by Lievia & Herusetya (2022), Tanujaya & Vaustine (2023), Khamisah et al. (2023), Rohmah et al. (2024), Gontara & Khlif (2021), Asiriuwa et al. (2021), Pingass & Dewi (2022), and Soeparjono & Senjadi (2024), who found a positive influence of tax aggressiveness on ARL. They also diverge from Hermanto & Nurriyah (2023) and Simanjuntak et al. (2023), who found no significant influence.

The analysis of TAXAGGR values reveals a high maximum (8.7919) and a relatively narrow standard deviation (0.4571) around a mean close to zero, indicating that most consumer sector companies display low to moderate tax aggressiveness. This suggests effective tax and risk management practices among IDX-listed consumer companies during the 2019–2023 period. Although tax aggressiveness is often associated with managerial opportunism to reduce tax liabilities and enhance profitability, the findings indicate that such practices may actually expedite financial reporting. Managers may prioritize timely audit completion to avoid regulatory scrutiny or stakeholder concerns (Prastiwi & Mariana, 2023).

One possible explanation is that not all tax aggressiveness strategies involve complex accounting manipulations that significantly complicate the audit process. In the consumer sector, tax planning tends to be straightforward, making it easier for auditors to assess and verify tax positions without substantial delay (Suwardi & Saragih, 2023).

The interaction term between EARN and DISTRESS yields a coefficient of -0.2749, with a t-statistic of -2.2639 and a p-value of 0.0120. This indicates that financial distress weakens the positive influence of earnings management on ARL, leading to the rejection of the third hypothesis (H_3). While managers may typically manipulate earnings to meet expectations, such strategies may be constrained under conditions of financial distress. In distress scenarios, managerial attention shifts toward maintaining solvency and ensuring business continuity, reducing their capacity or willingness to engage in earnings manipulation.

Moreover, distressed companies are subject to heightened scrutiny from auditors and regulators, further limiting management's discretion over financial reporting. This aligns with agency theory, which emphasizes the auditor's role in mitigating agency conflicts and ensuring the integrity of financial disclosures. During periods of financial difficulty, auditors intensify their verification efforts, curbing the potential for financial misrepresentation and enforcing greater transparency (Luhung & Sari, 2024).

Table 3 also shows that the interaction term between TAXAGGR and DISTRESS has a coefficient of 0.0130, with a t-statistic of 0.7109 and a p-value of 0.2387, indicating that the effect is not statistically significant. Thus, the fourth hypothesis (H_4), which posited that financial distress strengthens the positive influence of tax aggressiveness on ARL, is rejected.

Consumer sector companies, on average, exhibit moderate levels of tax aggressiveness and demonstrate adaptability in response to financial challenges. Under distress, managers may refrain from aggressive tax strategies to preserve the company's credibility and reduce regulatory risk (Prastiwi & Mariana, 2023). Distressed companies are more closely monitored by auditors and regulators, which discourages the use of aggressive or complex tax practices.

As noted by Putri & Halmawati (2023), companies with higher profitability often engage in tax aggressiveness to reduce taxable income. However, this behavior shifts under financial strain, where risk aversion and regulatory pressure prevail. Auditors, in turn, apply consistent audit methodologies while incorporating adaptive procedures to account for financial uncertainty. As a result, although tax planning may still occur, it does not materially affect audit timeliness or the company's financial reporting schedule.

CONCLUSIONS

The findings of this study offer new insights into the internal determinants of Audit Report Lag (ARL), specifically earnings management and tax aggressiveness practices, particularly under conditions of financial distress. The results demonstrate that earnings management has a positive and significant influence on ARL, although this influence is attenuated when companies experience financial distress. In contrast, tax aggressiveness is found to negatively influence ARL, and this influence is not moderated by financial distress. These findings contribute to the literature on financial reporting timeliness by highlighting the conditional role of financial distress in moderating the effects of managerial reporting behavior on audit timeliness.

Despite its contributions, this study is subject to several limitations. First, the adjusted R^2 value was relatively modest, indicating that other, unexamined factors likely contribute to variations in ARL. Second, during the study period, several external events may have affected the financial data of the sampled companies, including the implementation of new Indonesian Financial Accounting Standards (PSAK), the COVID-19 pandemic, and corporate actions such as mergers and acquisitions. These events were not explicitly controlled for in the analysis.

Future research is encouraged to integrate internal determinants—such as earnings management, tax aggressiveness, and financial distress—with external audit-related variables, including auditor characteristics, specialization, turnover, and the size of the public accounting company. Incorporating these variables may yield a more comprehensive understanding of the factors influencing ARL. Additionally, future studies should control for exogenous events and structural changes during the observation period. This could include the use of dummy variables to account for periods before, during, and after key regulatory changes, the COVID-19 pandemic, and corporate restructuring activities, such as mergers and acquisitions.

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