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AUDIT DELAY AND RISK MANAGEMENT DISCLOSURE IN CAPITAL MARKET: SOME NEXUS CONSIDERATIONS

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ABSTRACT: The reluctance of modern firms to disclose their risk management is often investigated; however, how it interacts with audit delay is still underrepresented in academic investigations. This article thus provides a glimpse of how profitability and leverage serve as predictors of audit delay and the risk management disclosure in Indonesia-listed firms, aside from managerial ownership as the moderating variable. A five-year market movement becomes the investigated data in a quantitative approach. The findings reveal that profitability and leverage are not related to risk management disclosure, but they affect audit delay and subsequently to the disclosure. Managerial ownership also boosts the relationships of the dependent variables. No Indirect relationships are reported.

Keywords: Risk Management Disclosure; Audit Delay; Ownership; Leverage; Profitability

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INTRODUCTION

The low level of awareness of risk management in Indonesia is seen from the lack of implementation of tools to prevent losses in the form of financial and non-financial risks. They are making investors and users of financial statements less confident in the completeness and reliability of accounting figures in the report (Patel & Chrisman, 2014). This study examines the effect of managerial ownership on risk management disclosure, the impact of public ownership on risk management disclosure, the impact of leverage on risk management disclosure, and the effect of firm size on risk management disclosure in companies listed in the Indonesia Stock Exchange.

Shareholders use financial statements to see a picture of the performance and changes in the company's financial position (White et al., 2010). Financial statement information is used as a basis for decision-making by both internal and external parties (Almazari, 2013). Financial statements do not only include information of a financial nature but also contain non-financial information. Investors need non-financial information in making investment-related decisions. Making investment decisions based on financial information without paying attention to non-financial information cannot be said to be the proper decision-making because investors do not know the company's actual value (Murphy, 2012). The number of fraud cases committed by companies in financial statements indicates that the level of awareness of risk management in companies in Indonesia is still low. This low awareness of risk management can be seen from the lack of implementation of tools to prevent losses in the form of financial and non-financial against the business risks faced (Alwi et al., 2021). This low awareness will make the company's survival immeasurable, which makes many companies go bankrupt or have problems. Some companies experiencing this problem have reduced the confidence of investors and users of financial statements in the completeness and reliability of accounting. Information in financial statements is very detrimental to many parties, such as manipulating financial statements that recently occurred at PT. Hanson International Tbk is a property company linked to the scandals of two state-owned companies PT Asuransi Jiwasraya (Persero) and PT Asabri (Persero). Although there are provisions for financial statement responsibility in the company law, its implementation in the field is still minimal. It is seen from the awareness of company leaders to prepare good financial reports is still lacking (Robbins & Judge, 2009).

The standard of risk management implementation is measured by the Index Framework International Standards Organization Committee of Sponsoring Organizations of the Treadway Commission (COSO 2017). Company Jakarta Islamic Index reveals risk with a stagnant value of 75%. The position of the Risk Management Disclosure of the Jakarta Islamic Index is quite good. Still, it is necessary to increase risk disclosure because the implementation and management are not optimal. Based on the Risk Management Disclosure items, the most disclosed risk by the Jakarta Islamic Index (JII) company is the risk related to non-financial issues with 75 disclosures. In comparison, the remaining

33 disclosures are risks associated with financial problems (Elshandidy et al., 2013).

This research will focus on companies that display the risk identification process in the Indonesian capital market, especially those listed in JII. This study will fill in the lack of discourse on audit delay and risk management disclosure and the interaction of other predictor variables. This research will contribute to the mapping of important information related to the role of audit quality and public information disclosure in Indonesia.

THEORETICAL REVIEW

Agency Theory

Agency theory was first coined by Jensen and Meckling (1976), with the argument that the agency relationship occurs when one or more people (Principal) hire another person (Agent) to provide a service and then delegate decision-making authority. Agency theory assumes management as a rational individual, has self-interest, and seeks to maximize his self-interest. Managers as agents are responsible for optimizing shareholder profits. On the other hand, managers also are interested in maximizing their welfare e, so, likely, agents will not always act in the principal's best interests (Davis et al., 1997; Young et al., 2012).

The difference in interests between shareholders and management can lead to a conflict called a conflict of interest. Conflicts of interest arise in agency theory when each party seeks to maximize profits for themselves. The principal wants a fast and considerable return on the investment invested in the company. In contrast, the agent wants his interests to be accommodated by providing adequate compensation or incentives for his performance. This difference in interests forces management to follow what the shareholders want to prepare financial statements that show the company's significant growth financially and non-financially(Lovell, 2002; Patel & Chrisman, 2014). Complete information is known by management, and the administration has the right to make strategies to prepare the company's financial statements so that they are correctly presented.

The managers often manipulate when reporting the company's condition to shareholders so that the goal of obtaining compensation can be achieved. The company's condition written by the manager is not appropriate or does not reflect the company's actual state because of the difference in the information held between managers and shareholders. Managers know more about the existing conditions in the company than the shareholders, thus creating information asymmetry (Daniel et al., 1998; White et al., 2010).

Agency theory can be used as a basis for understanding the practice of risk disclosure (Diamond, 1985). Managers as agents have more and more accurate company information than stakeholders. This information covers all company conditions, including conditions that the company may face in the future. Shareholders, creditors, and other stakeholders need this information as a basis for decision-making. In addition, the practice of risk disclosure is also able to avoid the company from conflicts of interest between the agent and the principal through

the control carried out by the principal to the agent by looking at the extent to which the agent carries out risk management disclosure (Borghei-Ghomi & Leung, 2013).

Based on the practice of risk disclosure, agency theory explains how managers provide information about risk to shareholders or creditors by giving accurate and reliable information. Managers, in this case, are internal parties of the company who know information about risks. In contrast, as external parties of the company, shareholders or creditors usually do not have information about risks (Donaldson & Davis, 1991). The availability of reliable, accurate information related to risk from managers to shareholders or creditors will reduce the problem of information asymmetry (White et al., 2010).

Profitability Interaction

Profitability describes the level of effectiveness of operational activities that can be achieved by the company (Almazari, 2013). If the company's profitability is low, the auditor will carry out his audit duties more carefully because there is a higher business risk that will slow down the audit process and cause the issuance of a longer audited report (Maliah et al., 2015; Whiting & Woodcock, 2011). Based on the description above, the hypotheses that can be formulated are:
H1: Profitability has a positive effect on Audit Delay
H2: Profitability has a positive impact on RMD
H3: There is an indirect relationship between profitability and audit delay

Leverage Interaction

Leverage is the company's ability to meet its obligations (Tang & Luo, 2016). If the company has high leverage, the risk of the company's loss increases. Therefore, to gain confidence in the company's financial statements, the auditor will increase caution so that the audit delay range will be more extended (Sulaiman et al., 2015). Leverage has a positive effect on audit delay, which means that if the leverage is high, the auditor must collect more competent evidence to ensure the fairness of the financial statements (Elshandidy et al., 2013; Iatridis, 2011).

Companies with significant debt levels are more speculative and riskier because external parties who provide capital loans will hold the company accordingly. Creditors as capital borrowers will continue to control and need more information about the company's financial condition to be used as a creditor's benchmark for company obligations. The company responds to creditors by conducting more risk management disclosures (Davis et al., 1997; Gibson, 2012), as leverage positively affects risk management disclosure. However, the researchers found that leverage does not affect the extent of risk management disclosure (Tang & Luo, 2012). Based on this explanation, the following hypothesis is formulated:
H4: Leverage has a positive effect on audit delay
H5. Leverage increases risk management disclosure opportunities
H6: It is suspected that leverage has a positive effect on risk management disclosure in indirect relationships

Audit Delay and Risk Management Disclosure

Audit Delay is the time difference between the date of the financial statements and the audit opinion in the financial statements indicating the length of time the auditor has completed the audit (Sterman et al., 2007). Audit delay is the length of time for the completion of the audit carried out by the auditor as measured by the time difference between the date of the financial statements and the date of the audit opinion in the financial reports (Al Mamun et al., 2020). Audit delay harms stock prices. The longer the delay in publishing the audited annual financial statements, the potential for economic uncertainty expected by the market will be (Astuti et al., 2020). Based on the description above, the hypotheses that can be formulated are:
H7: Audit delay affects risk management disclosure

Moderating effect of Managerial Ownership to Risk Management Disclosure

According to Jensen and Meckling (1976), the difference in interests between management and shareholders can be minimized by increasing managerial shares. The higher the managerial ownership in the company, the greater the management responsibility in making decisions and the more risk management disclosures (Majid et al., 2019). It is critical that risk management information creates a conducive environment for investment decision-making (Abdullah et al., 2017; Larasati & Asrori, 2020; Nasution et al., 2020) and provides ground for hypothetical formulation.
H8: It is suspected that managerial ownership harms risk management disclosure

METHODOLOGY

Design

This research approaches the investigated problems quantitatively. An explanatory design with an inferential statistic is provided to answers the presented hypotheses. This design offers five investigated variables in direct and indirect relationships. Two constructs serve as the exogenous predictor, i.e., profitability and leverage. Two other variables are audit delay and risk management disclosure (RMD), which are endogenous variables. This study also investigates the role of managerial ownership as the moderating variable between audit delay and RMD.

This investigation employs partial-least-square structural-equation-modeling (PLS-SEM) with Smartpls 3 software as the statistical tool to present the inner and outer model construction in the model. This technique will display outer and inner model quality assessment. The outer model serves as the presentation of the data quality in terms of their loading, Cronbach's alpha, composite reliability, rho-a, and average variance extractor (AVE) as the convergent validity requirement. This outer scenario also reveals the discriminant validity of the data by employing the Heterotrait-Monotrait (HTMT) test and the collinearity test. If all outer criterion is validated, the inner

model presentation of the proposed hypotheses is revealed. The internal model qualities are present in Tables 2 and 4, while the outer model is in table 4.

Measures

All investigated variables present the data from the financial report of each firm. Financial ratios comprise the variables like leverage, as measured by debt to asset ratio (DAR) dan debt to equity ratio (DER). The profitability is observable from the net profit margin (NPM) and the return on equity (ROE). The audit delay is the lag time between the accomplishment of the audit and the published report. The risk management disclosure is adapted from the paperwork of the COSO 2017, representing the data availability in 108 objects of interest. The ratio compares the disclosed information and the total number of measurements. All data is sufficient in terms of the data quality information. Table 1 presents the descriptive information of the data.s

Table 1. Descriptive Information

	Measures	Mean	St.Dev	1	2	3	4	5	6	7	8
1	**DAR**	0.351	0.199	1.000							
2	**DER**	0.797	0.962	0.822	1.000						
3	**ROE**	0.042	0.124	-0.17	-0.486	1.000					
4	**NPM**	0.124	0.734	-0.305	-0.487	0.738	1.000				
5	**AD**	0.714	0.224	-0.147	-0.02	-0.314	-0.271	1.000			
6	**Ownership**	0.439	0.255	0.019	0.034	-0.006	0.075	0.002	1.000		
7	**Pub.Own**	0.352	0.176	0.08	-0.057	0.293	0.219	-0.303	-0.085	1.000	
8	**RMD**	0.662	0.236	0.055	-0.018	0.2	0.178	-0.3	-0.027	0.699	1.000
9	**Firm Size**	20.681	5.653	-0.025	0.076	-0.024	-0.079	0.104	-0.027	-0.006	0.051

Source: Adapted Smartpls output

RESULTS

Inner Model Evaluation

The first stage in conducting the SEM-PLS test is analyzing an internal consistency reliability test or construct validity and reliability test. Table 2 describes all the data obtained in this study.

Table 2. Inner Model Validity and Reliability

Variable	Indicator	Loading	Alpha	rho_A	CR	AVE	VIF
Profitability	NPM	0.922	1	0.861	0.93	0.869	2.197
	ROE	0.942					2.197
Leverage	DAR	0.999	1	8.802	0.923	0.857	3.081
	DER	0.846					3.081
Audit Delay	AD	1.000	1.000	1.000	1.000	1.000	1.000
Man.Owner	MO	1.081	1.000	1.000	1.000	1.000	1.000
	RMD	1.000					1.000

Source: Adapted Smartpls output

Convergent validity is the first stage to evaluate the outer model seen from the loading factor value. According to Hair et al. (2010), in conducting research, the loading factor measurement scale is 0.7. Therefore, this study will use a loading factor limit of 0.7. Based on the modification table above, it can be seen that all loading factors have values above 0.70, so that no constructs for all variables have been eliminated from the model. Convergent validity is also seen through AVE (Average Variance Extracted). They also suggest that if a model has an AVE value above 0.5, it is categorized as having high convergent validity. The AVE value of each construct in the model is concluded that AVE value is above 0.5. These results indicate that this research data has met the requirements of both convergent validities (convergent validity). The combination of the assessment of the outer loading and the AVE (average variance extracted) test indicates that this research is convergent valid and meets the requirements to proceed to the next stage, namely the discriminant validity test as in table 3.

Table 3. HTMT Test

	Variables	**1**	**2**	**3**	**4**	**5**
1	Audit Delay					
2	Leverage	0.092				
3	Moderating Effect	0.124	0.115			
4	Ownership Proportion	0.002	0.029	0.455		
5	Profitability	0.341	0.465	0.175	0.047	
6	Risk Man. Disclosure	0.3	0.04	0.28	0.027	0

Source: Adapted Smartpls output

Discriminant validity is carried out to determine whether the variables or indicators in the research have a unique value related to the variables only. The results score the HTMT tests are below 0.9, thus confirming the acceptance of the overall feasibility of the model. After all model qualities pass, the path analysis can be carried out, as shown in table 4.

Table 4. Inner Model Relationship Summary

Relationships	Effect	T-value	P-value
Profitability -> Audit Delay	-0.382	3.134	0.002
Profitability -> RMD	0.116	1.028	0.305
Profitability-> Audit Delay -> RMD	0.08	1.552	0.121
Leverage -> Audit Delay	-0.243	2.930	0.004
Leverage -> RMD	0.089	0.97	0.332
Leverage -> Audit Delay -> RMD	0.051	1.548	0.122
Audit Delay -> RMD	-0.21	2.011	0.045
Audit Delay Mod.Effect -> RMD	0.303	5.070	0.000
R^2 to Audit Delay		0.154	
R^2 to Risk Management Disclosure		0.188	

Source: Adapted Smartpls Output

Testing the statistics of this study gave some interesting results. Profitability has a negative direct effect on audit delay but not on RMD. Therefore, an indirect relationship cannot be proven. On the other hand, leverage also negatively impacts audit delay, but not on RMD and an indirect connection. Audit delay was found to harm RMD. Managerial ownership significantly plays a moderating role in the relationship between audit delay and RMD, indicating strengthening the relationship between the two variables. The entire context of the findings of this study is shown in figure 1 and will be discussed further in the discussion section.

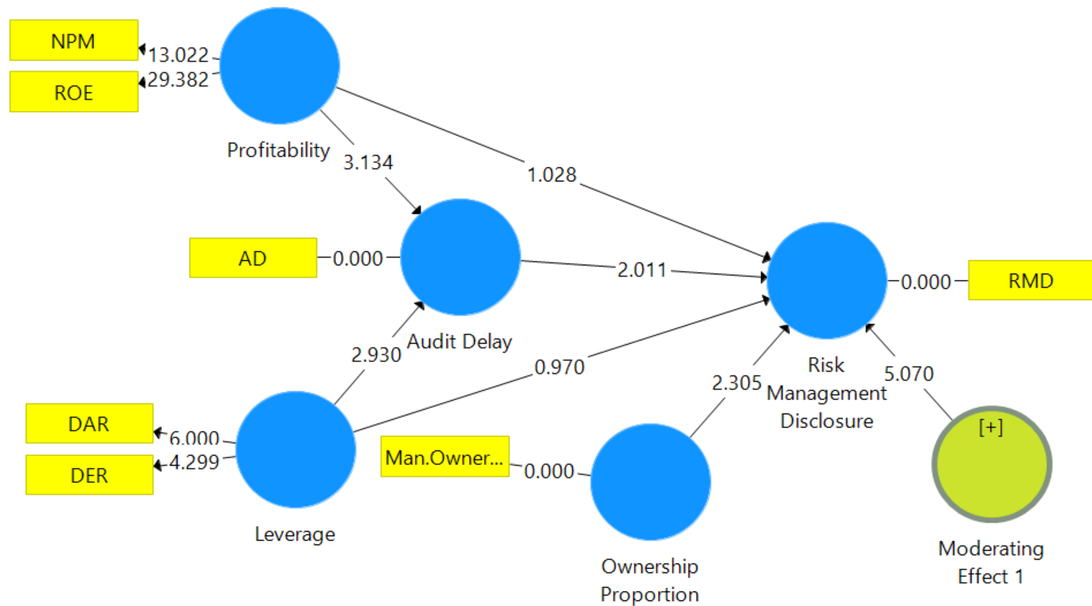

Figure 1. The Significance Test Revelation

DISCUSSION

The findings of this study provide partial acceptance of the proposed hypothesis formulation where profitability affects audit delay, but not on risk management disclosure (RMD) and the indirect relationship. Profitability information is necessary for investors because profitability is related to the company's stock price and dividends (Doraisamy et al., 2011). Data can be obtained about the profit from the investment invested (Galani et al., 2011). Every investor must pay attention when investing. That's why the company's profitability ratio is used to measure how much the company's ability to make a profit.

Investors are attracted to invest in the capital market because of the disclosure of information (Donaldson & Davis, 1991). One of the information needed in the capital market is the company's financial statements, which contain the company's net income(Albanese, R., Dacin, M.T., Harris, 1997). Investors use these financial statements in assessing the performance of companies that go public. The net income information obtained can be used as a basis for determining how much the return on investment is made or how much earnings are obtained from each share purchased by investors (Barth et al., 2008).

The leverage variable empirically has a negative and significant effect on audit delay but does not affect RMD, and there is no indirect relationship between the three variables. The path coefficient values found between the two variables were statistically significant as the higher the level of leverage, the company will usually be riskier (Elshandidy et al., 2013). The creditors need transparency in financial reporting and accountability for using funds that have been lent as a benchmark in repaying debt (Arakcheev et al., 2011). Agency theory expressed by Jensen and Meckling (1976) reveals that companies with a high level of leverage will disclose more risk information to reduce agency costs and convince creditors can meet their obligations (Frank & Goyal, 2007; Patel & Chrisman, 2014).

The results of this study are supported by previous researchers that leverage has a significant effect on risk management disclosure (Diamond, 1985; Elshandidy et al., 2013). Leverage is a ratio that shows the percentage of funds provided by shareholders to lenders or assesses the amount of debt used by the company. Creditors in companies with a high level of leverage will encourage management to disclose further information related to risk. Signal theory asserts that the company will provide information to creditors about any risks faced by the company. That creditors know the extent of the company's ability to fulfill its obligations (Jia et al., 2019), supporting agency theory which says that companies with high levels of leverage will disclose more risk information to reduce agency costs (Frank & Goyal, 2007). Managers also tend to provide more details related to risk management to send a good signal to creditors regarding the company's ability to meet its obligations (Kurniansyah et al., 2021).

As the presentation of information regarding the timeliness of audit results, audit delay is an essential condition in disclosing organizational risk. This study confirms the results of the statistical analysis on hypothesis 7 regarding the relationship between the two variables. The negative relationship proves that the longer the company delays reporting the audit results, the lower the potential for business risk disclosure (Bae & Woo, 2015). This finding indicates the potential for closing valuable public information, which is seen as reducing the interest of potential investors to buy shares in related companies. Audit and disclosure delays are interrelated elements, and therefore delays in either process will give investors a lousy signal, as signalling theory suggests. This finding highlights the underrepresented issue in the auditing delay quality and risk management disclosure as to the author’s knowledge.

Jakarta Islamic Index companies listed on the Indonesia Stock Exchange have leverage levels that continue to increase every year, although the increase is low. However, the size of the company's debt still affects the risk management disclosure because creditors need accountability from the company for the funds that have been used as a measuring tool to determine the company's ability to repay debt. Transparent risk disclosure will reduce agency costs between creditors as capital borrowers and companies as capital managers. The results show that managerial ownership has a negative and insignificant effect on risk management disclosure. This relationship between the two variables is thought to have no significant impact because managerial share ownership in Jakarta Islamic Index

companies is low, and some do not have executive shares. The common managerial share ownership in the Jakarta Islamic Index company makes it possible that management does not have full authority to determine a decision and affect the level of risk management disclosure because the majority owner controls many policies. Jensen and Meckling (1976) stated that the higher the managerial share ownership, the more risk management disclosure. Agency theory also assumes that management has two roles, namely as shareholders and as company managers. It can reduce conflicts of interest that occur between agents and principals, the emergence of agency problems between agents and principals as rational parties trying to defend their interests causes them to do moral hazard to protect each other's interests (Hellwig, 2009; M. Jensen, 2001; M. C. Jensen & Meckling, 1994; Kay, 2018).

This study found that managerial ownership does not significantly affect risk management disclosure by applying the application of managerial shares to assist the interests of managers and shareholders. In carrying out risk management disclosure, business activities at companies in Indonesia have not been fully effective (Nasution et al., 2020). Management has a dual role, namely as executor of the company and shareholders, which does not impact risk management disclosure (Davis et al., 1997). Management acts as the executor of the company has known the risks faced by the company even though it is not disclosed in its financial statements. Management will also take into account the costs that will be incurred from the disclosure. Because they already know the information, it is deemed necessary to re-disclose it in the financial statements.

This study increases the presentation of the paper by testing the effect of managerial ownership to moderate the audit delay and RMD. This study finds strong supporting evidence to this hypothesis, as a positive relation is discovered. This result provides another consideration when interpreting the interaction between the two variables. As to the author's knowledge, this moderating mechanism is still elusive in the academic debate; thus, our paper signifies the importance of considering this interrelated preposition. This argument stands that absolute ownership will lead the transformation of firms toward the expected route in defining strategic management (Kump et al., 2019; Ponciano & Amaral, 2021).

FURTHER STUDY

While our study shed light on several critical pieces of information in the capital market, it certainly comes with significant shortages. The measurement of RMD is revealed from the author's reading in the current progress of the disclosure in the firms; however, it may create a bias in the evaluation. A continuous assessment from multiple stakeholders may benefit the reliability and robustness of the data. This study also may get a significant increase in the quality by expanding the data across the stock market in the region, either in south east asia or other developing areas, serving as a portrayal of firms' openness in each political dynamic. We leave this to future researches.

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