

The Influence of Political Connections on Audit Report Lag before the Covid-19 Pandemic and after the Covid-19 Pandemic in Indonesia with Related Party Transactions as a Moderating Variable

(Empirical Study on Mining Companies Listed on the Indonesia Stock Exchange 2017-2022)

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Abstract:- Auditors experienced difficulties and faced big challenges during the Pandemic. These difficulties include limitations in accessing information and documents needed to carry out audits. This includes financial records, contracts, and other supporting documents that may only be physically available at the company's offices. This difficulty can affect the delay in reporting audit results. This study aims to determine the effect of political connection on audit report lag and moderated related party transactions.

This research method is a type of descriptive quantitative research. Independent variables, namely political connection, dependent variable, namely Audit Report Lag and related party transactions as moderating variables. The samples in this study are 16 mining companies listed on the Indonesia Stock Exchange for the period 2017 to 2022 which have complied with the regulations. Data collection techniques through documentation of the company's financial statements obtained through the official website of the Indonesia Stock Exchange (www.IDX.com). Data were analyzed using panel regression analysis using Eviews 12.

The results of the study show that Political Connections have an effect on Audit Report Lag both before and after the COVID-19 pandemic. Related Party Transactions moderate Political Connection on Audit Report Lag both before and after the COVID-19 pandemic. There is no difference in the results of Related Party Transactions moderating Political Connection on Audit Report Lag before and after the COVID-19 pandemic, meaning that both before and after the pandemic both showed a significant effect.

Keywords:- Audit Report Lag; Political Connections; Related Party Transaction.

I. INTRODUCTION

The pandemic has had a significant impact on company performance and presented new challenges for employees. The challenge is due to a sudden change in work culture to work from home (WFH). This work culture is significantly different from the work culture before COVID-19. Auditors are one of the professions affected by COVID-19 (Saputro, K. B., et al 2022). Auditors feel difficulties and face great challenges during WFH. Such difficulties include limitations in accessing the information and documents needed to carry out audits. This includes financial records, contracts, and other supporting documents that may only be physically available at the company's office.

Data from the Stock Exchange shows that the mining sector is one of the sectors recorded to experience the most Audit Report Lag. This is in line with reports of the slump in the energy sector during the COVID-19 pandemic which experienced many pressures, ranging from plummeting oil prices where it was brought at US \$ 40 per barrel, and for the first time in history the price of WTI contracts that were actively traded fell into negative territory, besides that fuel consumption (BBM) fell dramatically even to all-time lows, Electricity consumption is minus, and a series of other issues. So it can be concluded that there may be a relationship between mining companies experiencing Audit Report Lag related to the problems faced in the sector. During such circumstances, the auditor shall maintain the highest possible level of quality in carrying out audit procedures and shall be able to obtain appropriate and adequate audit evidence.

II. THEORETICAL FOUNDATION

➤ Agency Theory

Agency theory according to Atmojo, (2017) explains that the relationship of agency theory is very close to punctuality. The principal in this study is the company, while the agent is the auditor and there are two relationships between the relationship between the theory of ganenan in

the company and the auditor. Agency theory is a branch of game theory that studies the drafting of contracts to motivate rational agents to act on behalf of the principal when the agent's interests conflict with those of the principal (Scott, 2012).

➤ *Audit Report Lag*

According to Black et al (2023) Audit Report Lag is the time between the end of a company's fiscal year and the date of the auditor's report. The length of audit delay is the number of days the auditor spends completing the audit process, from the closing date of the company's books to the issuance of the auditor's report (Ashton, et al., 1987). The longer the audit report lags show the longer the auditor completes the audit work so that it will have an impact on the length of issuance of audited financial statements. If the publication of audited financial statements is late, the financial statements will lose their relevance. The auditor must be able to estimate the completion time of the audit process so that the publication of the financial statements can be on time.

➤ *Political Connections*

Political connections are relationships that occur between one party and other parties who have a political identity. (Harymawan, I., & Ayuningtias, E. S. 2020). Political relations are generally a form of relationship between companies and politicians. This relationship can occur if there is at least one politician acting as a shareholder who has control (either directly or indirectly) over the company (Habib & Muhammadiyah, 2018). Furthermore, political connections can also occur if one of

the members of the board of commissioners, directors is a minister, parliamentarian, regional head, or party politician (Adhikari, et al., 2006 and Habib and Muhammadi, 2018).

The definition of political connections is seen in terms of whether the government has ownership of the company (Hao, 2006). Political connections are rated 1 if at least one of the company's shareholders or management includes someone from a section of parliamentary figures, ministers, or politicians and political party figures, and a rating of 0 for statements to the contrary (Oussii & Taktak, 2018).

➤ *Related Party Transaction*

Related Party Transaction is a transaction carried out by a company with parties who have a special relationship, namely transactions carried out with parties such as associated companies, companies in one controller, individual companies, their immediate family companies or companies that have significant voting rights. (Gordon, et al 2023) Related Party Transactions (RPT) is a phenomenon where the controller is directly on the other side of a transaction or has affiliates, relatives, etc. dealing with the corporation. (Enriques, L., & Troger, T. H. Eds., 2019). Transactions that occur in the company generally involve parties outside the company, who indirectly have no relationship with the company. However, it is not uncommon for transactions carried out to involve internal company parties (commonly called related parties). Transactions involving related parties are generally referred to as related-party transactions.

III. THINKING FRAMEWORK

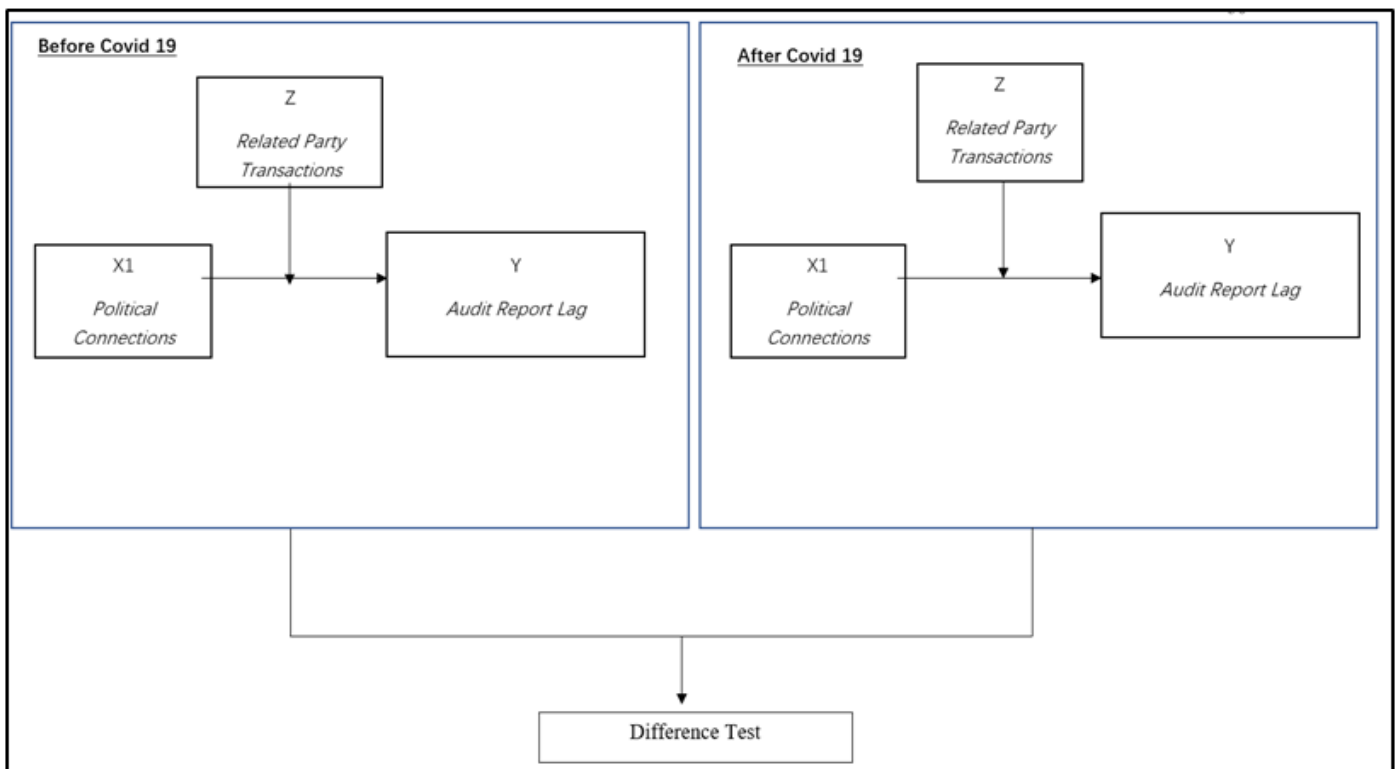


Fig 1 Thinking Framework

➤ *Based on the Framework Described Earlier, the Researcher Formulates the Following Hypothesis:*

- **Ha1:** Political Connections had a partial effect on Audit Report Lag before the COVID-19 pandemic
- **Ha2:** Related Party Transactions have the effect of partially moderating the Political Connection to Audit Report Lag before the COVID-19 pandemic
- **Ha3:** Political Connections have a partial effect on Audit Report Lag after the COVID-19 pandemic
- **Ha4:** Related Party Transactions have the effect of partially moderating Political Connection to Audit Report Lag after the COVID-19 pandemic
- **H5:** There is a difference Related Party Transactions moderated the influence of Political Connection on Audit Report Lag before the COVID-19 pandemic and after the COVID-19 pandemic

IV. RESEARCH METHODS

The research was conducted on the Indonesia Stock Exchange using secondary data in the form of annual financial reports of companies listed on the Indonesia Stock Exchange. This research was conducted by processing data on the Indonesia Stock Exchange. The population in this study is mining companies listed on the IDX. The sampling technique in this study used purposive sampling.

The data analysis technique used in this study is to use Panel regression analysis. As a data processing tool using Eviews software. Analysis using data panels is a combination of cross section and time series data. By accommodating in the information model both bound to cross section variables and time series. Panel data is often called pooled data, defined as a dataset where the behavior of cross-sectional units is observed over time (Ghozali, 2016)

V. RESULTS AND DISCUSSION

A. Before the COVID-19 Pandemic

➤ *Descriptive Analysis*

Table 1 Descriptive Data

	ARL	PC	RPT
Mean	123.333	0.708333	22.42103
Median	119	1.000000	24.97732
Maximum	175	1.000000	28.87836
Minimum	29	0.000000	12.03439
Std. Dev.	40,947	0.459340	5.626041
Sum	5436,333	34.00000	1076.209
Observations	48	48	48

- *Based on the Descriptive Statistical Test Table above, Information is Obtained that:*

➤ *Audit Report Lag (Y)*

Based on the data processing that has been done, it can be known that the variables 1. Audit Report Lag (ARL) has a mean or average value of 123,333 with a maximum value of 175 found in PT. Cita Mineral Investindo Tbk. Minimum score of 29 is found at PT. Borneo Olah Sarana Sukses Tbk With a standard deviation of 40.94. The RPT value is obtained from the data of the related party's debt.

➤ *Political Connections (X1)*

Based on the data processing that has been done, it can be seen that the Political Connections variable (X1) has a mean or average value of 0.708333 with a maximum value of 1.000000.

➤ *Related Party Transactions (RPT)*

Based on the data processing that has been carried out, it can be seen that the Related Party Transactions (RPT) variable has a mean or average value of 22.42103 with a maximum value of 28.87836 found in PT. Kapuas Prima Coal Tbk. Related party accounts payable to PT. Kapuas Prima Coal Tbk is PT Energi Powerindo Jaya and the minimum value of 12.03439 is found at PT. Elnusa Tbk. As for related parties PT. Elnusa Tbk namely PT Pertamina (Persero), PT Pertamina Patra Niaga, PT Pertamina Retail and Others (each below 0.5% of paid-up capital). While the standard deviation is +5.626041 which means that the magnitude of the increase, the maximum tan is the average variable, while the maximum decrease of the average variable Related Party Transactions (RPT) -5.626041.

➤ *Classical Assumption Test Analysis*

- *Normality Test*

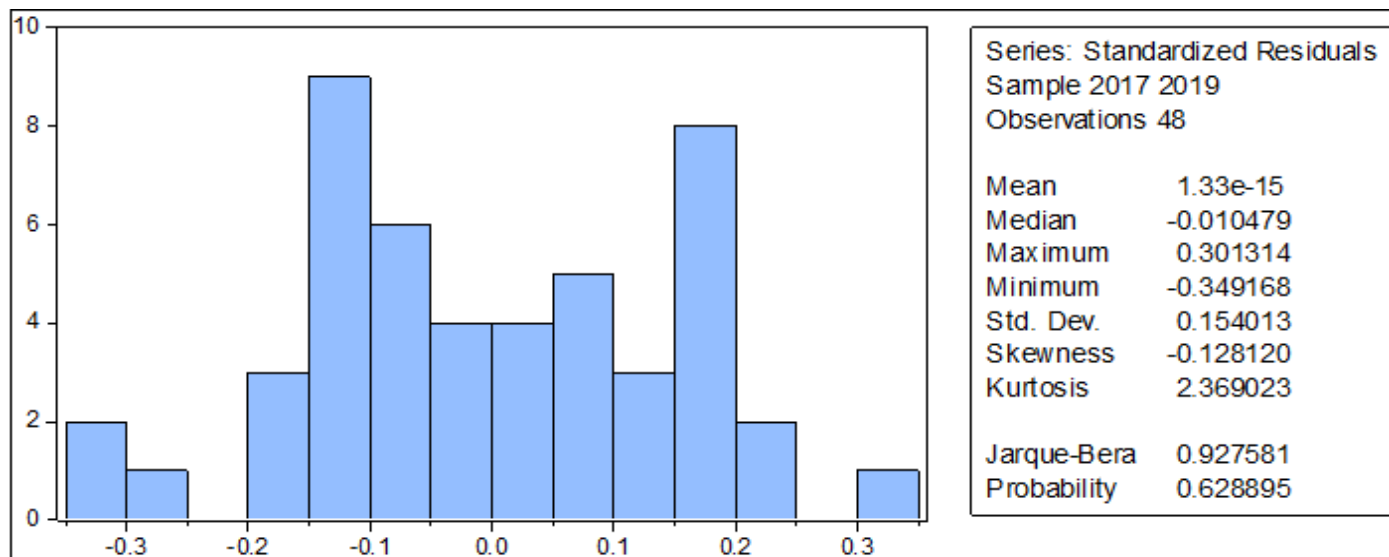


Fig 2 Normality Test

Based on figure 2, it can be known that the probability value is $0.628 > 0.05$, so it can be concluded that the data is normally distributed.

- *Multicollinearity Test*

Table 2 Multicollinearity Test

	PC	LNRPT
PC	1.000000	-0.093909
LNRPT	-0.093909	1.000000

Based on table 3, it can be seen that each variable has a value The collinearity value in each relationship has a value lower than 1 so that there are no symptoms of multicollinearity.

- *Model Selection Test*

- ✓ *Test Chow*

Table 3 Chow Test

Effects Test	Statistics	d.f.	Prob.
Cross-section F	16.690487	(15,30)	0.0000
Cross-section Chi-square	107.273639	15	0.0000

The results of the analysis show that the F probability value for the likelihood ratio comparison test in this model is very low, which is 0.0000, which is much smaller than the alpha value set at 0.05. Therefore, the null hypothesis (H0) is rejected, and the alternative hypothesis (H1) is accepted. Based on these results, it can be concluded that the model that best fits the data is the model with fixed effects.

- *Hausman Test*

Table 3 Hausman Test

Test Summary	Chi-sq. Statistics	Chi-sq. d.f.	Prob.
Cross-section random	3.220873	2	0.1998

- ✓ H0 : Model follows random effects
- ✓ H1 : Model follows fixed effects

The results of the Hausman test show a significance value of 0.1998, which is greater than the previously established significance level of 0.05. Therefore, based on the results of this test, we do not have enough evidence to reject the null hypothesis (H0). So the selected model is Random Effect.

- LM Test

Table 4 LM Test

Test Hypothesis			
	Cross-Section	Time	Both
Breusch-Pagan	31.36115 (0.0000)	0.935595 (0.3334)	32.29674 (0.0000)
Honda	5.600103 (0.0000)	-0.967262 --	3.275913 (0.0005)
King-Wu	5.600103 (0.0000)	-0.967262 --	1.012235 (0.1557)
Standardized Honda	6.164995 (0.0000)	-0.692971 --	0.540358 (0.2945)
Standardized King-Wu	6.164995 (0.0000)	-0.692971 --	-1.079849 --
Gourierioux, et al.*	--	--	31.36115 (< 0.01)
*Mixed chi-square asymptotic critical values:			
1%	7.289		
5%	4.321		
10%	2.952		

With a Breush-Pagan Probability (BP) value of 0.0000, the proposed hypothesis states that if the Breush-Pagan Probability (BP) is less than alpha ($0.0000 < 0.05$), then the null hypothesis (H0) will be rejected and the alternative hypothesis (H1) accepted. Since the value of the Breush-Pagan Probability (BP) is smaller than the predefined alpha, it can be concluded that the model that is more in line with these results is the random effects model.

- REM (Selected Models)

Table 5 Hausman Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.390605	0.126578	34.68698	0.0000
PC	-0.088635	0.029261	-3.029157	0.0041
LNRPT	-0.028559	0.005241	-5.448879	0.0000
Effects Specification				
			S.D.	Rho
Cross-section random	0.147474	0.8554		
Idiosyncratic random	0.060632	0.1446		
Weighted Statistics				
R-squared	0.442600	Mean dependent var	0.851634	
Adjusted R-squared	0.417827	S.D. dependent var	0.080535	
S.E. of regression	0.061449	Sum squared resid	0.169917	
F-statistic	17.86600	Durbin-Watson stat	1.671967	
Prob(F-statistic)	0.000002			
Unweighted Statistics				
R-squared	0.345847	Mean dependent var	3.687500	
Sum squared resid	1.114847	Durbin-Watson stat	0.254829	

Based on the table above from the results of the hausman test, random effect model vs fixed effect model above, obtained a chi-square probability value of $0.0015 \leq 0.05$, then the hypothesis H0 is rejected and H1 is accepted which means the Random Effect Model model is a more appropriate model to use.

➤ *Test the Hypothesis*

• *Moderation Regression Analysis*

Table 6 Panel Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.554613	0.142709	31.91540	0.0000
PC	75989.85	25706.65	2.956038	0.0050
LNRPT	-0.036873	0.005882	-6.269009	0.0000
PC*RPT	-6660.411	2186.705	-3.045866	0.0039
Effects Specification				
			S.D.	Rho
Cross-section random			0.136757	0.8308
Idiosyncratic random			0.061710	0.1692
Weighted Statistics				
R-squared	0.471947	Mean dependent var		0.929652
Adjusted R-squared	0.435944	S.D. dependent var		0.082507
S.E. of regression	0.061966	Sum squared resid		0.168948
F-statistic	13.10833	Durbin-Watson stat		1.970875
Prob(F-statistic)	0.000003			
Unweighted Statistics				
R-squared	0.432146	Mean dependent var		3.687500
Sum squared resid	0.967770	Durbin-Watson stat		0.344066

Based on table 6 above, the calculation of moderated regression analysis using the E-views for windows program obtained the following results:

$$Y = 44.554 + 7598X - c) - 0.036Z$$

✓ *Quasi-Moderation*

This means that the Related Party Transactions variable as a moderation variable interacts with the Political Connections variable with a PC probability value of 0.0050 and a PC_RPT of 0.0039.

✓ *Constant = 4.554*

That is, if there is no variable Political Connections and Related Party Transactions as a moderation variable that affects ARL, then ARL is 4.554.

✓ *b1 = 759*

That is, if the variable Policial Connection increased by one unit, then ARL will increase by 7598X assuming another free variable is fixed.

✓ *b3 = -0.036*

This means that if the RPT variable increases by one unit, the ARL will decrease by -0.036 assuming that another independent variable remains

➤ *T Test Results*

The t test is performed to determine the effect of the independent variable with the dependent variable.

- Based on table 6 above, it can be seen that the results of the significance test show that there is a probability value of $0.005 < 0.05$ or a calculated t value of $2.956 > t$ table 1.71. This value can prove Ha1 is accepted, which means that "Political Connections had an effect on Audit Report Lag before the COVID-19 pandemic".
- Based on table 6 above, it can be seen that the results of the significance test show that there is a probability value of $0.003 < 0.05$ or a calculated t value of $3.045 > t$ table 1.71. The value can prove Ha2 is acceptable, meaning that "Related Party Transaction moderates Political Connection to Audit Report Lag before the COVID-19 pandemic".

➤ *Coefficient of Determination*

Based on table 6 shows the magnitude of the coefficient of determination R Squared = 0.471, meaning that before the pandemic the Political Connection variable, affecting the Audit Report Lag by 0.442 or the remaining 47.1% was influenced by other variables that were not included in this research model.

➤ *After the COVID-19 Pandemic*

• *Descriptive Analysis*

Table 7 Descriptive Analysis

	ARL	PC	RPT
Mean	123,333	0.750000	23.76218
Median	119	1.000000	25.92677
Maximum	175	1.000000	28.27200
Minimum	29	0.000 000	13.68818
Std. Dev.	40,947	0.437595	4.846816
Sum	5436,333	36.00000	1140.585
Observations	48	48	48

• *Based on the Descriptive Statistical Test Table above, Information is Obtained that:*

✓ *Audit Report Lag (Y)*

Based on the data processing that has been carried out, it can be seen that the Audit Report Lag (ARL) variable has a mean or average value of 123,333 with a maximum value of 175 found in PT Bukit Asam Tbk, Capitalinc Investment Tbk and SMR Utama Tbk and a minimum value of 29 found in PT. Kapuas Prima Coal Tbk With a standard deviation of 40,947.

✓ *Political Connections (X1)*

Based on the data processing that has been done, it can be seen that the Political Connections variable (X1) has a mean or average value of 0.708333 with a maximum value of 1.000000.

➤ *Related Party Transactions (RPT)*

Based on the data processing that has been done, it can be seen that the Related Party Transactions (RPT) variable has a mean or average value of 23.76218 with a maximum value of 28.27200 found in PT. Central Omega Resource Tbk and minimum value of 13.68818 is found at PT. Elnusa Tbk. with a standard deviation of +4.846816 which means that the maximum increase in the average variable, while the maximum decrease from the average variable Related Party Transactions (RPT) -4.846816.

➤ *Statistical Analysis Test*

• *Normality Test*

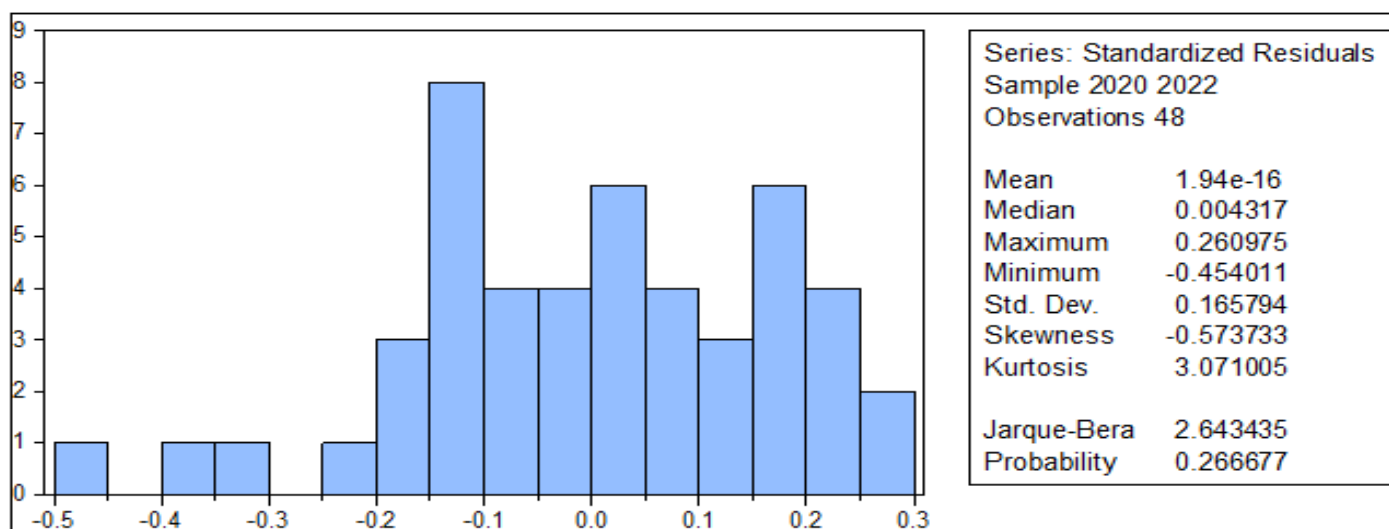


Fig 2 Normality Test

Based on Figure 2, it can be known that the probability value is 0.628 > 0.05, so it can be concluded that the data is normally distributed.

• *Multicollinearity Test*

Table 8 Multicollinearity Test

	PC	LNRPT
PC	1.000000	-0.125448
LNRPT	-0.125448	1.000000

Based on table 8, it can be seen that each variable has a value The collinearity value in each relationship has a value lower than 1 so that there are no symptoms of multicollinearity.

➤ *Test the Hypothesis*

• *Moderation Regression Analysis*

Table 9 Panel Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.390605	0.126578	34.68698	0.0000
PC	-0.088635	0.029261	-3.029157	0.0041
LNRPT	-0.028559	0.005241	-5.448879	0.0000
PC_RPT	0.033414	0.009461	3.531720	0.0010
Effects Specification				
			S.D.	Rho
Cross-section random	0.163903	0.8513		
Idiosyncratic random	0.068491	0.1487		
Weighted Statistics				
R-squared	0.702283	Mean dependent var	1.011419	
Adjusted R-squared	0.681984	S.D. dependent var	0.124604	
S.E. of regression	0.070268	Sum squared resid	0.217253	
F-statistic	34.59712	Durbin-Watson stat	1.245473	
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.517972	Mean dependent var	4.312500	
Sum squared resid	1.277935	Durbin-Watson stat	0.211734	

Based on table 9 above, the calculation of moderated regression analysis using the E-views for windows program obtained the following results:

$$Y = 4.3906 + 0.0886X - 0.0285Z$$

✓ *Quasi-Moderation*

This means that the Related Party Transactions variable as a moderation variable interacts with the Political Connections variable with a PC probability value of 0.0041 and a PC_RPT of 0.0010.

✓ *Constant: 4.3906*

This means that if the variables Political Connections and Related Party Transactions as moderation variables affect ARL, then ARL is 4.3906.

✓ *b1 = 0.0886*

This means that if the Political Connection variable increases by one unit, the ARL will increase by 0.0886 assuming that another independent variable is fixed.

✓ *b3 = 0.0285*

This means that if the RPT variable increases by one unit, the ARL will decrease by 0.0285 assuming that another independent variable remains

• *T Test Results*

✓ Based on table 10 above, it can be seen that the results of the significance test show that there is a probability value of $0.000 < 0.05$ or a calculated t value of $9.51 > t$ table 1.71. This value can prove H_{a3} is accepted, which means that "Political Connections affect Audit Report Lag after the COVID-19 pandemic".

✓ Based on table 4.10 above, it can be seen that the results of the significance test show that there is an RPT value of $0.001 < 0.05$ or t count $3.531 > t$ table 1.171. This value can prove H_{a4} is accepted, which means that Related Party Transaction moderates the Political Connection to Audit Reporty Lag after the COVID-19 pandemic".

• *Coefficient of Determination*

Based on table 10 shows the magnitude of the coefficient of determination R Squared = 0.442, meaning that before the pandemic the Political Connection variable, affecting the Audit Report Lag by 0.687 or the remaining 68.7% was influenced by other variables that were not included in this research model.

• *Differences between Political Connections and Moderated Audit Report Lag Related Party Connections before and after the COVID-19 pandemic*

Table 10 Summary of t-Test Comparison after and before the Pandemic

Variable	Probability		Information
	Before	After	
The effect of PC on ARL before Covid 19	0.005<0.05.	0.004<0.05.	There is no difference
PC's influence on ARL moderated RPT before Covid 19	0.003<0.05.	0.001<0.05.	There is no difference

• Based on Table 10 above, the Test Results can be Known as Follows:

✓ Before Covid:

Probability values of $0.005 < 0.05$ or calculated t values of $29.56 > t$ table 1.71. This value can prove H_{a1} is accepted, which means that "Political Connections had an effect on Audit Report Lag before the COVID-19 pandemic".

✓ After Covid:

Probability value of $0.004 < 0.05$ or calculated t value of $5.44 > t$ table 1.71. The value can prove H_{a2} is acceptable, meaning that "Related Party Transaction moderated the Political Connection to Audit Report Lag before the COVID-19 pandemic".

• Based on Table 10 above, it can be seen that the Results of Significance Testing show that:

✓ Before Covid:

Probability value of $0.003 < 0.05$ or calculated t value of $3.045 > t$ table 1.71. The value can prove H_{a1} is acceptable, which means that "Related Party Transaction moderated the Political Connection to Audit Report Lag before the COVID-19 pandemic".

✓ After Covid:

RPT value of $0.001 < 0.05$. This value can prove H_{a4} is accepted, which means that Related Party Transaction moderates the Political Connection to Audit Reporty Lag after the COVID-19 pandemic".

VI. CONCLUSIONS AND ADVICE

➤ Based on the Results and Discussion, it can be Concluded as Follows:

- Political Connections influenced the Audit Report Lag before the COVID-19 pandemic, which means that political involvement can encourage the government to pay more attention to and supervise companies with political connections. This increased oversight can encourage companies to adhere to rules and best practices, which can be reflected in better audit reports.
- Related Party Transactions moderated the Political Connection to Audit Report Lag before the COVID-19 pandemic, which means that Transactions with Related Parties can increase complexity and risk in the audit process. If there are suspicious or high-risk transactions, the auditor may take longer to investigate the transaction, compile sufficient audit evidence, and provide his opinion in the audit report. This can cause delays in the issuance of Audit Report Lag.

- Political Connections affect Audit Report Lag after the COVID-19 pandemic, which means that several companies that have not changed both before and after the pandemic are still the same leadership and management, so the results still affect each other.
- Related Party Transaction moderates Political Connection to Audit Report Lag after the COVID-19 pandemic, which means that during the COVID-19 pandemic, companies are faced with unprecedented economic and business environment instability. Related Party Transactions may become even more important during this period as some companies may rely on assistance or support from relevant parties to survive or maintain their operations.
- There was no difference in the outcome of Transaction's Related Party moderating the Political Connection to Audit Report Lag before and after the COVID-19 pandemic, meaning that both before and after the pandemic showed significant influence.

➤ Based on the Conclusions that have been Outlined by the Researcher, the Suggestions that can be Proposed are as Follows:

- For the Next Researcher
 - ✓ Further research is expected to use a wider research object by extending the research year so that the number of samples used in the study will be larger.
 - ✓ Further research is recommended to be able to add independent variables and related dependent variables that have not been contained in this study.
 - ✓ It is best to expand the research sample outside the manufacturing company. The expansion of sample companies can show different and increasingly accurate results. In addition, it is also necessary to add years of research, so that the data is more valid and reliable.

- For Companies
 - Companies should pay more attention to good corporate performance without prioritizing and controlling political connections by maintaining the condition of the company's management professionally in carrying out the company's operational activities so that it does not have a higher risk. In addition, openness and ease of public access to information on figures of the company's board of commissioners and board of directors can help reduce irrational reactions from news related to alleged negative political practices, which will have an impact on company operations.

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