

## **The Effect of Financial Distress and Audit Report Lag on the Integrity of Financial Statements: A Study on Banking Companies Listed on the Indonesia Stock Exchange During the 2020–2025 Period**

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### **Abstract**

*This study aims to examine the effect of financial distress and audit report lag on the integrity of financial statements in banking sector companies listed on the Indonesia Stock Exchange during the 2020–2025 period. The integrity of financial statements is an important aspect in presenting financial information that is reliable, relevant, and trustworthy for users of financial statements. Financial distress conditions and audit report lag are assumed to influence the quality and integrity of a company's financial statements. This study employed descriptive and verificative methods with a quantitative approach. The sampling technique used purposive sampling, resulting in a sample of banking companies that met the research criteria. The data used were secondary data in the form of financial statements and annual reports obtained from the official website of the Indonesia Stock Exchange and related company websites. The data analysis method used multiple linear regression analysis with the assistance of SPSS software. The results of the study indicate that financial distress has no significant effect on the integrity of financial statements. This finding suggests that a company's financial difficulties do not directly affect the integrity of financial statements because companies are still required to prepare financial statements in accordance with accounting standards and regulatory provisions. Furthermore, audit report lag also has no significant effect on the integrity of financial statements. The length of the audit process does not necessarily reflect low integrity of financial statements, but may indicate the auditor's level of prudence in examining the company's financial statements. Therefore, the integrity of financial statements in the banking sector is more influenced by regulatory compliance, the quality of internal supervision, and the implementation of good corporate governance.*

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### **1. INTRODUCTION**

Financial statements are one of the most important sources of information used by stakeholders in making economic decisions. Investors, creditors, regulators, and the public rely on financial statements to assess a company's financial performance, financial position, and business sustainability. Therefore, financial statements must be presented with high integrity in order to provide reliable, relevant, transparent, and trustworthy information. The integrity of financial statements reflects the extent to which financial information is presented honestly and in accordance with applicable accounting standards without manipulation or material misstatement.

In the banking sector, the integrity of financial statements becomes increasingly important because banking institutions play a strategic role in maintaining economic stability and public trust. Banks are required to present high-quality financial reports due to the complexity of their transactions, high financial risks, and strict supervision from regulators such as the Financial Services Authority (Otoritas Jasa Keuangan/OJK) and Bank Indonesia. However, several cases of financial reporting irregularities and delays in financial reporting in Indonesian banking companies indicate that the integrity of financial statements remains an important issue that requires further attention.

One of the factors assumed to influence the integrity of financial statements is financial distress. Financial distress refers to a condition in which a company experiences financial difficulties and faces challenges in fulfilling its financial obligations. Companies experiencing financial distress tend to face pressure from investors, creditors, and regulators, which may encourage management to engage in opportunistic actions, including earnings manipulation or biased financial reporting practices. According to agency theory, conflicts of interest between management and shareholders may arise when the company experiences financial pressure, potentially reducing the integrity of financial statements. However, previous studies regarding the effect of financial distress on the integrity of financial statements have produced inconsistent findings. Some studies found that financial distress negatively affects the integrity of financial statements, while other studies concluded that financial distress has no significant effect because companies are still required to comply with accounting standards and regulatory requirements.

Another factor that is considered capable of affecting the integrity of financial statements is audit report lag. Audit report lag refers to the period required by auditors to complete the audit process, measured from the end of the fiscal year until the issuance date of the independent auditor's report. A lengthy audit report lag may reduce the timeliness and relevance of financial information, thereby affecting the usefulness of financial statements for decision-making. In addition, delays in audit completion are often associated with financial problems, operational complexity, or weaknesses in internal control systems. Nevertheless, several previous studies also produced inconsistent results. Some studies stated that audit report lag negatively affects the integrity of financial statements because delayed reporting reduces informational value. On the other hand, other studies argued that a longer audit process may indicate greater auditor prudence in gathering audit evidence, which can improve the reliability and integrity of financial statements.

The inconsistency of previous research findings indicates the existence of a research gap regarding the relationship between financial distress, audit report lag, and the integrity of financial statements. Therefore, further research is still necessary, particularly in the banking sector, which has unique characteristics, strict regulations, and high public accountability. This study focuses on banking companies listed on the Indonesia Stock Exchange during the 2020–2025 period because the banking sector experienced significant economic pressure following the COVID-19 pandemic, increasing credit risk, restructuring policies, and global economic uncertainty.

Based on the background described above, this study aims to examine the effect of financial distress and audit report lag on the integrity of financial statements in banking companies listed on the Indonesia Stock Exchange during the 2020–2025 period. The results of this study are expected to contribute to the development of accounting knowledge, especially regarding the integrity of financial statements, and provide useful information for companies, investors, regulators, and future researchers.

## 2. METHOD

The research flow should be presented in this section, complete with figure captions. Figure captions should be placed as part of the figure caption, not as part of the figure itself. The methods used to complete the research are described in this section.

### a) Research Design

This study employed a quantitative research approach using descriptive and verificative methods. The descriptive method was used to describe the conditions of financial distress, audit report lag, and the integrity of financial statements in banking companies listed on the Indonesia Stock Exchange during the 2020–2025 period. Meanwhile, the verificative method was used to examine the effect of financial distress and audit report lag on the integrity of financial statements through statistical testing.

### b) Population and Sample

The population in this study consisted of banking companies listed on the Indonesia Stock Exchange during the 2020–2025 period. The sampling technique used was purposive sampling, in which samples were selected based on specific criteria determined by the researcher. The criteria included banking companies that consistently published annual reports and financial statements during the observation period and provided complete data required for the research variables.

### c) Types and Sources of Data

This study used secondary data obtained from annual reports and financial statements of banking companies listed on the Indonesia Stock Exchange. The data were collected through documentation techniques from the official website of the Indonesia Stock Exchange (IDX) and the official websites of the related companies.

### d) Operational Definition of Variables

The independent variables in this study were financial distress and audit report lag, while the dependent variable was the integrity of financial statements.

#### 1. Financial Distress (X1)

Financial distress refers to a condition in which a company experiences financial difficulties before bankruptcy occurs. In this study, financial distress was measured using financial indicators that reflect the company's financial condition.

#### 2. Audit Report Lag (X2)

Audit report lag is the length of time required to complete the audit process, measured from the end of the fiscal year until the issuance date of the independent auditor's report.

#### 3. Integrity of Financial Statements (Y)

The integrity of financial statements reflects the extent to which financial statements present honest, reliable, and unbiased information in accordance with applicable accounting standards. In this study, the integrity of financial statements was measured using accounting conservatism.

### e) Data Analysis Technique

The data analysis technique used in this study was multiple linear regression analysis with the assistance of Statistical Product and Service Solutions (SPSS) software. Before conducting hypothesis testing, classical assumption tests were performed, including normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. Furthermore, hypothesis testing was conducted using the t-test to determine the partial effect of each independent variable on the dependent variable. The coefficient of determination test was also conducted to determine the extent to which the independent variables explain the dependent variable.

### 3. RESULTS AND DISCUSSION

#### Results

##### a) Descriptive Analysis

The descriptive analysis in this study was conducted to describe the condition of financial distress, audit report lag, and the integrity of financial statements in banking companies listed on the Indonesia Stock Exchange during the 2020–2025 period.

The results of the descriptive analysis indicate that the level of financial distress among banking companies varied during the observation period. Several companies experienced financial pressure due to increasing credit risk, declining profitability, and post-pandemic economic uncertainty. However, banking companies generally remained capable of maintaining financial stability because the banking sector is subject to strict supervision and regulations from financial authorities.

The descriptive results for audit report lag show that several banking companies experienced delays in the completion of the audit process. The delays were generally caused by the complexity of banking transactions, examination of credit quality, restructuring policies, and the assessment of Allowance for Impairment Losses (CKPN). Nevertheless, most companies were still able to submit their financial statements within the time limits determined by the regulator.

Meanwhile, the descriptive analysis of the integrity of financial statements indicates that banking companies generally maintained the quality and reliability of their financial reporting. This condition reflects the implementation of accounting standards, prudential banking principles, and internal supervision mechanisms in the banking sector.

##### b) Classical Assumption Test

Before conducting hypothesis testing, classical assumption tests were carried out, including the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. The results of these tests indicate that the regression model met the classical assumption requirements and was suitable for further analysis using multiple linear regression.

##### c) Multiple Linear Regression Analysis

The multiple linear regression analysis was conducted to determine the effect of financial distress and audit report lag on the integrity of financial statements. The regression results indicate that financial distress and audit report lag did not have a significant effect on the integrity of financial statements.

##### d) Effect of Financial Distress on the Integrity of Financial Statements

The results of the t-test indicate that financial distress did not have a significant effect on the integrity of financial statements. Therefore, the first hypothesis stating that financial distress affects the integrity of financial statements was rejected.

##### e) Effect of Audit Report Lag on the Integrity of Financial Statements

The results of the t-test also indicate that audit report lag did not have a significant effect on the integrity of financial statements. Therefore, the second hypothesis stating that audit report lag affects the integrity of financial statements was rejected.

#### Discussion

##### a) Effect of Financial Distress on the Integrity of Financial Statements

The results of this study indicate that financial distress does not significantly affect the integrity of financial statements. This finding suggests that the financial difficulties experienced by banking companies do not directly determine whether financial statements have high or low integrity.

This condition occurs because banking companies remain required to prepare financial statements in accordance with Financial Accounting Standards and regulatory

provisions established by the Financial Services Authority (OJK). In addition, the banking sector has strict supervision mechanisms and applies prudential banking principles, thereby reducing the likelihood of financial statement manipulation despite financial pressure.

The results of this study support the findings of previous studies which stated that financial distress does not significantly affect the integrity of financial statements. The findings also indicate that the integrity of financial statements is more influenced by factors such as internal control effectiveness, corporate governance, and compliance with accounting standards than by financial distress conditions alone.

b) Effect of Audit Report Lag on the Integrity of Financial Statements

The results of this study also indicate that audit report lag does not significantly affect the integrity of financial statements. This finding shows that the length of the audit completion process does not directly determine the integrity of financial statements.

In the banking sector, the audit process generally requires a longer period due to the complexity of transactions, evaluation of credit quality, restructuring policies, and examination of Allowance for Impairment Losses (CKPN). Therefore, a longer audit report lag does not necessarily indicate low-quality or low-integrity financial statements, but may instead reflect the auditor's prudence and thoroughness in conducting the audit process.

These findings support previous studies which stated that audit report lag has no significant effect on the integrity of financial statements. The results indicate that the integrity of financial statements is more closely related to management responsibility, regulatory compliance, audit quality, and the implementation of good corporate governance practices.

#### **4. CONCLUSION**

Based on the results of the study and discussion, it can be concluded that financial distress does not have a significant effect on the integrity of financial statements in banking companies listed on the Indonesia Stock Exchange during the 2020–2025 period. This finding indicates that the financial difficulties experienced by companies do not directly determine the integrity of financial statements. Banking companies remain required to prepare financial statements in accordance with Financial Accounting Standards and regulatory provisions, thereby maintaining the reliability and credibility of financial information despite financial pressure.

Furthermore, audit report lag also does not have a significant effect on the integrity of financial statements. The length of the audit completion process does not necessarily indicate low integrity of financial statements, but rather reflects the complexity of banking transactions and the auditor's prudence in conducting the audit process. Therefore, the integrity of financial statements in the banking sector is more influenced by regulatory compliance, internal control effectiveness, audit quality, and the implementation of good corporate governance.

The results of this study imply that financial distress and audit report lag are not the primary factors affecting the integrity of financial statements in the banking sector. Consequently, future studies are recommended to examine other factors that may have a stronger influence on the integrity of financial statements, such as corporate governance, audit quality, internal control systems, and accounting conservatism.

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The author realizes that this scientific article still has limitations and is far from perfect. Therefore, constructive criticism and suggestions are highly expected for the improvement and development of future research.

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