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CEO Overconfidence, Audit Fee, and Audit Report Lag

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Abstract
A Financial statements must be presented in timely manner because the information will be used by investors for decision making. Audit report lag can be caused by audit fee and the role of CEO in decision making. The purpose of this study is to examine the mediating role of audit fees on the effect of CEO Overconfidence to audit report lag. Many studies only examine the effect of audit fees without paying attention to CEO's psychological condition. This study uses a sample of companies listed on the IDX from 2016 to 2020 that obtained through the official website of IDX and Thomson Reuter Database. The results show that CEO Overconfidence has a negative effect on audit report lag mediated by audit fees. CEO Overconfidence will choose to report financial statements in timely manner by increasing audit fees so that the image as CEO who can make good decisions can be proven.

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ABSTRAK
Laporan keuangan harus disajikan tepat waktu karena informasi tersebut akan digunakan oleh investor untuk pengambilan keputusan. *Audit report lag* dapat disebabkan oleh besaran *audit fee* dan peran CEO dalam pengambilan keputusan. Tujuan dari penelitian ini adalah untuk menguji peran mediasi *audit fee* terhadap pengaruh CEO Overconfidence terhadap *audit report lag*. Banyak penelitian yang hanya meneliti pengaruh *audit fee* tanpa memperhatikan kondisi psikologis CEO. Penelitian ini menggunakan sampel perusahaan yang terdaftar di BEI tahun 2016 hingga 2020 yang diperoleh melalui situs resmi BEI dan Thomson Reuter Database. Hasil penelitian menunjukkan bahwa CEO Overconfidence berpengaruh negatif terhadap *audit report lag* yang dimediasi oleh *audit fee*. CEO Overconfidence akan memilih untuk melaporkan laporan keuangan secara tepat waktu dengan menaikkan biaya audit sehingga citra sebagai CEO yang dapat mengambil keputusan yang baik dapat dibuktikan.

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1. INTRODUCTION

When a company seeks funding by issuing shares through the Indonesia Stock Exchange (IDX), the company must provide information to investors about the company's financial condition. This information can be obtained from the company's financial statements. However, investors cannot fully trust what is presented in the financial statements because the financial statements may not reflect the actual situation. For this reason, every company listed on the IDX must submit financial statements in accordance with General Accepted Accounting Principle and have been audited (Arifuddin et al., 2017). In addition, financial statements must be presented in a timely manner because the information in the financial statements will be used by investors for decision making (Pinatih, 2017). Information in financial statements will be more useful for decision making if the information is published quickly (Putra P & Putra I, 2016). The delay in submitting financial statements can also cause negative reactions from investors (Halim, 2018).

Indonesia Stock Exchange has set a deadline for the publication of audit reports that must be carried out by each company correctly. However, in fact there are companies who are still late in publishing their audited financial statements. The Board of Directors of the Jakarta Stock Exchange Number Kep-306/BEJ/07-2004 concerning Rule Number I-E concerning Obligations to Submit Information, audited financial statements which must be at the latest at the end of the 3rd month after the date of the audited financial statements. In addition, the Indonesia Stock Exchange also imposes sanctions on companies who are late in submitting their financial reports in accordance with the Decree of the Board of Directors of the Jakarta Stock Exchange Number: Kep-307/BEJ/07-2004 concerning Rule Number I-H concerning Sanctions."

The delay in submitting financial reports can be caused by the amount of costs incurred by the company. The amount of audit fees incurred is determined by agreement during the audit engagement. Large companies will provide higher audit fees (Hariyono, 2018) and the costs incurred are also based on the time of the audit, services, and the number of staff needed (Sabrina, 2021). In addition, the amount of audit issued cannot be denied because of the role of the CEO which is one of the important elements for the company in decision making. One of the characters of CEO is overconfidence, which is a personal characteristic that describes an individual's tendency to have better abilities and judgments (Hirshleifer et al., 2012). Based on research conducted by Oradi (2021) stated that CEO who come from within the company tend to provide higher audit fees because of the desire to be promoted.

Overall, the study about CEO Overconfidence and audit report lag is still few. Previous research focus on CEO succession origin that audit fees are lower when a CEO is hired from within the organization (Oradi, 2021). However, the effect on psychological CEO is still unexplored. This research is important because how the CEO's decision in determining audit fees is still unclear. CEO can incur small audit fees because they are hired from within the company. However, CEO from within the company can also incur large audit fees because of the desire to be promoted (Oradi, 2021). The CEO's decision to spend a large audit fee is expected to reduce delays in submitting financial statements and investors will get a signal to invest in the company which will ultimately add value to the company. Previous research has also never examined audit fees as a mediating variable on the effect of CEO Overconfidence on audit report lag.

The purpose of this study is to examine whether CEO overconfidence has an effect on audit report lag with audit fee as a moderating variable. The psychological condition of CEO is interesting to examine because psychological factors can cause bias in decision making. This study uses a sample of companies listed on the IDX from 2016 to 2020 that obtained through the official website of IDX and Thomson Reuter Database. The contribution of this study is to add the literature on audit report lag. First, this study uses audit fee as a moderating variable. Second, this study examines the psychology of CEO. Third, this study examines the effect of audit fee that is still unclear.

2. LITERATURE REVIEW

Theory Overview

Agency theory according to Jensen & Meckling (1976) is a theory that explains the relationship between principals or investors and agents or company management which is often not aligned. Investors and management have their own interests and want these interests to be maintained. Management as a party who knows the real conditions of the company seeks to get the maximum benefit for his party. Meanwhile, investors also want managers to take actions according to the wishes of investors (Nova, G. D. A., Azwardi, & Wahyudi, 2019). To avoid conflicts between principal and agent, a third party is needed, namely an external auditor. The external auditor as an independent third party audits the financial statements made by management to be accountable to investors, so that investors can trust that the financial statements reflect the actual condition of the company.

Signaling theory explains that a signal given by the owner of the information is expected to be used by the recipient of the information, which in turn will adjust its behavior according to the understanding of the party receiving the information. The signals provided by the company can also help stakeholders to distinguish which issuers have good or bad performance because CEO overconfidence will make a decision to diminish the information gap with outsiders and retain a good reputation with publish financial reports in timely of manner for the public so decrease audit report lag.

Upper-Echelon theory is that the executive's experiences, values, and personality greatly influence the interpretation of the situation at hand and, in turn, can influence choices (Hambrick, 2007). The existence of upper-echelon theory states that the psychological characteristics of executives can greatly influence the CEO's decision-making process under certain internal or external conditions and the organization is a reflection of top management (Hambrick, 2007). CEO overconfidence can make decisions regarding audit fees to be incurred by the company. With the audit fee can also determine whether there is a delay in the audit report or not.

CEO Overconfidence

CEO Overconfidence is a CEO who has a tendency that he has better characteristics in terms of ability, judgment, skill, and level of success. Previous literature describes CEO overconfidence as the CEO's tendency to overestimate the company's future performance (Malmendier & Tate, 2005). When an overconfident CEO decides to make a decision, it will be influenced by the CEO's personal characteristics. CEO overconfidence will play an important role in decision making and company policies. One of the decisions is related to audit fees to be issued to public accounting firms. The previous literature describes CEO overconfidence as a CEO's tendency to disclose more voluntary disclosures (Lys et al., 2015). When an overconfident CEO makes a decision, the CEO will be influenced by his or her personal characteristics. CEO overconfidence plays an important role in decision making and firm policy. Based on (Malmendier & Tate, 2005), CEO overconfidence measurements are based on stock options. CEO overconfidence will continually make more choices than those suggested by the benchmark because they feel that with its ability to keep the firm's stock price up and believe it will benefit by holding options.

Audit Fee

The audit fee is a fee for financial statement audit services that have been carried out by the auditor. The audit fee given by each client can vary, this is based on the risk of the assignment, the complexity of the services provided, and the level of expertise required. In addition, the amount of the audit fee is also determined by the reputation of the KAP and the size of the client company. The audit fee is obtained from an agreement between the auditor and the client at the time of the engagement. Because it was formed from an agreement, it is expected that the auditor can complete the audit of the financial statements on time.

Audit Report Lag

Audit Report Lag is the length of time delay in submitting financial statements which is calculated from the deadline for submitting financial statements set by the OJK, which is the end of the fourth month from the closing date of the book, until the independent auditor's report is issued. Audit report lag occurs because the external auditor is unable to complete his audit activities on time, assuming the appointment of KAP by the company is done before the closing time, or before December 31. Audit report lag can affect the speed with which the financial statements are issued to stakeholders, which in turn has an impact on the market reaction. If this happens too often, there will be a negative reaction in the capital market so that the market will not function optimally" (Lumban Gaol & Duha, 2021). If there is audit report lag in company so it indicate that company is late in completing the audit on time and CEO Overconfidence fail to make a good decision.

The Effect of CEO Overconfidence and Audit Report Lag

CEO overconfidence has a tendency that he has better characteristics in judgement and prospects to success. The existence of CEO overconfident will influence the policies made by the company. One of the policies taken by CEO overconfidence is publishing financial reporting in timely manner. CEO overconfidence tends to give a good signal to stakeholders because when he makes a wrong decision, it will have an impact on his career. In addition, CEO Overconfidence have sufficient information about company's activities, such as operation, business situation, products, and many more. So, CEO overconfidence will make the best decision to give benefit for stakeholders with give an information about financial condition in timely manner. Due to his risk preferences, CEO overconfidence are more likely to avoid audit delay, as the delay reduces the timeliness of audited financial statements and could signal problems with internal control systems and/or other financial reporting issues (Ettredge et al., 2021). Female CEOs are associated with shorter audit report delay, suggesting that they are sensitive to the market pressure to avoid audit delay (Jo & Harjoto, 2014).

Based on signalling theory, investors will see a good signal if the company submits financial reports on time. This is because investors judge the company to generate large profits so that management decisions will deliver the good news quickly (Pande & Mertha, 2016). Investors in deciding to invest will examine at the financial statements to assess the company's performance. One of the things that investors or potential investors pay attention to invest or maintain their ownership is by looking at the profits generated by the company which are reflected in the published financial statements. Because the sooner the good news is delivered, the faster the investment in the company will earn, which means that there will be less delay in submitting financial statements. So, the hypothesis tested is as follows:

H1: CEO Overconfidence has a negative effect on audit report lag

The Effect of CEO Overconfidence and Audit Fee

The existence of the CEO overconfidence in the composition of the company's directors can influence the policies taken by the company. Based on the upper echelon theory, one of the decisions taken by the CEO is influenced by psychological aspects. CEO overconfidence has its own discretion when deciding to make decisions because CEO overconfidence has the nature of empathy when looking at it from the perspective of investors, employees, customers, the environment, and other stakeholders (Waldman & Siegel, 2008). CEO overconfidence plays an important role in decision making, one of which is in offer high audit fee. The aim of the firm to offer high audit fee is to avoid audit report lag (Sabrina, 2021). In addition, CEO overconfidence sees audit fees as very important factors for external auditor to finish audited financial statement in timely manner so investor can invest. Higher audit fees will increase the external auditor's assessed level of control risk and level of assurance. As a result, the audit committee member may press for greater assurance than is necessary to reduce the reporting risk to an acceptable level for all shareholders, shifting the additional cost of audit to shareholders, who have little power in determining the level of audit work (Devi, 2020).

Given the regulatory standards and the pressure from both the capital market and the stakeholders, most CEOs desire audit quality because it relates to reporting quality, and they perceive their reputation and personal welfare are at stake. CEOs could lose their jobs and face potential legal and reputational costs when issuing financial reports and disclosure of poor quality. Prior research has shown that top executive turnover is associated with poor reporting and disclosure quality, such as restatement (Desai & Dharmapala, 2006). CEOs who are forced to turnover generally find new positions that are, on average, inferior to their prior jobs. In addition, Banker et al. (2013) find that past performance affects the salary of continuing and newly appointed CEOs, providing evidence that reputation matters in determining executive compensation. With job security and compensation being influenced by financial reporting quality, CEOs will naturally desire to provide high-quality reports and disclosure with increasing audit fee. So that the hypothesis to be tested is as follows:

H2: CEO Overconfidence has a positive effect on audit fees

The Effect of Audit Fee and Audit Report Lag

Research conducted by Sabrina (2021) regarding the effect of audit fees, internal auditors, and profitability on the audit report lag of companies listed on the Indonesia Stock Exchange in 2017-2019. This study found that audit fees and profitability have a negative effect on audit report lag. The greater the audit fee given by the company to the external auditor, the more in timely manner the company is in submitting financial statements (Hariyono, 2018). Large public accounting firm will tend to offer high audit fees and large public accounting firm have more experienced auditors in the field of auditing as well as a large number of work staff, complete audit facilities and more sophisticated technology, with high audit fees fast in conducting the financial statement audit process, so that the audit report lag is shorter (Hariyono, 2018).

The amount of audit fee given by each company to the auditor can be different. The amount of the audit fee is determined based on the agreement when the client's engagement with the auditor is carried out. Large companies will provide higher audit fees (Hariyono, 2018). The audit fee is determined according to the time of the audit, services, and the number of staff required for the audit process. The higher the audit fee given by the client, the time needed to complete the audit will be shorter, because external auditors can increase the number of staff, the technology used will be more sophisticated, so the company will report its financial statements in a timely manner. So that the hypothesis to be tested is as follows:

H3: Audit fee has a negative effect on audit report lag

The Effect of CEO Overconfidence, Audit Fee, and Audit Report Lag

CEO overconfidence has a role to make a big decision to publish financial statement in timely manner and decide how much audit fee that issued by company. Based on agency theory, when business activities are not always managed directly by the owner of the company, all management matters are left to the agent. To avoid conflicts between principal and agent, a third party is needed, namely an external auditor. The external auditor as an independent third party audits the financial statements made by management to be accountable to investors, so that investors can trust that the financial statements reflect the actual condition of the company.

CEO overconfidence concern about the pressure to avoid reporting delay and the pressure to protect their own reputation as good monitors (Jo & Harjoto, 2014). Same with CEO overconfidence, stakeholders are arguably sensitive to the capital market pressure so they want audited financial statement publish in timely of manner so they can analyze the financial condition. To avoid audit report lag, CEO overconfidence will make a decision to increase audit fee in order to maintain their board roles. High audit fee is expected to have decrease audit report lag so investor can see the ability of CEO overconfidence based on information in financial statement, which consequently can affect investor to make decision to invest. When there is information that the company spend high audit fee, automatically there is no audit report lag matter because investor conclude CEO overconfidence will have an impact to increase investor preferences to invest their money to increase value of the company. Audit fee can help CEO overconfidence to make a decision to avoid audit report lag. So that the hypothesis to be tested is as follows

H4: CEO overconfidence has a negative effect on audit report lag by audit fee as mediating variable

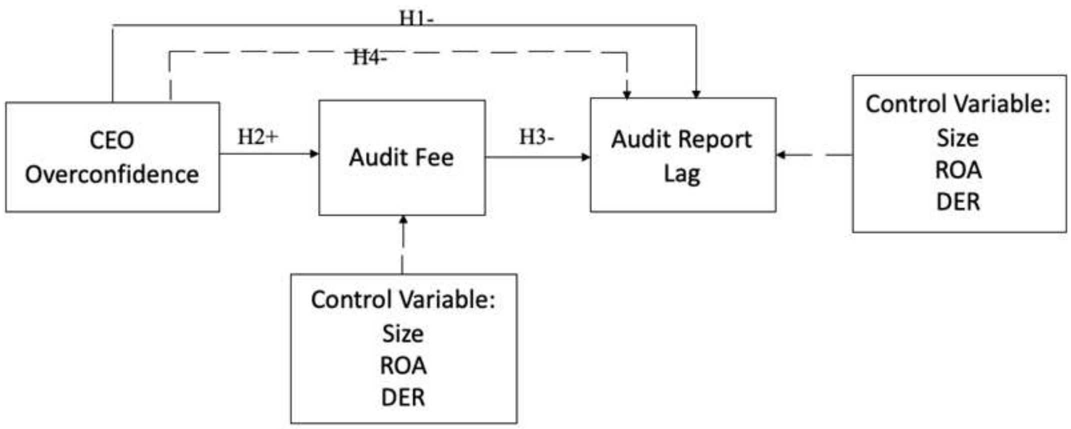

Figure. 1 Research Model

3. RESEARCH METHOD

This study uses a sample of companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2020. Secondary data collection uses company financial statements obtained through the IDX official website (*IDX*, n.d.) and the Thomson Reuter Database. The sample selection technique used in this research is saturated sample technique that used all of population companies that listed on the IDX in 2016-2020.

This research is a quantitative empirical research that tests Structural Equation Modeling (SEM). This study uses SEM because one of the variables tested in this study is to see the effect of mediation so that using SEM can be obtained several models at once in one analysis and SEM is the best model in analyzing path analysis (Kline, 2016). In this study, statistical panel data regression will be tested to test the research hypothesis, namely the mediating role of audit fees on the effect of CEO overconfidence and audit report lag using Stata software.

This study conducted a classical assumption test with Goodness of Fit that is Likelihood Chi Square, the likelihood test of chi square was to see the best research model and see whether the research model was in accordance with the data. The basis for decision making is to look at prob>chi >0.05. This study uses a maximum likelihood estimator to analyze the research model as follows:

ARLit: $\beta_0 + \beta_1$CEOit + β_2FEEit + β_3SIZEit + β_4ROAit + β_5DERit + εit....(1)

FEEit: $\alpha_0 + \alpha_1$CEOit + α_2SIZEit + α_3ROAit + α_4DERit + εit....(2)

Where :

ARL : Audit Report Lag

CEO : CEO Overconfidence

FEE : Audit Fee

SIZE : Company Size

ROA : Return on Assets
DER : Debt Equity Ratio
E. : Error TERM

Research Variables and Variables Measurements

This study used CEO overconfidence as an independent variable, audit report lag as the dependent variable, audit fee as a mediating variable, and SIZE, DER as control variables.

Independent Variable

The independent variable in this study is CEO overconfidence. CEO overconfidence variables are obtained from the CEO overconfidence level, that is CEO who tends to overestimate investment because CEO who has overconfidence will be confident to invest more in innovation. CEO overconfidence also has the success rate of obtaining more patents and achieving greater innovative success for the R&D expenses incurred so as to increase firm value and reduce firm risk (Hirshleifer et al., 2012). CEO overconfidence is measured using the research model of Kouaib & Jarboui (2016) by using excess investment, namely the residual value of the regression of total asset growth with sales growth, then measured by a dummy variable; 1 if the value of excess investment is greater than the median value of the industry for one year , and 0 otherwise.

Dependent Variable

The dependent variable in this study is audit report lag. Audit report lag variable is seen from the number of days calculated from the deadline for submitting financial statements, which is the end of the fourth month, until the independent auditor's report is issued using a model from Roselina (2019).

Mediating Variable

The mediating variable in this study is audit fee. Audit fee variable was obtained from the value of professional fees in the company's audited financial statements using a model from (Sabrina, 2021).

Control variables of audit fee and audit report lag consist of three variables, namely:

Size

The size control variable is the size of the firm measured based on the natural logarithm of the firm's total assets. This firm size variable follows a study conducted by (Oradi, 2021) with the argument that large firms tend to spend high audit to decrease audit report lag.

Profitability

Profitability is a determinant that is often tested in research on audit fee and audit report lag. Profitability is proxied by return on assets (ROA). ROA which is measured by the company's ability to utilize assets to generate profits will slow down the completion time of the audit report. This is because the greater the company's ability to generate profits, the more sales transactions that exist within the company

Leverage

Leverage is measured by a debt to total assets ratio (DER). Based on research conducted by Oradi (2021), firm with high leverage will have to increase audit fee to decrease audit report lag in order to give a signal to investor to invest.

The operational definition of variables in this study can be seen in table 1 below:

Table 1: Definition of Variable Operationalization

Variable	Definition of Operasionalization
ARL	the number of days calculated from the deadline for submitting financial statements, which is the end of the fourth month, until the independent auditor's report is issued.
CEO	dummy variable, 1 if the value of excess investment (residual value from the regression of total asset growth and sales growth) is greater than the median industry value for one year, and 0 otherwise
FEE	The value of natural logarithm of professional fees in the company's audited financial statements
SIZE	Natural logarithm Total Assets
ROA	$\frac{\text{Net Income}}{\text{Total Assets}}$
DER	$\frac{\text{Total Debt}}{\text{Total Assets}}$

Source: Prepared by author (2022)

4. RESULTS AND DISCUSSION

Goodness of Fit Analysis

This study used the SEM model to obtain an unbiased conclusion and fulfill the model feasibility test. The Goodness of Fit test was carried out as described in table 2:

Table 2. Goodness of Fit Analysis

Fit statistics	Value	Category
p > chi2	0.000	p>chi2 < 0.05

As table 2 indicates, the research model in the study is good and is in accordance with the data because the value of p> <0.05 is 0.000.

Descriptive Statistics

Table 3 presents a descriptive analysis of the variables used in the study, including CEO overconfidence, audit fee, audit report lag, and control variables. According to descriptive statistics conducted on CEO Overconfidence, many firms have CEO that overconfidence in their decisions. Based on the data, audit report lags always happened in 2016 and decreased each year. So, it can be concluded that the firm is trying to give a benefit to stakeholders better. The firm's average audit fee is 18.08 with a minimum value is 11.84 and a maximum is 23.63 which indicates that firms spend the fee for audit in a huge amount.

Table 3. Descriptive Statistics

Variabel	Mean	Median	SD	Min	Max
CEO	0.85	1	0,35	0	1
ARL	20.62	22	12.47	1	65
FEE	18.08	18.04	1.80	11.84	23.63
SIZE	7.98	7.91	1.83	2.04	13.85
ROA	2.22	2.32	10.09	-56.53	43.17
DER	1.83	0.95	4.40	-43.34	52.12
CEO: CEO Overconfidence**;** **ARL**: Audit Report Lag;; **FEE**: Audit Fee; **SIZE**: Firm Size; **ROA**: Return on Assets; **DER**: Debt Equity Ratio					

Source: processed authors (2022)

Empirical Results

The results of empirical research can be seen in Table 4 which evaluates the results of SEM analysis on each variable hypothesized in this study. Based on Table 4, the results support hypotheses 2, 3 and 4 which show that CEO Overconfidence has a positive effect on audit fee, Audit fee has a negative effect on audit report lag, and CEO overconfidence has a negative effect on audit report lag by audit fee as mediating variable. However, this study does not support hypothesis 1 because the result is not significant, that CEO overconfidence has a negative effect to audit report lag.

Table 4 Regression Analysis Result

	ARLit: $\beta_0 + \beta_1$CEOit + β_2FEEit + β_3SIZEit + β_4ROAit + β_5DERit + εit….(1)			**FEEit: $\alpha_0 + \alpha_1$CEOit + α_2SIZEit + α_3ROAit + α_4DERit + εit….(2)**		
	Dependent Variable: Firm Risk			Dependent Variable: ESG		
Variable	**Predict**	**Coef**	**Prob**	**Predict**	**Coef**	**Prob**
Direct effect						
CEO	-	-0.648	0.283	+	1.119	0.000***
ARL						
FEE	-	-5.039	0.000***			
SIZE	-	-0.071	0.013***	+	0.717	0.000***
ROA	-	0.016	0.314	+	0.003	0.227
DER	-	0.498	0.255			
Indirect Effect CEO Mediate by Fee	-	-0.564	0.000**			
Obs	505					
Prob	0.0000 ***					
***significant 1%; **significant 5%; *significant 10%						
ESG: ESG Disclosure; **Firm Risk**: Firm Risk; **CEO**: CEO overconfidence; **SIZE**: Firm Size; **ROA**: Return on Assets; **VOLROA**: Volatility of ROA; **DER**: Debt Asset Ratio; **MTB**: Market to Book Ratio; **Div Payment**: Dividend Payment; **GDP**: Gross Domestic Product; **INVP**: Investor Protection						

Source: Prepared authors (2022)

Results Analysis

CEO overconfidence and Audit Report Lag

From the results of testing hypothesis 1, it can be concluded that this study does not support the negative effect of CEO overconfidence on audit report lag. This finding provides evidence that the existence of CEO overconfidence will influence the policies that made by the company. CEO overconfidence tends to give the decision affected by behavioral managerial biases (Adam et al., 2015) and tends to send a good signal to stakeholders because when he makes a wrong decision, it will have an impact on his career. In addition, CEO overconfidence will make the best decision to give benefit for stakeholders with give an information about financial condition in timely manner. Due to his risk preferences, CEO overconfidence are more likely to avoid audit delay, as the delay reduces the timeliness of audited financial statements and could signal problems with internal control systems and other financial reporting issues (Ettredge et al., 2021). Besides that, CEO overconfidence associated with shorter audit report delay, suggesting that they are sensitive to the market pressure to avoid audit delay (Jo & Harjoto, 2014).

Based on signalling theory, investors will see a good signal if the company submits financial reports on time. This is because investors judge the company to generate large profits so that management decisions will deliver the good news quickly (Pande & Mertha, 2016). Investors in deciding to invest will examine at the financial statements to assess the company's performance that is reflected in the published financial statements. Because the sooner the good news is delivered, the faster the investment in the company will earn, which means that there will be less delay in submitting financial statements.

CEO overconfidence and Audit Fee

From the results of testing hypothesis 2, it can be concluded that the positive effect of CEO overconfidence to audit fee was supported. This finding supports the research of Sabrina (2021) which found that CEO overconfidence plays an important role in decision making, one of which is in offer high audit fee. The aim of the firm to offer high audit fee is to avoid audit report lag. The existence of the CEO overconfidence in the composition of the company's directors can influence the policies taken by the company. Based on the upper echelon theory, one of the decisions taken by the CEO is influenced by psychological aspects. CEO overconfidence has its own discretion when deciding to make decisions because CEO overconfidence has the nature of empathy when looking at it from the perspective of investors, employees, customers, the environment, and other stakeholders (Waldman & Siegel, 2008). In addition, CEO overconfidence sees audit fees as very important factors for external auditor to finish audited financial statement in timely manner so investor can invest. Higher audit fees will increase the external auditor's assessed level of control risk and level of assurance. As a result, the audit committee member may press for greater assurance than is necessary to reduce the reporting risk to an acceptable level for all shareholders, shifting the additional cost of audit to shareholders, who have little power in determining the level of audit work (Devi, 2020).

Given the regulatory standards and the pressure from both the capital market and the stakeholders, most CEOs desire audit quality because it relates to reporting quality, and they perceive their reputation and personal welfare are at stake. CEOs could lose their jobs and face potential legal and reputational costs when issuing financial reports and disclosure of poor quality. CEOs who are forced to turnover generally find new positions that are, on average, inferior to their prior jobs. In addition, Banker et al. (2013) find that past performance affects the salary of continuing and newly appointed CEOs, providing evidence that reputation matters in determining executive compensation. With job security and compensation being influenced by financial reporting quality, CEO overconfidence will naturally desire to provide high-quality reports and disclosure with increasing audit fee.

Audit Fee and Audit Report Lag

From the results of testing hypothesis 3, it can be concluded that the positive effect of CEO overconfidence to audit fee was supported. This finding supports the research of Hanifah & Adiwibowo (2020) which found that audit fees and profitability have a negative effect on audit report lag. The greater the audit fee given by the company to the external auditor, the more in timely manner the company is in submitting financial statements. Hariyono (2018) examines the effect of audit fees on audit report lag. The study explains that audit fees have an effect on audit report lag because large public accounting firm will tend to offer high audit fees, because large public accounting firm have more experienced auditors in the field of auditing as well as a large number of work staff, complete audit facilities and more sophisticated technology, with high audit fees fast in conducting the financial statement audit process, so that the audit report lag is shorter.

The amount of audit fee is determined based on the agreement when the client's engagement with the auditor is carried out. Large companies will provide higher audit fees (Hariyono, 2018). The higher the audit fee given by the client, the time needed to complete the audit will be shorter, because external auditors can increase the number of staff, the technology used will be more sophisticated, so the company will report its financial statements in a timely manner.

CEO Overconfidence, Audit Fee, and Audit Report Lag

From the results of testing hypothesis 4, it can be concluded that the negative effect of CEO overconfidence on audit report lag by audit fee as mediating variable was supported. This finding supports the research of Hanifah & Adiwibowo (2020) which found that CEO overconfidence has a role to make a big decision to publish financial statement in timely manner and decide how much audit fee that issued by company. Based on agency theory, when business activities are not always managed directly by the owner of the company, all management matters are left to the agent. To avoid conflicts between principal and agent, a third party is needed, namely an external auditor. The external auditor as an independent third party audits the financial statements made by management to be accountable to investors, so that investors can trust that the financial statements reflect the actual condition of the company.

CEO overconfidence concern about the pressure to avoid reporting delay and the pressure to protect their own reputation as good monitors. Same with CEO overconfidence, stakeholders are arguably sensitive to the capital market pressure so they want audited financial statement publish in timely of manner so they can analyze the financial condition. To avoid audit report lag, CEO overconfidence will make a decision to increase audit fee in order to maintain their board roles. High audit fee is expected to have decrease audit report lag so investor can see the ability of CEO overconfidence based on information in financial statement, which consequently can affect investor to make decision to invest. When there is information that the company spend high audit fee, automatically there is no audit report lag matter because investor conclude CEO overconfidence will have an impact to increase investor preferences to invest their money to increase value of the company. Audit fee can help CEO overconfidence to make a decision to avoid audit report lag.

5. CONCLUSIONS

This study aims to examine the effect of CEO overconfidence to audit report lag, and see the effect of audit fee as a mediating variable on the effect between CEO overconfidence and audit report lag. Based on research conducted with a sample of 505 companies that listed on the IDX from 2016 to 2020, this finding provides evidence that CEO overconfidence has an effect to audit report lag with audit fee as mediating variable, CEO Overconfidence has a significant positive effect on audit fees, Audit fee has a significant negative effect on audit report lag. CEO Overconfidence will choose to report financial statements in timely manner by increasing audit fees so that the image as CEO who can make good decisions can be proven. This research has implications that can be suggestions for several related parties, that are investors can see financial statement as a basis for decision making because firms that publish financial statement in timely manner will give a good signal for investor. The limitation of this study is there are not many firms that provide professional expense information. Based on the limitations, this research provides suggestions for further research that are can analyze audit fee variable with ask the auditor for the interview. Future research can develop this research with samples in a longer period of time.

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