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The Effect of Financial Leverage on the Delay in the Audit Report with the Company's Profitability as a Moderation Variable

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Abstract: The research aims to measure the effect of financial leverage on the delay in the audit report, with company profitability as a moderation variable for industrial companies listed on the Iraq Stock Exchange. The research sample represented 100 industrial companies listed on the Iraq Stock Exchange from 2011 to 2020. For the purpose of achieving the research objectives, a model was used. To measure the financial leverage and profitability of the company based on financial ratios, while the delay in the audit report was measured by the number of days between the end of the year and the date of issuance of the audit report. The research reached a set of results, the most important of which is that there is a statistically significant effect between financial leverage and the delay of the audit report, in addition to that, there is a statistically significant effect between financial leverage on the delay of the audit report through the interactive role of the company's profitability.

Keywords: Financial Leverage, Audit Report Delay, Company Profitability



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1. Introduction

It Given the high level of competition among companies, management aims to improve their profitability through optimal use of their resources. One of the most popular ways for companies to finance their initiatives and assets is through debt financing, while there are benefits to using leverage as it reduces taxes because interest costs are subtracted from profits. It is a preferred source of financing over alternative sources because it is tax-exempt and less expensive than equity. But if the company relies more and more on borrowed funds without using them wisely, this may have unfavorable effects, especially if the cost of funds is more than the expected return on investment. The financing cost is the lowest rate of return on assets that must be achieved to satisfy investors, while financial leverage refers to the extent to which the entity's financial management relies on loans to finance its assets. As a result, the Iraqi legislator issued in Securities Law No. 74 of 2004 and its amendments a period of 150 days for the purpose of issuing the auditor's report. This period is calculated from the end of the year until the issuance of the report. The period for issuing the report should not exceed 150 days. For the purpose of achieving the research objectives, the following hypotheses will be tested:

H₀: There is no statistically significant effect between financial leverage and the delay of the audit report

H₂: There is no statistically significant effect between financial leverage and the delay of the audit report through the interactive role of the company's profitability.

Theoretical Review

1. The concept of financial leverage

Leverage in financing refers to a combination of debt and equity. The company's ability to arrange loans that have the potential to increase total returns to shareholders is demonstrated through its financial leverage, as the company's capital structure is strengthened through this loan, and maximizing shareholders' wealth and the company's market value is the ultimate goal. When funds are allocated against a predetermined financing cost with the goal of providing a significant return to common stock investors (Kizildag, 2015: 9)

The amount a company relies on fixed-income financing sources to finance its operations, for example loans or preferred shares, affects the amounts of risks to which owners are exposed and the profits they achieve. (Raghad & Hamza, 2019: 6)

Financial leverage is the amount of debt that a company borrows to finance its assets. The reason behind the different levels of financial leverage in different companies is that short-term loans have weak cash flows, while companies need a lot of capital to finance their investments. (Ahmed, 2017: 2)

The company borrows money in order to increase shareholders' wealth and improve the return on operating activities. The cost of financing will increase and the return will decrease as long as there is more financial leverage than is necessary. Leverage decisions are influenced by a range of factors that are reflected in three theories: Trade-off theory: According to this idea, a company determines the amount of debt necessary after weighing the advantages and disadvantages of each form of financing. Financial Source Prioritization Theory: According to this argument, a company will benefit more from using internal financing. Agency Theory: This theory assumes that managers and shareholders have a relationship. (Mandour & Iman, 2024: 80)

Due to the high level of financial leverage that does not cover the company's fixed costs, there is significant financial risk. When creating a company's annual financial plans, a financial manager must take into account the level of return before knowing taxes, interest, and fixed fees. (Khadr et.al., 2023: 664)

Advantages of financial leverage

Leverage in finance has many benefits. (OMER & ALI, 2022: 623)

1. Increase return on equity by outperforming the cost of borrowing and obtaining an appropriate return on investment.
2. No share of the realized profits is given to creditors.
3. Creditors are deprived of the opportunity to vote in the General Assembly so that the bank continues to control it.
4. A bank can build a positive reputation in the financial markets by making wise borrowing decisions.

Leverage Risk

Financial risk is defined as changes in net profit after taxes, or changes in the amount of return remaining to owners as a result of the use of financing sources with fixed expenses (such as interest). These risks are related to the bank's inability to make principal and interest payments on its debts in a timely manner. Since the bank's capacity is less than its cost, there is financial risk and the bank is now more vulnerable to losses as a result of its riskier financing structure. (Ali & Thaer, 2021: 47)

The Concept of Company Profitability

In the field of financial management, profit is defined as profit whose amount is equal to

or greater than the amount of money made from initiatives with similar risks. The financial management must find financing with the lowest possible expenses and risks in order to achieve this profit, and then invest this money in a way that provides satisfactory returns equal to or greater than what shareholders can obtain by financing other projects with similar levels of risk. This idea mostly relates to alternative opportunities for investors and whether or not it makes sense to participate in a particular project. (Ali & Ali, 2018: 272).

As a result, the primary goal of many corporate groups is profitability. This objective can be expressed either as maximizing shareholder wealth, represented by the shares they own (also known as maximizing the market value of the stock), or as the accounting profit generated by the value of the income if the income generated appears positive. Thus, a number of factors contribute to the profitability of an organization. The company's ability to achieve profit in terms of sales, total assets and capital is related to the policies adopted by management and express the effectiveness of its operational and investment decisions. (Hassan & Ahmed, 2023: 153).

A company's profitability is defined as the ability to use resources to produce revenues higher than its costs. In other words, one of the four basic frameworks for evaluating the financial statements and overall performance of an organization is the organization's ability to generate profit from its activities. Relevant competence and market potential are the other three. (Al-Adwani & Abdel, 2020: 26).

A company's ability to generate net income from its operations throughout the accounting period is a measure of its profitability, which is determined by a variety of policies and decisions made by its management. CFOs who understand the variables that affect profitability can help their companies improve their bottom lines. Every aspect of a business affects its ability to generate profit. Because return on assets (ROA) explains a company's ability to generate profits using its assets, it is used in this study as a proxy for profitability. (Hidayat & Dewi, 2023: 62)

The importance of company profitability

One of the key things that investors look for and one of the key metrics that represents a company's overall performance is profitability. Profitability is important because it may achieve a number of main objectives, which are as follows: (Iskandar, 2021: 33) (Dharma et.al., 2020: 444).

It is considered one of the most important requirements for companies to be able to survive and survive in a highly competitive market because it is also a key factor in attracting investors and increasing profits.

- a. It is considered one of the main indicators that creditors, investors and other stakeholders look to, as well as a crucial tool for measuring how well management is using its resources.
- b. Profitability is a measure used to determine available financing options and evaluate the attractiveness of a company. In addition to attracting investors and maintaining confidence in the financial system, it demonstrates the company's ability to bear risks and achieve steady growth.
- c. A useful measure for evaluating the effects of size, growth, and capital structure on firm value is vertical.
- d. Since profitable companies can finance their operations internally rather than through debt, profitability plays an important role in deciding on the capital structure and best financial solutions for the company.

2. Audit report delayed

It means the number of days from the end of the fiscal year until the date of issuance of the external auditor's report. There are many negative effects resulting from not issuing financial reports on time, which include increased doubts about the reliability of the business result and its financial position, the search for alternative sources of information, and also some managers can exploit the information to achieve unusual gains through speculation. Timely disclosure in

emerging markets is critical because information in these markets is relatively limited, so timely reporting will enhance decision-making and reduce information asymmetry in these markets. Previous research on this topic has found that many factors have contributed to Delaying the audit process. Specifically, some studies found that firm attributes were responsible for ARL. Additional research showed that auditors' qualities determine ARL. Conversely, other research has looked at the factors that influence ARL in relation to corporate governance attributes. However, studies examining the effect of OCI on ARL are rare. (Ismail et.al. , 2024: 5)

Delay resulting from the audit in depositing the company's financial accounts. Audit delay is the amount of time required to audit financial accounts, and is calculated from the end of the fiscal year until the date of issuing the audit report. The issuance of the financial report will be delayed unless the review takes longer than permitted by law. Because delays in issuing financial reports may be a sign of problems with those reports, the audit process takes longer. Capital market participants may respond negatively to this because financial statement earnings statements serve as a basis for determining whether to buy or sell a company's stock and delays in a company's financial reporting are caused by the length of time it takes auditors to finish their audit. Depending on internal or external variables, audit tasks may take different times. These internal variables include the company's size, revenue, solvency, and financial stability. At the same time, the type of industry, audit quality and auditor's opinion affect external factors. The study examines the relationship between the length of audit delay and financial performance, including solvency, company size, and liquidity. This is due to the fact that financial ratio analysis is a common tool used by investors to evaluate the financial performance of mining companies. Part of this procedure includes analyzing profitability, liquidity and solvency ratios obtained from the company's financial statements. (Karina & Kusumawardhani, 2023: 210)

It is known that the reporting and disclosure of accounting information takes place through some steps, the most important of which are: the unit announcing profits before the date of issuing the audit report, and issuing the audit report to verify the profits announced by management, in addition to the unit submitting its financial reports to the financial market, and it should Administrative ability should have a positive impact on each of these steps, and executives with higher administrative capabilities can manage resources efficiently, achieve strategic goals, and provide accounting information at the appropriate time. (Melegy, 2019: 324)

Many studies have documented that the financial market reacts quickly to the announcement of profits, and that more information reaches the financial market during the period in which the financial reports that include profits will be approved later. Therefore, researchers find that administrative capacity is reflected in the appropriate timing for issuing reports. Finance and the decision to announce profits reflects the internal confidence of management in the unit's financial reporting system, and that capable managers are more knowledgeable about their work and operations, prompting them to provide better accounting judgments and estimates. Also, issuing the audit report is the most important determinant in the timing of preparing financial reports, so the strength of the relationship between ability The administrative management of the executive directors and auditors and issuing their report can support reducing the time it takes for the auditors to disclose their report and facilitate the procedures of the audit process, and this is what will be discussed in more detail in the subsequent paragraph. In addition, the unit's submission of its financial reports to the financial market in an appropriate time is Often the results of the previous two steps, managers are more capable of preparing financial reports at the appropriate time, which facilitates audit procedures and positively supports the auditors' efficient implementation of their tasks, which contributes to reducing the possibility of submitting financial reports to the financial market late. (Abernaty et.al., 2018: 187)

The CEO's possession of knowledge and experience can enhance dealing with complex accounting problems and reduce the rate of errors, incorrect estimates, and judgments, which will be reflected in the time for preparing financial reports, conducting audit tests, and the time

taken to sign the audit report. In addition, it is likely that managers with High administrative capabilities to implement and maintain effective internal control over financial reports, which will help reduce delays in announcing profits, the audit report, and listing on the stock market. (Ibrahim, 2022: 334-335)

2. Materials and Methods

Measure the Study Variables

A. Measuring Financial Leverage

In line with the majority of previous and existing research, leverage in this study was calculated as the total of short- and long-term liabilities divided by total assets. Moreover, the presence of fixed financial expenses, such as preferred stock dividends and loan interest, contributes to the leverage effect and since interest is paid on both short-term and long-term liabilities, it is recognized that both have fixed expenses and, as a result, have the same financial leverage. (Ali El-Desouki & Ahmed, 2023: 30)

The measurement will be made using the following equation:

$$DFL = \text{Total Liabilities} / \text{Total Assets}$$

B. Measuring Company Profitability

The company's management can evaluate profitability using a number of financial indicators, the most important of which are financial ratios, which show the relationship between two or more items in one financial statement or two successive statements. All stakeholders, including shareholders, who view earnings as one of the most important factors influencing profits, care about these ratios. Their wealth as well as lenders dissatisfied with the company's meager profits. In addition, in this study, the return on assets (ROA) ratio was applied. This ratio displays the degree of efficiency of use of assets, or in other words, the return on investment of assets. The effectiveness of all assets is measured by this return, which is mostly based on the profits generated by those assets. It is measured in this way: (Akram & Zarkar, 2023: 82)

$$ROA = \text{Net Profit} / \text{Total Assets}$$

C. Measuring audit report delay

ARL = the number of days between the end of the year and the date of the auditor's report (Bajary, 2023: 7)

The Hypothetical Research Method

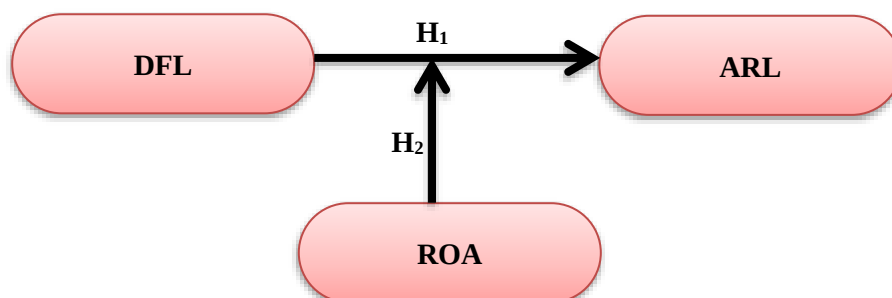


Figure 1. Model of the study

3. Results and Discussion

Hypothesis testing

The data of the industrial companies whose shares are listed on the Iraqi Stock Exchange was taken

for the period from 2010 to 2020, and the reason for taking the industrial sector is that it is the most vital sector and enjoys sufficient flexibility and the state's local economy depends on it greatly, as all problems related to this sector must be addressed in order to develop a strong sector that can Count on it

Table (1) Descriptive statistics

Statistics				
		DEL	ROA	ARL
N	Valid	100	100	100
	Missing	0	0	0
Mean		.5089	-.0301-	172.53
Std. Deviation		.9615	.2601	131.968
Minimum		.0045	-1.095-	28
Maximum		5.214	.8306	706

The table above shows that the selected sample represented 10 years and 10 companies, as the total sample represented 100 companies. Table (1) shows the descriptive statistics represented by the arithmetic mean, the standard deviation, the lowest value, and the highest value for each of the financial leverage (DEL), the delay in the audit report (ARL), and the company's profitability. (ROA)

Tables (2), (3) and (4) show the results of testing the first hypothesis, which states that there is no statistically significant effect between financial leverage and the delay of the audit report.

Table (2)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.533 ^a	.284	.277	112.245
a. Predictors: (Constant), DFL				

The results presented in Table (2) indicate that the value of the percentage of the coefficient of determination (R-squared) was (28.4%). The percentage of the coefficient of determination (R-squared) represents the extent of the percentage of variance in the dependent variable, the delay of the audit report, which can be predicted through the independent variable leverage. Finance.

Table (3)

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	489432.342	1	489432.342	38.847	.000 ^b
	Residual	1234704.568	98	12599.026		
	Total	1724136.910	99			
a. Dependent Variable: ARL						
b. Predictors: (Constant), DFL						

Table (4)

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	135.311	12.714		10.643	.000
	DFL	73.125	11.732	.533	6.233	.000
a. Dependent Variable: ARL						

The results presented in Table (3) show that the calculated F value is (38.847), which is greater than its tabulated value at a significance level of (0.05), which indicates the rejection of the hypothesis that states, "There is no statistically significant effect of financial leverage on the delay of the audit report." This means that there is an effect. The effect of financial leverage on the delay in the audit report is statistically significant. In addition, Table (4) shows that there is a significant positive effect of the effect of financial leverage according to the (T) test, at a rate of less than 5%.

Tables (5), (6) and (7) show the results of testing hypothesis (2): There is no statistically significant effect between financial leverage and the delay of the audit report through the interactive role of the company's profitability.

Table (5)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.548 ^a	.301	.279	112.076
a. Predictors: (Constant), moderation, DFL, ROA				

The results presented in Table (5) indicate that the value of the percentage of the coefficient of determination (R-squared) reached (30.1%). The percentage of the coefficient of determination (R-squared) represents the extent of the percentage of variance in the dependent variable, the delay of the audit report, which can be predicted through the independent variable leverage. Finance and the moderating variable company profitability.

Table (6)

ANOVA ^a						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	518278.173	3	172759.391	13.754	.000 ^b
	Residual	1205858.737	96	12561.029		
	Total	1724136.910	99			
a. Dependent Variable: ARL						
b. Predictors: (Constant), moderation, DFL, ROA						

Table (7)

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	135.490	12.741		10.634	.000
	DFL	79.314	14.120	.578	5.617	.000
	ROA	-105.512	73.447	-.208	-1.437	.154
	moderation	59.349	41.962	.227	1.414	.160
a. Dependent Variable: ARL						

The results presented in Table (6) show that the calculated F value is (13.754), which is greater than its tabulated value at a significance level of (0.05), which indicates the rejection of the hypothesis that states, "There is no statistically significant effect of financial leverage on the delay of the audit report through the interactive role of profitability." "Company" This means that there is a statistically significant effect of financial leverage on the delay in the audit report through the interactive role of the company's profitability. In addition, Table (7) shows that there is a significant positive effect of the effect of financial leverage according to the T test, at a rate of less than 5%, in addition to There is no effect on the company's profitability and the moderation variable according to the T test, at a rate of less than 5%.

4. Conclusion

Conclude Financial leverage is one of the essential matters for detecting companies' debt through companies issuing the audit report at the appropriate time, and the audit report plays an essential role in issuing financial leverage, as it is possible that companies that have a lot of debt will be late in issuing their audit report, on the one hand. Another is that companies that issue the audit report early will have low debts and this will be reflected positively in maximizing the company's profitability, as this research was applied in the Iraqi environment and in the industrial sector and it was found that there is a statistically significant effect between financial leverage and the delay of the audit report. In addition, there is a statistically significant effect between financial leverage and the delay in the audit report through the interactive role of the company's profitability.

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