

## CHAPTER I

### INTRODUCTION

#### 1.1. Research Background

This research is about the factors affecting the delay of audited financial report to the public. Any delay in the audited report reduces the quality of the financial information. One resource that can be used for decision making of users is audited financial statement. It should be considered that information in financial statement can be used effectively when they have several qualitative characteristics. One of important qualitative characteristic in presenting financial statements is timeliness. Timeliness represents the important determinant to financial statements benefit (Givoly and Palmon 1982). Financial statements submitted on time can lessen the information asymmetry (Kim and Verrechia 1994). On the contrary, the benefit of financial statement will decrease if it is not made available on time. Timeliness enhances both relevant and faithfully represented information, and is therefore an enhancing qualitative characteristic.

There are two types of financial statements' users. First, internal users, such as management, employees, and owners. They all have different needs. The management use information is to analyze the organization's performance and position and taking appropriate measures to improve the company performance. The employees need to assess company's profitability and its consequence on their future remuneration and job security. Lastly the owners need the information to analyze the viability and profitability of their investment and determine future course of action.

The second type is external user. There are a lot of external users, such potential investors, suppliers, lenders, customers, creditors, and others. The primary users of financial statements are investors, and creditors. The potential investors use the financial statements to analyze the feasibility of investing in the company and to help them to make decision whether they should buy, hold, or sell their investment. Creditors are interested in information that will help them determine whether the amounts owing to them will be paid on time.

The financial statements consist of statement of financial position, statement of financial performance, statement of changes in equity, statement of cash flows and notes to the financial statements. To be able to produce an accurate financial statement, companies need an independent auditor to audit the financial statements before publishing financial statement. The independent auditor should be carefully and thoroughly conducting the audit, so it may take some time before the financial statement can be published. Auditor takes considerable time to produce an objective audit opinion because the audit process must be in accordance with the applicable procedures. Beside timeliness, financial statement should fulfill four qualitative characteristics which are relevance, understandability, reliability, and comparability (SFAC, 1980). To have relevant information, there are several obstacles, one of which is timeliness. Timeliness means that information must be submitted as early as possible so that it can be used as a basis for economic decision making. Therefore, the increase in the reporting lag reduces the information content and relevance of the documents (Suwardjono, 2002: 107).

To preserve a quality financial statement, the company must have an opinion from its auditor. However, since the complexity underlying a company's operation, the release of an audited financial statement may take some time after the end year, creating a delay. Audit delay is length of time needed for completing financial statement audit. It is determined the number of days between date of accounting year end and date of the independent auditor's report. The shorter period of audit delay, the more benefit can be derived from the audited financial statement because the value of information included in it will be more relevant for information users.

One of the main indicators that determine the perceived aspect of timeliness by the audit information is the duration days of the year-end financial statement to the submission date of audit reports to the regulatory agency which in this case BAPEPAM-LK. Since 2015, the Financial Service Authority is the regulating agency, replacing BAPEPAM-LK. However, since the sample of this study is form 2008 to 2014, BAPEPAM-LK was still the regulating agency to public companies.

There are some studies on factors influencing audit delay, Ashton et al. (1989) conducted study on a sample of 465 companies listed in Toronto Stock Exchange from 1977 to 1982. There are eight variables in their study: company size, industry classification, month of year-end, audit firm, sign of net income, extraordinary items, contingencies, and type of audit opinion. Four variables were found to be significant with audit delay. Carslaw and Kaplan (1991) investigated factors affecting audit delay for New Zealand public companies for the years 1987 and 1988. From nine variables, only two variables (logarithm of assets and the

sign of net profit for the year) were found significant across both years. Client industry, types of audit opinion, debt proportions, and extraordinary items were significant in one period. Ng and Thai (1994) examine the determinant audit delay on a sample of 292 and 260 listed companies for 1991 and 1990. This study found that company size and degree of diversification were significant with audit delay. Johnson et al. (2002) and Payne and Kevan (2002) found that audit opinion has significant relationship with audit delay, this finding is corroborate with Che-Ahmad and Abidin (2008). Lee et al. (2009) used sample of 18,473 firms during 2000-2005. The study found that auditor tenure and non-audit services are significantly associated with audit report lag. This finding is consistent with Shafie et al. (2009), Boye (2011), and Okolie (2014). Banimahd (2012) the objective of this study is to investigate audit report lag and auditor change in firms listed on Tehran Stock Exchange (TSE) during 2002-2010. This finding is corroborate with Harris and Whisenant (2012), Enofe (2013), Pham et al. (2014) that found auditor change has significant with audit report lag. However, it is contrary with Dibia (2013) that found audit firm switch has no significant relation with audit report lag.

Similar studies in Indonesia are, for example, Wiguna (2012) conducts the study used 49 samples of commercial banks in Indonesia during 2008-2010. The result of this study found that audit tenure has positive and significant influence to audit report lag. Lestari (2013) found the influence of internal factors (size of companies, ROA, total debt to total asset) and external factors (auditor's opinion and size of CPA) at 29 companies engaged in listed banking industry in 2009-2011. However, there is only one variable (size of companies) has significant to

audit delay Rustiarini and Sugiarti (2013) this study aimed to investigate the influence of auditor reputation, specialization, audit opinion, audit tenure, and auditor switching on audit delay. Sampling method using purposive sampling and obtain 72 companies for 2010 until 2011. These results indicate that auditor specialization have a negative effect on audit delay, while auditor switching have positive effect on audit delay. Auditor reputation, audit opinion, and audit tenure do not have a significant effect on the audit delay. This study is contrary with Kusumawardani (2013) that found the condition of the company, a public accounting firm size and auditor's opinion affect audit delay. Some of those studies are the study of companies listed in Indonesian Stock Exchange, except banking companies.

Banking industry is a unique entity, especially when the bank is publicly listed in a stock exchange. Being a public company, a bank is regulated by the stock exchange related act and regulations. While, as a bank, it must obey all relevant regulation from the central bank. Therefore, it is necessary to research on audit delay in the banking sector caused by the complexity of the banking industry that exceeds various other sectors. Moreover, the banking sector has specific characteristics. It is a high-regulated industry and has different accounting system and reporting requirement. The consequences of its that the audit process becomes more complex than in that of other sectors of the process.

## **1.2. Problem Definition**

From previous studies, there are many variables that have conducted and give different result. So there is inconsistent conclusion of variables that affect audit delay. This study examined the relationship the types of audit opinion, audit



firm switch, and audit firm tenure with audit delay. The problem formulation is:  
*Do types of audit opinion, audit firm switch, and audit firm tenure have an effect on audit delay?*

### **1.3. Research Objective and Benefit**

The objective of this research is to investigate whether types of audit opinion, audit firm switch, and audit firm tenure on the audit delay of listed banking companies. The types of audit opinion are used by auditor to communicate the conclusions about the financial statements to the parties who need the results of audited financial statements. Audit firm rotation, there are two opposing forces may exist. One force is from the fact that a newly rotated auditor can fully exercise its professional skepticism during financial statement audits, thus maintaining independence and objectivity. Such a force produces a high audit quality, resulting in high quality of financial reporting. The other force is from the fact that a newly rotated auditor has little knowledge of its client's business and industry, making it difficult for the auditor to effectively plan the audit. It has been argued for long that longer audit tenure could impair auditor independence and lower audit quality since a longer auditor-client relationship may breed over-familiarity and make the auditor to lose his honest disinterestedness.

This research also has benefit to give information for auditor to assist identified factors that influence audit delay in order to improve the effectiveness and the efficiency of audit process and give information for investors in order to know factors that influence audit delay as a basis in investment decision making.

#### **1.4. Writing Systematic**

This paper is organized as follows. Chapter one explains the research background, problem definition, research objective and benefit, and writing systematic. Chapter two summarizes the theoretical framework, literature review on audit delay and hypothesis development. The research methods, which contain sample selection, data collection method, variable definition, research model, and data analysis method, is described in chapter three. Chapter four discusses the research analysis, and the research conclusions, limitations, and suggestions are presented in chapter five.

