INTRODUCTION

1.1 Background

In this globalization era, business development in various fields has rapidly increased. The development is not only occurred in developed countries such as United States and China, but also occurred in Indonesia as one of developing countries in the world. The development of business is shown by the increasing of economic growth and total company in Indonesia, whether it is go-public company or not. The increasing of total companies who are going public proves that the development of the business and economic condition in Indonesia is growing rapidly. In accordance with data from the Indonesia Stock Exchange there are 625 companies that have gone public in Indonesia. The data indicates an increasing by 22.5% of companies going public since 2016. In addition to, Indonesia was also ranked number 1 for the number of new public companies in 2018 and ranked number 2 for the total raising of an initial public offering (IPO) among ASEAN companies in 2018. The increasing of company in Indonesia leads to the development of the economy in the country as well. Furthermore, it leads to accession of competition among companies to attract market and stakeholders in contemplation of company sustainability. As a result, it forces the management team to find any sources of funds for the company's operational activities apart from the company's internal sources and one of them is by selling company stock ownership to investors.

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The company needs some related information to attract the investor to buy the company's shares, one of them is the company's financial report. Investor’s reliance depends on the quality of information conveyed by the company through published audited financial report. With the delivery of this information, the market can respond as a signal of company health either is good or bad . If the company's signal provides good news, it will have an impact on increasing stock prices, but if the company's signal provides bad news, the stock price will decline. In order to gain trust from investors, companies are required to provide clear, accurate, relevant, timely and comparable information. The delay of audited financial report submission is one of the conditions that may represent the bad condition of the company, because the company could not represents the financial report in a timely manner. Furthermore it can cause a decline of investor confidence toward company condition and leads to decline of company’s shares in the market stock.

Go-public companies listed on the Indonesia Stock Exchange are obligated to issue company financial statements in Indonesia Stock Exchange website (https://www.idx.co.id/). The timeliness of financial statement presentation is an important element for the functioning of the capital market mechanism. This fact prompted the capital market supervisory body in various countries to establish regulations regarding the deadline for submitting financial reports, as well in Indonesia. As stated in Indonesia Financial Services Authority Regulation (POJK) No. 29/POJK.04/2016, the listed company in Indonesia should have an auditor’s signature on its financial statement and submit it no later than the end of the fourth month after the year ended or 90 days after the company's financial year is ended. The company's financial statements must be prepared in accordance with the Financial Accounting Standards and audited by public accountants. Fulfillment of standards by auditors will have an impact on both the quality and the length of reporting on audit results of financial statement. The audit of financial statement will give an opinion about the fairness and appropriateness of the financial statements based on applicable principles. Furthermore, it will make the financial statement be more credible, reliable and trusted for the decision-making.

As stated onPOJK Number 29 / POJK.04 / 2016 in Chapter IV Article 19 Regulations, including late submissions of audited financial statements will be subject to sanctions in the forms of written warnings, fines, restrictions on business activities, suspension of business activities, business license revocation, cancellation of approval; and cancellation of registration. Imposition of sanctions is based on the type or level of violations committed by the company. The company supposedly to avert the sanctions by submitting the audited financial statements in time comply with POJK. However, based on the Indonesia Stock Exchange (IDX)the companies who submit audited financial statements in time have never been stable. In 2014 there were 49 companies late in submission of financial statements that ended on 31 December 2013. Then, there were 52 companies who were late submitting audited financial statements that 31 December 2014 in 2015. Also, 63 companies were late submitting audited financial statements that ended on 31 December 2015 in 2016. In addition, there were 17 and 10 companies that were recorded as late in submission. Besides, there were 10 companies late submitting audited financial statements that ended on 31 December 2018. Furthermore, four companies from 10 companies who were late get sanctions in the form of suspension or retention of trade shares annually for not submitted the financial statements that ended on 31 December 2018. Consequently, this is an alarm for the Financial Services Authority to immediately create procedure in order to minimize the late submissioncompanies.

Delays in delivering financial statements will reduce the relevance and reliability of financial statements, especially for the benefit of investors. The delay has resulted in increased information asymmetry that creates uncertainty in investment decision making. Besides, investors consider the delay in financial reporting as a bad sign regarding the company's health condition and can be interpreted by investors as a bad signal about the condition of the company. In addition, the delay in submitting financial statements has caused the movement of shares to be unstable due to uncertainty regarding the company's financial condition. On top of that, it can lead to delays in the purchase and sale of shares so investors consider this condition as an Audit Report Lag.

Audit Report Lag is the countdown time needed to complete the audit process from the financial year end of the company to the date of signing the audit report. Auditors need more accuracy and thoroughness in the audit process of financial statements while there is a decreasing in company performance thatthreatens the company's future. In accordance with Knechel and Payne (2001) ARL is divided into 3 components, namely scheduling lag, fieldwork lag, and

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reporting lag. Scheduling lag is the difference in time between the end of the company's fiscal year and the date of the auditor's field work is started. In scheduling lag the management can be the causes of late reporting of financial statements because there is an indication that time of engagement between public accountant firm and the company causes the lag. However, the scheduling lag can be caused by delay of audit planning in public accountant firm. Also, fieldwork lag is the time difference between the date of the auditor's fieldwork is started and the completion time. Then, reporting lag is the time difference between the completion of fieldwork and the auditor's report date. Auditor is mostly responsible to both fieldwork lag and reporting lag because the it is affected by audit process implementation by the auditor. On the other hand, the company also takes responsibility to the lags due to act not cooperatively towards audit process. In short, there are variance types of audit report lag whose causes by both auditor and company as the auditee.

The issue of Audit Report Lag has emerged since 1975 beginning with Dyer and Mchugh's research in Australia and developing and expanding into Asian countries, including Indonesia. Several studies on Audit report lag have been carried out and found factors that can cause the Report Lag Audit. These factors can be grouped into internal factors and external factors. Some of them are Profitability, Solvability, Industrial Type, KAP Size, and Audit Tenure.

Profitability is the company's ability to generate profits from operational such as sales or service activities. The Profitability ratio is used by investors before doing an investment. The investor will respond positively when the profitability ratio has indication to increase and it leads to the increasing of company 's stock price. In the other hand, the stock price will decrease if there is a decreasing of company's profitability ratio. This fact makes the Profitability have a significant influence on the duration of audit completion (Mazkiyani and Handoyo, 2017). According to the research the audit process will be finished quickly if the profitability ratio is high because the company wants to report the audited financial statements faster to attract investors. Evans (2017) also supports the research by stated that profitability ratios affecting the audit report lag period because the companies with high profitability ratio tend to have shorter audit report lag. Furthermore, Yendrawani and Mahendra (2018) stated that low profitability ratio balance will trigger the company to withhold the audited financial statement reporting process to maintain the stock price. However, Arifin et al. (2015) declared there was no significant relationship between profitability and the length of the audit report lag. The same result was also shown by Rubianto (2017) who stated that profitability did not affect the audit report lag.

Solvability is considered to be one of the internal factors of the Audit Report Lag. Solvability is the ability of a company to pay all its obligations and use funds from investors to make a profit. Companies with a higher level of debt to equity ratio tend to disguise the level of the profitability ratio so that it will have an impact on the delay in publishing audited financial statements to cover the condition of the company and minimize the level of risk in returning equity. Kharissa and Saifi (2018) also revealed that there was a significant influence on the audit period. The research stated that the higher solvency will increase the

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Audit Report Lag period and the lower solvency will lead to the decreasing audit report Lag Period. In the other hand Chasanah et al (2017) and Mazkiyani and Handoyo (2017) research showed there is an insignificant effect of solvability toward audit report lag.

The type of industry is an internal factor that increases ARL companies. There are variance types of industries who submitted the audited financial statement in Indonesia Stock Exchange. Generally, there are 2 (two) main groups among all types of the industry, namely financial and non-financial sector industry. Thus, types of companyaffect the operational, financial reports, audit process, and many more. In addition, Keong (2017) and Nurahmayani et all (2017) revealed that companies belonging to the financial sector industry will have shorter audit report than companies in the non-financial sector industry. However, the results are different from research hold byChasanah et al (2017) and Arifin et al. (2015) who shows that type of industry affects audit report lag insignificantly.

The obligation to submit audited financial statements requires an opinion from external auditor or Public Accountant Office as the auditor. The auditor's credibility and demand for external audit services depends on public trust in the independence and integrity of public accountants. Thusforces the Public Accounting Office (KAP) to execute the audit process accurately and provide reliable audit report in a timely manner. Several previous studies stated that most companies are prefer to choose for the Big Four KAP as the external auditor in order to finish the audit task faster. There is a believe that KAP's size has a negative effect on Audit Report Lag. This is supported by the results on Susilawati et al’s research (2018) and Fodio’s research (2015) which highlights the significant negative effect of public accountant size on audit report lag. However, this is inversely proportional to the results of Syachrudin and Nurlis (2018)and Mutiara et al (2018) which indicate that public accountant size does not affect audit report lag significantly.

Other external factors is an effect of audit tenure towards the audit report lag. Audit tenure is a period of time or length of engagement between a company and KAP. The maximum length of engagement between a company and KAP is 5 years. At the beginning of the engagement, auditors carry out many activities to understand business processes including discussion with clients. The activity is one of the bases for auditors to issue opinions. Thus affects the process time for completion the audit reportbecome longer. Besides, the statement is supported by research conducted by Daratika et al (2018) and Nutifa et al (2017) which shows the positive influence between the Audit Tenure and Report Lag Audit. However, the research result contrastcompared with the results of the research by Yuliastuti and Situanti (2018) and Hadiprajitno and Dewi (2017) which show insignificant influence of audit tenure towards audit report lag.

LQ-45 Index company represents 45 companies in Indonesia Stock Exchange with high levels of liquidity and market capitalization. Also, the LQ-45 Index company is one of the most volatile indices and good market activity. IDX continues to monitor developments in the calculation of the LQ-45 Index company based on certain criteria. In accordance with Indonesia Stock Exchange

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regulations the criterias of LQ-45 Index company as follows:

1. The company has been listed on the Indonesia Stock Exchange for at least three months before the assessment period
2. The company position must being among the top 60 companies with the highest market capitalization and highest transaction value over the past 12 months.
3. The company has good financial conditions, future prospects and corporate management status for the sustainability purposes.

The monitoring and assessment process of LQ-45 Index companies is held every six months to guarantee the fairness of stock selection. In sort of, the LQ-45 Index company position will be reshuffles ifit could not meet the criteria and be replaced with any company whodoes.

The researcher was motivated to reaffirm the factors for the year 2014until 2018 company financial statements in LQ-45 Index company. The researcher used profitability, solvability, industrial type, KAP size, and audit tenure to measure the impact of it toward audit report lag in LQ-45 Index company. These variables were chosen because there were still inconsistencies from current previous research. In addition, as the representative of well-managed company, the LQ-45 Index company supposedly published the audited financial statement in time. On the other hand, there are still a number of companies registered in LQ-45 Index experience long audit report lag and some of them even exceed the limits set by the OJK. By using data from the 2014-2018 period, the results of the research will be more relevant to understanding the current conditions, especially the effect of audit tenure on audit report lag. Finally, build upon those facts the researcher is interested to examine "The Effect of Company's Age, Industrial-Type, KAP Size, and Audit of Tenure to audit lag in LQ45 companies Indonesia Stock Exchange period 2014-2018".

1.2 Problem Formulation

Based on the background above, the formulation of the problem in this research are:

a. How is the influence of Profitability on Audit Report Lag on LQ-45 Index company on the Indonesia Stock Exchange 2014 - 2018?
b. How is the influence of Solvability on Audit Report Lag on LQ-45 Index company on the Indonesia Stock Exchange 2014 - 2018?
c. How is the influence of Industrial Type on Audit Report Lag on LQ-45 Index company on the Indonesia Stock Exchange 2014 - 2018?
d. How is the effect of the KAP sizeon Audit Report Lag on LQ-45 Index company on the Indonesia Stock Exchange 2014 - 2018?
e. How does the Audit Tenure affect the Audit Report Lag on LQ-45 Index company on the Indonesia Stock Exchange 2014 - 2018?
f. How do Profitability, Solvability, Industrial Type, KAP Size, and Audit Tenure affect the Audit Report Lag on LQ-45 Index company on the Indonesia Stock Exchange 2014 - 2018?

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1.3 Research purposes

a. To analyse the effect of Profitability on Audit Report Lag on LQ-45 Index company on the Indonesia Stock Exchange 2014 - 2018

b. To analyse the effect of Solvability on Audit Report Lag on LQ-45 Index company on the Indonesia Stock Exchange 2014 - 2018

c. To analyse the effect of Industrial Type on Audit Report Lag on LQ-45 Index company on the Indonesia Stock Exchange 2014 - 2018

d. To analyse the effect of KAP sizeon Audit Report Lag on LQ-45 Index company on the Indonesia Stock Exchange 2014 - 2018

e. To analyse the effect of audit tenure on Audit Report Lag on LQ-45 Index company on the Indonesia Stock Exchange 2014 – 2018

f. To analyse the effect of Profitability, Solvability, Industrial Type, KAP Size, and Audit Tenure on Audit Report Lag on LQ-45 Index company on the Indonesia Stock Exchange 2014 – 2018

1.4 The Benefits of Research

The results of this research are expected to provide benefits, both for theoretical aspects and practical aspects. The benefits of this research are as follows:

a. Theoretical benefits

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This research is aimed at providing both theoretical information and as scientific information regarding the various effects of both internal and external factors of a company to the Audit Report Lag

b. Practical Benefits

1. Students

This research will help the author to attain more insight into business practices in the audit, especially in the Audit Report Lag.

2. University

This research can be used as information and disclosure related to Audit Report Lag.

3. Science

As reference material in the science of education can it enrich and add insight.

1.5 Scope of Research

This research uses data from the Company on the Indonesia Stock Exchange for the period 2014-2018 using variable profitability, solvability, company's age, KAP size, and tenure as the limitation of the scope of the research.

1.6 Systematics of Writing

The systematic of writing functions as a general description of the sections that will be discussed in this research. This can simplify both the researcher and reader to ensure that both the researcher and reader are discussed on the topic discussed and the result of research. The research of chapters to ensure systematic presentation and discussion regarding the topic discussed. The researcher will present briefly the contents of each chapter with the systematics of writing as follows.

The first chapter is introduction which explains the background of the choice of the scope of the problem, objectives, benefits, and scope, and systematic in conducting this research. The second chapter is literature review that focuses on supporting theories, previous studies, and hypothesis development. The third chapter focuses on research methodology in order to solve the problem. This chapter consists of Research Design, Research Model, Research Variables, and Analysis Data Method. The fourth chapter explains the result's research, analysis regarding the result that has been carried out from the acquisition of related data related to problems regarding the factors that affect Audit Report Lag. The fifth as the last chapter is the conclusion of the research conducted. The chapter provides the conclusion regarding the research conducted the implication that has been done to execute the research, limitation during the research process, and suggestions for future research as well.

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