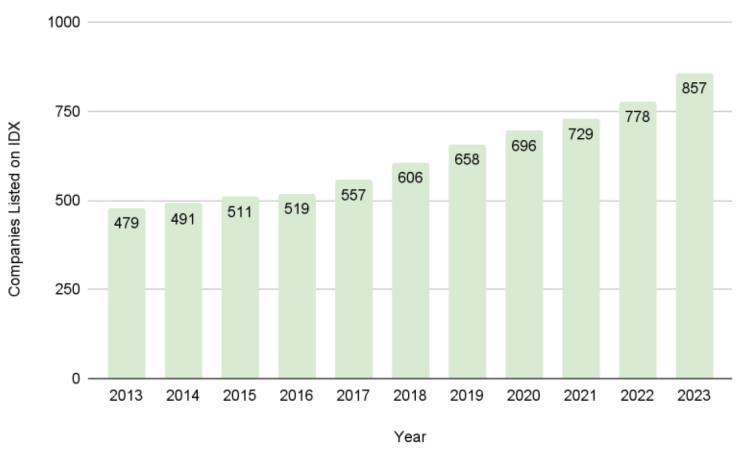
CHAPTER I

INTRODUCTION

1.1 Research Background

The increase in the number of companies going public in Indonesia reflects significant growth in the country's business sector. This trend indicates an expanding and increasingly dynamic business environment. The number of companies listed on the Indonesian Stock Exchange (IDX) from 2013 to 2023 demonstrates a significant and consistent upward trend, indicating robust growth in Indonesia's capital markets. In 2013, there were 479 companies listed on the IDX, which increased to 857 by 2023. This represents a net increase of 378 companies (78.91%) over the ten-year period.

Figure 1.1 Companies Listed on IDX 2013-2023



Source: IDX Annual Statistics, 2013-2023

The increase in the number of companies going public inevitably intensifies competition among them. Companies often face challenges in securing the necessary funds to implement strategies aimed at gaining a competitive edge. The capital market provides a solution to these funding needs by enabling companies to transition from private to public entities through the trading or offering of securities to external parties (going public), thereby raising capital by selling shares in the capital market.

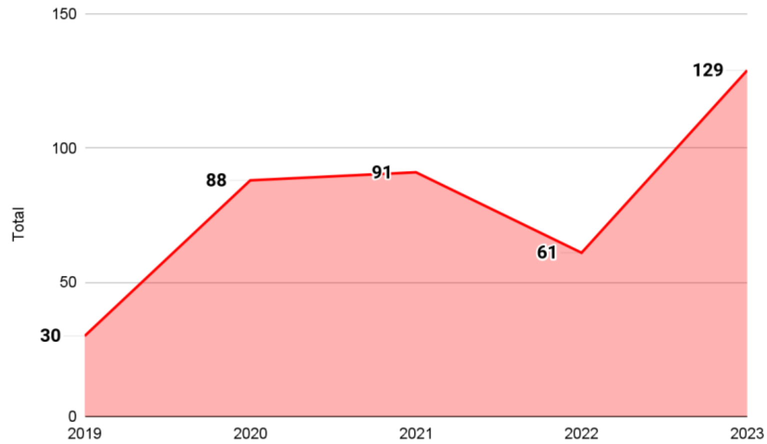
The rise in publicly listed companies has intensified competition as these entities strive to attract investment and maintain their competitiveness in the current business environment. As a result, companies are required to diligently, swiftly, and accurately present their financial reports. Investors rely on audited annual reports as indicators of a company's performance (Fitrianingsih and Triyanto, 2020). The primary objective of general-purpose financial reporting is to provide valuable financial information about the reporting entity to current and potential investors, lenders, and other creditors, aiding them in making resource allocation decisions (Institute of Indonesia Chartered Accountants, 2021). Therefore, financial reports are expected to offer relevant information to support investors in making informed investment decisions.

As stated in the Statement of Financial Accounting Concepts (SFAC) No. 2 regarding the qualitative characteristics of financial information, financial information is considered useful if it is relevant for users in making decisions. Relevant accounting information is that which can make a difference in a decision by helping users form predictions about the outcomes of past, present, and future events or by confirming or correcting prior expectations. In other words, information can influence decisions by enhancing the decision-maker's ability to predict or by providing feedback on previous expectations.

For information to be relevant, it must be timely, meaning it must be available to decision-makers before it loses its capacity to influence decisions. According to Prastyo et al. (2016), financial statements are valuable as a source of information only if they are provided in a timely manner for users to make informed decisions. Any undue delay in financial reporting can impact investors' decision-making and cause the information to lose its relevance. Therefore, it is crucial that financial information is available promptly so that users can utilize it within applicable deadlines.

Despite regulations, many companies still fail to submit their financial reports on time. According to the Indonesia Stock Exchange's (IDX) Announcement of Submission of Audited Financial Reports from 2019 to 2023, there has been a rising trend of companies missing the deadline. The Financial Services Authority Regulation No. 14/POJK.04/2022 requires annual financial statements to be submitted to the Financial Services Authority and disclosed to the public no later than three months after the financial statement date. In 2019, 30 companies failed to meet this deadline, a number that increased sharply to 88 in 2020, 91 in 2021, 61 in 2022, and peaked at 129 in 2023. This growing trend highlights an increasing issue with timely financial reporting, indicating that non-compliance with deadlines is becoming more common. Such delays can compromise the reliability of financial information, potentially affecting investors' and stakeholders' decision-making processes.

Figure 1.2 Total companies that have not sufficiently submitted financial report on time on IDX 2019 - 2023



Source: IDX Annual Stock Announcement, 2019-2023

A significant challenge in presenting financial reports is that they must undergo an audit process by public accountants first. The time required to complete the audit process impacts the announcement of financial reports to the public. If there is a significant delay between the issuance and announcement, it diminishes the usefulness of the financial reports. Timeliness in presenting audit reports is a key criterion for auditor professionalism (Putri, Pagalung, and Pontoh, 2021). One measure of timeliness in submitting financial reports is audit delay.

Audit Delay is the time span between the end of the fiscal year and the issuance date of the audit report, reflecting the duration needed for auditors to complete the audit process (Nanda & Lestari, 2022). The timeliness of financial report presentation and the duration of audit completion, referred to as audit delay, are key indicators of a company's success and are essential for improving the overall quality of the company (Nuur et al., 2017).

Numerous studies have examined the factors influencing audit delay. Research by Ginanjar, Rahmayani, and Riyadi (2019) identified leverage and operating profit/loss as having a significant impact on audit delay. Similarly, Saputra, Irawan, and Ginting (2020) found that company size and age significantly affect audit delay. Rahmawati et al. (2021) further noted that profitability, liquidity, leverage, auditor opinion, and the reputation of the accounting firm significantly influence audit delay. Additionally, Khamisah, Nurullah, and Kesuma (2023) highlighted that tax avoidance aggressiveness, audit fees, and operational complexity have a significant impact on audit delay. Recent findings by Lestari, Damayanti, and Noviarty (2024) also show that solvency, audit firm size, and tax avoidance significantly affect audit delay. Meanwhile, Pratiwi and Suwarno (2024) concluded that among company size, leverage, audit quality, and audit opinion, only audit quality significantly influences audit delay. Lastly, research by Tampubolon, Afrizal, and Yuliusman (2024) revealed that financial distress, capital structure, and operational complexity also significantly impact audit delay.

These various factors demonstrate differing levels of influence on audit delay. Beyond the factors from previous research, there are additional elements that merit investigation in the context of audit delay. This study aims to examine the duration of audit delay experienced by companies, with a particular focus on the size of audit firms, the complexity of company operations, and tax avoidance.

The first factor that contributes to the timeliness of audited financial statements is the size of the Audit Firm. The size of an Audit Firm can be classified into two categories: large and small. The distinction is determined by the firm's affiliation with the Big Four—Ernst & Young (EY), Deloitte, PricewaterhouseCoopers (PwC), and Klynveld Peat Marwick Goerdeler (KPMG)—where large Audit Firms collaborate with these global firms, while small Audit Firms do not (Utami et al., 2018). Larger Audit Firms typically deliver high-quality and timely audits to maintain their reputation in the business client environment. The availability, quality, and human resources within the Big Four firms provide a significant advantage over non-Big Four firms, enabling them to operate more effectively and efficiently (Amin et al., 2021). This aligns with the research by Soewignyo and Wanda (2020), which found that audit firm size negatively affects audit delay. Their research suggests that companies with strong financial performance prefer to be audited by reputable auditors who can promptly complete and publish the audit report, thereby making it relevant to investors. This finding is further supported by Ikhsan, Muda, Masatip, and Julvirta (2024), who also discovered that the reputation of audit firms, particularly the distinction between Big Four and non-Big Four firms, negatively influences audit delay. However, contrasting findings by Lekok and Rusley (2021) and Ervina and Salim (2022) indicate that audit firm size has no influence on audit delay.

The second factor is complexity of company operations. More complex operations generally necessitate more extensive auditing processes (Barney, 1991). Darmawan and Widhiyani (2017) assert that an increase in the number of subsidiary entities heightens an entity's complexity. This added complexity can prolong audit delays, as auditors must review the financial statements of subsidiary entities before examining those of the parent company. Muna and Lisiantara (2021) also support the positive influence that company operational complexity has on audit delay. However, contrary findings by Ginanjar, Rahmayani, and Riyadi (2019), along with

Handayani, Indrabudiman, and Christiane (2022) and Reynaldi and Tjahjono (2022), indicate that the complexity of a company's operations does not affect audit delay.

Another factor suspected to influence audit delay is tax avoidance. Companies, as taxpayers, are obligated to fulfill their tax obligations, which is often easier with good corporate governance. Satyadini (2018) states that tax avoidance, while a legal strategy to minimize tax liabilities, can create internal and external conflicts. Companies engage in tax avoidance to reduce tax burdens without violating tax laws, often using complex tax structures to avoid detection by tax authorities. Consequently, external auditors must conduct more thorough audits. Research by Khamisah, Nurullah, and Kesuma (2023) shows that aggressive tax avoidance significantly increases audit delay, as complex transactions and lack of transparency can slow down the audit process. This finding is supported by Gontara and Khlif (2020) in South Africa and Lestari, Damayanti, and Noviarty (2024) in Indonesia, who found a positive association between audit delay and tax avoidance. Conversely, Pronosokodewo and Susanti (2023) found that tax avoidance negatively affects delays in financial reporting. However, Tehupuring (2016), Hermanto, and Nurriyah (2023) concluded that tax avoidance has no influence on audit delay.

Previous studies on audit delay have yielded inconsistent results due to variations in variables, samples, and methodologies. This research examines audit firm size, operational complexity, and tax avoidance as determinants of audit delay in IDX-listed manufacturing companies from 2020 to 2023, representing external resources, internal challenges, and strategic financial behavior, respectively. The period is chosen due to the regulatory impact of COVID-19, during which the Financial Services Authority (OJK) extended the 2020 financial reporting deadline from March 31 to May 31, providing an additional two months. However, this extension was a temporary measure, and subsequent years returned to the standard reporting timeline. By focusing on this period, the study ensures consistent regulatory conditions. Using OLS regression for panel data analysis, the research offers timely insights into the determinants of audit timeliness in a post-pandemic environment.

This research expands on previous studies investigating audit delay, particularly within the manufacturing sector, which plays a critical role in Indonesia's economic development. In the first quarter of 2024, the manufacturing industry contributed 19.33% to Indonesia's GDP (Kompas, 2024), offering a broad perspective on market dynamics.

1.2 Research Questions

Based on the background outlined above, the key research questions to be investigated are as follows:

1. Does the audit firm size influence audit delay in manufacturing companies listed on the IDX during the period 2020-2023?
2. Does the complexity of a company's operations influence audit delay in manufacturing companies listed on the IDX during the period 2020-2023?
3. Does the tax avoidance influence audit delay in manufacturing companies listed on the IDX during the period 2020-2023?

1.3 Research Objective

Based on the research questions stated above, the objectives of this study are:

1. To investigate the influence of audit firm size on audit delay in manufacturing companies listed on the IDX for the period 2020-2023.
2. To investigate the influence of the complexity of company operations on audit delay in manufacturing companies listed on the IDX for the period 2020-2023.
3. To investigate the influence of the tax avoidance on audit delay in manufacturing companies listed on the IDX for the period 2020-2023.

1.4 Research Benefits

1. Accounting Literature

   This study contributes to the existing literature by providing a comprehensive analysis of the factors influencing audit delay in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2020-2023. By examining audit firm size, the complexity of company operations, and tax avoidance, this research enhances the understanding of how these variables collectively and individually impact audit timeliness. The findings will offer insights into the mechanisms through which these theoretical frameworks operate in the manufacturing sector.
2. Practical Benefits

   This study is expected to provide significant benefits to companies by addressing prolonged audit delays through an exploration of the factors that influence them. Additionally, it aims to encourage companies to improve the timeliness of their financial reporting in collaboration with audit firms, thereby enhancing their credibility among external stakeholders.

1.5 Writing Systematic

Systematic writing aims to present a concise and clear overview of this research's content and structure, enabling readers to understand it effectively. This study is organized into five chapters, outlined as follows:

CHAPTER I: INTRODUCTION

This chapter provides a comprehensive introduction to the research topic, covering the research background, problem formulation, research objectives, benefits, and the structure of the thesis.

CHAPTER II: LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

This chapter presents a literature review pertaining to the research topic and prior studies.

CHAPTER III: RESEARCH METHOD

This chapter includes the research design, study subjects, data sources, and analytical methods employed.

CHAPTER IV: RESULT AND DISCUSSION

This chapter provides an overview of the research subject, along with an analysis of findings derived from data collection and discussion.

CHAPTER V: CONCLUSION AND SUGGESTION

This chapter presents conclusions drawn from data analysis results, along with recommendations for future research.