

CHAPTER I

INTRODUCTION

1.1 Background

Financial statements are the result of an accounting process that contains historical information about the company's performance that has been achieved by management (Utami and Wahyuni, 2018). Thus, financial statements are needed to determine the financial condition of a company, not only as a testing tool for bookkeeping work, but also as a basis for determining or assessing the company's financial position. Where from the information contained in the financial statements with the results of the analysis of interested parties can influence the decision making. So to find out the financial position of a company and the results that have been achieved by the company, information from the company's financial statements is needed (Ikhsan, 2018).

Complete financial statements include a statement of financial position at the end of the period, a statement of profit or loss and other comprehensive income during the period, a statement of changes in equity during the period, a statement of cash flows during the period, notes to the financial statements, which contain a summary of significant accounting policies and other explanatory information and information. comparison of the previous closest period as determined in the statement of financial position at the beginning of the closest prior period when the entity applies accounting policies retrospectively or makes restatements of financial statement items. (PSAK No. 1, 2013). The purpose of the Financial Statements according to the 2013 Financial Accounting Standards is to regulate the requirements for the presentation of financial statements, the structure of the financial statements, and the minimum requirements for the contents of the financial statements. An entity shall apply this Standard in the preparation and presentation of general purpose financial statements in accordance with SAK.

For the submission of financial reports for go public companies listed on the Indonesia Stock Exchange, they are required to submit audited financial reports to the Financial Services Authority (OJK) as the capital market supervisory agency in Indonesia. The accuracy of the submission of financial reports is regulated in Regulation Number: 29/POJK.04/2016 concerning the Annual Report of Issuers or Go Public Companies. No later than the submission of audited financial statements at the end of the fourth month or 120 days after the date of the annual financial statements.

Financial reports must have high quality such as reports that are complete, transparent, and presented on time so that the financial statements are beneficial to stakeholders, so that the financial statements must be reliable and relevant, that is, available when needed and can be verified (Verawati and Wirakusuma, 2016).

So it can be interpreted that timeliness in the submission of financial statements is an important factor, so that a financial report is useful in making decisions. The importance of timeliness in the submission of financial statements so that they can be used immediately in decision making. Because financial statements are very important, if there is a delay in their submission, it will create uncertainty for users of financial statements to make decisions because they are not available

when needed (Amani, 2016). The availability of useful information for most users of the report such as financial position, performance and cash flow is the goal of financial statements (Diastiningsih & Tenaya, 2017). The predictability of the company's future performance can be determined by the delivery of information. The importance of effective information delivery in strengthening corporate reporting through timely delivery of financial information to the capital market (Oussii & Boulila Taktak, 2018).

Prasongkoputra (2013) explains that the shorter the period between the end of the financial year and the publication of the financial statements, the greater the benefits obtained by users of financial statements. On the other hand, delays in the issuance of financial statements will encourage uncertainty in decision making based on the information contained in the financial statements. The time difference between the date of the financial statements and the date of the audit opinion in the financial statements indicates the length of time for completion by the auditor, this condition is often called audit delay.

Audit Delay is the time span between the closing date of the financial year and the date of the audit report. Where the completion of the audit process depends on the time required by the external auditor in the publication of the company's financial information. In conducting the audit, the auditor carries out an audit of the financial statements in accordance with the stages of the audit in accordance with the standards and then ensures that the company's financial statements are in accordance with certain criteria. These criteria are whether the financial statements have been presented in accordance with generally accepted accounting principles and there are no misstatements or misstatements in the

financial statements. Thus, completing an audit of financial statements can take a relatively long time. If The longer an auditor conducts an audit of financial statements, the longer the audit delay.

As a result, there is pressure on external auditors to publish audit reports without undue delay (Oussii & Boulila Taktak, 2018). Audited financial statements are considered a reliable source of information for users of financial information (Rusmin & Evans, 2017). The most important thing for the auditor is how to submit financial reports on time or not too late and ensure

the confidentiality of the information contained in the financial statements. financial statements so as not to leak to other parties (Pratiwi & Wiratmaja, 2018).

When an audit delay occurs, it can be caused by several factors. One of them is auditor rotation, breaking the company's relationship with the old auditor and replacing it with a new auditor, Tambunan (2014). The new auditor takes longer to audit the financial statements because the new auditor needs to know from the start the characteristics of the client's business and the systems in it. Audit rotation in a company is carried out with the aim of: maintaining the independence of the auditor in order to remain objective in carrying out his duties as an auditor. The replacement of the public accountant is also carried out because the work contract agreed between the Public Accounting Firm and the assignor has ended and has decided not to renew with a new assignment.

Another factor that can affect audit delay is KAP reputation. According to (UUD No. 5 of 2011) the law of the republic of Indonesia number 5 for the period of 2011 concerning Public Accountants that the public has a role especially in

improving the quality and credibility of financial information or financial statements of an entity. In this case, the Public Accountant carries the public's trust to provide an opinion on the financial statements of a company entity. Thus, the responsibility of the Public Accountant lies in the opinion or statement of opinion on the financial statements or information of an entity, while the presentation of the financial statements or information is the responsibility of management.

The amount of KAP is divided into two, namely KAP big four and KAP non big four. KAPs that are included in the top four namely PWC (PricewaterhouseCoopers), Delloite (Deloitte Touche Tohmatsu Limited), EY (Ernst & Young), KPMG (Klynveld Peat Marwick Goerdeler) are believed to be able to work more efficiently in planning audits, have better human resources, and

more experienced in conducting audits. It is suspected that the reputation of KAP can affect the timeliness of submitting financial statements. In addition to these factors, audit delay is also thought to have an effect on the timeliness of submitting financial reports. If a large company wants to maintain its image to the public by trying to submit its financial statements on time, but an independent auditor who audits the financial statements takes a long time, then the submission of the company's financial statements is delayed. The duration of the completion of the audit report is caused by the auditor's compliance with audit standards regarding field work standards. The implementation of an audit that is more in line with standards takes longer. On the other hand, the lower the work audit standards, the shorter the time required.

Another factor suspected to cause audit delay is financial distress is one of the causes of audit delay which can be caused by internal and external factors of the company. Internal factors in the form of cash flow difficulties, the amount of debt, losses in the company's operational activities for several years, while for external factors in the form of government policies that can increase the business burden borne by the company, for example increasing tax rates can increase the company's burden. High corporate financial risk has serious implications for the sustainability of a company and threatens the company's financial health. Due to these factors, financial distress must be immediately mitigated so that the company's sustainability is maintained.

At this time, the outbreak of the Covid-19 pandemic that hit the economic crisis not only had an impact on certain countries, professions or populations, but also had an impact on all penitentiary countries in the world, including Indonesia, which had a wide impact in various fields. including the practice of public accounting. As understood, the auditor must obtain sufficient appropriate audit evidence on which to base the conclusions on which the opinion is based. In any situation, the auditor is required to maintain professional skepticism by acting with prudence and

thoroughness in accordance with professional standards and the applicable professional code of ethics. This change in work patterns has implications for the interactions that occur between accountants and companies (clients) and their employees in the process of conducting audits. Companies that do not keep up with technological advances will find it difficult to deal with situations like this, as well as limited external auditors. As in access and travel as well as the limited availability of personnel due to health considerations so that it

can interfere with capabilities. auditor to obtain sufficient appropriate audit evidence. The world economy is currently being hit by an outbreak of Corona Virus Disease 2019 or commonly known as Covid-19. The impact of the corona virus that has emerged since the beginning of 2020 in Indonesia is not only on health. The economies of various countries were also affected. One of the sectors affected by the COVID-19 outbreak is Manufacturing. Based on cncindonesia.com, manufacturing is a sector affected by the pandemic because many factories have stopped their operations due to sluggishness in product sales and manufacturing sector operational activities due to the cessation of factory operations due to PSBB (large-scale social restrictions).

In the pandemic era, there were various lockdown regulations in early 2020 and mid-2020 had started a new normal, but the existence of travel bans, social distancing, the risk of virus contamination through paper-based audit evidence led to the creation of alternative procedures for internal control interviews, tracking systems or traceability - work procedures at the client's workplace or live documents, cash calculations, inventory of fixed assets and inventory. The use of audit technique technology has been going on for several years. This leaves some companies with limited reports on the use of remote auditing processes beyond the scale of the test. In addition, in the current situation, the auditor tries to maintain audit quality in order to obtain sufficient and appropriate audit evidence. The auditor's response is expected to modify audit

evidence gathering procedures, revise the process for identifying and assessing risks of material misstatement, and modifying planned audit procedures or performing alternative or follow-up audit procedures as appropriate.

An audit may be the best viable alternative, as most companies have restricted travel to essential business functions, and many countries around the world have temporarily closed their borders. Our brief review this time looks at the challenges of the remote audit process and offers strategies used to address each part of the audit engagement process, including – planning, document review, fieldwork, interviews, and closing meetings. In addition, we will also share best practices from three organizations that have implemented remote audit processes in the face of Covid-19

During the examination of documents, the auditor should compile a list of areas of concern to be captured via video or photographs. For example, focus areas for a chemical safety audit include: Active facility access points. Safe and restricted areas Video surveillance of people and vehicles, Videos originating from CCTV monitoring stations including camera use Photos and videos are reviewed by the audit manager and compiled into an album, which is then reviewed by the respective auditors. The auditor records and prepares questions to be asked. Not only that, interviews are conducted in much the same way as in- person interviews and can be conducted via scheduling video calls to key personnel using a number of available technologies (e.g., Microsoft Teams, Skype, Meet, and Zoom). Interview between 30 to 90 minutes with the person in charge of the job. A short interview of about 15 minutes can be conducted with the designated personnel responsible for implementation, video calls are preferred over voice calls alone as non-verbal cues are an important part of communication and are often invisible without video. Preparing for a

remote interview requires additional time for the auditor. Each auditor should be prepared with a list of

questions and matters relating to what additional information is required, as well as suggesting information obtained from the review of the document. When more than one auditor participates in an interview, care should be taken to avoid overlapping conversations with the interviewee and with other auditors. Please note that many people may not be comfortable chatting via video, especially auditees who rarely do so (e.g., expert trade supervisors). While this is unavoidable, try to adjust the intonation as comfortably as possible and note that the video alone can alter body language or perception.

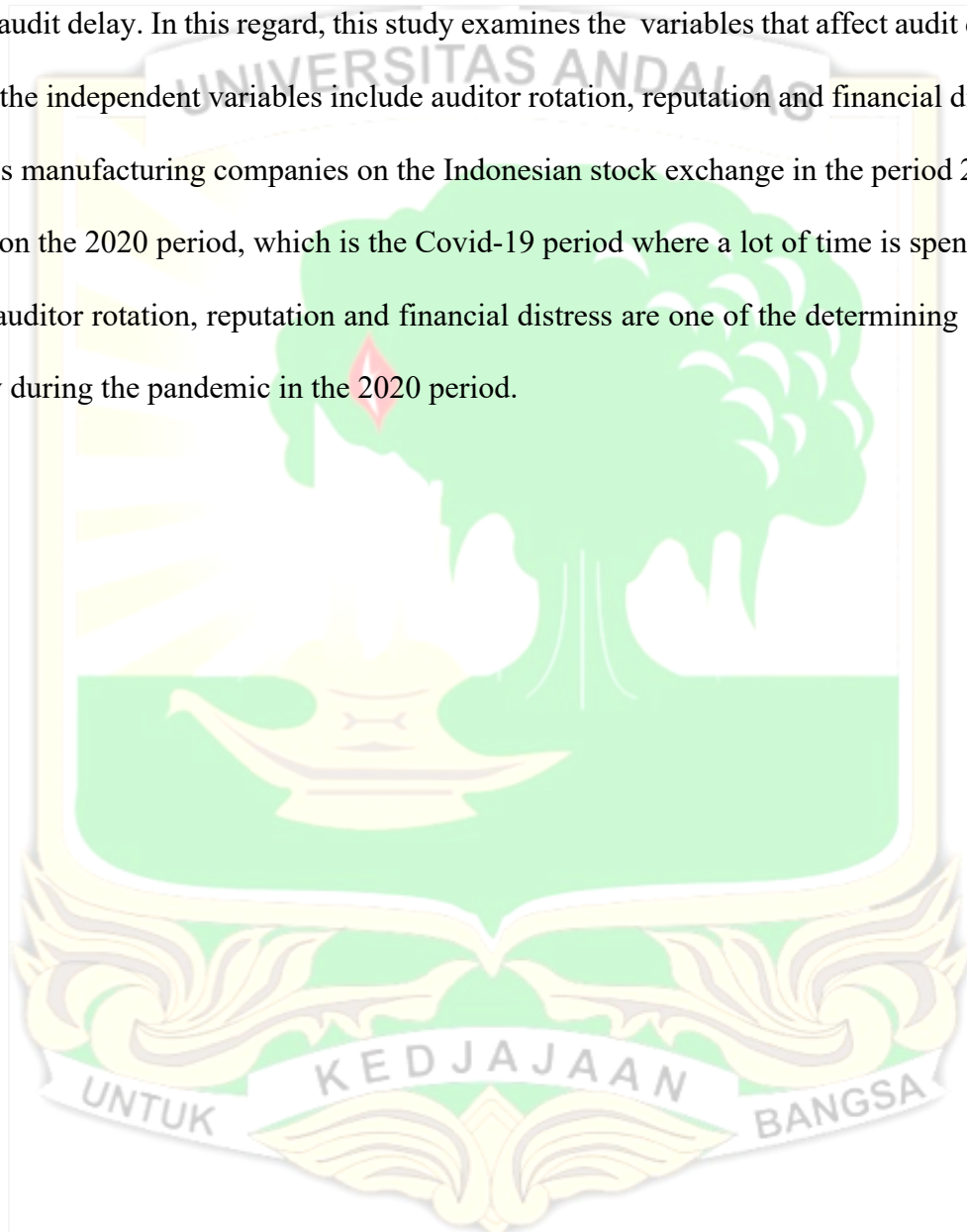
The role of the auditor in its current state is under strict supervision, because the auditor has a public interest obligation to complete audit work in accordance with professional standards and applicable ethical requirements. In these circumstances, the auditor must acknowledge that the way previous audits were conducted required significant modifications to certain audit procedures, to address the challenges and uncertainties arising from the impact of the Covid-19 Pandemic

1.2 Problem Statements

The phenomenon of audit delay in Indonesia is not new. Apart from the stipulation of regulations related to the submission of financial reports, delays in submitting audited financial reports still often occur in several companies. Based on information from idx.co.id, IDX stated that as of December 31, 2017 there were 10 issuers who were late in submitting audited financial reports and as of December 2018 there were also 10 issuers who did the same. The Indonesia Stock Exchange (IDX) has extended the time limit for submitting financial reports and annual reports related to the current state of the COVID-19 pandemic. Submission of financial reports that are

not timely is increasingly becoming a trend among issuers so that as of December 31, 2019, the IDX recorded 64 issuers that had not reported audited finances (idx.co.id). In addition to the stipulation of regulations regarding the submission of financial reports, delays in the submission of audited financial statements are still common in several companies. Companies and auditors determine the audit delay. In this regard, this study examines the variables that affect audit quality or in this case the independent variables include auditor rotation, reputation and financial distress. This study uses manufacturing companies on the Indonesian stock exchange in the period 2020.

Based on the 2020 period, which is the Covid-19 period where a lot of time is spent using online. Thus, auditor rotation, reputation and financial distress are one of the determining factors for audit delay during the pandemic in the 2020 period.



1.3 Research Questions

From the background of the problems described above, the problems to be discussed in this study are as follows:

1. Does audit rotation effect on audit delay during pandemic?
2. Does financial distress effect on audit delay during pandemic?
3. Does KAP reputation effect on audit delay during pandemic?

1.4 Objectives of Research

Based on the problem formulation above, the objective of this research are

1. To determine the effect audit rotation on audit delay during pandemic
2. To determine the effect financial distress on audit delay during pandemic
3. To determine the effect KAP Reputation on audit delay during pandemic

1.5 Research Benefit

The purpose of this research is to broaden researchers, this research is expected to be used as a contribution of knowledge to support accounting knowledge, especiall The Effect of Audit Rotation, Financial Distress, and KAP Reputation on Audit Delay during the Covid Pandemic in Manufacture Sector Companies listed on the Indonesian Stock Exchange for the Period 2020.

a) For Authors

For the authors, the results of this study are expected to provide knowledge about the. In addition, the author can also find out the truth of the can complete the thesis preparation materials to meet the requirements in taking the undergraduate examination in the International Accounting Study Program at the Faculty of Economics , Andalas University.

b) For Other Parties

It is expected to be a source of thought for the development of science and as a means of information for readers who will conduct research on the same field of study.

1.6 Writing Systematical

The writing systematic of this research comprises five parts. The first chapter describes background, problem definition, research purpose and benefit and also writing systematic. The literature Review about this research is identified in second chapter.

The research methodology including the type of research, population and sampling, data collection method, research instrument, type and source of the data, model and technique data analysis are presented in the third chapter. The analysis of the research result and other factor that could influence the findings can be found in the fourth chapter. The fifth chapter presents about the conclusions, limitation and suggestion for this research.

