# INTERNAL AND EXTERNAL COMPANY'S FACTORS ON AUDIT DELAY STUDY FROM INDONESIA STOCK EXCHANGE

**RIZAL MAWARDI**
Perbanas Institute
Economics and Business Faculty
rizal.mawardi@perbanas.id

## ABSTRACT

The development of auditing companies go public next is not easy because of the claim by the application of good corporate governance practices that emphasize the importance of transparency and public accountability. The length of time of completion of the audit may affect the timeliness of publication of the report that have an impact on the market's reaction and affect the level of decisions taken based on information from the published reports. In addition, the regulations limit the submission of financial reports to the Financial Services Authority (OJK). This has been an interesting finding, that there are several factors that lead to increased Term Audit (Audit Delay), so Researcher looked at the internal and external factors affecting the company's Audit Delay.

Keywords : Profitability, Solvability, Company Size, Public Accounting Firm, Audit Delay

## INTRODUCTIONS

The development of auditing companies go public next is not easy because of the claim by the application of good corporate governance practices that emphasize the importance of transparency and public accountability. Those efforts should be supported by the implementation of an independent audit carried out on a regular basis and the issuance of audit reports in a timely manner so that users of financial statements, especially external, can be leveraged for decision making.

The timeliness of financial reporting is one of the values of primary relevance in the quality of financial reports as required SFAC 2 (Oktarina and Suharli, 2005). Every company listed on the capital market are required to submit annual financial statements and the auditor's report with unqualified opinion to the Capital Market Supervisory Agency (BAPEPAM) no later than the end of the third month after the date of the annual financial statements. Since September 30, 2003 Bapepam tightened regulations by issuing an attachment Decree of Chairman of Bapepam Number: Kep-36 / PM / 2003 stating that the financial statements accompanied by the auditor's report with unqualified opinion should be submitted to BAPEPAM no more than the end of the third month ( 90 days) after the date of the annual financial report.

This research seeks to analyze the causes of the company is not able to meet the timeliness of financial reporting. Previous studies have shown an outline that internal factors such as the size of the company and external factors such as the size of the public accounting firm (qualify of public acconting firm) also significantly influence audit delay. Of the few studies that have been done, such as research Ashton (1987) in Canada, found that audit delay is negatively related to the size of the company where the indicators used are total assets. This shows that the greater the value of the assets of the company, the shorter audit delay. Meanwhile, according to Boynton and Kell (2002), the larger the size of the company being audited, audit delay will be longer because of the number of samples taken by the larger and audit procedures should be expanded.

## RESEARCH QUESTION

Based on introduction, so the research questions in this study was to determine:

1. How influence of internal factors (Profitability) to audit delay?
2. How influence of internal factors (Solvability) to audit delay?
3. How influence of internal factors (Company Size) to audit delay?
4. How influence of external factors (The size of the public accounting firm) to audit delay?

## RESEARCH PURPOSES

This research have two main purposes :

1. To analyze and prove factors internal and external factors that influence audit delay
2. As guidelines for the management of its associated long time auditing budget audit fees

## LITERATURE REVIEW

### Financial Statement

Munawir (1991) defines financial report is the result of the accounting process that can be used as a tool to communicate anatara financial data or activity of a company with the parties concerned with the data or its activities. According to Zainuddin and Jogiyanto (1999) describes SFAC No. I Objective of Financial Reporting by Business Enterprise (FASB 1978) that the objective of financial statements is (1) provides useful information to investors, creditors, and other users of both current and potential in making investment, credit and similar decisions are rational. (2) provide information to help investors, creditors, and other users of both current and potential in assessing the amount, timing, uncertainty in cash receipts from dividends and interest in the future. The Important presence Qualitative Characteristics of Financial Statements are the traits that make information in financial statements useful to users. According to the Financial Accounting Standards Financial Statements characteristics are (1) Understable (2) Relevant (3) Reliable (4) Comparable.

### *Audit Delay*

Dyer and McHugh (1975) the number of calendar days between the date of the calculation according to the company's fiscal year to the date of the audit report. According to Ashton, et al, (1987) audit delay is the duration of the audit of the closure of the financial year of the company until the issuance of the auditor's report. Also defined According to Halim (2000): "Audit Delay is the length of time measured from the completion of the audit the closing date of the financial year until the date of issuance of the audit report".

So by definition of audit Delat mentioned above, the authors conclude that the audit delay is the length of time from the closing date up to the company's auditors field work is completed or when the auditor provide an opinion on the audit report.

### Factors Affecting Audit Delay

### A. The Internal Factors

### a) Profitabily

The Income or Loss is often used as a measure to assess the performance of the company as a basic measure other assessments, such as earnings per share. The level of profitability is estimated to affect audit delay. According Givoly and Palmon (1982) that the timeliness and delay the announcement of annual earnings are affected by the contents of the financial statements. Carslaw and Kaplan (1991) which states that the company suffered losses tend to require the auditor to begin the audit process is slower than usual. Because of this, there will be also a delay in delivering bad news to the public.

### b) Solvability

Debt ratio is an indicator of financial health and reflects the failure of the company and increase uncertainty for the auditor as well as allegations that the financial statements are not reliable. According Carslaw and Kaplan (1991) the relative proportion of debt to total assets indicates a company's financial condition. A large proportion of debt to total assets increases the likelihood of losses and may increase the prudence of the auditor on the financial statements to be audited. This is due to the high proportion of debt will also increase the risk of losses.

**c) Total Assets**

Dyer and McHugh (1975) stated that the management of large companies have incentives to reduce the backlog of audits (audit delay) and the delay caused by the financial statements for large companies continue to be closely monitored by investors, trade associations and regulatory agencies. The size of company size is also influenced by the operational complexity, variability, and the intensity of the corporate transactions that will certainly affect the speed of the present financial reports to the public.

**B. The External Factors**

**Size of Public Accounting Firm**

Public Accounting Firm (KAP) is a form of organization of public accountants who obtain licenses in accordance with the legislation, which seeks in the field of the provision of professional services in the practice of public accounting. According to Arens and Loebbeck categorize the size of the Public Accounting Firm (KAP) into four categories: (a). International Public Accounting Firm "Big Four", (b). National Public Accounting Firm, (c) and Local Public Accounting Firm (d) Regional Public Accounting Firm. Large accounting firms mentioned have an accountant who behave more ethical than an accountant at a small accounting firm (Loeb, 1971).

**Hypothesis**

**1. Influence of internal factors (profitability) to audit delay**

Hossain and Tailor (1998), the company has a higher level of profitability that takes in auditing financial statements faster because of the necessity to bring good news to the public as soon as possible. It also gives the reason that auditors are facing companies that suffered losses have responses tend to be more cautious in conducting the audit process. and Dyer and McHugh (1975).

**H1** : Internal factors (profitability) has a significant influence on audit delay.

**2. Influence of internal factors (Solvability) to audit delay**

Debt Ratio has a major role and are at great risk for the occurrence of material misstatement. The ratio of debt to total assets was positively related to the audit delay (Carslaw and Kaplan, 1991). A high proportion of debt to total assets, will affect the liquidity issues related to the survival of the company (going concern), which require more accuracy in auditing.

**H2** : Internal factors (Solvability) has a significant influence on audit delay.

**3. The influence of internal factors (Total Assets) to audit delay**

Related to the timeliness of the annual audit report, company size is also a function of the speed of the financial statements. The size of company size is also influenced by the operational complexity, variability, and the intensity of the corporate transactions that will certainly affect the speed of the present financial reports to the public. (Dyer and McHugh, 1975). Besides, the size of the companies also have an allocation of greater funds to pay the cost of the audit (audit fees), this led to the company that has a size larger company tends to have the audit delay is shorter when compared to a company that has a size smaller company. (Na'im, 1999 and Halim, 2000).

**H3** : Internal factors (Total Assets) has a significant influence on audit delay.

**4. The influence of external factors (the size of the public accounting firm) to audit delay**

Deangelo (1981) concluded that public accounting firms greater means the resulting audit quality was better than a small accounting firm. Large accounting firms mentioned have an accountant who behave more ethical than an accountant at a small accounting firm. Thus the management will soon submit financial statements have been audited large accounting firms in a timely manner.

**H4** : External Factors (Size of Public Accounting Firm) has a significant influence on audit delay.

## RESEARCH METHODS

### Dependent Variable

### Audit Delay (AUD)

The measure of Audit delay is the span of time of completion of the audit of annual financial statements, measured by the length of days required to obtain an independent auditor's report on audit of the annual financial statements of the company, since the company's closing date is December 31 until the date stamped on the independent auditor's report.

### Independent variables

**1. Profitability**

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$$

**2. Solvability**

$$\textit{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}} \times 100\%$$

**3. Company Size**

Size measurement / size enterprise (company size) indicates the size of the size of the company. To obtain measurements easy and taking into account the availability of the data, the research firm size is proxied by total assets given the symbol with ASSET. Total assets are the sum of current assets and fixed assets owned by the company for one year.

**4. Size of Public Accounting Firm**

Variable sized public accounting firm indicated by the symbol of KAP. This variable is a dummy variable which consists of partnering on KAP Big Four and do not partner KAP Big Four. Public Accounting Firm Size variable was coded 1 if partner at Big Four accounting firm and was given a code 2 if no partner at Big Four accounting firm.

## Data collection technique

The sampling technique used is by using purposive sampling, the sampling method is based on certain considerations in choosing the object of research, with the hope of the research object will obtain the necessary information (Sekaran, 2003: 277), with the following criteria :

a. Public sector companies that publish financial statements period in 2012-2015.
b. The Financial Statements have been audited by Public Accounting Firm (KAP)
c. The companies whose shares are actively traded on the Indonesia Stock Exchange (BEI).

The data used in this research is secondary data. Secondary data is data that is already available so we stayed search and collect. Secondary data is also a source of research data obtained indirectly through an intermediary medium (obtained and recorded by the other party). While the types of data used in this research is secondary data in the annual report 2012 period, which includes the net profit after tax, total assets, the name of the independent auditors, the chart structure of the organization, the date of completion of the audit and the date of submission of annual financial statements that have been audited to Indonesia stock exchange.

## Research Model

## Multiple Regression

This test uses Individual test (t-test) and the Simultan Test (F-test) with level significant ($\alpha$) through multiple regression testing phases namely Audit Delay Testing variable as the dependent variable explained by the independent variable internal factors (profitability, solvency, and the size of the company) and external factors (size of Public Accounting Firm) multiple regression model in this study are as follows :

$$AUD = ß_0 + ß_1(ROA) + ß_2(SLV) + ß_3(ASSET) + \quad ß_5(KAP)$$

## Uji-t (Uji individu)

T-test (individual test) is testing the regression coefficient of each independent variable on the dependent variable to determine how much influence the independent variable on the dependent variable. If the T statistic bellow level of significant or T arithmetic bellow T table then **Ho** is rejected, which means that the independent variables have a significant influence on the dependent variable.

## Uji F (Uji Simultan)

F test is a test of simultaneous regression relationship of variable - dependent variable that aim are together all independent variables have a significant influence on the dependent variable. If the F bellow level of significant or T arithmetic bellow T table then **Ho** is rejected, which means that all independent variables simultaneously have a significant influence on the dependent variable.

## RESULTS AND DISCUSSION

### Descriptive statistics

Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Audit Delay | 100 | 36,00 | 127,00 | 77,3500 | 13,49925 |
| Profitabilitas | 100 | -,35 | ,99 | ,1147 | ,17687 |
| Solvabilitas | 100 | ,07 | 1,66 | ,4977 | ,25755 |
| Size Pengukuran* | 100 | 54002,00 | 55225061,00 | 3422004,8600 | 7881506,12256 |
| Ukuran Kantor Akuntan Publik | 100 | ,00 | 1,00 | ,3200 | ,46883 |
| Valid N (listwise) | 100 | | | | |

**Processed Data Source: SPSS.19**

Descriptive statistics show the average audit delay at 100 companies listed on the Stock Exchange in 2012 was 77.35 days or 78 days (rounded). This shows that on average the issuance of audit reports are not exceeding the time limits set by the Capital Market Supervisory Board is 90 days.

On average the company's profitability as measured by ROA (Return on Assets) was 11.47% with a standard deviation of 17.68% and the average solvency of a property company in Indonesia Stock Exchange as measured by (Total Debt to Total Asset) is of 49.77% with a standard deviation of 25.75%.

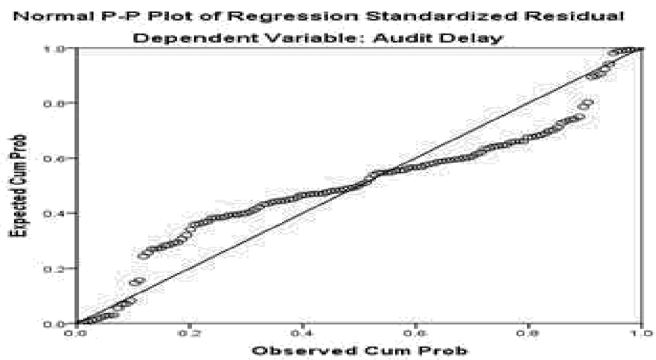
For the average total assets for the 44 property companies in the Indonesia Stock Exchange in 2012 amounted to Rp Rp3.422.004.860.000 Whereas the standard deviation for total assets amounted Rp7.881.506.122.000.

Average size of a public accounting firm listed in Indonesia Stock Exchange is 32% company-perusaahaan audited partner / use the services of the Public Accounting Firm (KAP) Big Four and the remaining 68% of companies do not partner on / do not use the services of the Public Accounting Firm (KAP) Big Four with a standard deviation of 46.88%.

### Classical Assumption Test Analysis

**a. Normality Test**

The test is to see whether the independent variables and the dependent variable has a normal distribution or not (Ghozali, 2001). To test the methods used normal line P - Plot of standarized residual comulative probability. Testing normality can be detected by looking at the spread of the data (points) on the diagonal axis of the graph normal.




**Processed Data Source: SPSS.19**

**b. Multicollinearity Test**

To detect multicollinearity in a model can be seen if the value of Variance Inflation Factor (VIF) of not more than 10 and the value of tolerance of not less than 0.1, the model can be said to be free from multicollinearity. According to Hair et al (1998: 45) in Purwoto & Wahyuni, 2009: 127-131, if VIF is still less than the 10 it was concluded not happen multikolinearitas. Prerequisites that must be met in the regression model is the absence of multicollinearity.

Coefficients[a]

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| 1 | (Constant) | | |
| | Profitabilitas | ,949 | 1,054 |
| | Solvabilitas | ,935 | 1,069 |
| | Size Pengukuran | ,935 | 1,070 |
| | Ukuran Kantor Akuntan Publik | ,950 | 1,053 |

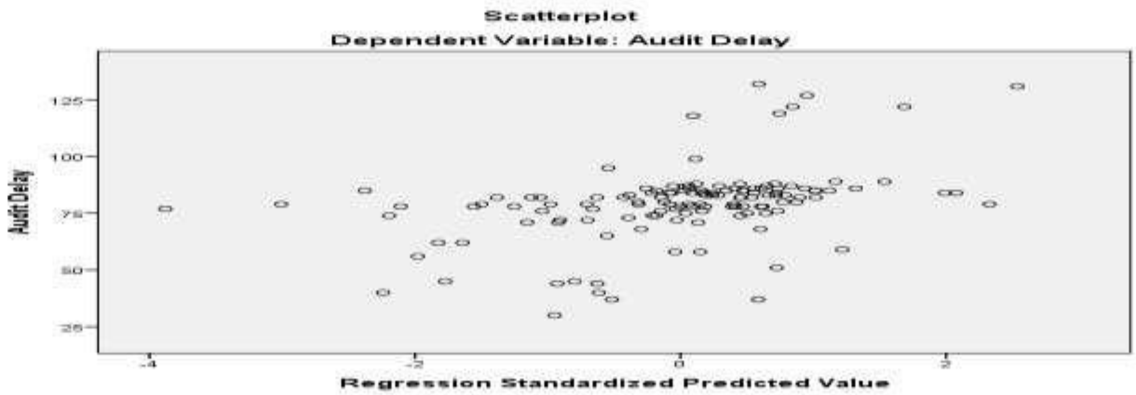
a. Dependent Variable: Audit Delay

**Processed Data Source: SPSS.19**

**c. Heterokedastisity Test**

To detect heteroscedasticity can see a picture chart Scatterplot. The detection to see whether there is a specific pattern on a chart where the axis of the X and Y that have been predicted and the Y axis is the residual that has studendized.

**Processed Data S**




**Source: SPSS.19**

**Analysis Coefficient of Determination ($R^2$)**

Analysis Coefficient of Determination ($R^2$) is used to determine how much the relationship between the independent variable on the dependent variable simultaneously.

**Coefficient of Determination ($R^2$) *Audit Delay***

| Model | R | R Square | Adjusted R Square |
|---|---|---|---|
| 1 | .521[a] | .272 | .241 |

**Processed Data Source: SPSS.19**

Based on the test results obtained $R^2$ of 0.410. ² shows that correlation between two or more independent variables on the dependent variable. $R^2$ value ranging from 0 to 1. If the value close to 1, then the relationship more closely. Conversely, if close to 0, then the relationship is weak. This shows the bottom of a relationship being between the level of profitability (ROA), the level of solvency (SLV), size measurements (ASSET) and the size of the Public Accounting Firm (KAP) audit delay (AUD).

**Analysis Hypothesis Testing**

**1. The t-test Audit Delay**

| Model | | t | Sig. |
|---|---|---|---|
| 1 | (Constant) | 28,149 | .000 |
| | Profitabilitas | -3,537 | .000 |
| | Solvabilitas | -2,524 | .024 |
| | Size Pengukuran | 4,492 | .016 |
| | Ukuran KAP | ,005 | .477 |

**Processed Data Source: SPSS.19**

T-test results showed that the partial results of the variables that affect the Audit Delay is as follows:

a. Variable Profitability (ROA) has a significant influence on Audit Delay with a significance level of 0.000 < 0.01. This shows that H1 is not rejected. These results are supported by previous studies Givoly and Palmon (1982), Hossain and Tailor (1998), Wirakusuma (2004), Michell Suharli and Awaliawati R (2006) and Sistya Rachmawati (2008), a company that has a level higher profitability takes time in auditing financial statements faster because of the necessity to bring good news to the public as soon as possible.

b. Variable Solvency (SLV) has a significant influence on Audit Delay with a significance level of 0.024 < 0.05. This shows the H2 is not rejected. These results are supported by previous studies Carslaw and Kaplan (1991), Hossain and Tailor (1998), Halim (2000), MG Venny C. N and Ubaidullah (2008) and Sistya Rachmawati (2008) found that the ratio of debt to total assets has no effect significant audit delay.

c. Variable Size Measurement (Assets) have a significant influence on Audit Delay with a significance level of 0.016 < 0.05. This indicated that the H3 is not rejected. These results are supported by research Dyer and McHugh (1975), Hossain and Tailor (1998), Wirakusuma (2004) and Sistya Rachmawati (2008) which states Bahwan sized companies are also affected by operational complexity, variability, and the intensity of the transactions of the company which would affect the speed of the present financial reports to the public.

d. Variable Size KAP has no significant influence on Audit Delay with a significance level of 0.477 > 0.10. This shows that the H4 is rejected. This is in contrast to some previous studies, because more states in the quality of the audit opinion is not on firm size as in research Sistya Rachmawati (2008).

**2. F-test *Audit Delay***

| Model | | F | Sig. |
|---|---|---|---|
| 1 | Regression | 8.865 | .000b |
| | Residual | | |
| | Total | | |

**Processed Data Source: SPSS.19**

The results of the test or ANOVA F test can be generated audit delay of 8.865 with a significance level of 0.000. Because of the significant value is much smaller than 0.05 then the regression model can be used to predict the variables audit delay. Since F arithmetic> F table at 14.40, the H1 is rejected, which means together a significant difference between all independent variables (level of profitability (ROA), the level of solvency (SLV), size measurements (ASSET) and the size of the Office Public accountant (KAP) to audit the dependent variable delay (AUD).

## CONCLUSIONS AND RECOMMENDATIONS

### Conclutions

1. Based on the results of t-test audit delay of each independent variable, namely Level Profitability, Solvency Level, Size Measurement and Size of Public Accounting Firm (KAP) on the Audit Delay shows that the variables that significantly affect audit delay is the level of profitability (ROA), the level of solvency (SLV) and size measurement (ASSET).

2. Based Test Results-F Audit Delay, showed results that together there is a significant effect between all independent variables (level of profitability (ROA), the level of solvency (SLV), size measurements (ASSET) and the size of the public accounting firm) on the dependent variable namely Audit Delay (AUD) and Timeliness (TIME).

### Recommendations

1. For their next researcher, some other factors that may have an influence on audit delay and timeliness as internal variables auditor, the auditor's report opinion, the events then and the shareholding structure.

2. You can the amount of the sample period used should be more than a one-year period of the company's books.

## REFERENCES

Arens, A. Alvin dan James K. Loebbecke. "*Auditing dan Jasa Assurance*", edisi 12, Salemba Empat: Jakarta, 2008.

Ashton, R.H., Willinghan, J.J, dan Elliot, R.K, *"An Empirical Analysis of Audit Delay"*, Journal Of Accounting Research. Vol.25.No. 2, 1987.

Boynton, W.C. and Walter G.Kell, 1996, "*Modern Auditing",* Sixth Edition, John Wiley & Sons, Inc., New York.

Bursa Efek Indonesia. Website: http://www.idx.co.id

Carslaw, C.A.P.N dan Steven E. Kaplan, *"An Examination of Audit Delay: Further Evidence from New Zealand"*, Accounting and Business Research Vol 22, 1991.

DeAngelo, L.E., 1981, *"Auditor Size and Quality"*, Journal of Accounting Research (December).

Dyer, J.d and A.J. McGough, "*The Timeliness of The Australian Annual Report"*, Journal of Accounting Research. Autumn, 1975.

Ghozali, I. 2001. *Aplikasi Analisis Multivariate dengan program SPSS.* Badan Penerbit Universitas Diponegoro, Semarang.

Givoly, D., dan Palmon, D, *"Timeliness of Annual Earnings Announcements : Some Empirical Evidence".* The Accounting Review. Vol LVII. No 3 . July, 1982.

Halim, Varianada, "Faktor-faktor yang Mempengaruhi Audit Delay : Studi Empiris pada Perusahaan-perusahaan di Bursa Efek Jakarta", Jurnal Bisnis dan Akuntansi, Vol. 2. No.2, 2000.

Hossain, M.A. dan Taylor, p.j. 1998. *An Examination of Audit Delay : Evidence from Pakistan*. Journal, http://www.hicbusiness.org/

Loeb, S.E., 1971, "A *Survay of Ethical Behaviour in The Accounting Profession"*, Journal of Accounting Research, USA.

Munawir, S. 1991. *Analisa Laporan Keuangan*. Yogyakarta: Penerbit Liberty, edisi 4.

Na'im, Ainun, "*Nilai Informasi Ketepatan Waktu Penyampaian Laporan Keuangan : Analisis Empirik Regulasi Informasi di Indonesia*". Jurnal Ekonomi dan Bisnis Indonesia. Vol. 15. No. 2, 1999.

Oktarina, Megawati dan Suharli. 2005. Studi Empiris terhadap Faktor Penentu Kepatuhan Ketepatan Waktu Pelaporan Keuangan, *Jurnal Ekonomi dan Bisnis*, Vol. 2.

Rachmawati, Sistya. 2008. "Pengaruh Faktor Internal dan Eksternal Perusahaan Terhadap Audit Delay dan Timeliness", *Jurnal Akuntansi dan Keuangan*, vol. 10, no. 1.

Sekaran, Uma. (2003). *Research Methods for Business: A skill-building approach.* New York: John Wiley & Sons, Inc.

Wirakusuma, Made Gede, "Faktor-faktor yang Mempengaruhi Rentang Waktu Penyajian Laporan Keuangan ke Publik (Studi Empiris Mengenai Keberadaan Divisi Internal Audit pada Perusahaan-perusahaan yang terdaftar di Bursa Efek Jakarta", Makalah Seminar Nasional Akuntansi VII, Denpasar, 2004.

Zainuddin dan Jogiyanto. 1999, "Manfaat Rasio Keuangan Dalam MemprediksiPertumbuhan Laba: Studi Empiris Pada Perusahaan Perbankan Yang Terdaftar di BEJ", *Jurnal Riset Akuntansi*, vol. 2.