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THE INFLUENCE OF COMPANY SIZE, COMPANY'S OPERATIONAL COMPLEXITY, THE AMOUNT OF AUDIT COMMITTEE, AND SOLVABILITY TOWARDS AUDIT REPORT LAG

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ABSTRACT

The purpose of this research is to test the effect of company size, company's operational complexity, the amount of audit committee, and solvability on audit report lag. The populations used in this research were companies listed in the Indonesian Stock Exchange in 2012 and 2013. The samples in this research were collected using purposive sampling method. The data used in this research were taken from the company's annual financial report from www.idx.co.id. The data was analyzed by using binary logistic regression analysis. The results if this research are: (1) company size has significant effect on audit report lag. (2) Company's operational complexity has significant effect on audit report lag. (3) The amount of audit committee has no significant effect on audit reportlag.

Key Words: company size, company's operational complexity, the amount of audit committee, audit report lag

Introduction

The financial report is a structured representation of the financial position and financial performance of an entity. The purpose of financial statements is to provide information regarding the financial position, financial performance and cash flows of an entity that is useful for the majority of the users of financial statements in making economic decisions (the Indonesian Accountants Association, 2009). The financial statements published by the company go public were a financial report that has been audited and obtain feedback from the public accountant.

In general, the auditor conducted the auditing process is a systematic process to obtain and evaluate the evidence objectively on the statements about events and economic events, with the purpose to establish the level of concordance between these statements with the established criteria, as well as the delivery of the results to concerned users. (Kartika, 2011).

Auditors are required to be able to work professionally, responsibly and in accordance with the Public Accountants Professional Standards on opinions given to the company's financial statements. Delays due to the publication of Audit Delay time will cause a negative market reaction. This will negatively impact both for companies and for the public accounting firm. Therefore, the auditor is required to reduce the Audit Delay in removing the bad image that may be received by companies and public accounting firms (Aryaningsih et.,al, 2014).

Period of time that is required to complete the audit process, it will affect the length of the announcement of the company's financial statements. The longer the time period between the publication and announcement of financial statements, it will diminish the benefits of the financial statements. In such cases, the audit process can be an obstacle in the timeliness of the announcement and submission of financial statements (Lucyanda et.,al, 2013). In other words, Audit Delay here is assumed as the number of days from the end of the fiscal year until the signing of a company's audited financial statements as the end of the standard of field work done. This variable will be calculated based on the number of days from the end of the fiscal year until the signing of the company's audited financial statements by the auditor (Aryaningsih et.,al, 2014).

Publishing the company's financial statements in a timely manner is one of the qualitative aspects of the financial statements. The financial statements must be presented to the public within a reasonable period that is counted from the time of the company's financial year-end period, when the benefits of the financial statements will not be effective. The financial statements of a company’s financial information are very important for shareholders and investors in the capital market. Therefore, the reporting of financial statements on a timely basis will increase investors to take the decision to invest into the company. With the proper time, the financial statements and will reduce the uncertainty of investment decisions.

The surveyor (Capital Market Supervisory Agency and Financial Institution) state that regulatory authorities around the world have issued protection for the benefit of the shareholders about the rules that govern the time limit issuance of audited financial statements no later than 90 days after the end of the financial period the company and should be reported to Capital Market Supervisory Agency and Financial Institution and the Indonesia Stock Exchange (BEI).

The rise of competition in all areas of business today makes companies will be more careful in issuing financial statements that will be an overview of the company's financial information. There was still a case such as PT. Bumi Resources , Tbk, a coal mining company that belong to the Grup Bakrie that has not been able to issue the financial statement in 2014 because the company is still struggling with debt calculation. “We say that the Company has not been able to deliver the Annual Consolidated Financial Statements of the Company for a period of one year ending on December 31, 2014 because the Company currently still waiting for the confirmation of the debt of some of the creditors of the Company” said Dileep, Director and Corporate Secretary of Bumi Resources in disclosure to the Indonesia Stock Exchange. (cnnindonesia.com, 2015).

Capital Market Supervisory Agency and Financial Institution (Bapepam) provides the rules for the Capital Market No X.K.2 Attachment Decision of the Chairman of Bapepam Number: Kep-346/BL/2011date onJuly5, 2011 about Submission Periodic Financial Statements Issuers or

Public Companies and the Regulations of Indonesia Stock Exchange Number. I-E on The Duty Of Delivery Of Information. However, it seems there are still some companies that do not provide their financial statements in a timely manner.

Another case about the management of PT. Berau Coal Energy Tbk (BRAU) that asks application for extension of the submission of audited financial statements in 2014 that matures on March 31, 2015 to the Indonesia Stock Exchange. “Herewith we present an extension of time for compliance of the provisions, “says Arief Wiedhartono, the Director of BRAU in his report of disclosure of information in Indonesia Stock Exchange. The appeal was filed because the company and related staff were involved in the process of refinancing on bonds worth $ 450 million with a tenor of 12.5 percent guaranteed senior secured notes which will mature on July8, 2015. “Related to those things, we are applying to be granted an extension of the submission of the company's audited financial statements for 2014 until April 30, 2015,” says the Director of BRAU, Arief Wiedhartono. (http://ekonomi.metrotvnews.com, 2015)

Based on the example above and supported by the previous research by Aryaningsih (2014) about the solvability level and Audit Delay which said that Solvability affects the Audit Delay, in which solvability is a ratio between the debt and the assets. Those phenomena has a relationship with the debt owned by the company in which PT. Bumi Resources stillwaitthe debt confirmation from several Company’s creditor and PT. Berau Coal Energy Tbk is engaged in the process of financing on bond.

In measuring the company size, the size of total assets is one of the ways to see the company size. If the total assets of a company is large, the shorter its Audit Delay. It is caused by the tight managerial internal control system which is owned by the company that always supervises the activities of companies that are properly enforced. (Aryaningsih et.,al, 2014).

Company’s operational complexity can be seen from the number of its branch office. The number of company’s branch office reflects that the company has more operation unit that has to be checked in every transaction and accompanying notes. It takes more time to conduct its audit (Angruningrum et., al 2013).

The structure and membership of audit committees based on Decision of the Chairman of Bapepam and LK rule numberIX.I.5 about Guideline and the establishment of the implementation of the work of Audit Committee, Attachment Decision of the Chairman of Bapepam Number Kep-29/PM/2004 that was published on September 24, 2004 stipulates that the audit committee consisting of at least one (1) independent commissioner and at least two (2) other members come from outside the issuer or public company.

The high proportion of debt to assets that will increase the risk of bankruptcy of the company and generate an alert signal for the auditor to give more attention because of the company's financial statements may be less reliable than under normal circumstances. Besides, the high ratio debt to assets can cause a liquidity problem and the company’s survival. It needs a deeper investigation and it takes more time for the audit process (Ariani & Ardiati, 2014).

Materials and Methods

1. Audit Report Lag

Audit report lag is the length of time to complete the audit that is measured from the closing date of the financial year until the date of issuance of audit reports. There is an interval of time between the end period of reporting and the date of auditor report. Generally, auditor report lag is defined as the length of time between the release of the company's financial statements and financial statements that have been audited (Lucyanda, 2013).

All companies that are listed on the stock exchange are required to submit annual financial statements which have been audited within a certain time period after the expiry date of the fiscal year in Indonesia, the obligation to submit annual financial statements with an audit opinion to the Capital Market Supervisory Board no later than the end of the month to three (3) after the date of the annual financial report. It is listed in the Decision of the Chairman of the Capital Market Supervisory Agency Number Kep-17/ PM/2002 dated on August 14, 2002.

The Decision of the Chairman of Capital Market Supervisory Agency and Financial Institution KEP-346/BL/2011 NomorX.K.2 that state annual financial statement shall include public accountant reports, then it is submitted to the Capital Market Supervisory Agency and Financial Institution by the end of the third month or March 31 (90 days) after the date of annual financial statements. Since 2013, audited financial statement is submitted to the Financial Services Authority (OJK) (Darmiari et.,al,2014).

2. Company Size

According to Haryani et.,al (2014) company size will cause the long audit delay. It is based on the assumption that a big company wll be more complex, so the auditor needs to take more samples that will take a longer period to obtain an evidence to support his opinion. Big company is allegedly will finish its audit process faster than the small company. It is caused by several factors, such as large-scale of company's management tends to be given an incentive to reduce audit report lag because those companies are monitored tightly by the investor, the regulatory capital from the government. These parties are very concerned about the information contained in the financial statements. To determine the size of the company is based on the total assets of the company. The bigger of the company size, the source of company's information available is more widely and easily accessed by public (Lucyanda et.,al,2013).

3. Company's Operational Complexity

The number of company's branch office reflects that the company has more operation unit that has to be checked in every transaction and accompanying notes. It takes more time for the auditor to conduct his audit (Angruningrum et.,al 2013).

The level of company's operational complexity that depend on its operational branch or the difference of its product line can affect to the time of completion of the audit (Darmiari et., al, 2014).

4. The Amount of Audit Committee

In accordance with the regulations of the Capital Market Supervisory Agency and Financial Institution (BAPEPAM-LK) in a circular, it is stated that public issuers has to have the member of audit committee at least 3 (three) people lead by the independent commissioner and the rests are external member.

The structure and the membership of audit committee in the Decision of the Chairman of the Capital Market Supervisory Agency and Financial Institution (BAPEPAM-LK) regulation number IX.I.5 about the Guidelines and the Establishment of Audit Committee Work Implementation, Attachment Decision of the Chairman of Capital Market Supervisory Agency and Financial Institution (BAPEPAM) Number: Kep-29/PM/2004 that was published on September 24, 2004 organize that an audit committee consisting of at least one (1) independent commissioner and at least two (2) other members from the outside of the issuer or public company. One of the independent commissioners who become the member of audit committee act as chairman of the audit committee.

Hypothesis Development

There is a significant effect from the company size against the Audit Report Lag from the previous research by Rachmawati (2009) entitled The Influence of Company's Internal and External Factor Against Audit Delay and Timeliness.

H1: Company size affects the audit report lag

There is no influence from the company's operational complexity from the previous research by Angruningrum et.,al (2013) entitled The Influence of Profitability, Leverage, Operational Complexity, KAP Reputation, and Audit Committee on Audit Delay.

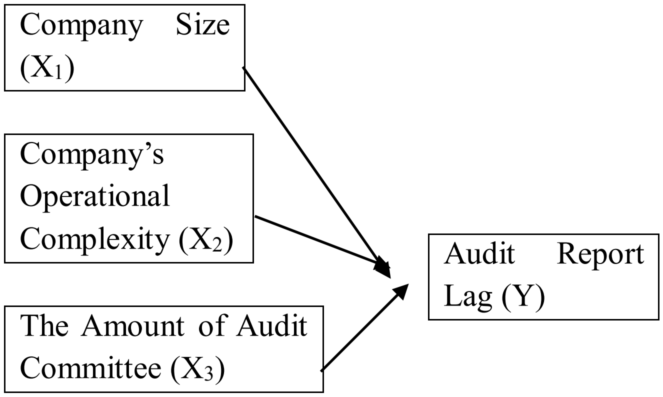
H2: Company's Operational Complexity affects the audit report lag

There is a significant influence from the audit committee towards Audit Report Lag from the previous research by Haryani et.,al (2014) entitled The Influence of Company Size, Audit Committee, The Application of International Financial Reporting Standards and Public Ownership on Audit Delay.

H3: Audit committee affects the audit report lag

There is a significant influence from the solvability towards audit report lag from the previous research by Aryaningsih et.,al (2014) The Influence of Total Asset, Solvability Level and Audit Opinion on Audit Delay.

Hypothesis Framework



This study uses secondary data from the financial statements of companies listed on the Indonesia Stock Exchange. The financial statements used are the financial statements in 2012 and 2013 and have been audited by an independent auditor. The sampling technique used in this research is purposive sampling, the sampling method based on the criteria to make the data more consistent.

The population used in this research data collection taken from the financial statements of late reporting by companies already listed on the Indonesia Stock Exchange in 2012dan 2013.

Samples to be used is purposive sampling. Where the population to be sampled is a population that meets certain criteria. The criteria is a criteria include:

1. The company is listed on the Stock Exchange for the period 2012 and 2013
2. The financial statements ending December 31, complete with the notes to the financial statements.

Methods of data analysis using SPSS program which will be calculated through regression analysis of binary logstik

Model:

$$\pi i = Pr(Yi=1|Xi=xi) = \frac{\exp(\beta 0+\beta 1xi)}{1+\exp(\beta 0+\beta 1xi)}$$

or,

$$\text{logit}(\pi i) = \log(\pi i/1-\pi i)$$
$$= \beta 0+\beta 1xi$$
$$= \beta 0+\beta 1xi1+\ldots+\beta kxik$$

Assumptions:

1. The data Y1, Y2, ..., Yn are independently distributed, i.e., cases are independent.
2. Distribution of Yi is Bin(ni, πi), i.e., binary logistic regression model assumes binomial distribution of the response. The dependent variable does NOT need to be normally distributed, but it typically assumes a distribution from an exponential family (e.g. binomial, Poisson, multinomial, normal,...)

3. Does NOT assume a linear relationship between the dependent variable and the independent variables, but it does assume linear relationship between the logit of the response and the explanatory variables; $\text{logit}(\pi) = \beta 0 + \beta X$.
4. Independent (explanatory) variables can be even the power terms or some other nonlinear transformations of the original independent variables.
5. The homogeneity of variance does NOT need to be satisfied. In fact, it is not even possible in many cases given the model structure.
6. Errors need to be independent but NOT normally distributed.
7. It uses maximum likelihood estimation (MLE) rather than ordinary least squares (OLS) to estimate the parameters, and thus relies on large-sample approximations.
8. Goodness-of-fit measures rely on sufficiently large samples, where a heuristic rule is that not more than 20% of the expected cells counts are less than 5.

One-Sample Kolmogorov-Smirnov Test

		Difference between observed and predicted probabilities
N		37
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,38640501
Most Extreme Differences	Absolute	,160
	Positive	,087
	Negative	-,160
Kolmogorov-Smirnov Z		,970
Asymp. Sig. (2-tailed)		,303

a. Test distribution is Normal.

b. Calculated from data.

Model Fit:

1. Overallgoodness-of-fit statistics of the model; we will consider:
   - Pearson chi-square statistic, X2
   - Deviance, G2 and Likelihood ratio test and statistic, ΔG2
   - Hosmer-Lemeshow test and statistic
2. Residual analysis: Pearson, deviance, adjusted residuals, etc...
3. Overdispersion

Result

Normality Test

Normality test is conducted by using Kolmogorov-Smirnov, and the result is as follows:

In the table above, it is shown that the value of Asymp. Sig as 0.303. It shows that the data in this research distributed normally because the significant value is above 0.05, so it can be used in t test or F test.

Omnibus Test

This test is conducted to test simultaneously or synchronously. If Omnibus Test of Model coefficient shows significant result, then the whole independent variables that are included in model or in the other words there are no variables issued in the model. Test requirement:

- If the probability >0.05 then H0 is accepted

-If the probability <0.05 then H0 is rejected

Omnibus Tests of Model Coefficients

	Chi-square	df	Sig.
Step 1 Step	17.620	4	.001
Block	17.620	4	.001
Model	17.620	4	.001

Based on table 4.1, it shows that simultaneously the company size (SZE), Company's Operational Complexity (CPX), The Amount of Audit Committee (CMA). It can be seen from the chi- square 17.620 with significant value 0.001 < 0.05.

Regression Model

The third step is a model summary the same as testing R^2 in the linear regression equation.

Model Summary

Step	-2 Log Likelihood	Cox &Snell R Square	Nagelkerke R Square
1	33.429[a]	.379	.506

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001

Based on table 4.2, it can be seen that the value of R^2 as 0.506 or 50.06% means that the X variable (company size (SZE), Company's Operational Complexity (CPX), The Amount of Audit Committee (CMA), affect the Y variable (Audit Report Lag) for 50.06%. The rest of it is affected by other factors beyond the studied variable.

Classification Test

Classification Table[a]

Observed	Predicted ARL 0	Predicted ARL 1	Percentage Correct
Step 1 ARL 0	12	5	70.6
1	2	18	90.0
Overall Percentage			81.1

a. The cut value is .500

Based on the data above, it can be seen from 23 samples that categorized as not timely in submitting its company's financial statements, 18 samples can be predicted precisely not timely by logistic regression model and 2 samples are not predicted precisely, while another 12 samples have submitted its financial statement timely. So overall means that 70.6% of the sample can be predicted precisely by logistic regression model used in this research.

Partial Test

Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a] SZE	.000	.000	.368	1	.544	1.000
CPX	2.414	.999	5.841	1	.016	11.184
CMA	1.697	1.657	1.049	1	.306	5.458
Constant	-.907	2.368	.147	1	.702	.404

a. Variable(s) entered on step 1: SZE, CPX, CMA, SLV

Based on the table above, it can be seen that the effect of company size, the amount of audit committee, and solvability have no significant influence, while the company's operational complexity has an influence towards audit report lag.

Discussion

The Influence of Company Size (SZE) towards Audit Report lag (ARL)

The result of logistic regression test shows that Company Size affects the Audit Report Lag. It can be seen from the result of partial test in which the value of SZE is significant on 0.544 and the value of regression coefficient as 0.000. It means that H1 that states company size affects the audit report lag is rejected.

The result of this research is accordance with the research result of Puspitasariet.,al (2012). In their research stated that company size affects significantly towards Audit Report Lag.

The Influence of Company's Operational Complexity (CPX) towards Audit Report lag (ARL)

The result of logistic regression test shows that Company's Operational Complexity affects the Audit Report Lag. It can be seen from the result of partial test where the value of CPX is significant in 0.016 and the value of regression coefficient is 2.414. It means that H2 that states Company's Operational Complexity does not affect the audit report lag is accepted.

The result of this research is not accordance with the research result of Darmiariet.,al (2014). Their research, states that company's operational complexity has no effect on Audit Report lag. It may be because data collection is getting more complex if the company has branch office, so it makes the auditor more difficult to collect the company's financial data.

The Influence of the Amount of Audit Committee (CMA) towards Audit Report Lag (ARL)

The result of logistic regression test shows that the Amount of Committee Audit does not affect the Audit Report Lag. It can be seen from the result of partial test where the value of CMA is significant in 0.306 and the value of regression coefficient is 1.697. It means that H3 that state the Amount of Committee Audit affects the audit report lag is rejected.

The result of this research is accordance with the research result of Angruningrumet.,al (2013). Their research states that the Amount of Committee Audit affects the audit report lag.

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