ECONOMIC FACULTY
ANDALAS UNIVERSITY

THESIS

THE INFLUENCE OF COMPANIES' INTERNAL AND EXTERNAL FACTORS ON AUDIT DELAY
(EMPIRICAL STUDY AT MANUFACTURING COMPANIES LISTED IN INDONESIA STOCK EXCHANGE)

Submitted in partial fulfillment of the requirement for Bachelor Degree in Accounting Department – Faculty of Economics

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ABSTRACT

This research investigates the determinants of audit delay in Indonesia. The sample comprises 127 manufacturing companies listed in Indonesia Stock Exchange during the period 2004-2007. Descriptive statistics indicate the average of audit delay is 74 days for the four years under research. Eight hypotheses relating audit delay to profitability, solvability, company size, length of time company becomes a client of audit firm, age of company (classified as companies' internal factors), size of audit firm, audit opinion, and public ownership (classified as companies' external factors) are tested in this research. The primary findings show that companies' internal factors having influence on audit delay are profitability, solvability, and company size. Nothing of companies external factors used in this research shows significant influence toward audit delay. This result is hoped to be beneficial for auditors in improving effectiveness and efficiency of their audit performance. In addition, it is also hoped that this research, which is conducted in an economically and culturally different context from all existing research can contribute towards the current literature on audit delay.

Keywords: audit delay, profitability, solvability, company size, length of time company becomes a client of audit firm, age of company, size of audit firm, audit opinion, public ownership

CHAPTER I

INTRODUCTION

This chapter describes an overview of historical background of this research, problem definition, research objectives, research benefits to several parties, scope of research, and writing systematic used in this research.

1.1. BACKGROUND

The usefulness of published company's reports depends on their accuracy and their timeliness. Timeliness as one of the qualitative characteristics of useful information or relevant disclosure has been first considered by the American Accounting Association (AAA, 1954 and 1957). Subsequently, The Accounting Principle Board (APB) in the USA, The Institute of Chartered Accountants of Canada (ICAC) and The Institute of Chartered Accountants in England and Wales (ICAEW) followed the AAA path and now timeliness has been recognized as one of the important characteristics of financial statements by the professional bodies, regulatory authorities, financial analysts, investors, managers and academics.

Timeliness requires that information should be made available to financial statement users as rapidly as possible, and it is a necessary condition to be satisfied if financial statements are to be useful. It has been argued that the shorter the time between the end of accounting year and publication date, the more benefit can be derived from the audited financial statements (Ahmad and Kamaruddin, 2001). However, it is not possible to publish audited financial statements unless it is not certified as accurate by professional chartered accountants.

One of the most tangible reasons for late publication of audited financial statements by companies is that the accounts need to be audited before they can be published. Therefore, time lag in the financial statement publication and audit delay are intertwined and used interchangeably in the financial reporting literature. As the result, in many cases timeliness has been studied together with actually dealt with audit delay.

Audit delay is defined as length of time needed for completing financial statement audit. It is determined by number of days between date of accounting year-end and date of the independent auditors' report. Audit delay is an important factor in capital market since audited financial statement is the most believable information, especially for investors. The shorter period of audit delay, the more benefit can be derived from the audited financial statement because the value of information included in it will be more relevant for stakeholders (Ahmad and Kamaruddin, 2001).

Public companies listed in Indonesia Stock Exchange are required to report financial statements with timeliness. On the year 1996, Indonesian Capital Market and Financial Institution Supervisory Agency issued Chairman of Indonesian Capital Market and Financial Institution Supervisory Agency Decree Number 80/PM/1996 that required financial statement included independent auditor's report sent to Indonesian Capital Market and Financial Institution Supervisory Agency no more than 120 days after companies' accounting year-end. Since September 30, 2003, Indonesian Capital Market and Financial

CHAPTER V

CONCLUSION

This chapter describes the conclusion of this research, certain research limitations and recommendations that must be considered by the next researchers, and implications of research to several parties.

5.1. CONCLUSION

Based on the explanation from previous chapter, this research finding could be concluded into the following:

1) This research is intended to strengthen the result of previous research in determining the influence of companies' internal factors (profitability, solvability, company size, length of time company becomes a client of audit firm, and age of company), and companies' external factors (size of audit firm, audit opinion, and public ownership) toward audit delay. Manufacturing companies listed in Indonesia Stock Exchange are used as samples in this research. Samples used are selected through purposive sampling method where several criteria are required. One hundred and twenty seven (127) companies fulfill criteria and used as samples in this research.
2) Descriptive statistical test shows that the average of audit delay for year 2004 until 2007 in manufacturing companies listed in Indonesia Stock Exchange is 74 days. It means that manufacturing companies listed in Indonesia Stock Exchange have fulfilled the requirement made by

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