

**THE EFFECTS OF IFRS IMPLEMENTATION, COMPANY SIZE,
PROFITABILITY, LEVERAGE, AND PUBLIC ACCOUNTANT
FIRM SIZE ON AUDIT REPORT DELAY
IN INDONESIA**

(An Empirical Study on Manufacture Companies Listed in IDX)



By

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Submitted in Partial Fulfillment of the Requirements for the Degree of Bachelor of Economics

MINISTRY OF RESEARCH, TECHNOLOGY, AND HIGHER EDUCATION

SRIWIJAYA UNIVERSITY

ECONOMICS FACULTY

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COMPREHENSIVE EXAM APPROVAL LETTER

THE EFFECTS OF IFRS IMPLEMENTATION, COMPANY SIZE, PROFITABILITY, LEVERAGE, AND PUBLIC ACCOUNTANT FIRM SIZE ON AUDIT REPORT DELAY IN INDONESIA

(An Empirical Study on Manufacture Companies Listed in IDX)

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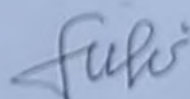
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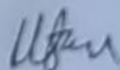
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(An Empirical Study on Manufacture Companies Listed in IDX)

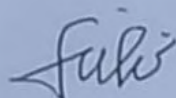
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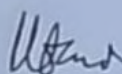
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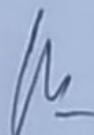
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MOTTO

“Do the best and let GOD do the rest”

-Anonymous-

“Dalam segala hal, percayalah Tuhan menyertai selalu”

-Derry Pratama, 2018-

PREFACE

Praise and thank to my Lord and my Saviour, Jesus Chirst for the blessing and mercy that the author can complete the script entitled **The Effects of IFRS Implementation, Company Size, Profitability, Leverage, and Public Accountant Firm Size on Audit Report Delay in Indonesia (An Empirical Study on Manufacture Companies Listed in IDX)**. This script is made as one of the requirements to achieve Bachelor Degree of Economics (S-1) in Faculty of Economics, Sriwijaya University.

My sincere appreciation to many party who has help me to finish this script. Therefore, author would like to express gratitude to:

1. **Prof. Dr. Ir. H. Anis Saggaff, MSCE** as the Rector of Sriwijaya University.
2. **Prof. Dr. Taufiq Marwah, SE, M.Si** as the Dean of Economic Faculty.
3. **Mr. Arista Hakiki, S.E., M.Acc, Ak, CA** as the Head of Accounting Department.
4. **Mrs. Umi Kalsum S.E., M.Si., Ak., CA** as the Secretary of Accounting Department.
5. **Mr. Mukhtaruddin, S.E., M.Si., Ak., CA** As Academic Supervisor.
6. **Mr. Agung Putra Raneo S.E., M.Si.** as the coordinator of International Class.
7. **Dr. Luk Luk Fuadah, SE, Ak, CA**, as the first Script Supervisor and **Mr. Drs. H. Ubaidillah, MM, Ak.** as the Second Script who have given their knowledges, time, and energy to finish this undergraduate thesis and guided me to be a good and discipline student. I have learnt tons of value from them.

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14. My BEAT team members est of 2012, i can not mention your name one by one here, but you will be in my heart and my pray, guys. Thank you for your support, GOD Bless you always.
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20. All of my friends in Accounting 2012 who fight together in the college life.
21. All of people related to the accomplishment of this Thesis that author can not mention one by one.

Author hopes that this thesis can be beneficial for many parties. Therefore, criticism and suggestions from all parties can improve this thesis for perfection will always be welcomed in the future.

Indralaya, April 23rd 2018

Derry Pratama

ABSTRACT

THE EFFECTS OF IFRS IMPLEMENTATION, COMPANY SIZE, PROFITABILITY, LEVERAGE, AND PUBLIC ACCOUNTANT FIRM SIZE ON AUDIT REPORT DELAY IN INDONESIA

(An Empirical Study on Manufacture Companies Listed in IDX)

Derry Pratama; Dr. Luk Luk Fuadah, SE, Ak, CA; Drs. H. Ubaidillah, MM, Ak

Audit report delay is one important factor that affects decision making process. Longer audit report delay will make the decision made by financial reports users more ineffective. This research aims to investigate the effects and correlation of IFRS implementation, company size, profitability, leverage, and public accountant firm size on audit report delay for manufactures companies. This research population is manufacture companies listed in IDX during 2010 until 2016. The samples of this research are selected by using purposive sampling technique. This research applies descriptive and multiple linear regression analysis. The limitations of this study are the time period which covered only 7 years and limited on manufacture companies.

Keywords : *IFRS Implementation, Profitability, Leverage, Audit Report Delay*

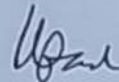
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ABSTRAK

THE EFFECTS OF IFRS IMPLEMENTATION, COMPANY SIZE, PROFITABILITY, LEVERAGE, AND PUBLIC ACCOUNTANT FIRM SIZE ON AUDIT REPORT DELAY IN INDONESIA

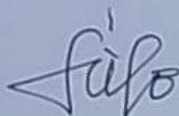
(An Empirical Study on Manufacture Companies Listed in IDX)

Derry Pratama; Dr. Luk Luk Fuadah, SE, Ak, CA; Drs. H. Ubaidillah, MM, Ak

Audit report delay adalah salah satu faktor penting yang mempengaruhi proses pengambilan keputusan. Semakin lam audit report delay, maka keputusan yang dibuat oleh pengguna laporan keuangan akan semakin tidak efektif. Penelitian ini bertujuan untuk menginvestigas damoak dan korelasi dari penerapan IFRS, ukuran perusahaan, profitabilitas, leverage, dan ukuran kantor akuntan publik terhadap audit report delay pada perusahaan manufaktur. Populasi dari penelitian ini adalah semua perusahaan manufaktur yang tercatat pada Bursa Efek Indonesia selama tahun 2010 sampai 2016. Sampel penelitian ini dipilih meggunakan teknik purposive sampling. Penelitian ini mengaplikasikan uji statistik deskriptif dan analisis regresi berganda. Keterbatasan penelitian ini adalah periode waktu hanya 7 tahun dan terbatas pada perusahaan manufaktur sebagai populasi.

Keywords : IFRS Implementation, Profitability, Leverage, Audit Report Delay

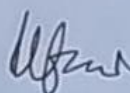
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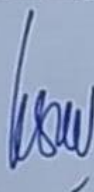


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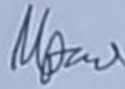
Telah kami periksa cara penulisan, *grammar*, maupun susunan *tenses*nya dan kami setuju untuk ditempatkan pada lembar abstrak.

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Introduction

1.1 Background

The financial statements of an enterprise is a source of information about performance and financial position of the enterprise for a period. Financial statements used by the users as a basis to take best and necessary decision needed by the enterprise. A good financial statement should has four qualitative characteristics, such as relevance, reliable, comparable, and understandable.

Relevance means a financial statement must be able to be used as a basis in decision making process, reliable means a financial statement must be capable to be tracked by the evidences, comparable means a financial statements must be able to be compared with the previous financial statements, and understandable means a financial statement must be able to be understood by the users.

If we see to the past in 1997 when several countries in Asia trapped in financial crisis called as “*financial meltdown*”, such as Indonesia, Malaysia, Hongkong, Thailand, Singapore, South Korea, and also in 2001 when people shocked to know about Enron case, nowadays business world needs better accounting standard that capable to produce trustable financial statement for the users (Indrawati, 2015).

Globalization, international trade development, as well as the progress of the international capital market require the availability of information that is comparable across countries to use the same basis. In today's global economy, the need for high quality and comparability of financial information increases (Jones, 2005).

A qualified generally accepted accounting standards is needed to ensure comparability across countries (Kieso et al., 2011). It also makes the harmonization of financial statements is more effective, in term informative as well as efficient or easy to understand for users and cost-effective for preparers (Choi and Meek, 2011; DoupnikandPerera, 2009). The implication of this is the need for the application of a set of high quality accounting standards globally so as to produce quality financial statements for users in various countries.

IFRS (International Financial Reporting Standards) is considered as a standard that could encourage more qualified presentation of financial statements (Imhoff, 2003; Penman, 2003). IFRS is designed by International Accounting Standard Board (IASB) to respond global business and capital market development, which urge for an internationally uniform set of high quality accounting standards for financial reporting. Before adopting IFRS, each country has its own set of financial accounting rules, which may different one with each others. Financial statements users find difficulties in comparing an entity with another.

IFRS is principles-based standards that are investor/market oriented and require extensive disclosure in comparison with prior standard. The most important element of IFRS was the introduction of the fair value principle to asset valuation and liability recognition. Fair value principle enhances disclosed values of accounting quantities, which should be close to their relative market values and therefore financial accounting information is more likely to reflect true economic events.

IASB also removed allowable accounting alternatives, such as reduced manager's flexibility in valuing assets at the lowest amount possible so as to minimize tax liabilities (Barth, 2008; Dimitropoulos, 2013). Moreover, IFRS imposed changes on many technical accounting issues aimed at promoting a "true and fair" presentation of financial information to facilitate investor's rational investment decisions. Based on this, in theory, the adoption of IFRS should significantly restrict the ability to engage in earnings management behavior and increase the overall quality of disclosed information.

The goals of IFRS itself is to make sure that company financial statements for each period contains high quality information that (1) Give a transparency for users and comparable, (2) Provide a good beginning point for IFRS based accounting, (3) Capable to be produced with cost that not exceeds the advantages for the users (Gamayuni, 2009).

The year 2011-2012 is an important milestone for the international accounting standard (IFRS) convergence in Asia. Following Europe's IFRS

adoption in 2005, Asian countries captivate IASB attention as many countries plan to apply IFRS for the first time in 2011-2012. Korea and India mandated IFRS in 2011 while Malaysia, Singapore and Indonesia in 2012 and the remaining countries are developing similar convergence road maps.

In Indonesia, Indonesia Financial Accounting Standards Board, called as Dewan Standar Akuntansi Keuangan (DSAK), developed convergence program to adopt IFRS in PSAK (Pernyataan Standar Akuntansi Keuangan). The decision to converge was announced in 2008 with the aim of eliminating the differences with local generally accepted accounting principles and increases the quality of financial reporting. Different with countries in Europe and Australia, which used big-bang approach, DSAK decided to use gradual implementation for its PSAK-IFRS convergence program, and until 2010 there were seven PSAK revised and effectively implemented, namely PSAK 13, PSAK 14, PSAK 16, PSAK 23, PSAK 30, PSAK 50, and PSAK 55

In December 2008, Indonesian Accountant Association called Ikatan Akuntan Indonesia (IAI) launched the convergence of PSAK to International Financial Reporting Standards (IFRS) in full in the year 2012. Convergence process in Indonesia is carried out in stages. It is targeted that by 2012, the entire PSAK not have a material differences with IFRS applicable as of January 1st, 2009. After the year 2012, PSAK will be updated continuously as the changes in IFRS. The latest update in PSAK effectively implemented on January 1st, 2015.

The adoption of international accounting standards into domestic accounting standards aims to produce high degree credibility of financial statements. Previous studies to look at the accounting quality in Indonesia showed that accounting quality in Indonesia is still low. This is evident from of income smoothing and earnings management is also carried out by the companies listed in Indonesia Stocks Exchange (Sulistyanto, 2008).

These cases happened either because the accounting standards in Indonesia before convergence is a flexible standard that allows for the different application of accounting methods in every company. The flexible standards raises the possibility of creative accounting and earnings management. If this happens, the resulting financial statements do not present a true picture of the company.

IFRS is principles based standards, and removing the allowable alternative accounting and accounting measurements require that better reflects the economic position and performance of an enterprise. Accounting quality could be increased if the accounting standards has limit discretion in determining the number of opportunistic management accounting, for example, to manage earnings (Ashbaugh and Pincus, 2001). Accounting quality can also be increased due the changes in the financial reporting system in conjunction with the adoption of IFRS, for example, stricter enforcement system (Barth *et al.*, 2008).

On the other hand, increasing in financial statement quality also has a correlation with a party that will identify every error in financial statements. The party is public accountants. From this party, society wishes a free-valuation and neutral in audit process for the financial statements. Public accountants have a

responsibility to increase the reliability of the financial statements in order to make users take right decisions.

In accounting world also known a term “audit report lag” which means the time period between a company’s fiscal year-end and the audit report date. People also know this term as “audit delay”. Reporting delay in a company is an important thing that will affecting value of financial report, because if financial reports reported late will make negative valuation from investors. Based on Cullinan *et al.*, (2012) Reporting delay is financial reports presentation that takes longer time by management to financial reports users from previous year.

On the other side, Givoly and palmon (1982) stated reporting delay is a bad news for company. According to Subekti and Widiyanti (2004), late in information will make negative reaction from investors. In addition, according to Beaver (in Cullinan *et al.*, 2012), investor will delay their purchase or sales for stocks until they get the financial reports. So, company that gained profit will publish their financial reports sooner compared with company that gained loss.

Regulations for financial reporting time in Indonesia is regulated by Bapepam-LK number : Kep-346/BL/2011 in Bapepam order number X.K.2 that stated annual financial reports must be followed by accountant report (audit opinion) with common opinion and reported to Bapepam no later than end of third month after annual financial reports. This regulation is tightened by administrative sanctions by Bapepam if company late in reporting their financial reports.

Financial reports according to Samsul (2006, p. 128) is a company responsibility form made by management to company owners. Besides that, financial reports helps investors in decision making process for investing. Regulations made by Bapepam require *go public* company's annual financial reports must be audited first by registered accountants.

Audit is financial reports checking done by auditor to give audit opinion (Mulyadi, 2009). According to Mulyadi (2009), audit opinion is an auditor statement about audited financial reports fairness in every material things, based on GAAP (Generally Accepted Accounting Principles). Audit opinion is an important thing for investors and other users to be used in decision making process. There are 4 types of audit opinion by auditor, *unqualified opinion*, *unqualified opinion with explanatory language*, *qualified opinion*, and *disclaimer of opinion*. Research done by Whittered (1980) and Soltani (2002) showed that company that got *unqualified opinion* from auditor will report their financial reports faster than company that do audit opinion alteration.

Several previous researches stated that there is a correlation between audit quality and audit firm size. Big audit firm is a company which has larger number of clients. They stated that bigger audit firm will try to give better quality of audit than the smaller audit firm. It is caused if the bigger audit company not provides high quality of audit done by them, they will lost their clients.

On the other hand, in accounting there is known a concept called as going concern concept. This concept is a basic assumption that stated a company will keep operating until limitless time or in other words the company will not

bancrupt. Leverage ratio could be used to measure the capability of the company to pay their debts. Higher debt ratio indicates lower capability of the company to pay their debts and decreasing in company financial operational.

Accounting standard changing will change financial condition in company, and it could be measured using some ratios, such as profitability ratio. Profitability is a capability of company to make profit at certain level of sales, assets, and stocks capital. Profitability could be measured by using Return on Assets (ROA). According to Hanafi and Halim (2003), ROA is a financial ratio that measures company capability on making profit at certain level of sales, assets, and stocks capital. Using ROA we can determine whether company used their assets efficiently in their operational activities to make profit or not.

This study comparing the effects of IFRS implementation on the audit report delay of listed manufacture companies in Indonesia during the period before full convergence of IFRS (2010-2011), full convergence period (2012), and after full convergence of IFRS (2013-2016). In addition, this study also based on the existence of interest to review the accounting policies, particularly in Indonesia, given the rapid development as a potential market and discourse formation of AEC (ASEAN Economic Community) in 2015 which encourage the creation of regulatory alignment.

1.2 Problem Statements

The most important thing in financial report to be used objectively by users is the financial report presented on time. This timeliness affected by how long the audit process run. The time to finish audit process calculate since close date of book year until audit report signed by auditor, then known as audit delay (Halim, 2000).

This research aims to get empirical evidence about factors affects audit delay in Indonesia, especially for manufacture companies listed in Indonesia Stocks Exchange (IDX). Based on the problem statement above, the question that will be solved is **“IFRS implementation, company size, profitability, leverage, and public accountant firm size affects audit delay?”**

1.3 Research Objectives

Based on problem statements stated before, the goals of this research is :

1. Measures audit delay average on manufacture companies listed in IDX year 2016.
2. Gather empirical evidence about IFRS implementation, company size, profitability, leverage, and public accountant firm size on audit delay in Indonesia.

1.4 Research Advantages

Researcher wishes that this research will give a contribution to accounting world development, especially about how IFRS implementation, company size, profitability, leverage, and public accountant firm size affects audit delay on manufacture companies listed in IDX.

Besides that, researcher wishes that this research will give an overview and practical contribution to financial statements users about the impacts of IFRS convergence in Indonesia, also this research could be a reference for further research about IFRS convergence in every countries in this world.

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