CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF STUDY

The demand for financial information has recently increased in Indonesia. This is due to the rapid development of capital markets and companies go public. According to the Head of Corporate Communications of Indonesia Stock Exchange Yulianto Aji Sadono (2017), in 1977 the value of Indonesian capital market capitalization reached only Rp 2.73 billion, as per July 31, 2017 capital market capitalization value of Indonesia has reached Rp 6.4 trillion. Companies that go public are required to submit financial information in the form of financial statements. The financial statements are summaries of the recording process of financial transactions occurring within a year or period of the book concerned (Sanjaya, 2016). The financial statements are prepared to provide useful information in business and economic decision making (Primary, 2014).

Information required by interested parties can be useful if presented accurately and precisely when needed by users of financial statements. However, information is no longer useful if there is a misstatement and not on time. Information will be reduced or even lost power if the information is delivered late and not timely.

Audit delay is the delay distance of the delivery of financial statements from the deadline that has been set (Rochmah, 2015). Audit delay is one of the factors that affect the timeliness of publication of financial statements (Pourali, 2013). Timeliness in issuing audited financial statements is important; especially for public companies that use the capital market as one source of funding. On the other hand, the audit process is a time-consuming activity in which the auditor must meet auditing standards such as a third general standard which states that audits should be carried out with great care and accuracy, and fieldwork standards state that audits should be carried out with careful planning and audit evidence collection adequate. If there is a delay in publishing the auditing financial statements, it is not only impact the usefulness of information but also its relevance and reliability.

The delay in audited financial reporting is also indirectly interpreted by investors as a bad signal for the company because of the delay in the information received can cause a negative reaction from capital market participants. While on the one hand, the public, especially investors demand the auditor to be able to complete the audit report in a timely manner.

Many factors cause audit delay, such as: auditor's opinion, auditor's reputation, size of public accountant firm, company age, industry type, auditor switching, company size, audit fee, profitability, liquidity, solvency and etc. This study will discuss three factors that cause audit delay which are profitability, solvency and company size. The first one is company size. A company can be said big or small seen from several points of view such as total assets, total sales, number of workers and so on. According to Yadaruan (2017) that large companies complete their audit account earlier than small companies because they have strong controls. In Prasongkoputra research (2013) states that company size has a significant effect on audit delay. This is not in accordance with research conducted by Prameswari and Yustrianthe (2015) which states that company size has no effect on audit delay.

Another factor effecting audit delay is profitability. Profitability is an indicator in measuring the success of a company's performance to generate profit (Mukhlasin, 2013). Companies with high profitability tend to want to immediately publish their financial statements to deliver the good news that can provide high ratings in the eyes of the parties concerned. In research conducted by Miradhi and Juliarsa (2016) shows that profitability has effect on audit delay. This research is inversely proportional to research conducted by Pratama and Adiwibowo (2014) shows profitability has no significant effect on audit delay.

In addition, solvency is also one of the factors effecting audit delay where solvency is the ability of a company to pay all its debts both in the long term and short term (Wiratmaja, 2017). Solvency or more commonly referred to as leverage ratio is a ratio that indicates the company's ability to meet its obligations both in the long and short term. In a study conducted by Devi and Suaryana (2016) states that solvency has no effect on audit delay. The results of this study differ from research conducted by Cahyanti and Sudjana (2014) which states that solvency has significant effect on audit delay.

Based on some of the previous researches outlined above show inconsistent results. There are differences in the results of research between researchers with the same variable. This led to an interest in further investigation of the profitability, solvency and company size and its effect on audit delay. Therefore, the researcher is interested to do research with the title **"The Ability of Company Size to Moderate the Effect of Profitability and Solvency on Audit Delay".**

1.2 PROBLEM LIMITATION

As there can be many developments that can be found in this study, it is necessary to have clear boundaries of the problem of what was created and resolved in this study. The limitations of the problem in this study as follows:

1. This research is conducted on the companies listed on the Indonesia Stock Exchange.

2. The sample on this study is a group companies that included in the category of mining company for five periods such as 2012, 2013 2014, 2015, and 2016 that submit the complete financial statements.
3. The currency used in the mining sector company financial statement is the Indonesia rupiah Rp).
4. The mining sector companies that has long been established for at least 5 years.

1.3 PROBLEM FORMULATION

Based on the description in the background that has been disclosed above, then the formulation of the problem in this study are as follows:

1. How does profitability affect audit delay?
2. How does the company size moderate the effect of profitability on audit delay?
3. How does solvency affect audit delay?
4. How does the company size moderate the effect of solvency on audit delay?

1.4 OBJECTIVE RESEARCH

The research on the factors that affect the audit delay in the mining company in Indonesia Stock Exchange aims as follows:

1. To know how profitability effect on audit delay.
2. To know how the company size moderate the effect of profitability on audit delay.
3. To know how solvency effect on audit delay.
4. To know how the company size moderate the effect of solvency on audit delay.

1.5 BENEFIT OD RESEARCH

The benefit of the research has been divided into 2(two) parts where:

1.5.1 THEORETICAL BENEFIT

The theoritical benefit in this study are:

1. For the writer, as a means of scientific development that theoretically has been studied in lectures.
2. For readers, can add insight about the science in the field of economics, especially on audit delay.
3. For the academic world, as the development of research on the ability of company size to moderate the effect of profitability and solvency on audit delay in the mining companies in Indonesia Stock Exchange, where the empirical evidence can be used as a reference that will continue to be developed in further research.

1.5.2 PRACTICAL BENEFIT

The practical benefit in this study are:

1. From this study is expected to be management motivation to provide financial statement in understandable, relevant, reliable, and comparable. So, it can be used in making economic decisions.
2. From this study is expected to complete or fill the gaps lack from the earlier research to be a reference material for further research.

1.6 SYSTEMS OF WRITING

In the writing of this research, the systems of writing are divided into five chapters, namely:

Chapter I Introduction

This chapter contains the background of the problem, which displays the basis of thought in outline in both theory and fact where it is a reason for this research. Formulation of the problem contains a statement about the state, phenomenon of audit delay and or concept which requires answers through the research of the ability of company size to moderate the effect of profitability and solvency on audit delay. Purpose and use research which is expected to be achieved refers on the background of the problem, the formulation of the problem and the hypothesis submitted where it is also research gap on this research. In the last part of this chapter the writing system elaborated on a summary of the material to be discussed in each chapter which is in the research.

Chapter II Literature Review and Hypothesis Development

This chapter describes the theoretical basis, which contains the grand theories such as: agency theory, financial statement, profitability, solvency, company size, etc. These theories also become the basis in formulating hypothesis as well as assisting in the analysis research result. Prior research is a research conducted by previous researchers associated with this research. The hypothesis is the statement concluded from the literature review and is a temporary answer to the research problem. The framework of thinking is a scheme designed to describe the equation in briefly to be research.

Chapter III Research Method

In this chapter, it will describe the type of research used in this study is quantitative methods which is secondary research. In here it is also described the variables and operational definitions in which the description of the variables used in the research will be discussed as well as performing the definition operationally. The determination of the sample contains the problem that related to the amount of the population, number of samples taken and sampling method. The type and source of data is a type of data used for the research variables. The method of analysis reveals how the description of the analysis model used in the research.

Chapter IV Data Analysis and Discussion

This section describes the objective description of the object of research which contains a brief description of the object that used in the research. In this chapter, it is using descriptive statistics, normality test, multicollinearity test, autocorrelation test, heteroscedasticity test, coefficient of determination test, partial hypothesis test and hypothesis simultaneous test. Last, the analysis and discussion of research results is a simpler form that is easy to read and easily interpreted include the description of research objects, research analysis, analysis data and discussion.

Chapter V Conclusion

This is the last chapter of this research which contains the conclusions of the results research and the results of the research reveal the interpretation to use the research implications. The suggested suggestions are related with research and is expected to be useful for those who have an interest in research.