

CHAPTER I

INTRODUCTION

1.1 Background

Timeliness of financial reporting, which referred as audit report lag, is determined, one of which, by a corporate governance of company. Audit report lag is the number of days between a company's fiscal year-end and the audit report date (Naimi, Shafie, & Wan-Hussin, 2010). The faster an audit report lag can be distributed reflects better performance of the company, because it means that the company is able to finish their job on time.

Knechel & Payne (2001) in Siwy (2012) stated that response of audit report lag might be associated with quality information of the company, because an auditor, who is responsible to audit the financial statement, should be able to finish his job on time if the flow of information is provided well by the company. Corporate governance mechanism has a likely to encourage transparency and accountability in providing timely, accurate, and credibly information to support auditor work, so that he is able to finish his job on time. A very long audit report lag might be a reflection of both poor performance and poor corporate governance of company. In otherwise, a properly short audit report lag indicates that good corporate governance of the company is already implemented well.

Previous research of Naimi et al. (2010), McGee & Yuan (2008), and Purwati (2006), find corporate governance as an important determinant of audit report lag. Corporate governance mechanisms of the company, which play a role as contribution in various corporate governance practices, are ownership concentration, institutional ownership, board of director, board of committee, and audit committee. Those governance mechanisms differently play its role in determining the length of audit report lag. For example, corporate boards play important role in monitoring quality of financial statement while audit committees are responsible to give credibility to its statements or forecast, as the gatekeeper between company and shareholders (Naimi et al., 2010; Coffee, 2005).

Audit report lag is one of important measurement of audit efficiency by external parties. External parties have a likely to assume that a flow of information that can be distributed timely, accurately, and credibly reflects a promising investment project of company (Cornelius & Kogut, 2003). McGee & Igoe (2008) associate audit report lag as an attribute of good corporate governance, which resulted in trust of company information gained by external parties. It is important for a company to have shorter audit report lag to hiders any judgment of poor performance, especially in attracting investor candidates and retaining its shareholders in order to invest or to keep investing their stock in company, thus shorter audit report lag is obviously preferable (Habib & Bhuiyan, 2011).

Furthermore, Chambers & Penman (1984) and Kross & Schroeder (1984) in Lee & Jahng (2008) stated on their researches that timeliness of audit report lag

is even able to relate with stock price. The earlier the audit report distributed, the more positive view comes from shareholders. There is an assumption that a company, who distributes financial statement fast, as the positive view already comes from shareholder, might be able to set a relatively high stock price. By distributing audit report lag on time, they assume that there will be less time for company to hide and manipulate the audit report. To sum up, to have a proper timeliness of audit report lag is important for company in attracting and maintaining shareholders.

Previous studies do research of corporate governance as the determinant of audit report lag in their countries. Naimi et al. (2010) examine audit report lag by implementing Malaysian Code on Corporate Governance by using hundreds annual reports, but fail to find evidence between association of audit report lag and committee independence and expertise. While McGee & Yuan (2008) do empirical study about corporate governance and the timeliness of financial reporting of Chinese and non-Chinese company.

Corporate governance is likely an abstract concept, because it is hard to measure whether a specific governance system of a company is strong or weak. This research is conducted by using Corporate Governance Perception Index (CGPI). Purpose of CGPI measurement especially is to be used as material analysis to study in building concept and practice of corporate governance (Baber & Liang, 2008; Suprayitno et al., 2006). Because it is measured based on self-assessment, document valuation, papers valuation, and observation by an official parties, we consider that CGPI might be able to present most likely accurate

valuation of a corporate governance of a company. Furthermore, a measurement that is done by Indonesian official parties is considered to be more suitable to local conditions of companies in Indonesia.

This research motivation, firstly, is in order to know how corporate governance practice influences the audit report lag of company in Indonesia. Secondly, we are motivated to do research by using CGPI as the measurement. Because so far, based on researcher observation, there are only limited researchers who measure corporate governance of company by using CGPI as the measurement tools instead of other variables. Based on description above, we will conduct our research, which is titled "The Influence of Corporate Governance Practices on The Audit Report Lag: Evidence in Indonesia", with Corporate Governance Perception Index (CGPI) as the measurement.

1.2 Problem Formulation

The problem formulation of this research is how corporate governance practices influence the audit report lag, by measuring it with Corporate Governance Perception Index (CGPI).

1.3 Purpose of the Research

The researcher gathers data for the research to fulfill the purposes. Based on problem formulation before, the purpose of this research is to give empirical result related to the influence of corporate governance to the audit report lag in Indonesia, based on what are stated in Corporate Governance Perception Index (CGPI).

1.4 Advantage of the Research

This research is expected to be beneficial for various interests:

1) For researcher

The researcher is able to increase her knowledge regarding on how corporate governance practices influences the audit report lag by measuring it with index of corporate governance.

2) For other researcher and future research

We hope that this research will give meaningful contribution to other researchers who want to conduct another study about corporate governance and audit report lag. Previous research about corporate governance and audit report lag is already conducted in Malaysia and China, which now we will conduct the research based on Indonesia governance.

3) For investor candidate

By getting knowledge about corporate governance and audit report lag, investor candidate is hoped to be able to be informed about characteristic of good company that will be trustable to be invested. This research is hoped to be able to be a guidance of future investor candidate before investing their stock in a company.

4) For company

By getting knowledge of how corporate governance influence the audit report lag, company will know better how to have good corporate governance in order to have a good quality report lag. By using corporate governance perception index as the measurement, company will be able to improve its governance quality in each part of it. We believe that a good corporate governance structure will bring many advantages to company, especially in attracting and maintaining the shareholders.

1.5 Problem Restriction

This research focuses on various parts of corporate governance, which impact the audit report lag, as those are stated on the index of corporate governance.

1.6 Writing Scheme

In order to give conduct research systematically, we give a systematic order of the content of this research, which are:

CHAPTER I INTRODUCTION

This section discusses the research background, problem formulation, purpose of the research, advantage of the research, problem restriction, and writing scheme.

CHAPTER II LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

In this second chapter, researcher will describe theories and concepts related with the problem formulation. Theories are gathered from journal, text-book, and other references in order to support this thesis.

CHAPTER III RESEARCH METHODOLOGY

This chapter explains about population and sample, data collection method, model of empirical research, the operational definition of variables, methods of data analysis, sensitivity and additional testing.

CHAPTER IV RESEARCH RESULT AND ANALYSIS

In this section, the researcher will discuss about a general description of the object of the research, including on how researcher gain related data and information needed, then analyze those data in order to complete this thesis.

CHAPTER V CONCLUSION AND RECOMMENDATION

The last section of the final paper will conclude the research, discuss theoretical and practical implication, provides limitation of this research, and presenting the recommendation for the next research.