

# **CHAPTER I**

## **INTRODUCTION**

### **1.1 BACKGROUND OF STUDY**

The financial statements are information generated from the accounting process and then used by management to evaluate the performance of the company and material management considerations in the coming period, or by external parties such as potential investors and users of financial statements for decision making. The need for financial statements is increasing along with the development of the capital market in Indonesia. The capital market in Indonesia has experienced significant growth. The growing of the capital market is marked by the development of companies that go public. One well-developed publicly traded company is a consumer goods company. According to Industry Minister Airlangga Hartarto (2017), the consumption sector will spur industrial growth in 2018. Consumer goods are goods purchased by almost everyone for consumption. Consumer goods are produced in large quantities because they are quickly absorbed by the community. Companies in this sector include food, beverages, medicines, cosmetics, household appliances and cigarettes. Therefore, companies in this sector get a lot of attention from investors, because of course this is a field that promises to invest, because companies in this sector produce goods that are badly needed by the people (Maria, 2015).

Because of the importance of financial statements in showing company performance, many companies are trying to mislead investors or company owners by utilizing the lack of information received by investors. For example, in Indonesia cases can be raised in the year 2001 found a case of fraudulent financial statements of PT Kimia Farma Tbk

(PT KAEF). PT Kimia Farma Tbk is a state-owned company whose shares have been traded on the stock exchange. Based on indications by the Ministry of State Owned Agency and the Bapepam inspector (Bapepam, 2002), there were misstatements in the financial statements which resulted in overstatement of net income for the year ended 31 December 2001 amounting to Rp 32.7 billion which constituted 2.3% of sales and 24.7% of net income. This misstatement occurred by exceeding sales and inventory at 3 business units and was carried out by inflating inventory prices authorized by the Production Director to determine the inventory value at PT Kimia Farma's distribution unit as of December 31, 2001. In addition, PT Kimia Farma management recorded double on sales in two business units. Multiple records are carried out on units that are not sampled by external auditors (Pratiwi, 2017). From this case, it shows that financial statement is very valuable, useful, and important. One of the factors is the timeliness in submitting the financial statement.

The timeliness submission of financial statements has been regulated in the law concerning the capital market. Law No. 8 of 1995 concerning the "Capital Market Regulation" states that all companies registered in the capital market must submit financial reports periodically to Bapepam and announce it to the public. If these companies are late in submitting reports in accordance with the provisions set by Bapepam, then they will be subject to administrative sanctions in accordance with the provisions stipulated in the law. On September 30, 2003, Bapepam further tightened the regulation by issuing an attachment to the decision of the Chairman of Bapepam Number: Kep-36 / PM / 2003 stating that the annual financial statements accompanied by an independent auditor's report must be submitted to Bapepam the latest is the end of the third month (90 days) after the company's book closing date.

Timely presentation of financial statements is a strategic aspect to gain competitive advantage in supporting the success of the company, especially so that the image of the company in the public eye will be better, which is then expected the emergence of public trust in the quality of information presented by the company (Fitria and Utomo, 2015). For the public, the timeliness of the financial statement indicates a signal from the company to show the quality of the company's performance and the credibility of the high quality of accounting information for what it reports. As the same as the developed countries such as the United States and Australia, the issue of timeliness of financial reporting is an important issue (Panjaitan, 2013) Research in the United States found that non-compliance with regulations on timeliness of financial reporting can be caused by delays in financial reporting time relating to bad news about the company. For example: unfair opinions by corporate auditors, the existence of contracts in management processes and efforts to avoid investigations and investor distrust, profitability, company's size, liquidity, company's age, leverage or solvability, size of public accounting firm, audit fee and many other else. But this research will discuss three factors that affect audit delay including company's age, liquidity and leverage.

This research is a replication of research conducted by Indra and Arisudhana (2013), Artaningrum, Budiarta and Wirakusuma (2017) and Apriyana and Rahmawati (2017). The first factor is company's age. Company's age is the length of time the company operates. The results of research conducted by Indra and Arisudhana (2013) stated that the company's age has a significant effect on audit delay. The longer the company age, the smaller the audit delay. This is not accordance with research conducted by Santoso and Hustuti (2012) which states that company's age has no significant effect on audit delay because even though the company has long been established. This does not guarantee

that the company has a good organizational structure and internal controls that are in line with the company's goals.

The second factor is liquidity. Liquidity indicates the company's ability to pay short-term financial obligations on time (Wirakusuma, 2017). If the company has a high level of liquidity, the company will get the trust from the external and internal parties. For example: internal parties are employee. The employee salaries are usually paid on the 5<sup>th</sup>, but because of the low level of liquidity, the employee's salary is paid on the 10<sup>th</sup>. If this often happens, it will affect the employee's enthusiasm and performance. While the impact for external parties are for example suppliers. If payment delays often occur, it will affect the supplier's trust so that they are reluctant to cooperate with the company. Thus, it can be concluded that, a high level of liquidity in a company indicates that the company can meet its short-term obligations well, while a low level of liquidity indicates that the company cannot fulfill its obligations short-term well. In research conducted by Artaningrum and Budiarta (2017) shows that liquidity has a significant effect on audit delay. This research is inversely proportional to research conducted by Evi (2014) and Dhea (2013) shows that liquidity has no significant effect on audit delay.

The third factor is leverage. The level of leverage which is a measurement of a company's ability to fulfill its obligations both short and long-term liabilities (Wiratmaja, 2017) From the research conducted by Permata Sari (2014), and Kinanti (2013) shows the results that leverage has significant effect on audit delay because the high debt owned by the company will cause the examination and reporting of the audit of the company's debt to be longer and thus slow down the audit process. The result has differed result from research conducted by Janartha (2016) which states that leverage has no significant effect on audit delay because an auditor will work in accordance with the auditor's ethics which must be timely in completing the audit process.

In addition there are another factors which, influence audit delay apart from company age, liquidity and leverage. For instance, profitability, auditor's opinion, and auditor reputation (Yendrawati, and Varaby, 2016; Kurniawan, and Laksiton, 2015; Megayanti, and Budiarta, 2016).

The population used in this research are all consumer goods companies that are listed on the Indonesia Stock Exchange for the period of 2015 to 2017. The reason to choose the consumer goods sector company as the subject of this study is because of a consumer good company is one sector of the company that has good prospects and also resistant to crisis. According to Darmawan (2017), the JCI data for the past 10 years shows that the Indonesian Stock Exchange experienced two major stock corrections, namely in 2008 with a decline of 48% and in 2015 with a 13% decline.

Based on the previous researches outline from above have shown inconsistent result. There are different in the result of research between researchers with the same variable. This led to an interest in further investigation of the company's age, liquidity and its effect on audit delay. Therefore, the researcher is interested to do research with the title **“The Influence of Company Age, Liquidity and Leverage on Audit Delay”**.

## 1.2 **PROBLEM LIMITATION**

Based on the background and identification of the problems that have been described, the problems to be discussed in this study are limited as follows:

1. This research is conducted on the consumer goods industry companies that listed on the Indonesia Stock Exchange.
2. The sample on this study is a company that included in the category of consumer goods industry company for three periods such as 2015 and 2017 that has submitted the complete financial statements.

3. The consumer goods industry company that has long been established for at least three years.

### **1.3 PROBLEM FORMULATION**

In accordance with the background that has described above, the formulation of the problem in this research are as follows:

1. Does company's age affect audit delay?
2. Does liquidity affect audit delay?
3. Does leverage affect audit delay?

### **1.4 OBJECTIVE OF THE RESEARCH**

Based on the formulation of the problem that has been described, then the aims are as follows:

1. To identify company's age has effected on audit delay.
2. To identify liquidity has effected on audit delay.
3. To identify leverage has effected on audit delay.

### **1.5 BENEFIT OF THE RESEARCH**

#### **1.5.1 THEORITICAL BENEFIT**

The theoretical benefits in this research are:

1. This research is expected to contribute to the development of accounting theory in Indonesia, especially in the field of auditing which deals with audit delay.
2. This research is expected to increase knowledge and understanding where the empirical evidence can be used as one of the knowledge reference material, discussion material, and advanced study material for readers about problems related to audit delay.

#### **1.5.2 PRACTICAL BENEFIT**

The practical benefits in this research are:

1. This research is expected to assist the company and management in identifying factors that affect audit delay so that it can optimize the performance in financial reporting that has been determined by BAPEPAM in a timely manner.
2. This study also expected to fill the gaps lack from the previous research.

## **1.6 SYSTEMS OF WRITING**

The systematics of writing in this study is as follows:

### **Chapter I Introduction**

In this chapter briefly describes the background of the problem, which states why the researcher chooses the title of the research. The formulation of the problem is a statement to find out the influence of company's size, liquidity and leverage on audit delay. The benefit of the study is to be able to complete the research gap. The systematic writing is summaries from the material that will be discuss in each of the chapters.

### **Chapter II Literature Review and Hypothesis Development**

In this chapter contains theories which are relating to the problem to be studied such as agent theory, audit, company's size, liquidity, leverage, audit delay and etc. Prior research is the research result that has been conducted by the previous research. Hypothesis is the statement created by the researchers when they speculate upon the outcome of a research or experiment. The framework of thinking is the structure or process to create alignment around the common understanding.

### **Chapter III Research Method**

In this chapter discusses about the research design used in this study is quantitative methods which is also secondary research. This chapter also contains research variables and operational definitions, the types and sources of data is from Indonesia Stock Exchange. Data

collection method used in this research is a documentation method and data analysis methods used in this research is multiple linear analysis.

#### **Chapter IV Data Analysis and Discussion**

In this chapter contains descriptions of research, data analysis and discussion.

#### **Chapter V Conclusion**

In this chapter contains the main findings or conclusions, and implications, as well as the limitations of the study and also the suggestions or recommendations submitted.

