



The Determinants of Delay in Publication of Financial Statement

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Abstract

The purpose of this study is to examine and analyze the association between audit tenure and financial distress on delay in publication of financial statement. Based on purposive sampling methods, this study analyze 396 samples by logistic regression. This study find that delay in publication of financial statement aren't effected by audit tenure and financial distress. This result show that audit tenure and financial statement can't be consideration of companies when they submit their financial statement because there's some regulations about timeliness of publishing financial statement.

Keywords: Audit Tenure; Financial Distress; Delay in Publication of Financial Statement

Introduction

The availability of information at the right time is the basis for timeliness of information quality (Bonson & Burrero., 2011). The timeliness of the audited and published annual reports is an important desired attribute of any good accounting information (Oladipupo & Izedomi., 2013). Knechel & Payne (2001) explained that investors are encouraged to investigate alternative sources of information and assess negatively when information is not immediately available. However, information that rushed to be published without relevance is also bad because both can lead to the emergence of consequences on a not strong basis for decision making (Anggreni & Latrini., 2016).

In Indonesia, regulations relating to the submission of the company's annual financial statements on the Indonesia Stock Exchange (IDX) have been regulated by the Otoritas Jasa Keuangan (OJK) through Peraturan No.29/POJK.04/2016 and Keputusan Ketua Bapepam & Lembaga Keuangan No.431/BL/2012. Based on this regulation, companies listed on the IDX must announce an annual report to the public maximum at the end of the fourth month (120 days) after the end of the financial year. Companies that are late in publishing their financial statements will get sanctions from the IDX in accordance with KEP-307/BEJ/07-2004 Number I-H point II.6.

In fact, the number of companies listed on the IDX which are late for submitting their financial statements increase every year. Recorded in 2010 there were 40 companies, then in 2011 there were 54 companies, in 2012 there were 52 companies, and 49 companies in 2013 were late in submitting their financial statements. The increase occurred again in 2014 reached 52 companies and 63 companies In

2015. Besides, in 2016 recorded only 23 companies were late in submitting their financial statements. However, the highest of this case reached 70 companies in 2017, whereas the companies must submit the first quarter financial statements at the end of April (<http://http://www.liputan6.com>, accessed on February 5, 2018).

OJK through Peraturan No.13/POJK.03/2017 requires that financial statements are reported by public companies must be audited by an independent auditor. The relationship between management and the auditor makes the audit engagement period (audit tenure) can affect the time release of accounting information. Audit tenure permitted under Peraturan Pemerintah No. 20 Tahun 2015 concerning Public Accountant Practices clause 11 paragraph 1 which regulates the provision of audit services by Public Accountants for a maximum of 5 (five) consecutive financial years, while the KAP is not restricted.

In this condition, agency theory shows the occurrence of type three involving the owner with the external part in the contract. The conflict is related to incentives from principals (companies) with agents (auditors) who tend to act in accordance with their personal interests if given the opportunity (Agoglia, Hatfield & Lambert., 2015). Wolf (1981) also saw a conflict occurring over audit involvement in which the audit manager acts as the agent of an audit firm and tends to have power over the day-to-day activities of his clients.

A more efficient audit process will occur when the auditor has good understanding about company and this is evidenced by the increasing audit tenure (Lee., Mande., & Son., 2009; Ahmed & Hossain., 2010). However, Susilawati, Agustina & Prameswari (2012) provided audit tenure can't guarantee that the audit results of the company's financial statements will be faster, also if a new company becomes a client, KAP doesn't guarantee that audited financial statements will be issued longer compared to another company that is also a KAP client. Praptika & Rasmini (2016) also found no influence between audit tenure and audit delay.

Companies that are pressured to face various conditions will affect the value of shareholders and creditors (Mselmi & Hamza., 2017). This condition is in line with the signalling theory which shows the condition of the company and the resulting financial statements tend to be good news or bad news for investors or creditors. This makes the issue of financial distress very important. Platt & Platt (2006) showed that financial distress is a company's financial condition that occurred before bankruptcy or liquidation. The indicator of financial distress is the cash flow difficulties, the amount of debt and losses for several years (Damodaran., 1997).

Financial distress is one of the bad news in financial statements so companies try to improve it which will make audit delay longer (Praptika & Rasmini., 2016). Bad company conditions are one of the obstacles in the audit process (Santoso & Dwirandra., 2016). Companies that face financial distress prepare incentives to employ low-quality auditors to manipulate audit reports (Sanchez., Monclos & Lopez., 2013). Whittred & Zimmer (1984) and Praptika & Rasmini (2016) found the effect of financial distress on timeliness of financial reporting. In contrast, Krisnanda & Ratnadi (2017) proved that financial distress doesn't affect the timeliness of financial reports because OJK through the relevant regulations requires listed companies to submit annual reports.

Literature Review

Agency Theory

Agency theory is a contract where one or more people (principals) involve other people (agents) to do some services on their behalf and delegate some decision-making authority to agents (Jansen & Meckling., 1976). Agency theory focuses on solving two problems in the agency relationship: First

problem when the agent's and principal's objectives are different; Second, when principal difficulty find what the agent actually does (Eisenhardt., 1989). There are three type of agency theory in the business context: Type I is the relationship between the parties that give authority (investors) with those who receive authority (managers) (Jensen & Meckling., 1976); Type II involves majority or controlling shareholders with minority or non-controlling owners (Ratnawati et al., 2016); Type III shows conflict between the company itself in this case the owner with another party who has a contract with companies such as creditors, employees, auditors and customers (Armor., Hansmann & Kraakman., 2009).

Signalling Theory

The formulation related to signal theory was first developed by Spence (1973) by developing the labor market into the signal function model. Signalling theory is developed in economics and finance that uses asymmetric information between companies and outsiders because management knows more about the company's prospects and future opportunities than outside parties (Goranova et al., 2007). Gao, et al. (2008) states that positive things in signalling theory where companies that provide good information will distinguish them from companies that do not have good news by informing the market about their situation. Signals of good future performance provided by companies whose past financial performance is not good, will not be trusted by the market (Certo., Daily., & Dalton., 2001).

Compliance Theory

According to Tyler (1990), there are two basic perspectives in the sociological literature on compliance, namely instrumental and normative. An instrumental perspective assumes the individual as a whole is driven by personal interests and responses to changes in tangible, incentives, and penalties related to behavior. In a normative perspective it relates to what people perceive as moral and contrary to their personal interests.

Audit Tenure

Audit tenure is estimated time allocated for the implementation of audit tasks in an assignment (Fleming., 1980). Audit tenure is the length of the working relationship between the auditor and the client in examining the financial statements (Arens et al., 2008). In Indonesia, audit tenure is regulated in Peraturan Pemerintah No. 20 tahun 2015 concerning Public Accountant Practices Clause 11 Paragraph 1 which regulates the provision of audit services by public accountants for a maximum of 5 financial years, while the KAP is not restricted.

Financial Distress

Platt and Platt (2006) stated financial distress as the stage of decreasing financial conditions that occur before bankruptcy or liquidation. According to Damodaran (2014) there are several factors that cause financial distress from within the company, including: cash flow difficulties; the amount of debt and losses over the years.

Delay in Publication of Financial Statement

Submission of financial statements regulated in Peraturan OJK No. 29/POJK.04/2016 and Keputusan Ketua Bapepam & Lembaga Keuangan No. 431/BL/2012. The regulation requires companies listed on the IDX to announce annual reports to the public maximum at the end of the fourth month (120 days) after the end of the financial year. Based on the regulation, it can be seen that there is a limit time and companies will get sanctions (warning, fine and delisting) if breaking it.

Hypothesis Development

Audit Tenure on Delay in Publication of Financial Statement

Lee et al. (2009) said that the longer the KAP assignment by a client company, then it would allow the auditor to recognize the company so it would minimize audit and also the submitting financial statements time. According to Jeva & Ratnadi (2015), Anggreni & Latrini (2016), and Dewi & Ratnadi (2016), audit tenure has a negative effect on the timeliness of the company's financial statements. This means that the longer the relationship between the client and the auditor (audit tenure), the shorter the period of publication of the financial statements.

H₁: Audit tenure negatively associated on delay in publication of financial statement.

Financial Distress on Delay in Publication of Financial Statement

Julien (2013) revealed that many companies when get financial distress which considered as bad news affects the submission of late financial statements. Therefore, management tends to delay the submission of financial statements that contain bad news (Saleh., 2004). Schwartz and Soo (1996) showed companies that experience financial distress tend to submit their financial statements longer than companies which in good condition. Mardiana (2014) stated financial distress has a significant effect on the timeliness of the publication of financial statements.

H₂: Financial distress positively associated on delay in publication of financial statement.

Methodology

Population and Sample

The secondary data is used in this study such as financial report and publication date of company which can be found on the IDX website. The population in this study are listed companies on the IDX during 2015-2017 period. The sampling method used is nonprobability sampling technique, specifically uses purposive sampling method with this following criteria. Table 1 shows the criteria and number of observations that used in this study:

Table 1 Criteria sample and number of observations

No.	Criteria	Total
1.	Companies listed on the IDX in a row from 2015 to 2017.	571
2.	The financial statements of the company are available in succession during 2015-2017.	(119)
3.	In the company's financial statements available research data is needed.	(56)
The number of companies used as research samples		396
Number of observations for 3 years (2015-2017)		1188

Variable

Delay in publication of financial statement as a dependent variable is measured by giving a value of 0 if the publication date is maximum 30 April, and if has been delayed it will be given a value of 1. Audit tenure as independent variable in this study is measured by calculating the number of years of engagement between auditor with auditee, the first year of the engagement begins with number 1 and added for the following years. Financial distress as independent variable be measured by giving value of 0 if none of the conditions are met; 0,33 if one condition is met, then it will be given a value of 0,67 if it meets the two conditions and the last value is 1 if all conditions are appropriate which adjusted by 3 criteria: cash flow difficulties, the amount of debt and losses for several years.

Regression Model

Accordingly, researchers propose the following model:

$$\text{LATE} = \alpha_0 + \alpha_1 \text{AT} + \alpha_2 \text{FD} + e_1$$

Where:

- LATE = Delay in Publication of Financial Statement
 AT = *Audit Tenure*
 FD = *Financial Distress*
 α = Koefisien Intersep
 β = Koefisien
 e = *Error*

Results

The number of samples in each sector can be explained as follows:

Table 2 Sector distribution

Sub Sector	Total Companies
<i>Agriculture</i>	16
<i>Mining</i>	30
<i>Basic Industry & Chemicals</i>	51
<i>Miscellaneous Industry</i>	28
<i>Consumer Goods Industry</i>	28
<i>Property, Real Estate & Building Construction</i>	50
<i>Infrastructure, Utilities & Transportation</i>	44
<i>Finance</i>	70
<i>Trade, Service & Investment</i>	79
Total	396

Table 3 Descriptive statistic

Variable	Minimum	Maximum	Average	Standard Deviasion	Unit
Delay in Publication of Financial Statement (LATE)	0	1	0,11	0,308	Rasio
<i>Audit Delay</i> (AD)	7	274	75,25	19,845	Hari
<i>Audit Tenure</i> (AT)	1	3	1,35	0,574	Tahun
<i>Financial Distress</i> (FD)	0,00	1,00	0,1288	0,26355	Rasio

Based on Table 3, delay in publication of financial statement reaches average 11% means there is 11% experiencing delays while 89% had submitted their financial statements on time. The average length of the audit process (audit delay) is 75 days which indicates that the company should be able to publish its financial statements on time because the audit process can be completed in just 2,5 months (not exceeding the time limit). The average value of the audit engagement period (audit tenure) of 1 year 4 months indicates that the engagement period between the company and the auditor does not exceed the set time limit. For the last variable which is financial distress, show that there are companies can be classified as not experiencing financial distress because they don't experience even one of these criteria, but there are also companies that get 1 so that means the companies experience three criteria.

Table 4 Result of multiple linier regression

$LATE = \alpha_0 + \alpha_1 AT + \alpha_2 FD + e_1$		
$LATE = -2,092 - 0,082AT + 0,488FD + e_1$		
Explanation	Beta Coefficient	Significance
Constant	-2,092	
AT	-0,082	0,629
FD	0,488	0,140
Hosmer and Lemeshow's	0,025**	
Nagelkerke R ²	0,004	
Classification Plot	89,4	
*significant at the 5% level ** significant at the 1% level		
LATE= delay in publication of financial statement; AT= <i>audit tenure</i> ; FD= <i>financial distress</i> ; e= error		

Table 4 shows the significance of Hosmer and Lemeshow's 0.025 (more than 1%) so it can be concluded that the model is fit with data and can be used. Nagelkerke R² value of 0.004 indicates that the model is able to explain the dependent variable by 0.4%, while the rest is explained by other variables. Finally, to assess the feasibility of the model can be done by looking at the classification plot which means the model has a predictive ability of 89.4%.

Audit Tenure on Delay in Publication of Financial Statement

H₁ states audit tenure negatively associated on delay in publication of financial statement. The regression results in table 4 show that the audit tenure has a regression coefficient of -0.082 and a probability value of 0.629 (more than 5%) which means it is not statistically significant. Then it can be concluded that H₁ is rejected because the audit tenure has no effect on the delay in the publication of financial statements. These results do not support type 3 agency theory related to management relations with external parties (auditors) that occur during the engagement period. The results of statistical tests show that audit tenure does not affect the company in publishing its financial statements. The results of this study support previous research conducted by Krisnanda & Ratnadi (2017) which explains that the ability of an auditor in understanding all operational activities of a company does not at all affect the time of the company in publishing financial statements. Dezoort & Lord (1997) states that one auditor's behavior in responding to his task is a functional type where the auditor will always work well and use his time as well as possible. Thus, without an long audit tenure, it will not affect the performance of an auditor. However, the results of this study contradict the research conducted by Lee et al. (2009), Jeva & Ratnadi (2015), Anggreni & Latrini (2016) and Dewi & Ratnadi (2016).

Financial Distress on Delay in Publication of Financial Statement

H₂ states financial distress positively associated on delay in publication of financial statement. The regression results in table 4 show that financial distress has a regression coefficient of 0.488 and a probability value that is not significant at 0.140 exceeds 5%. So it can be concluded that H₂ is rejected because financial distress has no effect on the delay in the publication of financial statements. Based on this, this hypothesis does not support signalling theory related to financial distress, which is bad news for companies and external parties. The results of statistical tests show that financial distress and delay in publication of financial statements have no influence. This is contrary to the research conducted by Schwartz & Soo (1996), Saleh (2004), and Mardyana (2014) regarding the condition of financial difficulties experienced by companies that will cause their timeliness in submitting their financial statements. However, the results of this study support previous research from Krisnanda & Ratnadi (2017) which explains that the company will comply with its obligations in submitting its financial statements in accordance with regulations so that the condition of a company that is experiencing financial difficulties will not affect the time of publication. In addition, many companies that are delayed in publishing their financial statements are due to an internal or external problems (Julien, 2013). This was also reinforced by the Kadir study (2008) and Budiasih & Saputri (2014).

Conclusion and Recommendations

This study to examine and analyze the association between audit tenure and financial distress on delay in publication of financial statement. The population of this study is companies from all sectors listed on the IDX during the period 2015-2017 with a total sample of 396 companies. The sample was selected using the purposive sampling method. This results of this study failed to prove the effect of audit tenure and financial distress on delay in publication of financial statement. Based on these results it can also be concluded that this study doesn't support the existence of agency and signalling theory.

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