

THE INFLUENCE OF PROBABILITY OF BANKRUPTCY AND AUDIT FIRM SIZE TO AUDIT DELAY: EVIDENCE IN INDONESIA COMPANY LISTED IN INDONESIA STOCK EXCHANGE 2012 – 2014

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Abstract

The purpose of this research is to analyze the effect of probability of bankruptcy and audit firm size towards audit delay. Audit delay is the time length used by independent auditor to finish the audit procedures until release the audit report. Dependent variable of this research is Audit Delay. Independent variables of this research are probability of bankruptcy and audit firm size. This research is using secondary data. The data are obtained through Indonesia Stock Exchange. This research used 352 samples of non-financial industry companies listed in Indonesia Stock Exchange (IDX) from year 2012 – 2014 selected using the purposive sampling. The hypotheses proposed were tested by random effect model in panel data regression using EViews7 software. The result of this research, Audit Firm Size has no significant effect on audit delay. On the other hand, the Probability of Bankruptcy has significant effect towards audit delay.

Keywords: *audit delay, probability of bankruptcy, audit firm size.*

Introduction

Background

Financial Report is an important aspect to support the sustainability of a company, especially for a company which already *go public*. As time goes by, the population of companies is getting bigger; therefore it increases of demand for financial report because the financial report has important roles in the process of measuring and evaluating company's performance also useful for decision making for parties such as management, investor, governance, creditor, and other parties that have importance in using the financial report. Financial report must be prepared in the proper way in order to fulfill the necessity of the parties who rely on it (Lianto and Kusuma 2010).

Timeliness is also an important characteristic of accounting information, since timely reporting provides more useful information for decision making. Indonesia Stock Exchange (IDX) issued a regulation regarding the timeliness for every company listed, which they oblige submit their financial report annually. This obligation has been regulated

in *UU No. 8 Tahun 1995* about Capital Market and *Salinan Keputusan Ketua Pengawas Pasar Modal dan Lembaga Keuangan Nomor: KEP-346/BL/2011* concerning the obligation to submit periodic financial statement.

The regulation stated that every company listed in the capital market must submit their financial report annually to *Badan Pengawas Pasar Modal (Bapepam)*, currently is known as *Otoritas Jasa Keuangan (OJK)* since 2012, and publish it to public. Before publishing the annual financial report, it must be audited by an independent auditor to get assurance that the financial report is stated fairly. The process of auditing financial report needs quite a long time because of the limited employees for doing the audit process, plenty transactions to be audited, complication regarding the transactions, and poor internal audit control (Petronila 2007, in Lianto and Kusuma 2010).

Based on Boynton and Kell (1996) in Rachmawati (2008) *Standar Pemeriksaan Akuntan Publik* in the third standard stated that audit must be done accurately and precisely also supported by proper evidence. Due to some obstacles, it is possible for the auditor to delay the publishing of the audit report if it is necessary for them to extend the audit time. The delayed submission or publishing of financial report can be affected by the Audit Delay or audit report lag. Audit Delay or audit report lag is the number of days from fiscal year end to audit report date, or inordinate audit lag, jeopardizes the quality of financial reporting by not providing timely information to investors (Naimi et. al 2010). Based on Kimmel et al. (2004), relevance is one of the characteristics of useful information because it would make a difference in business decision. In order to be relevant it must be timely, it must be available to decision makers before it loses its capacity to influence decision. The Audit Delay may cause the information is irrelevant because it influence the timeliness of financial report submission.

The purpose of this research, first, is to analyze if the company's Probability of Bankruptcy and Audit Firm Size are giving influence to the Audit Delay.

Secondly, we are motivated to search in many types of industry not only limited to 1 or 2 type of industry. Most researchers in Indonesia only use 1 or 2 type of industries which not giving enough evidence to measure the phenomena of Audit Delay and they suggest to use more samples in many kind of industry. This research is using all type of industries listed in IDX but excluding the financial industry because based on research conducted by Henderson and Kaplan (2000) stated in Naimi et. al (2010), they did the research focus on Audit Delay in the financial sector and their result showed that financial industry takes less

time to issue an audit report because financial industry operates in a highly regulated industry. Thus, if this research using the financial industry the result can be bias because this research is aim to see the phenomena of Audit Delay.

Third, we are motivated to extend the previous researchers range sample by analyzing the updated condition of Indonesia companies by using updated data from 2012-2014. Fourth, we want to see the Probability of Bankruptcy using Ohlson model (1980) because based on our observation, most of previous researches are using Altman Z-Score model (1968) or Zmijewski ZFC model (1984) to measure the Probability of Bankruptcy, however Wulandari et al. (2014) found that eventhough the three model can be used to calculate the Probability of Bankruptcy but Ohlson model is the most effective and accurate model to measure the Probability of Bankruptcy in their research.

Based on above description, this study state the problem as:

1. Is the Probability of Bankruptcy gives influence to the Audit Delay?
2. Is the Audit Firm Size gives influence to the Audit Delay?

Scope of Limitations

To focusing this study, researcher gives following limitations:

1. This study used Probability of Bankruptcy and Audit Firm Size as independent variables.
2. This study measured company's Probability of Bankruptcy using Ohlson (1980) prediction model.
3. The study using all companies listed in Indonesia Stock Exchange except the companies in financial industry.
4. This study conducted for three (3) years from 2012 until 2014.

Hypotheses Development

Company Probability of Bankruptcy and Audit Delay

Research conducted by Widyawati and Anggarita (2013) and Wulandari and Lastanti (2015) found that the Probability of Bankruptcy has significant effect towards Audit Delay. According to that result, the fourth hypothesis for this study is: H₁: The Probability of Bankruptcy has significant effect towards Audit Delay.

Audit Firm Size and Audit Delay

Based on the research conduct by Kusumawardani (2013), Widosari and Rahardja (2012), and Rachmawati (2008), they found that the Audit Firm Size has effect towards Audit Delay. The result is different with research conducted by Vuko and Cular (2014) and Purnamasari (2012) which stated that Audit Firm Size does not have effect towards Audit Delay. According to that result, the second hypothesis for this study is: H2: Audit Firm Size has significant effect towards Audit Delay

Theoretical Framework

This research is done through three steps that consist of different unit which at the end create a result. The first step is designing the research, in which there is a library study and internet study by reading books, journals, and thesis that is relevant to this topic. Then, variable will be found and studied, that is the variable of Audit Delay, Probability of Bankruptcy, and Audit Firm Size. The second step is the step where all of the variables are gathered from the information of company's Financial Statements, Annual Report and Audit Report. Variable of Probability of Bankruptcy are obtained after gathered all the data needed from the financial statement and processed using the Ohlson prediction model. Audit Firm Size variable are obtained from the Audit Report. Then the data will be run on the Eviews7 to generate the result to be analyzed. The third step is the last step where conclusion and weakness of this research is made and also some recommendation for future research.

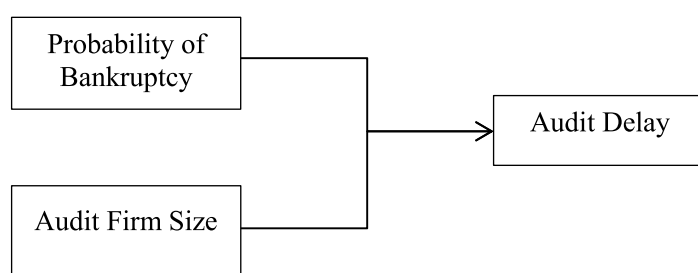


Figure 1 Research Model

Research Sample Description

This research is applying purposive sampling for selecting the sample. After the elimination process, there are 352 companies which qualified as samples. For research

period 2012 – 2014, total samples that have been collected are 1,056 samples. The breakdown of extraction of sample that has been done is as follow:

Table 1 Description of Sampling Criteria

| No | Description | Amount |
|----|---|--------------|
| 1. | Companies that are listed in Indonesia Stock Exchange in 2015 | 517 |
| 2. | Companies in financial industry | (88) |
| 3. | Companies establish IPO in 2012 and above | (68) |
| 4. | Data needed are not available | (9) |
| | Total Company | 352 |
| | Total Sample (3 periods) | 1,056 |

Source: Results of researcher's data processing, 2015

Based on the table 4.1 above, there are 517 companies listed in Indonesia Stock Exchange in 2015. Companies in financial industry are 88 companies. Companies who establish IPO in 2012 and above are 68 companies and companies whose data needed in this research are not available are 9 companies. In total there are 352 companies who are selected to be the sample for this research with total of 1,056 samples for period of 2012 – 2014.

Result of the study

Based on Brooks (2014), when analyzing a series containing many observations it is useful to be able to describe the most important characteristics of the series using a small number of summary measures and the quantities that are most commonly used to describe financial and economic series, which are known as summary statistics or descriptive statistics. Descriptive statistics are calculated from a sample of data rather than assigned based on theory. Table 2 below describes the descriptive statistics result of the variables used in this research.

Table 2 Descriptive Statistic Result for Audit Delay

| | Mean | Median | Maximum | Minimum | Std. Dev. |
|--------------|----------|----------|----------|----------|-----------|
| AD | 80.09091 | 80.00000 | 350.0000 | 17.00000 | 26.43596 |
| Observations | 1056 | | | | |

Source: Output Eviews7, 2015

From the descriptive statistics on table 4.2, it is shown that the dependent variable, Audit Delay (AD) has minimum value of 17 and maximum value of 350 which means that the minimum time length used to finish the audit of annual financial report measured by the independent auditor since the closure of the accounting period of a company per 31 December until the day stated in the audited financial report is 17 days and the maximum time length is 350 days. This variable has median value of 80. The mean value of this variable is 80.09091 while the standard deviation value is 26.43596.

Table 3 Audit Firm Type Frequency

| Audit Firm Type | Year | | | Sample Amount | % to Total |
|-----------------|------------|------------|------------|---------------|-------------|
| | 2012 | 2013 | 2014 | | |
| Big Four | 138 | 137 | 136 | 411 | 38.92% |
| Non Big Four | 214 | 215 | 216 | 645 | 61.08% |
| Total | 352 | 352 | 352 | 1056 | 100% |

Source: Results of researcher's data processing, 2015

Audit Firm Type (AF) variable has minimum value of 0 and maximum value of 1. Audit Firm Type variable is a dummy variable which only has two value categories, 1 for big four companies and 0 otherwise. Therefore, the minimum value is certainly 0 and the maximum value is certainly 1. In 2012, there are 138 companies that use Big Four audit firm and 214 companies that independent auditor is not from Big Four company. In 2013, there are 137 companies that use Big Four audit firm and 215 companies that independent auditor is not from Big Four and in 2014 there are 136 companies that use Big Four audit firm and 214 companies that independent auditor is not from Big Four. According to table 3, it can be

concluded that the sample which independent auditor affiliated with big four in 2012 until 201 is 38.92% and sample which independent auditor not affiliated with big four company is 61.08%. It shows from the sample that many companies prefer to use Non Big Four audit firma.

Table 4 Probability of Bankruptcy Frequency

| Probability of Bankruptcy | Year | | | Sample Amount | % to Total |
|-----------------------------------|------------|------------|------------|---------------|-------------|
| | 2012 | 2013 | 2014 | | |
| With Probability of Bankruptcy | 44 | 14 | 12 | 70 | 6.63% |
| Without Probability of Bankruptcy | 308 | 338 | 340 | 986 | 93.37% |
| Total | 352 | 352 | 352 | 1056 | 100% |

Source: Results of researcher's data processing, 2015

Probability of Bankruptcy (OH) variable has minimum value of 0 and maximum value of 1. Probability of Bankruptcy variable is a dummy variable which only has two value categories, 1 for the companies that after measured by the Ohlson model are having the probability of bankruptcy and 0 otherwise. In 2012, there are 44 companies that having the probability of bankruptcy and 308 companies otherwise. In 2013, there are 14 companies that having the probability of bankruptcy and 338 companies are not and in 2014 there are 12 companies that having the probability of bankruptcy and 340 companies are not. From table 4.4, it can be concluded that 93.37% of the sample is not having the probability of bankruptcy from 2012 – 2014. We can see from 2012 – 2014 the total of company which facing the probability of bankruptcy is lessen, 44 companies, 14 companies, and 12 companies, respectively. This data show that the economic condition of the sample is getting better as time goes by.

In panel data there are three approaches to regress the Panel Data, they are Pooled Regression Model, Fixed Effect Model, and Random Effect Model. In order to check which method the best for the regression, this research is using Chow Test and Hausman Test.

First of all, researcher use Chow test to define whether Pooled Regression Model or Fixed Effect Model that is the best for this research.

Ho: Use Pooled Regression Model

H₁: Use Fixed Effect Model

Table 5 Chow Test Result

| Redundant Fixed Effects Tests | | | |
|-------------------------------|------------|-----------|--------|
| Effects Test | Statistic | d.f. | Prob. |
| Cross-section F | 1.494910 | (351,702) | 0.0000 |
| Cross-section Chi-square | 589.417494 | 351 | 0.0000 |

Source: Output Eviews7, 2015

Table 5 above show the result of Chow Test using Eviews7. The probability is 0.0000 which is below 0.05. This indicate that the probability is significant and we reject null hypothesis. From the result we can conclude that our data is panel data. In order to know which method is the best, Fixed Effect Model or Random Effect Model we run another test which is Hausman Test.

Table 6 Hausman Test Result

| Correlated Random Effects - Hausman Test | | | |
|--|-------------------|--------------|--------|
| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
| Cross-section random | 2.444093 | 2 | 0.2946 |

Source: Output Eviews7, 2015

Table 6 above show the result of Hausman Test. The probability is 0.2946 which indicate that the probability is bigger than 0.05. The result is not significant so we do not reject the null hypotesis. Hausman Test hypothesis are

Ho: use Random Effect Model

H₁: use Fixed Effect Model

From the result, we do not reject null hypothesis, which means that Random Effect Model is the best approach to regress the panel data we have.

Hypothesis Test Result

Table 7 Random Effect Model Estimation Output

| Dependent Variable: AD | | | | |
|---|-------------|--------------------|-------------|--------|
| Method: Panel EGLS (Cross-section random effects) | | | | |
| Sample: 2012 2014 | | | | |
| Periods included: 3 | | | | |
| Cross-sections included: 352 | | | | |
| Total panel (balanced) observations: 1056 | | | | |
| Swamy and Arora estimator of component variances | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 79.96154 | 1.155652 | 69.19174 | 0.0000 |
| AF | -2.467827 | 1.680346 | -1.468643 | 0.1422 |
| OH | 16.44123 | 3.233254 | 5.085043 | 0.0000 |
| Effects Specification | | | | |
| | | | S.D. | Rho |
| Cross-section random | | | 9.806390 | 0.1415 |
| Idiosyncratic random | | | 24.15019 | 0.8585 |
| Weighted Statistics | | | | |
| R-squared | 0.028108 | Mean dependent var | 65.51087 | |
| Adjusted R-squared | 0.026262 | S.D. dependent var | 24.47885 | |
| S.E. of regression | 24.15528 | Sum squared resid | 614402.0 | |
| F-statistic | 15.22665 | Durbin-Watson stat | 1.983189 | |
| Prob(F-statistic) | 0.000000 | | | |

| Unweighted Statistics | | | |
|-----------------------|----------|--------------------|----------|
| R-squared | 0.029528 | Mean dependent var | 80.09091 |
| Sum squared resid | 715526.5 | Durbin-Watson stat | 1.702907 |

Source: Output Eviews7, 2015

Table 8 Pooled Least Square Estimation Output

| Dependent Variable: AD | | | | |
|---|-------------|-----------------------|-------------|--------|
| Method: Panel Least Squares | | | | |
| Sample: 2012 2014 | | | | |
| Periods included: 3 | | | | |
| Cross-sections included: 352 | | | | |
| Total panel (balanced) observations: 1056 | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 80.14130 | 1.067086 | 75.10292 | 0.0000 |
| AF | -2.965710 | 1.656940 | -1.789872 | 0.0738 |
| OH | 16.65283 | 3.247282 | 5.128236 | 0.0000 |
| R-squared | 0.029620 | Mean dependent var | 80.09091 | |
| Adjusted R-squared | 0.027777 | S.D. dependent var | 26.43596 | |
| S.E. of regression | 26.06621 | Akaike info criterion | 9.361994 | |
| Sum squared resid | 715458.2 | Schwarz criterion | 9.376091 | |
| Log likelihood | -4940.133 | Hannan-Quinn criter. | 9.367338 | |
| F-statistic | 16.07122 | Durbin-Watson stat | 1.703889 | |
| Prob(F-statistic) | 0.000000 | | | |

Source: Output Eviews7, 2015

Table 9 Fixed Effect Model Estimation Output

| Dependent Variable: AD | | | | |
|--|-------------|-----------------------|-------------|--------|
| Method: Panel Least Squares | | | | |
| Sample: 2012 2014 | | | | |
| Periods included: 3 | | | | |
| Cross-sections included: 352 | | | | |
| Total panel (balanced) observations: 1056 | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 79.22016 | 1.186591 | 66.76284 | 0.0000 |
| AF | -0.478803 | 2.171622 | -0.220482 | 0.8256 |
| OH | 15.94714 | 3.907284 | 4.081389 | 0.0000 |
| Effects Specification | | | | |
| Cross-section fixed (dummy variables) | | | | |
| R-squared | 0.444690 | Mean dependent var | 80.09091 | |
| Adjusted R-squared | 0.165453 | S.D. dependent var | 26.43596 | |
| S.E. of regression | 24.15019 | Akaike info criterion | 9.468606 | |
| Sum squared resid | 409428.6 | Schwarz criterion | 11.13209 | |
| Log likelihood | -4645.424 | Hannan-Quinn criter. | 10.09917 | |
| F-statistic | 1.592517 | Durbin-Watson stat | 2.975614 | |
| Prob(F-statistic) | 0.000000 | | | |
| <p>Table Description: The dependent variable used in this model is Audit Delay (AD). The independent variables are AF and OH. Where: (i) AD: Audit delay of a company in year t. (ii) AF: The audit firm type of a company in year t, this is dummy variable, 1 for big four companies and 0 otherwise. (iii) OH: The probability of bankruptcy using Ohlson method, this is dummy variable, 1 for companies with probability of bankruptcy and 0 otherwise.</p> | | | | |

Source: Output Eviews7, 2015

Coefficient of Determination, also known as R^2 , is used to measure how well the sample regression line fits the data, which lies between the value of 0 and 1 based on Gujarati (2003). The closer the value to 1, means the independent variable provide almost all the information needed to predict the variation of the dependent variable.

The result of the coefficient of determination test from the equation estimation in Random Effect Model result performed by using Eviews in table 4.7 shows that the value of the adjusted R-square is 0.026262. This value indicates how well the variance of audit delay can be explained by the independent variables. It means, from the regression model used in this research, 2.6% of the independent variables can explain the variance of the dependent variable (audit delay). The value of adjusted R-square is relatively low because the proportion of unexplained variable is high. In line with regression using Random Effect Model, the adjusted R-square when the data is being regress using Pooled Least Square slightly higher with value of 2.7%. On the other hand, if we regress the data using the Fixed Effect Model adjusted R-square is higher with value of 16.54%. The result of regression using Fixed Effect has the highest result of adjusted R-square which means that 16.54% of the independent variable can explain the variance of the dependent variable.

Even though the result of R-square is higher with using Fixed Effect Model, we choose to use Random Effect Model because the Hausman Test result show that we do not reject null hypothesis. According to Hill et. al (2012), Random Effect is preferred for several reasons. First, the Random Effects takes into account the random sampling process by which the data were obtained. Second, the Random Effect estimator permits us to estimate the effects of variables that are individually time-invariant and in the National Longitudinal Surveys (NLS) data. Third, the Random Effect is a generalized least squares estimation procedure and the fixed effect estimator is a least square estimator. In large samples, the GLS estimator has a smaller variance than the least square estimator. Fixed Effect only uses information from variation the independent and dependent variable over time, for each individual. It does not use information on how changes in dependent variable across different individuals could be attributable to the different independent variable values for those individuals, these differences are not picked up by the fixed effect estimator. In contrast, the random effects estimator uses both sources of information.

On top of that, low adjusted R-square doesn't mean that the regression model is bad. Based on Ghozali (2009), the purpose of doing regression analysis is not only for having the high R-square but to seek the estimation value of regression coefficient and get the statistic

inferential. Accordingly, he suggests that researcher should look at the theoretical explanation on how the explanatory variables explain dependent variable instead of looking only on the R-square. In line with Ghozali (2009), Gujarati (2003) also stated that R-square is not evidence in favor of the model and a low R-square is not evidence against it because the most important thing about R-square is that it is not important in the model which concern more with the parameters in a population rather than goodness of fit in the sample.

The F-Test is performed to test whether Independent Variables relatively affect Dependent Variable. The result from the equation estimation result in table 4.7 shows the value of the probability of F-statistic (prob (F-statistic)) which is 0.000000. The result of the prob(F-statistic) indicates that the independent variable (audit firm type and probability of bankruptcy) simultaneously have a significant effect on the dependent variable (the audit delay) with a confidence level of 95 %

The *t*-Test is performed in order to test whether each Independent Variable have a significant effect towards Dependent Variables. The probability in table 4.7 shows the result of *t*-Test that will be explained as follows:

➤ Audit Firm Type (AF)

The Audit Firm Type doesn't have significant impact towards Audit Delay. The probability (p-value) of this variable is 0.1422 which is greater than α at significance level of 5%. It has negative regression coefficient which means that if the company independent auditor is not using the big four companies then the time length for audit will increase. In conclusion, the Audit Firm Type variable is giving impact to Audit Delay negatively but not significant.

This result is consistent with the research conducted by Vuko and Cular (2014) and Purnamasari (2012) but contradict with the research conduct by Kusumawardani (2013), Widosari and Rahardja (2012), and Rachmawati (2008). According to Purnamasari (2012), all type of audit firm, big four companies or not, will always want to improve their audit services. Subagyo (2009) in Purnamasari (2012) stated that Non Big Four Audit Firm already improved their human capital and work skill to finish the audit timeline.

This result may also occur because there are standards that applied for all audit procedures as stated by Arens et. al (2012) in order for auditors to fulfill their professional responsibilities in the audit of historical financial statements. In Indonesia, there are ten audit standards which issued by *Institut Akuntan Publik Indonesia (IAPI)*,

which including general standards, practical standards, and reporting standards with the interpretations and detailed in *Pernyataan Standar Auditing (PSA)*. PSA consists of provisions and primary guidelines that must be followed by the public accountant in audit process. This provision is applied to all public accountants, both in Big Four or Non Big Four.

Thus, Big Four or Not Big Four, the audit procedures applied will all be the same and as stated by Subagyo (2009) in Purnamasari (2012) that every Audit Firm will always try to improve their performance so the type of the Audit Firm will not giving much impact to the Audit Delay.

➤ Probability of Bankruptcy (OH)

The Probability of Bankruptcy has significant impact towards Audit Delay. The probability (p-value) of this variable is 0.0000 which is smaller than α at significance level of 5%. It also has positive regression coefficient that indicates if the higher the probability of bankruptcy then the longer the Audit Delay. In conclusion, the probability of bankruptcy is giving impact to Audit Delay positively. This result is in accordance with research conducted by Widyawati and Anggarita (2013) and Wulandari and Lastanti (2015).

Wulandari and Lastanti (2015) stated that company that is facing the probability of bankruptcy most likely to have financial difficulty, so auditor will need more time to do the audit procedures and find the management planning towards their going concern status. Other than that, auditors also need more additional data to generate the proper opinion of the company condition which will increase the length of Audit Delay as stated in Widyawati and Anggarita (2013). Additional data that is needed will extend the audit time because it is not easy for company to provide data, some company might restrict their data and not give it to the auditor because it is restricted. Even though the purpose of an audit is not to evaluate the financial health of the business, the auditor has a responsibility under auditing standards to evaluate whether the company is likely to continue as a going concern or not as stated in Arens et. al (2012).

After testing the effect of Probability of Bankruptcy and Audit Firm Size towards Audit Delay with the samples of 352 non-financial company listed in the IDX before 2012, the conclusion results are:

1. Based on the research's results, the Probability of Bankruptcy gives influence to Audit Delay partially.

2. Based on the research's results, the Audit Firm Size does not give influence to audit delay partially.

Suggestion

Because of the limitations, the researcher has some suggestions for future research, they are:

1. Use updated data, better not use the outdated data or newly data because it is highly possible that the data is not presented yet.
2. Use 2 – 3 types of industry so the result can be specified for each characteristic for each industry type.
3. Use some other methods to measure the Probability of Bankruptcy because there is possibility that Ohlson prediction model cannot predict the whole picture of Indonesia's company probability of bankruptcy.
4. Increase the research period to 5 – 10 years, therefore the results can be applied in long term.
5. Do the future research by adding the other independent variables like company size, profitability, solvability, company sectors, corporate governance, and audit quality.
6. Do the future research by adding another dependent variable which is the timeliness of the financial report submission.
7. Researcher should have more than 3 months to do the research so it can be more thorough, 6 months is preferable.

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