

Analysis of Factors Affecting Timeliness of Financial Reporting in Manufacturing Companies

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Abstract

This study aims to find empirical evidence about the factors that affect the timeliness of financial reporting of manufacturing companies listed on the Indonesia Stock Exchange. The factors tested in this study are debt to equity ratio, profitability, ownership structure, auditor quality, and auditor turnover. The sample of this study uses 100 manufacturing companies that are consistently listed on the Indonesia Stock Exchange for the 2015-2017 period which were taken using the purposive sampling method. These factors were then tested using logistic regression at a significance level of 5 percent. The results of the study identify that profitability and ownership structure significantly affect the timeliness of the company's financial reporting, while the Debt to Equity Ratio, auditor quality, and auditor turnover have no effect on the timeliness of financial reporting of manufacturing companies listed on the Indonesia Stock Exchange.

Keywords: Timeliness, Debt To Equity Ratio, Profitability, Ownership Structure, Auditor Quality, And Auditor Turnover.

1. Introduction

The development of the current capital market has increased very rapidly and of course in the future this investment business will become so complex, with a very tight level of competition, especially in the effort to provide and obtain information in every decision making. One of the important sources of information in the investment business in the capital market is the financial statements provided by every company that goes public. Financial reporting is a means for companies to convey various information and economic measurements of the resources owned and their performance to various parties who have an interest in the information.

One of the important information for users related to financial statements is information on financial leverage and company profitability. Users often use financial leverage as measured by the debt to equity ratio and company profitability derived from financial statements as one of the indicators for the basis for making investment decisions. Weston and Copeland (2010) stated that the leverage ratio measures the level of company assets that have been financed by the use of debt. While the profitability ratio or profit margin ratio is used to show the company's success in generating profits (Ang, 2010). The company's financial reporting is considered the main users (investors and creditors) as good news and bad news. Good news means that the information presented is considered important and can be used for credit and investment decisions.

As for bad news, it means that the information presented cannot fulfill key information so that investors and creditors as the main users view that financial reporting is still useful but needs to be

improved. Investors as shareholders or company owners from outside parties need financial reports to find out the rate of return on investment and help them decide whether to buy, hold, or sell company shares.

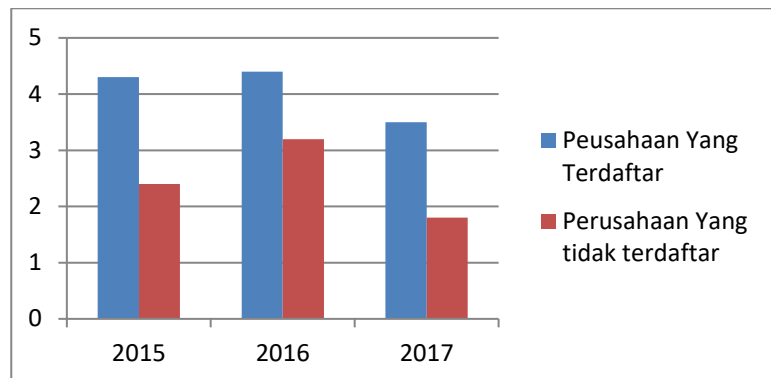


Figure 1. Bar Graph of Timeliness of Financial Reporting (In Percentage of Reporting Globally)

Source : IDX (2018)

The Capital Market Supervisory Agency in its regulations requires that the annual financial reports reported by companies that go public must first be audited by an accountant registered with the Supervisory Agency and Financial Institutions. The necessity of audited financial statements encourages Public Accounting Firms to improve the quality of their audit results. As stated by Ali and Hilmi (2011) that a larger KAP can mean that the audit quality produced is even better than a small public accounting firm.

Hendriksen and Breda (2016) reveal that if accounting data are to be relevant to investors' decision making, they must provide input into investors' decision models. Financial statements as information will be useful in decision making by users if they are relevant and reliable. Relevant information is information that is predictable, has feed back value and is timely (Annisa, 2010).

This reflects how timeliness is one of the important factors in the presentation of financial statements to the public so that companies are expected not to delay the presentation of their financial statements so that the information does not lose its ability to influence decision making. The demand for compliance with timeliness in submitting the financial statements of public companies in Indonesia has been regulated in Law No. 8 of 2010 concerning the capital market. In 2011, Bapepam also issued an attachment to the decision of the Chairman of Bapepam Number: 80/PM/1996 regarding the obligation for each issuer and public company to submit the company's annual financial report and independent audit report to Bapepam no later than the end of the fourth month (120 days) after the date of the company's annual financial statements. Then it was tightened with the issuance of Kep-17/PM/2002 and has been updated with Bapepam Regulation Number X.K.2, attachment to the Decree of the Chairman of Bapepam Number: Kep36/PM/2003 which states that annual financial reports must be accompanied by an accountant's report with a common opinion and submitted to the public. Bapepam no later than the end of the third month (90 days) after the date of the annual financial statements.

This regulatory improvement is intended to enable investors to obtain financial information more quickly as a basis for making investment decisions and to adapt them to market developments. Companies that are late in submitting financial reports in accordance with the provisions stipulated by Bapepam will be subject to administrative sanctions in accordance with applicable regulations. For example, in 2011 Bapepam announced that it had officially issued a warning and imposed a fine of Rp. 2.98 billion to 100 companies for late submission of financial reports (Na'im, 2010). Researches that analyze the factors that cause companies to be unable to meet the timeliness of financial reporting have been carried out in several countries such as America and Australia, including research by Dyer

and McHugh (2010), Davis and Whittred (2011), Givoly and Palmon (2011). , Schwartz and Soo (2014).

In Indonesia, Bandi and Hananto (2014) examined the relationship between timeliness of financial reporting and market reaction to timeliness. From this study found empirical evidence that the delay between large and small companies is different.

Another empirical finding in this study, namely the timeliness of reporting between reporting before and after the expected time has no effect on stock prices. Furthermore, Saleh (2015) examined variables such as gear ratio, company size, concentration of company ownership, profitability, company age and extra ordinary items.

However, this study only found one empirical evidence, namely extra ordinary variables that had a significant effect on the timeliness of financial reporting of manufacturing companies. In Oktaria's (2015) research on the factors that affect the timeliness of financial reporting on the JSE. The results showed that the size of the company, ownership structure, and large accounting firms affect the timeliness of the company's financial reporting. Meanwhile, debt to equity ratio and profitability have no significant effect on the timeliness of financial reporting. Researchers Hilmi and Ali (2016) tested the factors that affect the timeliness of submitting financial statements at the JSE by giving the results that only profitability, liquidity, public ownership, and KAP's reputation significantly affect the timeliness of submitting financial reports at the JSE.

The direct consequences for companies that are late in reporting their company's finances are bad consequences for the company, as happened in the Australian capital market in 2010 where there were 38 companies whose shares were prohibited from trading because these 38 companies failed to submit financial reports in accordance with the limits. delivery time. While the indirect result is that investors may respond as a bad signal for the company. Based on the description above, it can be seen how important the timeliness of a company's financial reporting to users of financial statements is. However, there are still companies that cannot submit financial reports on time.

According to the results of research by Na'im (2011) regarding profitability which has an influence on the accuracy of financial reporting, it is contrary to the results of research by Saleh (2012) and Megawati (2015) which state that profitability has no effect on the accuracy of financial reporting. Research by Respati (2015) and Hilmi (2015) states that the ownership structure has an influence on the accuracy of financial reporting which is contrary to Saleh's opinion (2016). While the results of Hilmi's research (2015) regarding the quality of auditors that affect the timeliness of financial reporting contradict the results of research from Anissa (2016). It can be concluded that there are differences in the results of several researchers for the same research variable, encouraging re-examination of factors such as profitability, ownership structure, and auditor quality that affect the timeliness of financial reporting of companies in Indonesia, especially 6 manufacturing companies. The selection of public companies that fall into the category of manufacturing companies is based on considerations of homogeneity in their production activities and this industry group which is relatively larger than other industrial groups on the Indonesia Stock Exchange, thus dominating the stock exchange and having a major contribution to the development of the stock exchange.

The factors that will be re-examined in this study are debt to equity ratio, profitability, ownership structure and auditor quality. What distinguishes this research from previous research is that in this study the auditor turnover variable was included in auditing the company's annual financial statements for 3 consecutive periods, namely the period 2015, 2016, 2017.

2. Research Methods

The population in this study were all manufacturing companies listed on the Jakarta Stock Exchange in the 2015-2017 observation year. Sampling in this study used a purposive sampling method, namely the selection of a non-random sample whose information was obtained with certain considerations. The criteria used are manufacturing companies listed on the Indonesia Stock

Exchange and publishing their financial statements in 2015, 2016, 2017. The sample has a financial reporting period based on the calendar year ending December 31. Published audited financial reports that were published during 2015, 2016, 2017 in a row. The number of sample companies used in this study were 100 companies per year in the period 2015, 2016, 2017, so that the number of samples (n) 100 3 periods = 100 samples. The data used in this study is secondary data, namely financial report data on the Indonesia Stock Exchange 2015-2017, data contained in the Indonesian Capital Market Directory (ICMD) in 2010-2014 and through the website www.idx.co.id to obtain data on the variables of DER, ROA, ownership structure, auditor quality, and auditor turnover carried out by the company, as well as literature study to obtain the theories behind study.

3. Results and Discussion

Goodness of Fit Test

The first step is to assess the feasibility of the regression model. Pay attention to the goodness of fit test value in table 1, which is measured by the chi-square value at the bottom of the Hosmer and Lemeshow test. The table shows that the statistical value of Hosmer and Lemeshow Goodness of fit test is 8.570 with a significance probability of 0.380, which is above 0.05.

Tabel 1. Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	8,570	8	,380

Because the probability number > 0.05 then H_0 is accepted. This means that the regression model is suitable for further analysis, because there is no significant difference between the predicted classification and the observed classification.

Overall Model Fit Test

The second step is to assess the overall regression model. Table 2 shows the feasibility test by paying attention to the numbers in -2 Log Likelihood (-2 LL) Block Number = 0 and -2 LL Block Number = 1. In the table it can be seen that the initial number -2 LL Block Number = 0 is 484.019 while the -2 LL Block Number = 1 is 451,757.

Table 2. Overall Model Fit Test

<i>Block Number = 0-2 Log Likelihood</i>	<i>Block Number = 1-2 Log Likelihood</i>
484,019	451,757

Source: secondary data that has been processed

From the model, it turns out that the overall model fit at -2 LL Block Number = 0 indicates a decrease in -2 LL Block Number = 1. This decrease in likelihood indicates a better regression model or in other words the hypothesized model fits the data.

Testing The Regression Coefficient

The final stage is the regression coefficient test, where the results can be seen in table 3, the table shows the results of the test with logistic regression at a significance level of 5 percent. This study, through the results of the SPSS logistic regression output, gave Cox and Snell's R values of 0.082 and Nagelkerke's R2 values of 0.114. which means that the variability of the dependent variable which can be explained by the variability of the independent variable is 11.4 percent.

From the logistic regression equation testing, the following logistic regression model is obtained:

$$TL = -0.091 + 0.002 DER + 0.052 ROA + 0.016 OWN - 0.023 KAP - 0.205 AUDCH$$

Table 3. Logistics Regression Coefficient Test Results

	B	S.E.	Wald	df	Sig.	Exp(B)
DER	,002	,004	,279	1	,597	1,002
ROA	,052	,013	15,771	1	,000*	1,053
OWN	,016	,005	9,723	1	,002*	1,017
KAP	-,023	,238	,009	1	,923	,977
AUDCH	-,205	,304	,455	1	,500	,814
Constant	-,091	,368	,062	1	,804	,913

Source: Secondary data that has been processed (2021)

Discussion

Empirical evidence in the study shows that most of the companies listed on the Indonesia Stock Exchange (IDX) are timely in their financial reporting to the Capital Market Supervisory Agency (Bapepam). This shows the company's awareness in complying with regulations in the capital market sector, especially regarding the principle of transparency in the submission of the company's annual financial statements, in addition to the sense of corporate responsibility towards parties with an interest in financial statement information. Based on the results of research that has been analyzed statistically with logistic regression, there are things that need to be considered regarding the factors that affect the timeliness of the company's financial reporting. Debt to Equity Ratio (DER)

The relationship of debt to equity ratio to the timeliness of the company's financial reporting

The results of the logistic regression test show that the debt to equity ratio does not affect the timeliness of the company's financial reporting. Although these findings are consistent with the results of research conducted by Na'im (1999) and Respati (2004), these findings do not consistent with the logic of the theory in research. This indicates that both companies that are on time and companies that are not on time in their financial reporting ignore information about the debt to equity ratio. This is in accordance with the general description of the object of the company that most companies that are punctual or not on time in financial reporting have debts of more than Rp. 100,000,000,000.00. This indicates that companies that have a lot of debt want to announce the company's financial statements, especially aimed at creditors with the aim that creditors know the company's performance and know the company's ability to pay loans from creditors.

Relationship Profitability Timeliness of the company's financial reporting

The results of the logistic regression test in the company's profitability as measured by Return on Assets, indicate that profitability significantly affects the timeliness of the company's financial reporting. These results are in accordance with the logic of the theory in this case Signaling theory

and agency theory as well as the results of research conducted by Na'im (1999), Respati (2004), and Hilmi and Ali (2008), where earnings announcements containing good news tends to accelerate and bad news tends to be delayed. This is because managers as agents want to show the company's performance in accordance with what is desired by the principals so that they will be trusted to manage the company for the long term, in addition to the expectation of compensation in the form of shares or cash bonuses for their performance.

The relationship of ownership structure to the timeliness of the company's financial reporting

The results of the logistic regression test show that the ownership structure as proxied by the concentration of outsider ownership significantly affects the timeliness of the company's financial reporting. This finding is consistent with the results of research conducted by Respati (2004) and Hilmi and Ali (2008), as well as in accordance with the logic of the theory in this study. That the ownership of the company by an outside party as the principal has great power in influencing the company through the mass media as well as criticism or comments that are considered public or public opinion so as to change the management of the company which was originally run at will into a company that runs with monitoring. Therefore, the management as an agent is required to perform well in presenting information in a timely manner because timeliness in financial reporting will affect economic decision making.

The relationship of auditor quality to the timeliness of the company's financial reporting

The results of the logistic regression test show that the quality of the auditor in this case the Public Accounting Firm does not affect the timeliness of the company's financial reporting. The results of this study are in line with the results of Anissa's (2004) research, but are not in accordance with the logic of the theory in this study. In the case of managers as agents who have been given the authority to manage the company by the principal, they will tend to choose a quality Public Accounting Firm to assess the company's financial statements because it is considered more effective in auditing and producing audit reports that are in accordance with the fairness of the company's financial statements. This can be seen on the general description of the company object that most companies either on time or not on time in company financial reporting are audited by Public Accounting Firms which are included in The Big Four. This shows that there is no guarantee in the timeliness of the company's financial reporting with information about the quality of the auditor.

The relationship between auditor turnover and the timeliness of the company's financial reporting

The results of the logistic regression test show that auditor turnover has no significant effect on the timeliness of the company's financial reporting. This finding is not in accordance with the theoretical logic in this study that the number of procedures taken by the substitute auditor in the auditing process requires a longer time than if the auditor continues to accept assignments. This finding is also not in accordance with the results of research conducted by Ksa (2003) which states that auditor turnover affects the timeliness of financial reporting

4. Conclusion

This study aims to find empirical evidence about the factors that affect the timeliness of financial reporting of manufacturing companies in Indonesia by using a sample of 125 companies in three periods from 2015, 2016, 2017 with 375 samples. From the results of data research and discussion conducted, it is concluded that the research object consists of 89 companies on time in 2015, 73 companies on time in 2016 and 83 companies on time in 2017. As for companies that are not on time as many as 36 companies in 2015, 52 companies in 2016 and 42 companies in 2017. From these figures, it shows that overall there are more companies that are on time than companies that are not on time in financial reporting to Bapepam. The test results with logistic regression show empirical

evidence that profitability and ownership structure have a positive effect on the timeliness of the company's financial reporting. While the debt to equity ratio, auditor quality, and auditor turnover have no effect on the timeliness of the company's financial reporting.

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