TIMELINESS OF FINANCIAL REPORTING ANALYSIS: AN EMPIRICAL STUDY IN INDONESIA STOCK EXCHANGE

Ika Merdekawati
Regina J. Arsjah

ABSTRACT

This study empirically analyzed timeliness of financial reporting in Indonesia. Timeliness of financial reporting is measured by audit lag and reporting lag. This study utilized an unbalanced panel of 700 firms-years of company listed on the Indonesia Stock Exchange during the period 2007-2009. The mean of audit lag is 74 days and the mean of reporting lag is 94 days. It is found that corporate governance and audit opinion negatively affect both audit lag and reporting lag whereas firm size positively affect audit lag and reporting lag. Debt ratio only negatively affect reporting lag. Auditor's firm, profitability, price earnings ratio and dividend payout ratio are not significantly affect both audit lag and reporting lag.

Analysis of audit lag and reporting lag inter-industry reported that financial industry has the shortest audit lag and reporting lag. Trade, service and investment industry has the longest audit lag whereas property, real estate and building construction industry has the longest reporting lag.

Key words: Audit lag, reporting lag, corporate governance, auditor's firm, audit opinion, firm size, profitability, debt ratio, price earnings ratio, dividend payout ratio, industry type.

1. Introduction

Financial statements have four qualitative characteristics to be useful for making economic decision, which are perceivable, relevance, reliable, and comparable. To meet the characteristic of relevance, financial statements should be provided in a timely basis. Timeliness of financial reporting also can be viewed as company means to be transparent. According to Blanchet (2002), Prickett (2002), and Kulzick (2004), transparency from the perspective of financial statements users includes eight aspects as follows, accuracy, consistency, appropriateness, completeness, clarity, timeliness, convenience, and governance and enforcement.

Accounting profession recognized that the timeliness of financial reporting is an important characteristic for the users of financial information, for the institution regulators and accounting profession (Soltani, 2002). Timeliness of financial reporting is a very important factor, especially for emerging markets and developing countries because audited financial statements are the most reliable source of information by the investor (Leventis et al., 2005).

Previous research related to the timeliness of financial statements has been done focuses on the factors that cause the audit delay (hereinafter used the term audit lag in this study). In the previous research, audit lag were measured by number of day between financial statements date to audit report date. There were many factors that cause the audit lag, such as firm size, regulation, business sector (industry), internal audit factors, auditor's size, audit opinion, announcement of profit/loss, enterprise risk, corporate governance, and good news or bad

news contained in the financial statements. Dyer and McHugh (1975) found that only firm size that has effect on audit lag. Davies and Whittred (1980) concluded that some explanatory variables such as extraordinary items, changes in accounting techniques, auditor's size and audit opinion should be taken into account as determinants of audit lag. Ashton et al., (1987) concluded that audit lag was longer in companies that operate in non-financial industries, was publicly traded, has a weak internal controls, has fiscal year-end other than December 31, use less complex technology for data-processing or have a relatively greater amount of audit work performed after the year-end. Hossain and Taylor (1998) found that the audit lag has a negative relationship with multinational connections or subsidiary of multinational companies.

Other goal by doing researches in timeliness financial reporting is to get evident of the length comparison between groups of samples. Ahmad and Kamarudin (2003) concluded that the audit lag was longer for company in non-financial industries, receives other than unqualified audit opinion, has fiscal year-end other than December 31, audited by non Big Five public accounting firm, generate negative earnings and firms that have a high risk. Leventis et al., (2005) found that the audit lag will be shorter if the audit conducted by auditors associated with an international audit firm or by paying higher audit fees. Al-Ajmi (2008) concluded that audit lag is shorter in big companies, companies in the banking sector, and companies that announced good news which add value for investors in making investment decisions. High leverage companies have longer audit lag and reporting lag than any other company. Reporting lag is shorter at the company that announced good news for investors and

companies that receive government regulation. It was also found that the interim period is determined largely by the firm's Corporate Governance (CG), measured by the number of shareholders and the number of investors holding 5% and more. Rachmawati (2008) concluded that the audit lag is influenced by firm size and auditor's size, while the reporting lag is influenced by firm size and companies' solvency. Perdhana (2009) found that the audit lag is shorter in companies in financial industry and being audited by the Big Four public accounting firm. Khasharmeh and Aljifri (2010) concluded that audit lag is shorter in banking industry, companies with high profitability, high debt ratios, and audited by the Big Four public accounting firm.

These previous studies have limited industry classification within financial and non-financial industry or banking and non-banking industry and less representative CG measurements. Because of these limitations, this study will use CG index as a more representative measurement of CG, expand the scope of industry classification based on Indonesia Stock Exchange (IDX) classification and use eight variables that might have effect on audit lag and reporting lag.

The main purpose of this study is to examine empirically the effects of variables: firm size, auditor's size, audit opinion, profitability, debt ratio, price earnings ratio and dividend payout ratio; on audit lag and reporting lag in Indonesia. This study contributes to the literature by considering CG as one variable expected to have effect on timeliness of financial reporting in Indonesia. According to the knowledge of the researchers, there are few studies about timeliness of financial reporting in Indonesia that use CG as variable to be tested. In addition,

this study can assist companies and auditors, particularly in planning phase, by controlling factors that have effect on audit lag and reporting lag and policy makers by promoting effective control and accounting systems, stringent monitoring, and effective regulatory mechanisms.

2. Theoretical Framework and Hypothesis Development

Regulation to submit audited financial statements in Indonesia are regulated in three regulations. The first regulation is Law No. 40 Year 2007 regarding Limited Liability Company (PT). The second regulation is Capital Market Law No. 8 Year 1995 that regulate public company to submit periodic reports and other incidental reports to Bapepam-LK. The third regulation is Appendix of the Decree of the Chairman of Bapepam-LK No. Kep-36/PM/2003 regarding Periodic Financial Reporting Obligations, that states each issuer and public companies listed on the stock exchange are required to submit annual financial statements and quarterly financial reports. Annual financial statements must be equipped by a public accountant's common opinion and submitted to Bapepam-LK no later than the end of the third month (90 days) after the date of the annual financial report, which previously was 120 days.

Al-Ajmi (2008) conducted a study to determine the factors affecting timeliness of annual financial reporting at the 231 firms-years in the Bahrain Stock Exchange in 1999-2006. Al-Ajmi measured timeliness of financial reporting by audit lag, interim period, and reporting lag. Interim period is period between audit lag and reporting lag. Al-Ajmi findings indicated that the audit lag and the interim period is shorter in big companies and companies that

announced good news for investors. Reporting lag is shorter in companies that announced good news for investors and on government regulation. Audit lag and reporting lag is longer for high leverage companies. Industry type has little effect on interim period and reporting lag, but industry type (bank) has strong effect on the audit lag. Big Four public accounting firm and accounting complexity has no significant effect on all three measurements of timeliness. It was also found that the interim period is determined largely by the firm's corporate governance, measured by the number of shareholders and the number of investors holding 5% and more.

Abdelsalam and Street (2007) and Al-Ajmi (2008) reported that there is a significant negative influence of the characteristics of CG on audit lag and reporting lag. Al-Ajmi (2008) argues that big number of shareholders (as a measure of the characteristics of the CG) expects availability of information faster. In addition, company that has applied good CG will prepare a more extensive and comprehensive audit to provide confidence to shareholders regarding credibility of financial statements. According to the advice of Al-Ajmi (2008), this study hypothesized.

Hypothesis 1a:

Corporate Governance negatively affects the audit lag (the higher the CG, the shorter the audit lag).

Hypothesis 1b:

Corporate Governance negatively affects the reporting lag (the higher the CG, the shorter the reporting lag).

Related to the effect of the Big Four public accounting firm to audit lag and reporting lag, Ahmad and Kamarudin (2003), Rachmawati (2008), Perdhana (2009) and Khasharmeh and Aljifri (2010) found that companies audited by the Big Four public accounting firm has shorter audit lag and reporting lag. This is due to the Big Four public accounting firm could perform the audit more efficient and effective than smaller public accounting firm. Furthermore, they have the flexibility to schedule the audit so the audit can be completed within shorter period (Ahmad and Kamarudin, 2003). In accordance to the advice of Ahmad and Kamarudin (2003), Rachmawati (2008), Perdhana (2009) and Khasharmeh and Aljifri (2010), this study proposes:

Hypothesis 2a:

The audit lag of companies engaging with one of the Big Four public accounting firm is less than companies engaging with non-Big Four public accounting firms.

Hypothesis 2b:

The reporting lag of companies engaging with one of the Big Four public accounting firm is less than companies engaging with non-Big Four public accounting firms.

Unqualified audit opinion is believed to be good news for shareholders, thus, companies tend to report their financial statements faster if they get unqualified audit opinion (Ashton et al., 1987). Conversely, companies that received other than unqualified audit opinion tend to deliver they financial statements longer. According to the advice from Ashton et al. (1987), Carslaw and Kaplan (1991) and Ahmad and Kamarudin (2003), this study proposed the following hypothesis.

Hypothesis 3a:

The audit lag of companies receiving unqualified audit opinion is less than companies receiving other than unqualified audit opinion.

Hypothesis 3b:

The reporting lag of companies receiving unqualified audit opinion is less than companies receiving other than unqualified audit opinion.

Previous research on the effect of firm size on audit lag and reporting lag showed inconsistent pattern. Dyer and McHugh (1975), Givoly and Palmon (1982), Owusu-Ansah (2000), Ponte, et.al. (2005), Carslaw and Kaplan (1991), and Al-Ajmi (2008) found a negative relationship between size of audit firms with lag. Conversely, Abdulla (1996) found a positive effect of firm size on audit lag. There are also studies which found insignificant effect of firm size on audit lag, which was reported by Givoly and Palmon (1982), Hossain and Taylor (1998), Ahmad and Kamarudin (2003), Perdhana (2009), and Khasharmeh and Aljifri (2010).

Abdulla (1996) argued that bigger companies have higher degree of complexity so that audit process would not be completed in shorter period. Another argument by Givoly and Palmon (1982) and Hossain and Taylor (1998) is big company needs to have more audit procedures and take more samples for audit so that the audit process can not be done faster. In accordance with Abdulla (1996), the proposed hypothesis is as follows.

Hypothesis 4a:

Firm size positively affects the audit lag (the bigger the firm size, the longer the audit lag).

Hypothesis 4b:

Firm size positively affects the reporting lag (the bigger the firm size, the longer the reporting lag).

Previous research regarding the effect of profitability on audit lag and reporting lag by Dyer and McHugh (1975), Carslaw and Kaplan (1991), Ahmad and Kamarudin (2003), Prabandari and Rustiana (2007), Al-Ajmi (2008), and Khasharmeh and Aljifri (2010) concluded that companies with higher profitability levels have lower audit lag. Carslaw and Kaplan (1991) stated that companies with higher profitability takes faster time of audit to deliver good news to the public. When facing companies that suffered losses, auditors will tend to be more careful in doing the audit so that the audit process becomes longer. According to the advice of Carslaw and Kaplan (1991), the proposed hypothesis is as follows.

Hypothesis 5a:

Profitability negatively affects the audit lag (the higher the profitability, the shorter the audit lag).

Hypothesis 5b:

Profitability negatively affects the reporting lag (the higher the profitability, the shorter the reporting lag).

Companies with higher debt will subject to the supervision of creditors, therefore companies with higher debt should submit audited financial reports faster. Negative effect of high levels of debt on an audit lag has been proved by Abdulla (1996) and Khasharmeh and Aljifri (2010). Based on the advice of Abdulla (1996), and Khasharmeh and Aljifri (2010), this study proposed the following hypothesis.

Hypothesis 6a:

Debt ratio negatively affects the audit lag (the higher the debt ratio, the shorter the audit lag).

Hypothesis 6b:

Debt ratio negatively affects the reporting lag (the higher the debt ratio, the shorter the reporting lag).

Price Earnings Ratio (PER) reflects relationship between company's profits to its stock price (Khasarmeh and Aljifri, 2010). The higher the PER, the higher the expectations of shareholders of the earnings growth so that shareholders will pay more for such growth (Khasarmeh and Aljifri, 2010). Dogan et al. (2007) showed that PER has a negative effect on the audit lag, the higher the PER, the shorter the audit lag. PER is considered as one of the good news for investors and shareholders. Companies that have bad news for investors and shareholders tend to delay their reporting to reduce the adverse market reaction to the bad news (Givoly and Palmon, 1982). In accordance with Dogan et al. (2007), the proposed hypothesis is as follows.

Hipotesis 7a:

Price earnings ratio negatively affects the audit lag (the higher the price earnings ratio, the shorter the audit lag).

Hipotesis 7b:

Price earnings ratio negatively affects the reporting lag (the higher the price earnings ratio, the shorter the reporting lag).

Dividend payout ratio (DPO) reflects part of company profits paid to shareholders as dividends. Dividend payout ratio used by investors as cash flow measurement to determine whether the company has sufficient cash flow to continue paying dividends to them (Khasarmeh and Aljifri, 2010). Companies that have a high dividend payout ratio tend to submit their financial statements faster because high dividend payout ratio is considered as

good news for investors (Abdulla, 1996 and Al-Ajmi, 2008). Based on the advice of Al-Ajmi (2008) and Khasharmeh and Aljifri (2010), this study proposed the following hypothesis.

Hipotesis 8a:

Dividend payout negatively affects the audit lag (the higher the dividend payout, the shorter the audit lag).

Hipotesis 8b:

Dividend payout negatively affects the reporting lag (the higher the dividend payout, the shorter the reporting lag).

Models

The main purpose of this study is to obtain empirical evidence about the effect of corporate governance, auditor's size, audit opinion, firm size, profitability, debt ratio, price earnings ratio, and dividend payout ratio on audit lag and reporting lag. The model used in this study is developed from the model suggested by Ashton et al. (1987), Carslaw and Kaplan (1991), Al-Ajmi (2008) and Khasharmeh and Aljifri (2010), as follows.

Model 1.

$$AUD\_LAG = \beta_0 + \beta_1 CGI_i + \beta_2 KAP_i + \beta_3 OPIN_i + \beta_4 SIZE_i + \beta_5 PROF_i + \beta_6 DER_i + \beta_7 PER_i + \beta_8 DPO_i + \varepsilon_i$$

AUD_LAG	= Audit lag (in days)
β_0	= Constant
SIZE	= Firm size, measured by Ln of total assets
KAP	= Auditor's size, represented by dummy variable that is '1' for company engaging Big Four public accounting firm and '0' for otherwise
OPIN	= Audit opinion, represented by dummy variable that is '1' for unqualified audit opinion and '0' for otherwise
PROF	= Profitability, measured by Return on Assets (ROA)
DER	= Debt ratio, measured by Debt to Equity Ratio (DER)
PER	= Price Earning Ratio (PER)
DPO	= Dividend Payout Ratio (DPO)
CG	= Corporate Governance (CG), measured by IICD CG index

i = Company i

Model 2.

$$REP\_LAG = \beta_0 + \beta_1 CGI_i + \beta_2 KAP_i + \beta_3 OPIN_i + \beta_4 SIZE_i + \beta_5 PROF_i + \beta_6 DER_i + \beta_7 PER_i + \beta_8 DPO_i + \varepsilon_i$$

REP_LAG = Reporting lag (in days)
β_0 = Constant
SIZE = Firm size, measured by Ln of total assets
KAP = Auditor's size, represented by dummy variable that is '1' for company engaging Big Four public accounting firm and '0' for otherwise
OPIN = Audit opinion, represented by dummy variable that is '1' for unqualified audit opinion and '0' for otherwise
PROF = Profitability, measured by Return on Assets (ROA)
DER = Debt ratio, measured by Debt to Equity Ratio (DER)
PER = Price Earning Ratio (PER)
DPO = Dividend Payout Ratio (DPO)
CG = Corporate Governance (CG), measured by IICD CG index
i = Company i

3. Research Method

Sample and Data Source

The sample used in this study is unbalanced panel of companies listed on the Indonesia Stock Exchange (IDX) during 2007 until 2009. The sample selection is done by purposive sampling method, based on the following criteria:

1. The company should be listed in IDX.
2. The company should have Indonesian Institute for Corporate Directorship (IICD) CG index.
3. The company must present its financial statements on IDX website.
4. The company should present the independent auditor's report in its financial statement

5. Financial statements for the period must be available and contain the required information.
6. The company does not have negative equity.
7. The financial period of the company must ended on December 31.

Based on purposive sampling method, there are obtained as many as 700 companies that meet the required criteria. This sample consists of 240 companies in 2007, 238 companies in 2008 and 222 companies in 2009.

Variables Determination

Audit lag and reporting lag

Audit lag is number of days between financial statements date until the date of the audit report (Dyer and McHugh, 1975; McGee, 2009; Khasharmeh and Aljifri, 2010; Rachmawati, 2008; Al-Ajmi, 2008; and Perdhana, 2009). According to Elder et al. (2008), the date of the audit report is the date when audit fieldwork has been completed. If there are events after the signing of the audit report which significantly affects the financial statements, it will be possible for dual-dated audit report. Dual-dated audit report is an audit report that takes two dates, which is the date of audit fieldwork completion and the date of incident investigation completion (Elder et al., 2008). This study will use the most recent date for dual-dated audit report.

Reporting lag is number of days between financial statements date until the date of publication of financial statements in stock exchange website (Dyer and Mc Hugh, 1975;

Rachmawati, 2008; and Al-Ajmi, 2008). On the date of reporting lag, the complete audited financial statements are ready to be used for decision making.

Corporate governance

In this study, CG is measured by CG index from the IICD. CG index describes the application of CG in a comprehensive manner for public company in Indonesia (Dwitridinda, 2007). IICD CG index is obtained through secondary data analysis for all companies listed on the IDX. IICD make judgments based on the principles of CG in accordance with international standards from OECD. Instruments in the CG principles is the right of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibility of the board of directors and commissioners (vivanews, 2009).

Auditor's firm size

Auditor's firm size is represented by dummy variable by classifying the Big Four public accounting firm and non-Big Four public accounting firm. The Big Four refers to Klynveld Peat Marwick Goerdeler (KPMG), Ernst & Young, PricewaterhouseCoopers and Deloitte Touche Tohmatsu. Companies that are audited by public accounting firm associated with the Big Four was given the value '1' while companies audited by non Big Four public accounting firm was given the value '0'.

Audit opinion

Audit opinion is represented by dummy variable that is '1' if the company received unqualified audit opinion and '0' if the company received other than unqualified audit opinion.

Firm size

Firm size is measured by total assets. Because of high variability of the total assets, this study will use ln (natural logarithm) of total assets. Use of ln of total assets data is in accordance with Foster (1986) to overcome outlier problem by transforming the data into log or ln.

Profitability

Profitability is measured by Return on Assets (ROA) by comparing earnings before interests and taxes (EBIT) to total assets.

Debt ratio

In this study, the debt ratio is measured by Debt to Equity Ratio (DER) which describes the proportion of debt compared to equity in the company's capital structure.

Price Earnings ratio

Price earnings ratio (PER) reflects the relationship between company's profit to its stock price which is measured by comparing price per share to earnings per share.

Dividend Payout Ratio

Dividend payout ratio (DPO) reflects part of company profits paid to shareholders as dividends. It measures the percentage of net incom e paid out in dividends. It equals dividends per share divided by earnings per share.

4. Results and Discussion

Descriptive analysis

(Insert Table 1 here)

Table 1 reports the descriptive statistics of dependent and independent variables. Using data from 700 observations companies listed on the IDX over the period 2007-2009, it was found that the average audit lag (AUD_LAG) was 74 days with a minimum period of 16 days and a maximum period of 149 days. Companies that have audit lag more than the average amounted to 401 companies or 57.29% of the sample as a whole. For the reporting lag (REP_LAG), the average reporting lag was 94 days, with a minimum period of 23 days and a maximum period of 192 days. This result showed that the average period of reporting lag has exceeded the maximum allowed period of three months. Companies that have reporting lag more than the average amounted to 202 companies or 28.86% of the sample as a whole. The results also revealed that 38.57% of those tested submitted their annual reports to the Indonesia Stock Exchange by the regulatory deadline. These results suggested that regulators in Indonesia should further tighten monitoring of public companies to increase their timeliness in delivering their financial statements.

The average SIZE or firm size is 27.40 (in the range from 23 to 33) with standard deviation of 1.91. KAP average is 0.43 with a standard deviation of 0.496. OPIN average was 0.87 with a standard deviation of 0.341. For PROF or profitability, the average is 6.55 (in the range -61 to 60 and standard deviation of 11.68. The average of DER is 1.78 (in the range of 0 to 15) and standard deviation of 2.78. The average of PER is 12.42 (in the range -96 to 98). The

standard deviation for the PER is at 21.92. The average of DPO is 13.55 (in the range of 0 to 99) and standard deviation of 21.06. For CGI or CG Index of the company, the average is 65.44 (in the range 48 to 88) and a standard deviation of 7.2.

Inter-industry analysis

Table 2 shows the inter-industry comparison of audit lag and reporting lag and its analysis.

(Insert Table 2 here)

The shortest audit lag and reporting lag is in the financial industry. The average audit lag in the financial industry is 69 days and the average reporting lag in the financial industry is 87 days. The number of sample in the financial industry is 143 companies. This is consistent with the results of previous studies by Al-Ajmi (2008), Perdhana (2009) and Khasharmeh and Ajifri (2010) that companies in the financial industry has shorter audit lag and reporting lag than any other company. Companies in the financial industry has the shortest audit lag and reporting lag because financial industry is high-regulated industry and does not have inventory (Ahmad and Kamarudin, 2003).

The longest audit lag found on trade, service and investment industry, which is 78 days. The number of sample in trade, service and investment industry are the 157 companies. From the total sample in this industry, 41% are at wholesale and retail trade sub-industry and 21% are in restaurants, hotels and tourism sub-industry. Companies in this industry havea long chain of operations, with a high volume of daily transaction and have many branches. Different from the financial industry, these sub-industries have diverse, complex, and vary in valuation

of the inventory, thus require a longer time of audit. Elder et al. (2008) explained that the audit of inventory, especially tests of the year-end inventory balance, is often the most complex and time-consuming part of the audit. According to Elder et al. (2008), factors affecting the complexity of the audit of inventory include:

1. Inventory is often the largest account in the balance sheet.
2. Inventories are in different locations so that a physical examination and counting by the auditors become more difficult.
3. The diversity of inventory type are often difficult for auditors to observe and value.
4. Possible obsolence and allocation of costs in the valuation of inventory.
5. Consistency of inventory valuation method.

The longest reporting lag is in the property, real estate and building construction industry, which is 99 days. These results indicate that firms in the property, real estate and building construction industry needs a long time for the publication of audited financial statements. The number of sample in this industry was 82 companies or 11.71% of the total sample. Companies in this industry has a fairly long audit lag that could lead to longer reporting lag than most of other industries. In addition, the year of observation which is 2007-2009 also has impact on property, real estate and building construction industry because of global crisis in 2008 which affects the performance of the property industry. EBIT (Earnings before Interest and Taxes) in the property, real estate and building construction industry were decreased by 63.20% from 2007 to 2008 and increased again by 186% from 2008 to 2009. The high increase and decrease in EBIT of this industry might cause of the company in the

property industry to be more careful in publishing its financial statements so that the reporting lag in this industry has become the longest.

Correlation analysis

(Insert Table 3 here)

Table 3 shows that AUD_LAG and REP_LAG has no positive correlation with all the independent variables. AUD_LAG and REP_LAG have significant negative correlation with KAP, OPIN, PROF, DPO and CGI. In addition, REP_LAG also has significant negative correlation with SIZE and DER and insignificant negative correlation with PER. AUD_LAG has insignificant negative correlation with SIZE, DER, and PER. Further discussion of correlation analysis is as follows.

1. AUD_LAG and REP_LAG have significant negative correlation with CGI, the higher the CG index, the shorter audit lag and reporting lag. This result is consistent with Al-Ajmi (2008). CG index describes the level of CG implementation in a company. Financial statements of companies with a high level of CG implementation are more reliable than others so that audit work could be minimal. Minimal audit work will shorten the audit lag and reporting lag. In addition, companies with a high level of CG implementation tend to reduce delays in the audit process to increase transparency to shareholders.
2. AUD_LAG and REP_LAG have significant negative correlation with KAP. It means the company being audited by the Big Four public accounting firm has shorter audit lag and reporting lag. This result shows there is work efficiency of Big

Four public accounting firm to reduce audit lag and reporting lag in accordance with previous studies by Ahmad and Kamarudin (2003), Rachmawati (2008), Perdhana (2009) and Khasharmeh and Aljifri (2010).

3. AUD_LAG and REP_LAG have significant negative correlation with OPIN. It means companies that receive unqualified audit opinion have shorter audit lag and reporting lag. This result imply auditors tend to extend the audit process for companies that will receive other than unqualified audit opinion. This finding is consistent with the results of Ashton et al, (1987), Carslaw and Kaplan (1991), Ahmad and Kamarudin (2003), and Perdhana (2009).
4. AUD_LAG and REP_LAG have significant negative correlation with DPO. It means companies that pay dividends have shorter audit lag and reporting lag to accelerate the announcement of good news to the public. Correlation between AUD_LAG and REP_LAG with DPO is consistent with the results of Al-Ajmi (2008).
5. AUD_LAG and REP_LAG have significant negative correlation with PROF. The higher the profitability, the shorter the audit lag and reporting lag. Profitability is considered as one of the good news for shareholders, thus financial statements with high level of profitability tend to audited and published faster to the public (Carslaw and Kaplan, 1991).

Regression analysis

(Insert Table 4 here)

Table 4 shows the regression results of Model 1. It shows that the adjusted R^2 value is 0.043 which means all independent variables in the regression model can explain 4.3% variations of the audit lag, while the rest is explained by other factors that are not included in the model. F-Statistics is 4.888, and Prob (F-Stat) is 0.000 smaller than the 5% level of significance. The F-test shows that overall independent variables have significant effect on audit lag. CGI and OPIN have significant negative effect to audit lag at 1% level of significance. SIZE has significant positive effect on audit lag at 5% level of significance. KAP, PROF, DER, PER and DPO do not have significant effect on the audit lag.

(Insert Table 5 here)

Table 5 shows the regression results of Model 2. It shows that the adjusted R^2 for Model 2 is 0.101 which means all independent variables in the regression model can explain 10.1% variations of the reporting lag, while the rest is explained by other factors that are not included in the model. F-Statistics is 10.788, and Prob (F-Stat) is 0.000 smaller than the 5% level of significance. The F-test shows that overall independent variables have a significant effect on reporting lag. CGI, OPIN and DER have significant negative effect to audit lag at 1% level of significance. SIZE has significant positive effect on audit lag at 10% level of significance. KAP, PROF, PER and the DPO do not have significant effect on the audit lag.

Discussion

CGI has significant negative effect on both audit lag and reporting lag, the higher the implementation of CG, the shorter audit lag and reporting lag. This significant negative effect is in accordance with Al-Ajmi (2008) and the hypothesis of this research. According to Al-Ajmi (2008) companies that have more shareholders as a measure of CG characteristics is expected to provide more timely information due to the relevance of the information presented will be reduced if not timely provided. CGI effect on audit lag and reporting lag means the company has applied the transparency principles of CG according to the OECD (2004).

KAP has not significant effect on both audit lag and reporting lag. This result contrasts with the results of Ahmad and Kamarudin (2003), Ponte, et al. (2005), Rachmawati (2008) and Prime (2009). In this study, research hypothesis which states that companies audited by Big Four public accounting firm has audit lag and reporting lag shorter than companies audited by non Big Four public accounting firm was not supported by the data. This is because there are other variables that could influence the effect of public accounting firm to audit lag and reporting lag such as the length of auditor relationship with clients and internal audit factors.

OPIN has significant negative effect on both audit lag and reporting lag. This effect is consistent with previous research by Carslaw and Kaplan (1991), Ahmad and Kamarudin (2003), and Prime (2009). The direction of this effect is also consistent with the hypothesis of this study that states companies with unqualified audit opinions have shorter audit lag and reporting lag shorter than companies with other than unqualified audit opinion.

SIZE has significant positive effect on audit lag and reporting lag which consistent with the hypothesis. Meanwhile, another study by Dyer and McHugh (1975), Givoly and Palmon (1982), Owusu-Ansah (2000), Ponte, et al. (2005), Carslaw and Kaplan (1991), and Al-Ajmi (2008) showed opposite results. This evidence strengthens argument by Abdulla (1996) that the financial resources of big companies is not enough to process information faster. This is due to higher complexity in big companies. In addition, the audit process in big companies require more time because more audit procedures and sample need to be performed in big companies (Givoly and Palmon, 1982; and Hossain and Taylor, 1998).

PROF has not significant effect on audit lag and reporting lag. The study hypothesis that states the higher the profitability, the shorter audit lag and reporting lag is not supported by data. These results are consistent with Abdulla (1996) and Rachmawati (2008). The reason of this relationship is that profitability alone is not enough to push the audit process to be faster. High level of profitability might be subject to audit because profit tends to be overstated or overestimated its value (Elder et al., 2008). Therefore, auditor should emphasizes audit procedures for company with high profitability.

DER has insignificant effect on audit lag but significant negative effect on reporting lag. The significant negative effect of DER on reporting lag is consistent with hypothesis and previous study by Abdulla (1996) and Khasaharmeh and Aljifri (2010). Companies with high debt ratio tend to be supervised by lenders and are required to provide information faster to the public so that the reporting lag will be shorter (Al-Ajmi, 2008). It is argued that lenders consider company with a high debt ratio have higher risk. Therefore, in order to reduce their

financial costs from negotiated credit agreements, such companies would tend to publish their annual report faster. Likewise, they may disclose relevant information through their annual report to reassure shareholders and reduce risk premiums in required rates of return on equity (Khasharmeh and Aljifri, 2010)

PER and DPO have insignificant effect on both audit lag and reporting lag. Research hypothesis which states that PER and DPO negatively affect audit reporting lag and the lag is not supported by the data. These results are consistent with Khasharmeh and Aljifri (2010) which found insignificant effect of PER on an audit lag.

5. Conclusions, Implication and Suggestion

Corporate governance has significant negative effect on both audit lag and reporting lag, the higher the implementation of corporate governance, the shorter audit lag and reporting lag. This significant negative effect is in accordance with Al-Ajmi (2008) and the hypothesis of this study. Auditor's opinion has significant negative effect on both audit lag and reporting lag. This effect is consistent with previous research by Carslaw and Kaplan (1991), Ahmad and Kamarudin (2003), and Prime (2009). Firm size has significant positive effect on audit lag and reporting lag which is consistent with the study hypothesis. Profitability level has not significant effect on audit lag and reporting lag. The study hypothesis that states the higher the profitability, the shorter audit lag and reporting lag is not supported by sample data. These results are consistent with Abdulla (1996) and Rachmawati (2008). But according to Elder et al. (2008) high level of profitability might be subject to audit because profit tends to be overstated or overestimated its value. Company debt level has insignificant effect on audit lag

but significant negative effect on reporting lag. The significant negative effect of level of debt on reporting lag is consistent with the study hypothesis and the previous study by Abdulla (1996) and Khasaharmeh and Aljifri (2010). Price earnings ratio and dividend payout ratio have insignificant effect on both audit lag and reporting lag.

Inter-industry comparison of audit lag and reporting lag shows that financial industry has the shortest audit lag and reporting lag. Whereas the longest audit lag is in the trade service and investment industry and the longest reporting lag is in the property, real estate and building construction industry.

Future research should be conducted taking into consideration other variables that might have effect on timeliness of financial reporting such as internal control, auditor's change and auditor's qualification. Additional research might also be directed towards determination of the effect of timeliness of financial reporting using larger samples and longer time series.

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Appendix

Tabel 1
Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
AUD_LAG	700	16	149	73.94	19.327
REP_LAG	700	23	192	93.73	18.904
SIZE	700	23.0	33.0	27.399	1.9077
KAP	700	0	1	.43	.496
OPIN	700	0	1	.87	.341
PROF	700	-61.0000	60.0000	6.548571	11.6849039
DER	700	.0000	15.0000	1.782857	2.7848441
PER	700	-96.0000	98.0000	12.418571	21.9219698
DPO	700	.0000	99.0000	13.547143	21.0652452
CGI	700	48.0000	88.0000	65.437143	7.3245071
Valid N (listwise)	700				

Source: SPSS output

Tabel 2

Inter-industry Comparison of Audit Lag and Reporting Lag

No.	Industry Type	Number of Companies	Mean of Audit Lag	Mean of Reporting Lag
1.	Agriculture	29	69,52	88,45
2.	Basic Industry and Chemicals	97	73,25	98,07
3.	Consumer Goods Industry	56	73,82	91,70
4.	Finance	143	69,36	86,58
5.	Infrastructure, Utilities and Transportation	45	77,07	92,11
6.	Mining	37	75,89	96,41
7.	Property, Real Estate and Building Construction	82	75,26	99,13
8.	Trade, Service and Investment	157	78,17	96,31
9.	Miscellaneous Industry	54	72,11	93,65
10.	All observations	700	73,7045	93,6002

Source: Summarized from the SPSS output

Tabel 3

Pearson Correlation Table

		SIZE	KAP	OPIN	PROF	DER	PER	DPO	CGI	AUD_LAG	REP_LAG
SIZE	Pearson Correlation	1									
	Sig. (2-tailed)	.									
	N	700									
KAP	Pearson Correlation	.471**	1								
	Sig. (2-tailed)	.000	.								
	N	700	700								
OPIN	Pearson Correlation	.115**	.124**	1							
	Sig. (2-tailed)	.002	.001	.							
	N	700	700	700							
PROF	Pearson Correlation	.136**	.287**	.206**	1						
	Sig. (2-tailed)	.000	.000	.000	.						
	N	700	700	700	700						
DER	Pearson Correlation	.358**	.062	-.070	-.232**	1					
	Sig. (2-tailed)	.000	.101	.065	.000	.					
	N	700	700	700	700	700					
PER	Pearson Correlation	.085*	.007	.152**	.069	-.034	1				
	Sig. (2-tailed)	.025	.845	.000	.068	.373	.				
	N	700	700	700	700	700	700				
DPO	Pearson Correlation	.238**	.295**	.164**	.358**	-.039	.056	1			
	Sig. (2-tailed)	.000	.000	.000	.000	.308	.137	.			
	N	700	700	700	700	700	700	700			
CGI	Pearson Correlation	.684**	.437**	.123**	.221**	.235**	.124**	.361**	1		
	Sig. (2-tailed)	.000	.000	.001	.000	.000	.001	.000	.		
	N	700	700	700	700	700	700	700	700		
AUD_LAG	Pearson Correlation	-.061	-.091*	-.154**	-.078*	-.042	-.033	-.076*	-.162**	1	
	Sig. (2-tailed)	.108	.016	.000	.038	.270	.386	.045	.000	.	
	N	700	700	700	700	700	700	700	700	700	
REP_LAG	Pearson Correlation	-.178**	-.176**	-.165**	-.128**	-.115**	-.065	-.161**	-.280**	.663**	1
	Sig. (2-tailed)	.000	.000	.000	.001	.002	.085	.000	.000	.000	.
	N	700	700	700	700	700	700	700	700	700	700

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Summarized from the SPSS output

Tabel 4
Regression Result of Model 1

Variable	Hip.	Coeff.	t-stat	Prob	
C		80.076	6.533	0.000	
CGI	-	-0.536	-3.779	0.000	***
KAP	-	-1.536	-0.890	0.374	
OPIN	-	-7.905	-3.623	0.000	***
SIZE	+	1.361	2.430	0.015	**
PROF	-	-0.045	-0.645	0.519	
DER	-	-0.385	-1.323	0.186	
PER	-	.002	0.055	0.956	
DPO	-	.007	0.180	0.857	
N	700				
Adjusted R^2	0.043				
F-statistic	4.888				
Prob(F-Stat.)	0.000				

Dependent Variable: AUD_LAG = audit lag
Independent Variable : CGI = Corporate Governance : IICD CG Index, KAP = dummy KAP, 1 = Big Four Public accounting firm, OPIN = dummy audit opinion, 1 = unqualified audit opinion, SIZE = (ln) total aset, PROF = return on assets = EBIT : total assets, DER = debt-equity-ratio = debt/total equity, PER = price-earnings-ratio = price per share : earnings per share, DPO = dividend-payout-ratio = dividen per share: earnings per share.
Sig. 1-tailed:
*** significant at 1% level of significance
** significant at 5% level of significance
* significant at 10% level of significance

Source: Summarized from the SPSS output

Tabel 5
Regression Result of Model 2

Variable	Hip.	Coeff.	t-stat	Prob	
C		119.834	10.313	0.000	
CGI	-	-0.633	-4.708	0.000	***
KAP	-	-2.407	-1.471	0.142	
OPIN	-	-6.888	-3.330	0.001	***
SIZE	+	0.909	1.711	0.087	*
PROF	-	-0.085	-1.272	0.204	
DER	-	-0.745	-2.703	0.007	***
PER	-	-0.018	-0.571	0.568	
DPO	-	-0.036	-0.981	0.327	
N	700				
Adjusted R^2	0.101				
F-statistic	10.788				
Prob(F-Stat.)	0.000				

Dependent Variable: REP_LAG = reporting lag
Independent Variable : CGI = Corporate Governance : IICD CG Index, KAP = dummy KAP, 1 = Big Four Public accounting firm, OPIN = dummy audit opinion, 1 = unqualified audit opinion, SIZE = (ln) total aset, PROF = return on assets = EBIT : total assets, DER = debt-equity-ratio = debt/total equity, PER = price-earnings-ratio = price per share : earnings per share, DPO = dividend-payout-ratio = dividen per share: earnings per share.
Sig. 1-tailed:
*** significant at 1% level of significance
** significant at 5% level of significance

Variable	Hip.	Coeff.	t-stat	Prob	
* significant at 10% level of significance					

Source: Summarized from the SPSS output