CHAPTER I

INTRODUCTION

1.1 Research Background

Financial statement is one of communication media between management of company and its stakeholders. According to Financial Accounting Standards issued by IAI, the purpose of a financial statement is to provide information regarding the financial position, performance and changes in financial position of an enterprise that is useful for a large number of users in decision making. Financial information is relevant to users if it can influence or make a difference to their decision. For information to be relevant it must be timely, which is available before it loses its capacity to influence a user's decisions. Therefore, the information provided by management should be informative and open to all information contained in a financial statement.

The timeliness of financial reporting is an important characteristic of financial information usefulness. The timely release of annual reports to the public needs to be considered in order for the financial information to be relevant. Timeliness is considered as an enhancing characteristic of 'the relevance' qualitative characteristic of financial reporting as stated in the project update between the International Accounting Standard Board and the Financial Accounting Standards Board (FASB, 2009).

One can also view the timeliness of financial reporting as a way to reduce information asymmetry between shareholders and management and minimize the risk of information spreading from other sources about a firm's financial health and performance in the market. Timely financial reporting is an important device to mitigate insider trading, leaks, and rumors in emerging capital markets (Owusu-Ansah, 2000). Since one of the important objectives of financial reporting is to provide information that will assist external users in decision making, this information will lose some of its economic value if it is not made available shortly after the end of the financial period. Investors and creditors should use current financial information when making predictions and decisions. To ensure the availability of current information, firms should therefore release financial information to the public as rapidly as possible.

Stakeholders and regulatory bodies require access to high-quality financial information within a short time following a firm‘s financial year-end and publicly listed firms must complete their annual reports even faster and with more transparency. The timeliness of financial reporting has long been recognized as one of the most important elements contributing to the general-purpose of annual reports. It is also one of the most important components of relevancy and is an important feature of useful information. Therefore, financial information will not be useful to users in their decision-making unless it is made available in a timely manner.

Regulators of stock exchanges around the world, such as the U.S. Securities and Exchange Commission (SEC), require their country‘s publicly listed firms to promptly release their annual reports to the stock markets. For example, the SEC requires that listed firms file their annual 10-K reports by a specific deadline. If information is not available when it is needed, or only becomes available long after reported events, then it has no value for future action, it lacks relevance, and is thus of little or no use (FASB, 2009).

The development of capital markets in Indonesia which grew rapidly increases the need for quality financial reporting, primarily by investors. Along with the increasing complexity of business operations and growth of current investments make investors increasingly demanding quality corporate financial information as a basis for making the right decision.

Related to regulation in Indonesia on timeliness publication of company financial statements that have been listed on the Stock Exchange, Indonesian government through the Ministry of Finance and Capital Market Supervisory Agency (or known as Bapepam) has established a strong information regulatory structure such as Law No. 8 of 1995 and a number of capital market rules established in 1996, which required for every public companies to submit annual financial statements and company's independent audit report to the Bapepam not later than 120 days after the date of company's annual report.

But since September 30th 2003, the Ministry of Finance and Indonesia Capital Market Supervisory Agency has tighten the regulation by issued Kep-36/PM/2003 stating that the financial statements are accompanied by an auditor report with the prevalent opinion must be submitted to the Bapepam no later than the end of third month (90 days) after the date of the annual financial statements. If this regulation is violated, there will be penalty such warning, administrative sanctions and financial penalties. This regulation is expected to make the company be able to publish financial reports in time.

In fact there are still many companies late issuing the financial statements. According to the announcement of the Indonesia Stock Exchange (Peng-LK-00043/BEI.PPR/04-2013, Peng-LK-/BEI.PPJ/04-2013) based on the exchange notes until April 1st 2013, there are 52 companies late in submitting audited financial statements ended on December 31, 2012 with 467 companies listed in Indonesia Stock Exchange. From 52 companies, only three of which are expressed reason for late and the remaining 49 companies did not convey the reasons for late. Because of late, these companies have been given first written warnings. If the company is still not submitted their financial statements up to the 31st calendar until the 60th calendar, then, the Bapepam will cast a second written warning along with a fine of Rp 50,000,000.00. If the company still late until the 61st up to the 90th calendar, they will get a third written warning and a fine of Rp 150,000,000.00. Suspension or temporary suspension of trading on the exchange will be charged if the company does not also submit their financial statements after day 91st.

The regulations along with the sanctions shows that the Indonesian capital market regulator is quite seriously address the submission of financial statements and realize the importance of timely submission of financial statements in order to exchange information available at the relevant information so that investors can make better informed decisions. The company must have sufficient time to prepare the financial statements and the auditor also needs time to audit the financial statements as prepared by the company, but the public also need to get the information before it becomes obsolete information in (McGee & Yuan, 2008). That is why the Securities and Exchange Commission and the Stock Exchange provides a time limit of 3 months to submit audited financial statements to the public through the IDX.

Effect of timely submission of financial statements to the company's stock price in the stock market has been studied by various parties. But many were interested to know what are factors may affect the timely submission of financial statements themselves. Owusu-Ansah (2000) according to in his research on the timely submission of financial statements in Zimbabwe Stock Exchange, there are two types of factors that can affect the timely submission of financial statements, i.e. factors related to the audit (audit-related) and factors associated with the company itself (company-specific). Factors associated with the audit is a factor that if it can affect or assist auditors who audited the financial statements of the company for the conduct of the audit process and report the results of the audit in a timely manner. Meanwhile, factors associated with the company are a factor that comes from the company itself, such as company size, industry, and company accounting variables.

This study attempts to investigate the issue of relating factor that influence the timeliness of financial reporting companies listed in the Indonesian Stock Exchange (IDX) by assessing the financial condition of companies. This study wants to measures the extent of company's financial condition and how it affects the timeliness of financial reporting. As for the factors that will be investigated in this study are profitability, leverage, liquidity, company size, and audit opinion.

1.2 Research Questions

Indonesia Capital Market Supervisory Agency (Bapepam) has tighten the regulation on financial reporting with the issuance of Kep-36/PM/2003 stating that the financial statements are accompanied by an accountant's report to the prevalent opinion must be submitted to the Bapepam no later than the end of the third month (90 days) after the date of the annual financial statements. If this regulation is violated, there will be penalty such warning, administrative sanctions and financial penalties. This regulation is expected to make the company be able to publish financial reports on time. However, over the years, there are still many companies late in submitting its annual financial statements.

Based on the background, this study intended to analyze factors that affect the timeliness of financial reporting in Indonesia. It focuses on the following research questions:

1. Does Profitability affect the timeliness of financial reporting in Indonesia?
2. Does Leverage affect the timeliness of financial reporting in Indonesia?
3. Does Liquidity affect the timeliness of financial reporting in Indonesia?
4. Does Company Size affect the timeliness of financial reporting in Indonesia?
5. Does Audit Opinion affect the timeliness of financial reporting in Indonesia?

1.3 Research Objective

The objective of this study is to test and demonstrate factors of profitability, leverage, liquidity, company size, public ownership, audit firm reputation and

Audit Opinion that affect the timeliness of company's financial resporting in Indonesia

1.4 Research Contributions

This study will give beneficial contribution to each of the following parties:

(1) For academics, the results of this study are expected to be useful for the development in accounting knowledge, contributes to the literature of accounting and as a reference for further studies.

(2) For Investors, the results of this study can be used by investors for investment decision making whether to invest on a company or not, by looking at the company timeliness financial submission and take attention on factor that influence it.

1.5 Thesis Structure

This thesis titled "Timelines of Financial Reporting in Indonesia" is divided into five chapters as follows:

CHAPTER I: INTRODUCTION

This chapter is an introduction in preparation of the research. It consists of background of the research, problem statement of the research, objectives of the research, contribution of the research, and thesis writing systematic.

CHAPTER 2: THEORETICAL BACKGROUND, PREVIOUS RESEARCH, AND HYPOTHESIS DEVELOPMENT

This chapter consists of relevant concepts, theories, and/or literatures about timeliness of financial reporting. It also presents previous related research that can be used as a reference for data analysis of this study, and hypothesis development

CHAPTER 3: RESEARCH METHODOLOGY

This chapter explains data related to the research such as models, measurement, data collection methods, population of the research, criteria of the sample, and data analysis method. The definition of each variable also will be stated in this chapter.

CHAPTER 4: DATA ANALYSIS AND DISCUSSION

This chapter presents the result and discussion of the research through a data processing and analysis. Whether the result met the criteria and proved the hypothesis is showed in this chapter.

CHAPTER 5: CONCLUSIONS

This final chapter contains research summary, conclusions, limitation of the research and suggestions for further research.