# RELATION BETWEEN IFRS CONVERGENCY, COMPANY CHARACTERISTICS, AUDITOR QUALITY AND TIMELINESS OF FINANCIAL REPORTING EVIDENCE FROM INDONESIA

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**ABSTRACT**

*The timeliness of financial reporting becomes one of the factors that the information provided to stakeholders is qualified. Factors related to timeliness of financial reporting are IFRS convergence based on timelines concept, company characteristics and auditor quality. This study aims to determine the effect of IFRS convergence, company characteristics, and the quality of auditors on the timeliness of financial reporting.The population of this research are companies that belong to the main sector in Indonesia Stock Exchange. The sample determined based on random sampling technique and there were 48 companies. The research hypothesis were tested using regression analysis. The results of the study show evidence that IFRS convergence has a positive relationship to the timeliness of financial reporting, firm size has a positive relationship to timeliness of financial reporting, leverage has a negative relationship to the timeliness of financial reporting and the quality of auditors has a positive relationship to the timeliness of financial reporting.*

Keywords: IFRS Convergence, Company Size, Leverage, Auditor Quality and Timeliness of Financial Reporting

## INTRODUCTION

The company is one business entity involving many parties. Companies that have gone public involving parties from internal and eksternal country. Indonesia is one of the countries applying internationally recognized standards such as IFRS. This indicates that companies listed on the stock exchanges such as the Indonesia Stock Exchange involve internal and external parties from internal and eksternal country.

The involvement of many parties required a quality information. One is the timeliness of financial reporting. Companies that are always right to submit financial reports indicate that the company has a good financial reporting. It can be supported from human resources factors, accounting system and applicable standards.

One of the basic conceptual framework of financial statements is timelines. The concept shows that in submitting financial statements, a company must be on time in accordance with the required reporting period. If the company does not apply the concept of timelines, it will impact on the lack of achievement of financial reporting objectives in providing quality information to stakeholders.

In POJK Number 29 / POJK.04 / 2016 also set about the maximum limit of financial statement submission to 4 months from date of reporting period. However, there are some companies experiencing delays in the delivery of financial statements to the Indonesia Stock Exchange, resulting in suspensions and penalties. There are even some companies that are late to submit financial statements more than once. This is an attraction for researchers to conduct research on the timeliness of financial reporting.

Based on the data obtained, there are some companies that are late to submit financial statements within a certain period of time among others in the first quarter of 14 companies that are late to submit financial statements (www.bisniskeuangan.kompas.com), in the second quarter of 14 companies that are late to submit financial statements (www.liputan6.com), the third quarter of 9 companies that are late to submit financial statements (www.ekonomi.kompas.com). The late submission of financial statements is likely to occur due to internal and external issues. Problems that occur can be a barrier to the company late submitting its financial statements to the stock exchange.

As already known that IFRS began to be implemented in early 2012. Although the convergence of IFRS has long been approved it does not rule out there are still constraints experienced by companies in implementing IFRS. IFRS prioritizes the implementation of fair value method in financial reporting so that it becomes an obstacle for companies that do not use the method before (Ratmono: 2015). In addition, the understanding of Human Resources still minimal hamper financial reporting based on IFRS. The last factor is the existence of a standard change at certain times cause Human Resources must first understand the standard before applying to financial reporting. IFRS convergence is also experienced in some countries where the transition period of IFRS implementation is a major transformation that must be experienced in some countries including Malaysia (Yaacob and Ahmad: 2012), IFRS is a standard adopted by some countries so it needs some consideration before deciding on the implementation of IFRS in his country like the United States (Clements et all: 2010).

In addition to IFRS convergence, company characteristics also become one of the factors that hinder the accuracy of financial statement submission. In this case, the characteristics of the company can be seen from the firm size,, the announcement of loss and leveage (Ratmono: 2015). Large corporate financial reporting can be quite good because used human resources that have

good competence due to the demands and the number of stakeholders involved. Companies that often experience a loss indicates that the company has not been able to manage the company well. Therefore, according to Yanuar (2013) large companies and involving many stakeholders have a stronger credibility compared with other companies, so the company's character and ability in managing to generate profits become one of the causes in the delivery of financial statements.

Another factor that causes the timeliness of financial reporting is the quality of auditors. Auditors who have good skills and competencies can perform the audit process quickly and accurately. Unlike auditors with poor skills and competencies, it will prolong the audit process due to the many misconceptions of standards and the lack of expertise in conducting the audit process.
Based on these backgrounds, the authors are interested research on the relationship of IFRS convergence, company characteristics, auditor quality and timeliness of financial reporting in Indonesia. While the formulation of the problem is how the relationship of convergence IFRS, corporate characteristics, auditor quality with the timeliness of financial reporting in Indonesia partially.

## LITERATURE REVIEW

### IFRS Convergence

IFRS (International Financial Reporting Standards) is a financial accounting standard recognized by all countries. The accounting standards used by Indonesia are Financial Accounting Standards (SAK) established by the Financial Accounting Standards Board (DSAK) under the Indonesian Accounting Association (IAI) organization.

According Kartikahadi (2012) IFRS convergence is the process of applying IFRS into SAK which is used in Indonesia gradually. There are three stages of Indonesia's implementation of the adopi stage from 2008 to 2010, the preparation phase in 2011 and the implementation phase in 2012. IFRS is fully implemented in publicly-listed companies as of 1 January 2012. The implementation of IFRS is fully tailored to the conditions in Indonesia itself. This is because the economic conditions of each country has its own characteristics, so it is necessary to adjust the IFRS standard with Financial Accounting Standards (Kartikahadi: 2012). IFRS is used by companies that have gone public so that it requires a full disclosure by these companies to stakeholders.

### Company Characteristics

**a. Firm Size**

Firm size is one factor that describes a company. Firm size can be seen from total assets owned, total profitability, market capacity, labor and so on (Hilmi and Ali: 2008 in Toding, Merlina and Wirakusuma (2013) .The company size shows how much information presented by management for stakeholders Large companies usually have more information than small companies because of the scope of its operations that involve many parties. If the size of a larger company then the company is increasingly recognized by the public broad (Hilmi and Ali, 2008 in Toding: 2013).

**b. Leverage**

According to Kasmir (2015) leverage is the ratio used to measure the extent to which assets owned by the company financed by short-term debt or long term. This shows the company's ability to finance its business activities. The greater the leverage ratio indicates that the company's activities are mostly financed by debt rather than by own capital. There are several impacts of leverage (Fred Weston in Kasmir: 2015), namely:

- The creditor expects the debtor's equity with the risk borne by the creditor if the debtor's capital is small
- Owners benefit from debt that is with the holding of control
- The fund owner obtains a larger return from the company because the company pays principal and interest on the loan.

### Auditor Quality

Auditor quality is the ability of a person to obtain and report violations contained in the accounting system of a client being audited (De Angelo in Tjun et al: 2012). According to Marathani (2013) there are two sides that can affect the quality of an auditor that is in terms of independence and the working side. The more independent an auditor the better the auditor's quality. This shows that there is no relationship and there is no personal interest between the auditor and his client. Meanwhile, if viewed from the side of employment, the longer the service life of an auditor the experience, expertise and competence more tested.

### Timeliness of Financial Reporting

In POJK Number 29 / POJK.04 / 2016 regarding Annual Report of Issuers or Public Companies Chapter III of the submission of the annual report of Article 7 paragraph (1) as referred to in paragraph (1) to the Financial Services Authority no later than 4 (four) months after the end of the financial year . This Regulation stipulates that the public company shall not later submit its annual financial statements by no later than 120 days from the end of the reporting period. If more than 120 days the public company is not timely in delivering the financial statements.

### Framework of thinking

**Relation of IFRS Convergence With Timeliness of Financial Reporting**

IFRS is one of the accounting standards that is recognized in every country. Indonesia is one of the countries that adopt IFRS. Since IFRS was implemented on 1 January 2012 many SAK changes were referred to IFRS, so there are some changes to the accounting standards that the user must learn and re-understand. Changes in accounting standards are adjusting to the condition of the company and the economy in Indonesia.

However, there are still many users who do not understand the financial accounting standards that resulted in the many problems faced by the company. Problems such as lack of human resources ability, fair value use in measurement of updated accounting system, different understanding between users and others impact on the achievement of financial statement submission.

If the company is experiencing a lot of problems in its financial reporting, then this will have an impact on the timeliness of financial reporting. Slowing financial reporting makes the timeliness of financial statements declining

The results of research conducted by Yacob and Ayoib in Ratmono (2015) stated that IFRS convergence has a positive effect on the timeliness of financial reporting. In addition, Kao and Wei (2014) state that IFRS can improve timeliness. This indicates that in the presence of convergence IFRS has a positive relationship to the timeliness of financial reporting.
H1: IFRS convergence has a positive relationship with the timeliness of financial reporting

**Relation of Firm Size With Timeliness of Financial Reporting**
The firm size shows the size of a company by looking at its total assets, profitability, and market share. Companies that already have a wide market share do not rule out having a high amount of assets and profit performance is more profitable for companies and shareholders. So in financial reporting the company uses competent resources for public confidence in the company to survive.

Results of research conducted by Kartika (2009), Ratmono (2015), Zebriyanti, D.E. And Subardjo, A. (2016), dan Toding, Merlina and Wirakusuma (2013) stated that the larger the size of the company the more timely it will be in its financial reporting This shows that the company's financial statements will be delivered faster to large companies by involving many stakeholders because there is a separate demand for the company in completing financial reporting in a timely manner ..
H2: Firm size has a positive relationship with the timeliness of financial reporting

**Relation of Leverage With Timeliness of Financial Reporting**
Leverage is a ratio that shows the amount of debt owned by the company in financing the asset for its operational activities. Companies that have large amounts of debt do not rule out having a more complicated problem. This is because the company will focus more on how to fund the loan can be used properly and the company can afford it.

Companies that have more debt than their own capital show poor performance. The condition shows that the company is not able to fund its own operations, so there will be many problems experienced. These problems will inhibit the timeliness of financial reporting. Research conducted by Ratmono (2015) states that the higher the leverage it will extend audit delay which will inhibit the timeliness of financial reporting.
H3: Leverage has a positive relationship with the timeliness of financial reporting

**Relation of Auditor Quality With Timeliness of Financial Reporting**
The quality ofauditor shows the skills, abilities and competencies of an auditor in performing the audit process. Auditors who already have a lot of working hours with good qualits will not experience significant difficulties in performing their duties, so that financial statements will not be late delivered to the users of information. The resulting information is more qualified if audited by a good quality auditor, so the timeliness of financial reporting will be minimal.

The results of research conducted by Ratmono (2015), Suparsada and Putri (2017) stated that the better the quality of auditors the company will be more timely in financial reporting. This suggests that firms audited by good quality auditors rarely experience delays in the delivery of financial information.
H4: Auditor quality has a positive relationship with the timeliness of financial reporting

**RESEARCH METHODS**
This type of research is a quantitative research using existing data sources. The research method used is descriptive method verifikatif. Descriptive method of verification is used to describe and explain the relationship of variables used as research objects. The method is in accordance with the purpose of research researchers.

Sources of data used in this study using secondary data obtained from the Indonesia Stock Exchange website. To support the purpose of research, researchers used data collection techniques using the library method. Collected data obtained from various sources of reference in the form of books, journals, standards, websites and others

The population of this study is the main sector listed on the Indonesia Stock Exchange in 2016. The total population of 56 companies. Companies that have been listed on the IDX are not all researched by researchers. Therefore, researchers took several companies that were sampled in this study.

The sampling technique uses random sampling, where all companies have the same opportunity to be sampled and randomly sampled. Determination of the number of samples using the Slovin formula, so the number of companies sampled in this study were 48 companies.

Data analysis method uses multiple regression analysis. Before the analysis was carried out, researchers conducted a classic assumption test consisting of normality test, heteroscedasticity test, autocorrelation test and multicollinearity test. The data test uses the SPSS version 20 statistical test.

**Variable Operations Research and Definitions**
This research consist of independent variable and dependent variable. Independent variables of this research are IFRS convergence, firm size, leverage and auditor quality. To measure IFRS convergence, researchers used dummy variables. If the company has converted IFRS then its measurement is one (1) and for companies that have not converged IFRS then its measurement is zero (0). Company size is measured by calculating total assets of a company. While leverage is measured by dividing the total debt to total company. Auditor quality is measured using dummy variables. If the company is audited by KAP big four then its measurement is worth one (1) and the company audited by KAP is not big forur then the measurement is zero (0).

The dependent variable of this study is the timeliness of financial reporting. Measurement of the timeliness of financial reporting by referring to POJK Number 29 / POJK.04 / 2016 on the Issuer's Annual Report or Public Company Chapter III of the submission of the annual report of Article 7 paragraph (1) as referred to in paragraph (1) to the Financial Services Authority no later than 4 (four) months after the end of the book year.

**RESULTS AND DISCUSSION**

**Tabel 1: Result t-test between IFRS Convergence, Company Size, Leverage, Auditor Quality and Timeliness of Financial Reporting**

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | T | Sig. |
| 1 | (Constant) | 1,063 | ,030 | | 35,636 | ,000 |
| | Converg_IFRS | ,024 | ,055 | ,030 | ,440 | ,661 |
| | Company_Size | ,002 | ,012 | ,014 | ,196 | ,845 |
| | Leverage | -,242 | ,047 | -,377 | -5,205 | ,000 |
| | Quality_Auditor | ,419 | ,242 | ,232 | 1,461 | ,050 |

a. Dependent Variable: Timelines_Fin_Rep

**Testing Hypothesis I**
When viewed from the value of β of 0.024 then the convergence IFRS has a positive relationship with the timeliness of financial reporting. This shows that companies that implement IFRS then in the delivery of financial statements will be more timely. This can be seen from the implementation of IFRS-based IFAK in its financial reporting. Based on research conducted, from 56 companies classified into the main sector only 3 companies that experienced timeliness of financial reporting. Therefore, the more obedient the company implements IFRS financial reporting will be more appropriate. The results of this study are supported by Ratmono (2015)

**Testing Hypothesis II**
When viewed from the value of β of 0.002 then the size of the company has a positive relationship with the timeliness of financial reporting. This indicates that the greater the total assets of a company will be more timely in its financial reporting. This can be seen from the period of financial report submission of companies that have a greater total assets, the company on average reported its financial statements 2 or three months from the end of the financial reporting period. While firms with smaller amounts of assets, the company averages its financial report in the fourth month of the reporting period. The results of this study supported by previous researchers namely Kadir (2011) and Budiyanto and Elma (2015)

**Testing Hypothesis III**
Based on the results of research conducted, companies experiencing high leverage tend to have problems in the condition of the company. This can be seen from the amount of debt that exceeds the amount of assets owned. A good company and able to manage the company can be seen from the small leverage where the company's assets are not much derived from debt.

When viewed from the value of β of -0.242 then leverage has a negative relationship with the timeliness of financial reporting. This shows that firms with high leverage value tend to have problems in their company condition resulting in inaccuracy in financial reporting. Firms with high leverage value are caused by higher total debt compared to total assets resulting in a lack of capital (capital deficiency). The largest source of debt resulting in high leverage comes from long-term loans and debt restructuring. So that companies with large amount of debt will experience the timeliness of financial reporting because of the many problems that need to be resolved first. Therefore, the greater the leverage the company will be less timely in financial reporting. The results of this study supported by previous researchers namely Zebriyanti, D.E. And Subardjo, A. (2016) and Toding, Merlina and Wirakusuma (2013).

**Testing Hypothesis IV**
Based on the results of research conducted, companies audited by auditors who come from the big four KAP never late in delivering financial statements. This can be seen from the period of audit conducted until the financial statements are published on average less than 3 months.

When viewed from the value of β of 0.419, then the quality of auditors has a positive relationship with the timeliness of financial reporting. Companies audited by auditors from KAP big four are never late in financial reporting. While companies that are late in delivering their financial statements are audited by auditors who are not from big four KAP. If auditor qualification is not good when faced with the many complex problems experienced by the company may hamper the audit process which will impact on the inappropriate financial reporting (Yaacob and Ahmad: 2012). So it takes auditors who have good quality. While auditors who work in big four KAP usually have good qualifications, good competence is also compared with auditors who are not from big four KAP. Therefore, the better the quality of auditors the company will be more timely in its financial reporting. The results of this study supported by previous researchers are Toding, Merlina and Wirakusuma (2013), Suparsada and Princess (2017) and Trisnawati (2010).

**Conclusions**

Based on the analysis of the results of research that has been done, the conclusion is: IFRS convergence has a positive relationship with the timeliness of financial reporting, the size of the company has a positive relationship with financial reporting, leverage has a negative relationship with the timeliness of financial reporting, and the quality of auditor has a positive relationship with timeliness of financial reporting.

Recommendation of this research required better management and control to companies that have experienced delays in financial statements so it does not happen again. In addition, for countries that want to converge IFRS adjust to the conditions and capabilities of a country. If the standard applied is not appropriate, it will not support the growth of the company and the company experiences various kinds of constraints, which will have an impact on the frequency of companies experiencing inaccurate financial reporting.

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